

# RISK MANAGEMENT

Risks are involved when pursuing business opportunities. While risk management does not eliminate risks completely, it strives to ensure that the risk-reward tradeoff is well understood before decisions are made, and that foreseeable outcomes are within Sembcorp Marine's risk appetite.

The Group's Enterprise Risk Management (ERM) framework is designed and implemented to:

- Reduce the effects of uncertainties on the achievement of its objectives;
- Integrate risk management into its values, culture and processes;
- Manage risks across Commercial Units, Yards and Centralised Functions; and
- Improve the safety, effectiveness and efficiency of operations and processes.

## RISK GOVERNANCE

At the apex of Sembcorp Marine's Risk Governance structure is the Board of Directors which sets the tone and direction in the way we manage risks. In particular, the Board:

- Determines the nature and extent of the significant risks the Group takes in achieving its objectives, and its levels of risk tolerance;
- Oversees Management in the design, implementation and monitoring of the risk management and internal control systems; and
- Reviews the adequacy and effectiveness of our risk management and internal control systems.

The Board of Directors delegates authority to the Board Risk Committee (BRC) to fulfil its risk governance responsibilities, while Sembcorp Marine's President & CEO is overall responsible for managing the enterprise-wide risks that impact the Group's objectives and strategies. Guided by the Board's risk direction and approved policies, the President & CEO chairs the Enterprise Risk Management Committee (ERMC) to deliberate and endorse risk policies, guidelines, risk profiles, treatment plans and other material risk issues. This committee comprises the Chief Risk Officer (CRO) and key staff from the Group's commercial units, yards and centralised functions.

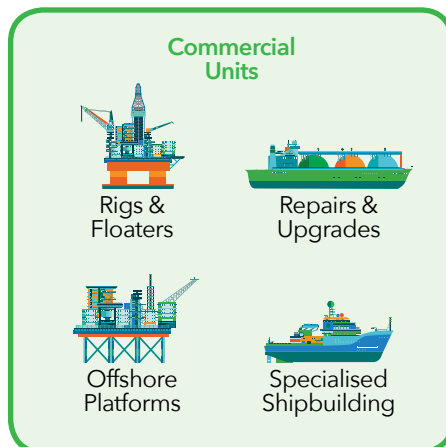
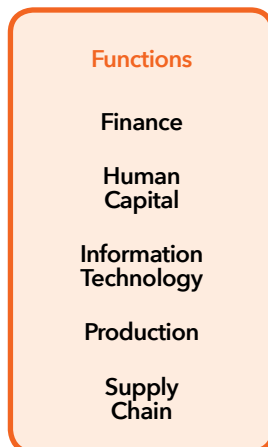
The CRO assists the President & CEO in driving and sustaining Sembcorp Marine's ERM and collaborates with internal and external stakeholders to achieve this.

## BOARD OF DIRECTORS

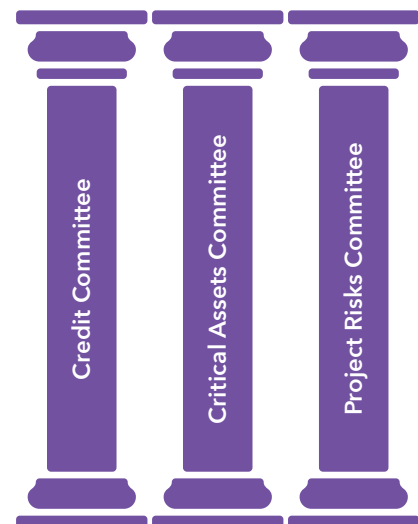
### BOARD RISK COMMITTEE

### ENTERPRISE RISK MANAGEMENT COMMITTEE

#### Risk Champions



#### Risk Sub-Committees



# RISK MANAGEMENT

Various ERM sub-committees consisting of Sembcorp Marine subject matter experts (e.g. in Finance, Health, Safety & Environment, and Procurement) oversee their respective areas and provide feedback and insights to the ERM Committee.

The Commercial and Yard Heads, who are responsible for managing their own domain risks, ensure that their respective risk management frameworks and systems are in line with the principles, guidelines and requirements set out in the Group's ERM policy.

Sembcorp Marine Risk Champions assist Heads with risk issues. They work with the CRO to implement the Group's risk management initiatives across Sembcorp Marine units, yards and functions.

The Heads in turn appoint the appropriate staff (eg. managers, supervisors and engineers) to manage risks in their respective areas of responsibilities. They reinforce the maxim that all employees have a role in risk management, including giving feedback and identifying, assessing and mitigating work risks.

In this regard, Sembcorp Marine conducts a risk survey biennially to assess the awareness, behaviour and perception among Sembcorp Marine staff, Management and the Board about ERM effectiveness in the Group. This survey also gauges the maturity of the risk culture within the Group. Based on the feedback received, we will tailor appropriate

ERM-related communication and training for survey respondents who require them.

## KEY RISKS AND CONTROLS

### Credit Risks

Credit risk is the risk of loss arising from a deterioration in credit quality or failure of an obligor, counterparty or third party to honour their financial or contractual obligations.

A concentrated business portfolio, unfavourable contractual payment terms and business partners with poor financial standing can increase the probability of Sembcorp Marine incurring losses.

To mitigate this risk, we utilise a credit rating tool that takes into account both financial data and qualitative attributes to regularly track the financial health of our obligors. The BRC and ERMC are updated on customers' credit ratings, including significant ratings deterioration (if any) and corresponding remedial actions.

Sembcorp Marine limits backend-loaded payment terms to mitigate financial stress from customer defaults. We maintain a diversified customer portfolio, ensuring that concentration in the respective credit tiers is commensurate with the Group's loss tolerance.

Outstanding payments are also closely monitored. The Credit Committee tracks customer receivables and related collection

plans and keeps the ERMC apprised of payments, which are categorised according to delinquency status and collectability.

### Financial Market Risks

Financial market risk is the risk of loss arising from fluctuations in the value of financial assets and liabilities. This may result from a rising interest rate environment, wider loan credit margins due to Sembcorp Marine's financial performance, losses from foreign-exchange (FX) exposures which are unhedged on account of the uncertain NETP (nature, extent, timing and probability) factors of some project requirements, or increasing commodity prices.

The Treasury department monitors the Group's FX and interest rate exposures and updates the BRC on the latest developments, key drivers and geo-political events that could potentially impact our FX exposures and mark-to-market valuations.

The Foreign Exchange Committee monitors and manages Sembcorp Marine's FX risks according to our FX hedging policy, strategy and procedures. This ensures that key metrics such as the limits, tenor, timing and value-at-risk for all transactions are in line with our approved hedging strategy.

FX transactions are for hedging purposes only and not for speculation. The Foreign Exchange Committee reviews and recommends FX policies for approval, reviews and approves

hedging plans, and monitors project-level FX Value at Risk (VaR) and Group VaR. Limits for VaR are defined, tolerance limits specified and follow-up actions for each tolerance band stipulated.

Sembcorp Marine manages the prices of raw materials by sourcing globally for quality supplies at competitive rates. We lock in prices at favourable levels, for example, by negotiating bulk purchases. The risks related to these activities are monitored and managed by the Procurement Outsourcing Risk Committee.

### Liquidity Risks

Liquidity risk results from inadequate cash or working capital adversely affecting the Group's operations or ability to meet its financial obligations. This risk can materialise from a number of circumstances, such as customers deferring payments, a mismatch occurring between the maturities of financial assets and liabilities, banks requesting to withdraw their short-term facilities, or banks or bond-holders calling default and demanding loan repayment.

To maximise liquidity and achieve a neutral cash flow, Sembcorp Marine targets upfront and higher milestone payments from new contracts (where possible) and minimises backend loaded projects. We manage our debt maturity profiles by tracking short-term loans used to finance long-term assets, seeking loan maturity extensions, and by exploring alternative funding

sources to minimise our cash flow mismatch as much as possible.

We monitor our cash flow projections closely. If certain short-term loans are deemed unlikely to be extended, the Group ensures that there is sufficient cash and facilities for drawdown to repay these loans. We also regularly review available committed and uncommitted banking lines with our existing bankers and explore new banking relationships and other capital raising options.

Sembcorp Marine's liquidity position is monitored closely by the Finance Management Committee, Executive Committee, Audit Committee and the Board of Directors.

### Compliance Risks

Compliance risk arises from the violation of, or non-conformance with, local or cross-border laws, rules or regulations. It encompasses conduct risks, stemming from undesirable consequences that the personal conduct of Sembcorp Marine's employees or partners may cause deliberately or through negligence. Compliance risks also include breaching contractual terms and not complying with rules mandated by relevant tax authorities.

To mitigate such risks, we publish a Guide to the Code of Business Conduct that sets out the Group's expectation of standards of behaviour and actions by Sembcorp Marine directors, employees, subsidiaries, joint venture entities, business partners and third parties

engaging in business transactions. Our employees and business partners sign a deed of undertaking and are subject to due diligence screening before they are formally engaged. We also organise for these stakeholders forums and refresher training on the Group's Code of Business Conduct. In particular, all employees go through an Anti-Bribery and Anti-Corruption e-learning module.

The Group has put in place HR practices conforming to the applicable standards and requirements. We monitor our corporate bank accounts for unusual activities, segregate payment processing duties and check payments stringently to ensure that they are authorised according to all requirements.

Our whistle-blowing channel has been widely communicated to encourage reporting of unethical or unscrupulous activities. Whistle-blowers' identities and information they have provided are shared strictly on a 'need to know' basis with those responsible for resolving the whistle-blowers' concerns. Sembcorp Marine strictly prohibits any form of retaliation against whistle-blowers.

On Oct 25, 2019, Sembcorp Marine received certification for setting up and operationalising an Anti-Bribery Management System according to ISO 37001:2016 requirements. This certification covers four locations, namely, Tuas Boulevard Yard, Tanjong Kling Yard, Admiralty Yard and Pandan Yard.

# RISK MANAGEMENT

We also launched our inaugural Compliance Awareness Week in November 2019 to reinforce a culture of compliance across all levels within the Group. This event highlighted specific themes on compliance and ethics to help all participants understand the standards they were expected to meet.

## Strategic Risks

Strategic risks are the risks Sembcorp Marine faces that may affect the validity of its business plans for pursuing growth opportunities.

These risks relate to:

- Order book size;
- Adequacy of internally generated funds to support the Group's operations and meet its financial obligations;
- Fatalities and serious injuries sustained during yard operations and production activities;
- The Group's ability to arrange financing or guarantees that affect our chances of winning projects;
- Country-level competition from China and Korea; and
- Changing industry conditions resulting in more stringent contractual terms that increase our risk exposure, or unlimited liability from more onerous performance requirements and higher possibility of contract breaches.

In addition, we monitor the following risks closely:

- Loss of intellectual property (IP) and sensitive information due to hacking;

- Non-compliant and errant employees and business partners causing financial or reputational damage and invalidation of our business contracts;
- Uncompetitive compensation and benefits hindering the Group's talent attraction and retention; and
- Vendors and competitors using sensitive procurement information to their advantage.

To manage the identified risks, Sembcorp Marine's Management, in consultation with the Board, summarises the Group's top strategic risks on a heat map, where the probability and materiality of each strategic risk is assessed. By implementing the agreed mitigation measures and controls, we aim to reduce the gross level of each risk to the target net risk level. The BRC regularly reviews the Group's strategic risks heat map, mitigation measures and controls.

The ERM and BRC also track various risks using the Risk Appetite Statement Dashboard. Any deviation from tolerable limits is thoroughly investigated. Risk Appetite Statements, metrics and tolerance limits with corresponding control measures and corrective actions are evaluated regularly and recalibrated as needed, ensuring that the Group has an acceptable balance between risk taking and optimising returns.

Sembcorp Marine's senior management, led by the President & CEO, proactively develops and

executes the Group's strategy, with significant strategic actions reviewed and approved by the Board through periodic presentations and an annual strategy meeting.

Heads of Commercial Units are accountable for executing Group-wide strategies, including decisions on new business and products. They regularly update senior management and the Board on performance against operating plans. Such matters are also regularly discussed between the President & CEO and the Executive Committee.

## Operational Risks

Operational risk is the risk of loss arising from inadequate or failed internal processes related to Project Management, Information Technology, Human Capital, Health, Safety & Environment (HSE), and Supply Chain. Specific committees within Sembcorp Marine oversee these risks and ensure that they are in line with the Group's risk policies and risk appetite.

## Project Risks

Project risk is the risk of loss arising from project-related problems, such as delays in project milestones and cost overruns.

Sembcorp Marine manages multiple projects at any one time. Besides optimising resource planning and use, the Group levels resource utilisation effectively across various projects to minimise costs and deliver quality projects safely and within schedule.

We make sure our work processes are rigorous and well understood, allowing risks to be identified upfront or detected early. For example, we review our projects' progress regularly and determine if the resources allocated have been optimised and right-sized. We also invest in technology to boost our operational efficacy, and upgrade our workforce continuously to achieve sustainable productivity improvements.

Sembcorp Marine's Project Risk Committee, chaired by the President & CEO, reviews all projects' progress, paying particular attention to the schedule and budget variances of major projects that may expose the Group to liquidated damages and potential losses. The committee tracks mitigation plans and reinforces the required project management discipline. The Audit Committee is updated on any significant project delays or budgetary deviations.

#### IT Risks

IT risk is the risk of loss arising from cyber-threats. These threats include the theft, loss, misuse or disclosure of confidential information, and disruption of work processes due to unavailability of IT assets or resources that can cause reputational damage, financial loss, and legal and regulatory penalties.

Sembcorp Marine's IT security infrastructure protects our critical business applications. To mitigate the identified risks, we expend significant resources to implement

robust safeguards, and to maintain and update our systems and networks.

To raise the level of cyber hygiene across the Group and especially our awareness of the proper methods of dealing with cyber-threats, we implemented a mandatory cybersecurity e-learning module for all employees in 2019. Regular memos and reminders are also disseminated to reinforce the importance of proper conduct when using IT assets.

In the event of a critical system failure, the Group has in place a Disaster Recovery plan with strict Recovery Time and Recovery Point objectives. We test and review the plan annually and keep the BRC updated on the outcomes.

#### Human Capital Risks

Human capital risk arises from gaps between the Group's goals and objectives and the core capabilities of our employees. This can be due to high staff turnover, complacency or ineffective hiring.

The ERM and BRC monitor human capital risks by tracking staff turnover rate and succession index annually. To retain the core capabilities within our workforce and ensure our functions are adequately resourced, Sembcorp Marine's competitive staff benefits include a Flexible Benefits Plan and Group Insurance. We promote career growth opportunities by offering scholarships, job rotations and training. Key personnel and

high-potential employees are further identified for leadership-grooming.

#### HSE Risks

Sembcorp Marine adopts a Vision Zero incidence goal. We strive to achieve zero harm to people and the environment through awareness building, vigilance and creating an environment that prioritises HSE issues across all levels.

To strengthen our Workplace Safety and Health strategic thrusts, we continuously upgrade our HSE competencies and capabilities, improve our risk and safety management systems, and encourage both employees and partners to embrace a positive HSE culture at Sembcorp Marine. Our unique Stop-Work Authority, for example, empowers employees, vendors and customers to stop ongoing work at the yard if they notice anything that may potentially harm people, property or the environment.

BRC is kept updated on HSE statistics, near misses and severe incidents, including investigation findings and analyses that address root causes and recurrence prevention.

#### Supply Chain Risk

Supply chain risk arises from disruptions that threaten supply chain continuity or result in unfavourable quality or prices of supplies. These disruptions include price volatilities, supply shortages, high product demand, pandemics, natural disasters, corrupt conduct and financial failure of suppliers.

# RISK MANAGEMENT

To minimise supply chain risks, Sembcorp Marine qualifies its vendors and suppliers based on company profile, financial health, technical capabilities and expertise, as well as qualitative aspects outlined in our Supplier Code of Conduct. We also expand our pool of alternative vendors and suppliers constantly.

Sembcorp Marine's Supplier Code of Conduct describes our requirements regarding Ethics, Conflicts of Interest, Human Rights, Environmental Responsibility and Sustainability, Conflict Materials, HSE, Data Protection and Dealing with Sanctioned Entities.

The Group has clear procurement processes and procedures in place to ensure our transactions with vendors and suppliers are fair, open, ethical and corruption-free. We review the performance of key and qualified vendors annually.

## OTHER GROUP-WIDE RISK-BASED ACTIVITIES

### Risk and Governance Assurance Framework (RGAF) and Control Self-Assessment (CSA)

The Board conducts an annual assessment before issuing its statement in Sembcorp Marine's annual report about the adequacy and effectiveness of our risk management systems and internal controls. A Risk and Governance Assurance Framework (RGAF) provides the basis for the Board to form its view.

In our yearly Control Self-Assessment (CSA) exercise, Sembcorp Marine's centralised functions, commercial units and yards review and rank their key risks, assess the corresponding risk controls and sources of assurance and develop additional controls as necessary. The Heads of centralised functions, commercial units and yards sign off the RGAF register annually.

Sembcorp Marine's assurance principle is based on reasonableness, where we acknowledge the need to develop and implement systems that provide the appropriate balance between risk and the controls required for ensuring that we can meet our objectives. Other than ascertaining our key controls are adequate and effective, our CSA programme instils ownership among the process and control owners, and promotes a sense of accountability.

### Insurance

Where it is cost-effective or required by contractual obligations or legislation to do so, the Group leverages insurance as a means of risk transfer. We have undertaken insurance coverage against foreseeable events that may result in material financial losses. Our approach on insurance is to strike a balance between our capabilities for mitigating risk exposures and the costs and benefits of a comprehensive insurance programme.