
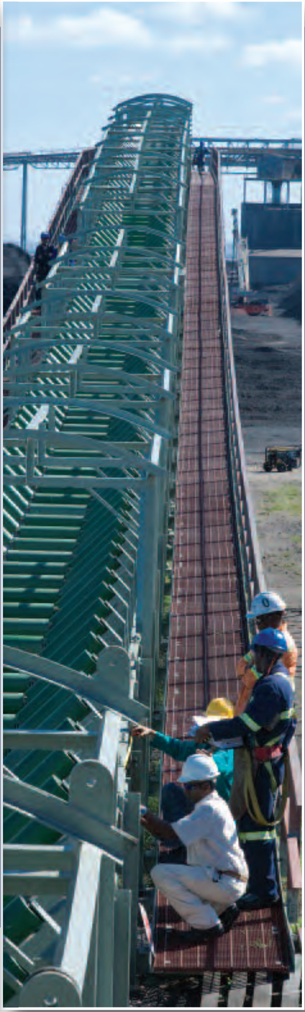
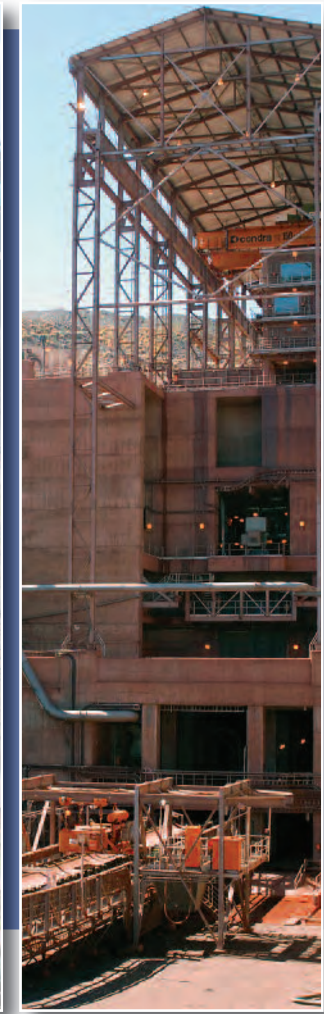

BATEMAN

Bateman Engineering N.V.

ANNUAL REPORT 2008

Risk Management

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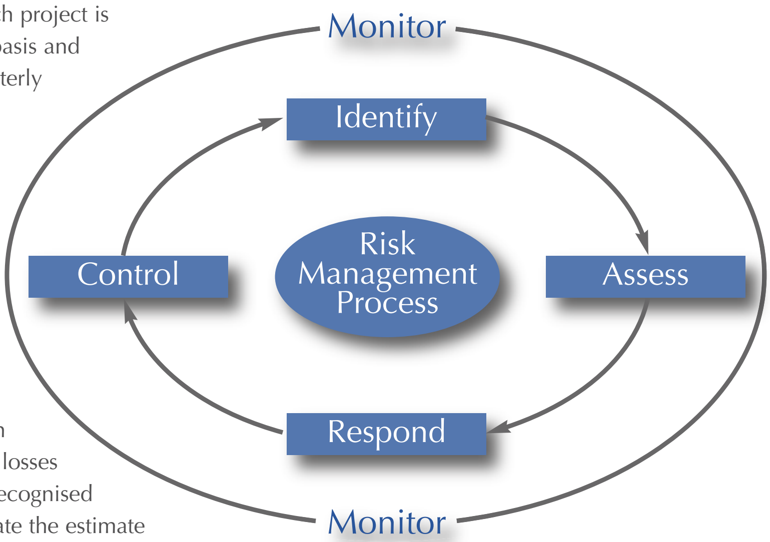
Our industry is inherently risky with practically every project being unique in size, shape and environment for each new assignment. Success in the engineering and construction industry is in many respects contingent on an organisation's ability to manage its risk.

Projects are Bateman Engineering's primary source of income. The Group's profitability is dependent on the collective earnings of individual projects. One of the characteristics of the engineering and construction industry is that risk and opportunity are not symmetrical. It is extremely difficult to make up for loss-making projects by exceeding the budgeted profits on profitable projects.

The impact of loss-making projects is particularly severe due to the fact that projects are accounted for using the percentage of completion method. Each project is reviewed on a monthly basis and fully evaluated on a quarterly basis, with adjustments being made to the forecast cost at completion and remaining risk-based provisions deemed necessary. The resultant forecast project profit is then recognised under the percentage of completion methodology. Estimated losses in ongoing projects are recognised in their entirety on the date the estimate is made. A loss-making project that previously reported a profit results in the entire amount of profit previously recognised under the percentage of completion methodology being reversed. In addition, the entire estimated loss must be recognised at the same time. If no further changes occur, the project will then recognise zero gross profit during the remainder of the construction period.

At present, at Bateman Engineering, the impact of loss-making projects remains unacceptably high, and the improvement of risk management processes continues to be a key focus of senior management. A Group Risk Committee has been established as a sub-committee of the Executive Committee (Excom) and a dedicated Group Risk Manager appointed to focus on enhancing risk management within the Group. This Committee has been tasked with ensuring the effectiveness of the Group's risk management processes for the identification and management of risk at all levels within the Group.

The purpose of risk management is to ensure that there is an appropriate alignment between the strategic intent of the organisation as defined in terms of vision and strategy and the execution thereof as undertaken at an operational and project level. This can only be achieved by embedding risk management into all aspects of the organisational structure. It is only through the management of risk that the long-term sustainability of the Group can be ensured. The following diagram depicts the objectives of the risk management framework for the Group.



A key risk management initiative for the forthcoming year will be to enhance the quality of management information and harmonise the risk processes across the various Business Units within the Group. A Group-level risk management framework is under development, the aim of which is to provide all Business Units with a uniform approach to the identification, quantification and management of risk. The purpose of the risk management framework is also to ensure that all risks are evaluated in light of the overall Group strategy.

To further enhance the quality of its risk management and operational processes, Bateman Engineering has joined the

Risk Management continued

Engineering and Construction Risk Institute (ECRI) and the Construction Industry Institute (CII), both of which focus on enhancing operational efficiency and risk management within member organisations.

Three different broad levels of risk have been categorised within the Group: strategic, operational and financial, and project risk, with each level requiring management focus within the Group. Each of these levels is discussed separately below.

Strategic Risks are formally assessed by the Executive Committee and Board as part of the annual strategic review process. The Group's risk appetite is reviewed as part of this strategic review, based on past performance and current economic trends. The high demand for engineering and construction projects has resulted in a significantly changed operating environment characterised by demand inflation, skills shortages and subcontractor and manufacturer restraints. As part of its risk management, the Group has increased the ratio of reimbursable projects and hybrid contracts compared to traditional lump-sum projects, as the Group focuses on enhancing its quality of earnings.

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Operational and Financial Risks are gauged by each of the Business Units as well as within the corporate functions and thereafter rolled up to a Group level, in preparation for the annual business planning process. Business Unit business plans are reviewed by the Executive Committee and the Group business plan is approved by both the Executive Committee and Board. Performance against the business plan is formally reviewed on a quarterly basis.

Project Risk – To ensure a systematic and uniform assessment of engineering and construction projects, Bateman Engineering has a Group-level procedure for identifying and managing potential project risks throughout the Group. Projects are continuously evaluated from the business development phase through to the completion of the project, regarding technical, commercial and financial risks. Potential opportunities are evaluated in light of the core strengths of Business Units, in terms of expertise, geographic market, contract type and contract size, as well as the availability of project resources.

A formal risk assessment is undertaken for each new opportunity, and specific risk mitigation measures are identified. Dependent on the risk profile of an opportunity, it may be elevated to the Executive Committee for approval prior to submission. Each Business Unit undertakes monthly project reviews during which the progress of projects is assessed in terms of costs, physical progress, contract variations and expected revenue. Any developments in risks and risk management measures form an explicit element of these periodic assessments.

Bateman Engineering's risk management system does not imply avoidance of all risks, but aims to identify, manage and price these risks.

Key Headline Risks

Bateman Engineering is exposed to a variety of risks and uncertainties that may have a financial or reputational impact on the Group, and that may also affect the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational, compliance and financial risks. The principal risks and uncertainties facing the Group have been categorised into headline risk areas. The key headline risks identified for 2008 and their potential impacts on the Group are summarised below.

Change Initiatives

The restructuring of the business, which is designed to simplify operations and leverage scale more effectively, includes the alignment of geographical territories under one of three product groupings and the streamlining of co-operation between Business Units. Building on the experience of the 2008 financial year, the Group will continue to manage the risks in this area diligently and develop clear action plans in an attempt to mitigate these risks.

Economic Conditions Risk

Market conditions, particularly those affecting commodities, such as metals and minerals, and mining and industrial companies, may affect the ultimate value of the Company's share price, regardless of operating performance. In addition, there are a number of macroeconomic factors and local political and economic risks that could affect future demand and the ability of the Group to complete existing projects or convert potential prospects into binding commitments. These include a general future downturn in the world economies, potentially exacerbated by the US trade and fiscal deficits reaching historically high levels.

Insurance Risk

The Group plans to continue to insure its operations in accordance with industry practice and to the extent practical, and plans to insure the risks it considers appropriate for the Group's exposure. Not all risks can be insured and, in some instances when insurance is deemed prohibitively expensive, the Group may elect not to buy insurance.

Risk Management continued

Safety and the Environment Risks

Given the nature of the processes and the close relationship of safe working conditions with care for the environment, the Group considers an integrated approach to quality, working conditions and the environment is desirable. A special attention area is personnel safety, both of the Group and of third parties, with the emphasis on preventing personal injury and damage to the environment. All accidents involving significant injury or death are systematically reported to the Executive Committee and the Board.

Currency Risk

The global project spread of the Group exposes it to currency risks. The Group's policy requires all project currency risks to be hedged in the currency of the Company. This applies to both revenue and procurement. Whenever possible, the Group tenders and contracts in US Dollars.

Technology Risk

The future success of the Group depends on its ability to enhance its existing products and services; address the increasingly sophisticated and diverse needs of its customers; and respond to technological advances and emerging industry and public sector standards and practices on a cost-effective and timely basis.

Employee Risk

The ability to recruit, develop and retain appropriate skills for the Group is made difficult by the increase in global competition for skilled labour amongst engineering and construction companies. A number of strategies are being implemented to mitigate this risk, including attention to an appropriate suite of reward and benefit structures, recruiting skills from non-traditional geographical locations and establishing in areas such as India and China where the Group can access additional resource pools.

Acquisitions

With any acquisition, there is a risk that any benefits or synergies identified at acquisition may not be achieved. Rigorous guidelines are applied to the evaluation of all acquisitions prior to seeking approval of the Board to proceed.

Risk related to Material Prices

There are a number of different contractual mechanisms within the Group and the degree of risk associated with the prices of goods and services varies depending on the type of contract. In cases where the Company works on a cost plus basis, the risk of any cost increases belongs to the client. Where possible, fixed-price contracts are negotiated to include indexing clauses that allow an upward revision of the contract value, equivalent to price increases. To further protect itself against such risks, Bateman Engineering endeavours to have committed fixed pricing on equipment and approved subcontractors before or as soon as feasible after signing a contract.

Litigation Risk

There is a risk that the Group may be unsuccessful in pursuing or defending some actions or that negative publicity will flow from it being involved with legal matters. The Group attempts to manage these risks by ensuring that they are within acceptable Group risk tolerance levels.