

RISK MANAGEMENT

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



We identify and manage risks to enable management to deal effectively with uncertainties and the associated risks in pursuing business opportunities, thereby enhancing the resilience of the Group and its capacity to build value for stakeholders.

While risk management does not eliminate risks completely, it strives to ensure that risk-reward trade-off is well understood before decisions are made and that foreseeable outcomes are within Sembcorp Marine's risk appetite.

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Impact of COVID-19 Pandemic

Volatile and uncertain economic conditions have become the new 'normal' for businesses operating in the global market. This is no exception for the Group. The challenges faced by the Group in FY2021 were real and severe. Due to the protracted effects of the COVID-19 pandemic, the Group encountered execution challenges associated with the pandemic, arising from shortages of skilled workers and supply chain constraints, which resulted in significant cost overruns.

1.1 IDENTIFY AND PRIORITISE RISKS TRIGGERED BY PANDEMIC

(i) Operational

The Group continued to face serious challenges in FY2021 as the COVID-19 pandemic persisted, including supply chain constraints and shortages of skilled workers which seriously affected its projects under execution. The Group took active measures to recruit from alternative sources to alleviate the shortage of skilled workers. This impacted the cost of execution.

(ii) Financial

Along with the project re-scheduling, the Group faces deferment in payments. This means a reduction in revenue receipts during the agreed period of deferment. In order to survive and recover, we had to generate cash. Our projects were our organic liquidity source. We identified liquidity risks for different project scenarios, including delayed cash inflow arising from delivery date extensions of various durations and the possibility of contract termination. During the reported period, the Group did not encounter any project cancellation. Nevertheless, the Group's near-term liquidity position was affected by higher negative operating cash flows, a reflection of lower revenue receipts and an increase in costs.

1.2 SPEEDY RESPONSE TO TRIGGERED RISKS

(i) Operational

Faced with the above challenges, the Group took active measures to improve project execution and demonstrated its operational resilience, flexibility and capabilities. In doing so, we worked in even tighter cooperation with customers and found a new rhythm to manage the pandemic and operation. The labour situation also stabilised during the fourth quarter to enable smoother execution of projects.

To mitigate project cancellation risks, the Group worked closely with our customers to reach mutually beneficial outcomes for project re-scheduling. This remains a key priority, together with the health and safety of our workers, customers, vendors and partners. We are pleased to report that there is no cancellation of any of the Group's existing projects to-date.

To minimise further delays to complete the projects, the Group actively sourced for skilled workers from alternative sources and worked with the relevant authorities to expedite their entry into Singapore. While the Group made good progress on this front, this resulted in increased manpower and other related costs to complete the Group's ongoing projects. On average, recruitment from the alternative sources cost more than twice that from the Group's usual sources. Despite the significant additional costs involved, these measures were imperative to ensure completion of our projects with minimum further delays to mitigate the risk of project cancellations.

The Group has made full provisions for these projected increases in labour costs, together with the associated re-scheduling of work, extra sub-contract work, additional material usage and other staff turnover related expenses in its FY2021 financial results.

We continue to work with the relevant authorities and the dormitory operators proactively to address any potential issues pertaining to COVID-19. The Group took steps to ensure food quality and safety for our workers and worked with our caterer to make improvements to the catered meals based on the workers' feedback. We remain fully committed to looking after the health, safety and living environment of our workforce.

With the gradual easing of COVID-19 measures following the roll out of vaccinations and boosters, completing ongoing projects became our foremost priority. To safeguard customer relationships, transparency and honesty were necessary. Together, we re-evaluated if existing contractual delivery dates were still feasible, whether customers could take deliveries as scheduled, if it was necessary to re-baseline projects, and whether contractual liquidated damages, payment refunds and other salient contractual terms were still reasonable given COVID-19 regulations and restrictions.

The Group successfully delivered five major projects in FY2021 and year-to-date in 2022. The Group also completed major conversions for several offshore gas facilities and delivered on some 144 vessels requiring repair, upgrade and maintenance. This has enabled resources to be freed up for other existing or new projects.

The Group remains focused on completing the remaining 12 ongoing projects with eight scheduled for completion in 2022 and the remainder from 2023 to 2025. The Group will continue to review relevant opportunities and grow its pipeline of orders and projects.

(ii) Financial

The Group has actively undertaken actions to reduce its monthly operational cash burn rate and carefully manage its working capital. We also deferred all non-essential capital expenditure and will incur only maintenance spending to ensure yard safety and operability.

The S\$2.1 billion Rights Issue in 2020 raised S\$0.6 billion net cash proceeds following repayment of the S\$1.5 billion subordinated loan to Sembcorp as part of the de-merger. It became progressively evident that the impact of COVID-19 and the industry downturn has been more protracted than originally anticipated and hence the S\$0.6 billion of net proceeds from the 2020 Rights Issue was insufficient.

In June 2021, Sembcorp Marine announced a S\$1.5 billion renounceable underwritten Rights Issue aimed at addressing the immediate funding needs and to strengthen the Group's balance sheet and replenish temporary working capital depletion. The Rights Issue was successfully completed in September 2021. The enhanced liquidity position through the recapitalisation has enabled the Group to meet its ongoing operational funding requirement and fulfil its existing commitments.

A strengthened balance sheet will support our ongoing strategic expansion into the high-growth renewables and clean energy segments. It also means greater financial agility for Sembcorp Marine to seize opportunities and to respond to evolving market dynamics, to bid competitively for high-value and large-scale projects. We continue to keep our sights on our long-term strategic goals and pursuit.

RISK MANAGEMENT

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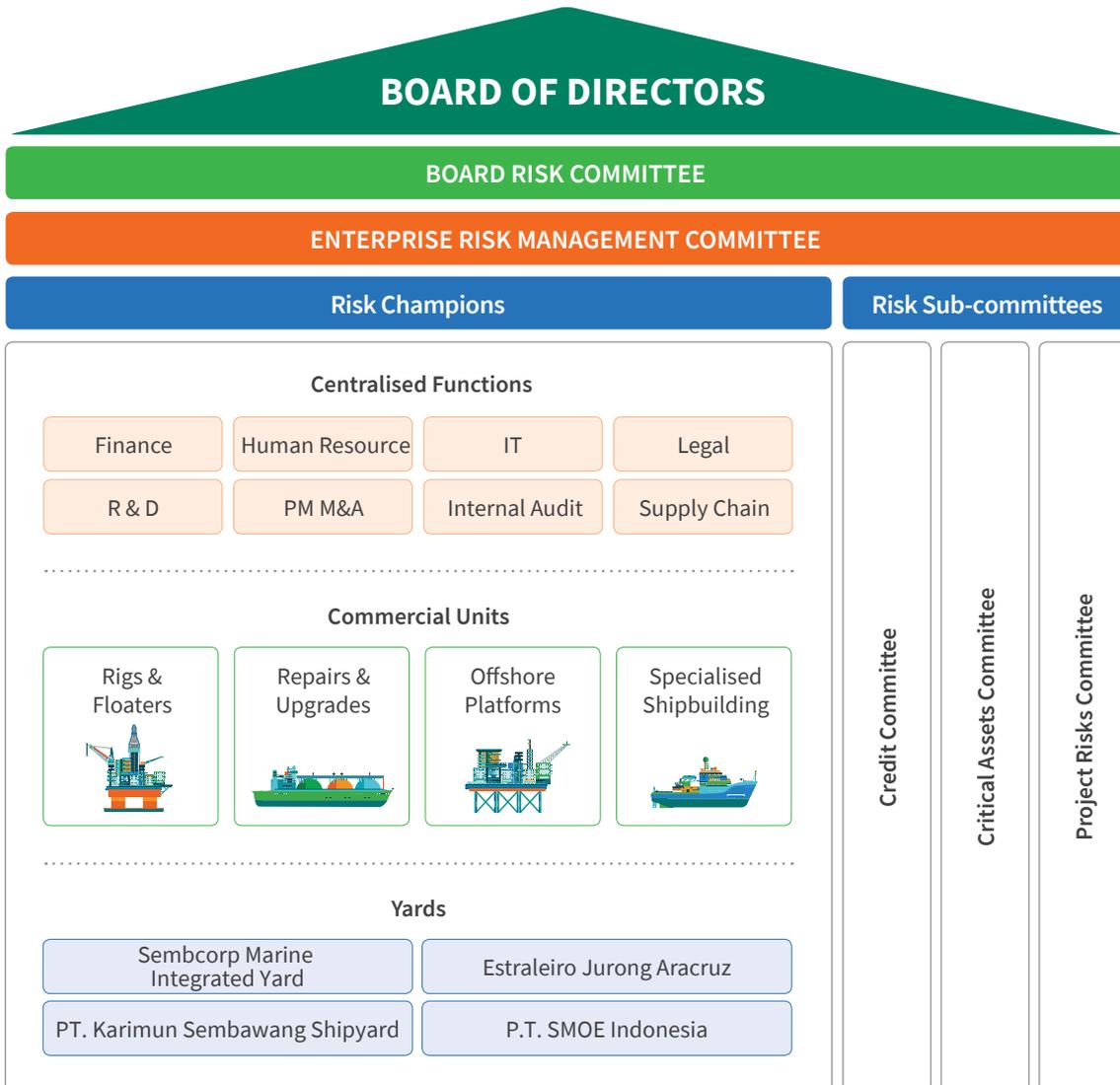
Our ERM foundational principles and our risk governance structure are unchanged. The core elements of our ERM programme (i.e. articulating core business drivers and strategic business initiatives, risk identification, assessment, response, communication and monitoring) are still applicable.

Our Board champions our risk culture by setting the tone and the direction for us to manage risks. Specifically, our Board determines the nature and tolerance levels of significant risks we can take to achieve our business objectives, provides oversight over the design, implementation and monitoring of risk management and internal control systems, and reviews the adequacy and effectiveness of these systems. Our Board delegates authority to the Board Risk Committee (“BRC”) to fulfill its risk governance responsibilities.

The Group’s President & CEO has overall responsibility for managing enterprise-wide risks. Guided by the Board’s risk direction and approved policies, the President & CEO chairs the Enterprise Risk Management Committee (“ERM”) which

drives risk programmes and manages risk issues. Supporting ERM are Risk Champions and the various Risk Sub-committees for Credit, Critical Assets and Project Risks. Heads of Commercial Units and Yards are responsible for managing risks within their domains and ensuring that their respective risk management frameworks and systems comply with our ERM policy.

We integrate risk identification, assessment and mitigation with decision-making, resource allocation and timely communication. Top-level support and cross-functional collaboration in addressing audit concerns, identifying control issues and reporting of incidents ensure commitment to and consistency of approach in risk oversight.



Our risk appetite for identified key areas is articulated through the following broad statements:

Strategy & Growth	<ul style="list-style-type: none"> Expand into new locations, businesses and products Pursue opportunities and transactions that are consistent with overall strategy and core competencies Achieve appropriate risk-reward balance through due diligence and other necessary risk management processes
Country Exposure	<ul style="list-style-type: none"> Diversify business portfolio to mitigate exposures to adverse geopolitical macroeconomic and industry changes For fixed asset investments, avoid exposure to high-risk and sanctioned countries and countries at war. Explore countries which have strategic growth potential For projects, limit exposure in medium and high-risk countries, and in sanctioned countries where business can be conducted legally
Credit & Concentration	<ul style="list-style-type: none"> Maintain a diversified portfolio of customers so that our concentration in respective credit rating tiers commensurate with our loss tolerance
Project Management	<ul style="list-style-type: none"> Optimise resource planning and utilisation across portfolio of multiple projects Level resource utilisation effectively across various projects so as to minimise costs and deliver quality projects safely and on time
Operational Risks	<ul style="list-style-type: none"> Manage critical assets and IT infrastructure to ensure system availability and capacity to meet business requirements and to protect against natural and man-made threats, including cyber attacks Minimise relationships with high-risk business partners and third-party vendors who provide critical services
Liquidity, Returns & Foreign Exchange	<ul style="list-style-type: none"> Be well-positioned to meet liquidity requirements and service debts Achieve target return on investment and generate minimum target of return for shareholders Perform FX transactions using permitted hedging products and solely for hedging purposes without engaging in speculation
Human Capital Planning	<ul style="list-style-type: none"> Build a motivated, productive and efficient workforce which is aligned to the Group's core values and ethical standards Attract, develop and retain employees with relevant skill sets and competencies to meet the company's business needs and ensure leadership continuity
Health, Safety, Security & Environment	<ul style="list-style-type: none"> Do not tolerate fatalities, adverse health or environmental impacts and security breaches arising from negligence or non-compliance with applicable HSSE regulations and standard operating procedures
Compliance, Brand & Reputation	<ul style="list-style-type: none"> Comply with applicable laws and regulatory requirements in the countries where Group operates Do not condone fraudulent and corrupt activities Do not tolerate reputational damage or negative publicity Invest in initiatives to promote brand, CSR values, engage stakeholders and reach out to community
ERM Maturity; Risk Culture	<ul style="list-style-type: none"> Develop ERM capabilities and institutionalise best-in-class ERM programmes Ensure employees understand risks associated with their business activities, and that they are accountable for operating within stipulated risk appetites

RISK MANAGEMENT

2021 Risk Management activities included the following:



RGAF & CSA SUBMISSIONS

Risk Governance and Assurance Framework (RGAF): Board of Directors opined on adequacy and effectiveness of the Group's system of risk management and internal controls, based on assurances from Management who performed self-assessment on control effectiveness and to remediate issues, and from Internal and External Audit teams who identified issues and weaknesses and recommended areas for improvement.

Control Self Assessments (CSA): Employees defined minimum acceptable controls in their work activities, periodically assessed their compliance with key controls, highlighted non-compliances, deviations or control weaknesses, and developed corresponding action plans to address them so that process objectives can be met.

- Held Risk Champions Workshop/Annual ERM Refresher Training for the organisation's senior and middle management.
- Held CSA Workshops with Risk Champions, Commercial Units, Yards and Corporate Services process and control owners.
- Developed Risk Management e-training module.



TREASURY UPDATES

Treasury Tracking: The Group Treasury Department presented the following to the Board Risk Committee on a regular basis:

- key drivers affected Group FX exposures,
- translation of foreign currency investments, FX forwards mark-to-market valuation, and transactional exposure from project cash flows, asset inventories and committed capex, and
- Group Value at Risk (VaR) status vis-à-vis Group VaR limit (via dashboard with alert status) for various VaR levels and corresponding required follow-up.

FX Tickets:

Chief Risk Officer (CRO) also verified and signed off FX deal ticket, providing additional scrutiny in accordance with the Group's FX hedging procedure.



RISK APPETITE STATEMENT DASHBOARD

Risk Management monitored each major risk type, reviewed and updated its corresponding metrics, tolerance ranges and limits for early warning of potential breach incidences and driving mitigation actions.



HSE UPDATES

The Group's activities embedded health, safety, security, environmental and quality requisites to provide a safe, secure and healthy workplace for employees, contractors, suppliers and stakeholders by preventing accidents, injuries, occupational illness, and minimise environmental impact of the Group's operations.



PARTICIPATED IN FX AND SUSTAINABILITY COMMITTEES

FX Committee:

The CRO, as a member of the FX Committee, reviewed FX policies, approved hedging plans, and monitored VaR exposures.

Sustainability Committee:

The CRO, as the leader of the Governance working team of the Group's Sustainability programme and Sustainability Council member, researched best practices, developed methodologies, identified emerging sustainability issues, and oversaw implementation progress of mitigation plans.



UPDATE OF RISK MANAGEMENT POLICIES AND COMPOSITION OF RISK SUB-COMMITTEES

Risk Management reviewed and updated policies, including Enterprise Risk Management Policy, Internal Control Policy and Procedures, Risk Appetite Statements (RAS), Tolerance Metrics and Limits. The updated policies were uploaded in the Group's corporate repository and disseminated to relevant stakeholders.

Established and formalised new policies, i.e. Credit Committee (CC) Terms of Reference (TOR), Risk Reporting Policy, Enterprise Risk Management Committee (ERMC) TOR, and Project Risk Management Committee (PRMC) TOR.

Refreshed composition of Risk-related management committees so that members have relevant and diverse expertise to enrich committees' deliberations and discharge committee's duties expeditiously.



PARTNER WITH COMPLIANCE DEPARTMENT

As part of 2021 Risk Work Plan, Risk Management:

- partnered Compliance Department to maintain conformance with ISO Anti-bribery Management System requirements.
- worked with Compliance Department to roll out a risk-based due diligence framework.



BUSINESS CONTINUITY MANAGEMENT

Risk Management analysed gaps *vis-a-vis* ISO 22313 so as to align existing Business Continuity Management programme with internationally accepted standards on preparing for, responding to and recovering from disruptive incidents when they arise.



MONITOR CUSTOMERS' CREDIT RATINGS AND SIGNIFICANT OUTSTANDING DEBTORS

The Credit Committee assessed obligor's creditworthiness using salient quantitative and qualitative criteria so as to facilitate clear credit underwriting, prudent transaction structuring and effective portfolio management.

Key initiatives:

- monitored customers' creditworthiness and payment ability;
- implemented remedial measures for collecting arrears;
- reviewed likely payment outcomes; and
- reviewed and updated Group Credit Policy by Finance and Credit Committee members.

Facilitated requirements of Group Credit Policy which include sieving out customers that are not creditworthy, protecting Group against excessive credit exposures, and ensuring that credit risks that the Group accepts have been deliberated and are consistent with the Group's risk appetite.



PROJECT APPROVAL PAPERS

Risk Management vetted approval papers which use a template that compelled rigorous analysis of all relevant aspects of the proposed projects, and organised evaluations and supporting details in a reader-friendly manner.

Template initiated by Risk Management emphasised concise and coherent writing and allows approvers to focus on critical deal points.



CONDUCT 2021 BIENNIAL RISK SURVEY

The Risk Survey is a biennial exercise conducted to gather feedback from employees, management and Board on Risk Management-related initiatives in SCM. The following are the key objectives of the survey:

- Assess the awareness and perception of management and employees of ERM effectiveness in SCM.
- Evaluate the Risk Culture through the three pillars of Awareness, Perception and Behaviour.
- Evaluate the Risk Maturity through various risk elements to identify strengths and areas of improvement, and to take action on them.
- Understand the effectiveness of Risk Management initiatives in raising the profile of risk management in SCM.