

■ Risk Management

General

Fugro's risk management policy is aimed at the long-term sustainable management of its business activities and the limiting or, where meaningful, hedging of the associated risks. Due to the wide diversity of markets, clients and regions and its broad portfolio of activities, quantifying all the existing risks relevant to the Group as a whole is virtually impossible. Risks are, however, quantified wherever possible and useful. This applies amongst others to the influence of the exchange rate of the US dollar, the Norwegian kroner and the British pound. See page 26.

Strengths

- Consistent execution of strategy as an independent service provider
- Good market position in many niche markets worldwide
- Professional employees who receive continuous additional training
- High-quality technology and services provision
- Well functioning financial systems and risk management systems
- Cooperation between business units
- Healthy financial position

Weaknesses

- Sensitivity to rapid, sharp fluctuations in, amongst others, the exchange rate of the US dollar, the Norwegian kroner and the British pound
- Much of the revenue depends on investment by the oil and gas industry

Opportunities

- Increased investment by the oil and gas industry, amongst others related to depletion of existing fields
- Increasing demand for oil and gas as the world economy recovery continues
- Optimisation of existing oil and gas fields
- More and larger infrastructure projects, including coastline protection
- Increasing demand for mineral exploration as the demand for minerals recovers
- Upcoming markets such as Brazil, Russia, India and China and Eastern European countries
- Increasing demand for non-fossil energy sources

Threats

- Economic stagnation, which may lead to project deferrals and/or cancellations
- Collapse of the demand for oil, gas and/or minerals
- Political instability in countries and/or regions important to Fugro
- Payment risk of clients with low financial strength
- Pressure on prices by clients as a result of lower demand and/or overcapacity in certain market segments
- Significant foreign currency fluctuations (amongst others US dollar, Norwegian kroner and British pound)
- Strong decrease of the oil price compared to the present level over USD 100 per barrel (Brent), leading to lower investments by the oil and gas industry
- A disaster such as the oil spill in the Gulf of Mexico that could have the effect that planned and ongoing activities are (partly) cancelled or reduced

Fugro's long-term risks are limited due to:

- The diversity of activities in more than one international market segment
- No clients with contracts accounting for more than around 4% of Fugro's total annual revenue
- Use of own modern technologies and professional employees
- The ability to adjust quickly to exchange rate and price changes as most contracts are of short duration
- Geographical spread of the activities
- A balanced and flexible vessel fleet composition (owned and chartered)
- Current liabilities (EUR 880 million) amount to 28% of the balance sheet total
- Limited risk related to pension obligations
- Good internal risk management and control systems
- Part of the (manpower) capacity being hired-in on a flexible basis, among which free lance staff
- Strong financial position to support future growth

Operational

Activity portfolio

Although the core activities show a high degree of cohesion, they also target highly diverse markets, clients and regions. A high proportion of the activities is related to the oil and gas industry. Fugro's dependence on the more cyclic investment in oil and gas exploration and development is balanced by its involvement in the more stable investments in oil and gas production. The other activities are dependent on developments in markets that include infrastructure, construction and mining. The influence of positive and negative economic effects is further moderated by:

- Cohesion between a broad range of services
- Good geographical spread
- Being an independent service provider to a diverse base of clients
- Strong market positions
- Size of the Group

Contract flow and price changes

Some of Fugro's contracts are awarded on the basis of long-term preferred supplier agreements. In the course of a year Fugro often carries out several projects for the same client. The projects carried out for any single client do not, however, account for more than around 4% of the total annual revenue. Having a large number of clients supports Fugro's independence and improves its stability.

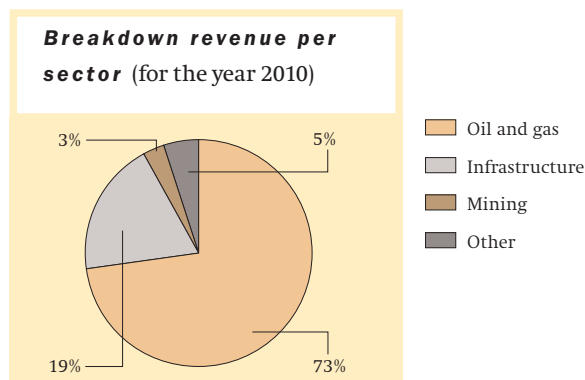
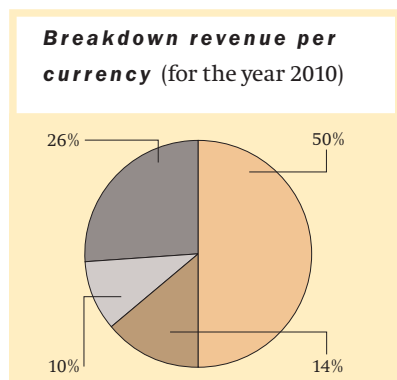
To carry out its projects Fugro has at its disposal highly trained employees and many technically advanced and therefore expensive equipment. Much of Fugro's work involves short-term contracts. Fugro is, to a degree, sensitive to price changes and sudden changes in exchange rates, although it can adapt relatively quick due to the general short term duration of projects.

Fugro's budgets are, to a great extent, based on the expected investments by the oil and gas industry. Unless there is a structural drop in the oil price to less than USD 70 – 80 per barrel (Brent), it is not anticipated that substantial (up or down) fluctuations in oil prices will lead to a rapid change in these investments.

Capacity management

Fugro is constantly alert for signals that indicate changes in market conditions so it can react quickly and appropriately. Sudden and unexpected changes in market conditions are, however, always possible. Some of Fugro's survey activities can precede investment by clients and generally take place at the start of project or investment-cycles of clients. This means Fugro's activities can be the first to be affected by changes in market conditions. Postponement and interruption to the flow of orders can lead to temporary losses due to under-utilisation of capacity.

The weather and the availability of vessels are key factors for offshore activities in particular. Weather influences are calculated into the budgets and tend to average out over the year and the regions in which Fugro is active. As far as vessels are concerned, Fugro's objective is a balanced fleet in which around 45% of the vessels are owned and around 40% are on mid-term or long-term charter basis. A number of vessels (approximately 15% of the fleet) are chartered on a project basis. The fact that Fugro is deploying heavy and specialist equipment does mean that the risk of capacity under-utilisation will increase. At the same time, the exchange of manpower and equipment between the various business units can improve capacity utilisation. The deployment of expensive (marine) equipment also leads to risks with regard to loss of revenue due to equipment break downs. Part of the staff is appointed on a temporary basis or works on a freelance basis, providing Fugro a certain flexibility to respond to variations in manpower needs.



Financial

Balance sheet

Fugro follows an active policy to optimise its balance sheet ratios and thus limit financial risks and maintain its long-term solvency. Being quoted on the stock exchange provides a worthwhile contribution towards achieving the (financial) targets and it enables Fugro to make a well considered selection of the optimum financing mix when considering larger investments and acquisitions.

Future interest rate risks are limited to bank loans. Fugro's objective is to limit the effect of interest rate changes on the results.

Research costs are charged directly to the results. Fugro has evaluated the book value of its assets, including goodwill, within the framework of its normal balance sheet evaluation. This has shown that no impairment of any tangible or intangible asset is necessary.

Currency exchange rate conversion

Fugro limits its susceptibility to changes in foreign currency variances, but is not immune to exchange rate variances caused by rapid changes to the rates versus the Eur (which is the reporting currency). Besides that, changes in exchange rates will result in translation differences. As most of Fugro's revenue in local currencies is used for local payments, the effect of negative or positive currency movements on operational activities at a local level is minimal. Fugro's international monetary streams are limited and mainly in US dollars, US dollar related currencies, Euro, the Norwegian kroner and the British pound. Where possible and desirable, forward exchange contracts are executed. Fugro strives to match

assets and liabilities in foreign currencies. Rapid and radical changes in exchange rates can also influence the balance sheet and profit and loss account, partly due to the length of time between tenders being submitted and orders being awarded or delayed, during which period forward exchange contracts would not be appropriate. This creates an additional foreign currency risk that cannot be quantified in advance. At the Group's current structure and size, a rate difference of 10% on the USD would affect profit by EUR 5.1 million and revenue by approximately EUR 95 million. A rate difference of 10% on the GBP would affect profit by EUR 1.5 million and revenue by approximately EUR 40 million.

Pension provisions

Fugro maintains pension schemes for its employees in accordance with regulations and customs which prevail in each of the countries in which the Company operates.

Since 1 January 2005 Fugro operates an average salary based pension scheme in the Netherlands. This is classified as a 'defined benefit' scheme. The pension commitments in the Netherlands are fully re-insured on the basis of a guarantee contract. The accrued benefits are fully financed.

In the United States Fugro has a 401K system for its employees. Fugro contributes towards the deposits of its employees in accordance with agreed rules and taking the regulations of the Internal Revenue Service (IRS), the American federal tax authority, into account. This system is free of risk for Fugro.

Exchange rates (in EUR)	USD end of period	USD average	GBP end of period	GBP average	NOK end of period	NOK average
31 December 2010	0.75	0.76	1.16	1.17	0.128	0.125
30 June 2010	0.81	0.76	1.22	1.16	0.126	0.125
31 December 2009	0.69	0.72	1.13	1.13	0.121	0.115
30 June 2009	0.71	0.75	1.17	1.12	0.111	0.112
31 December 2008	0.71	0.68	1.05	1.25	0.102	0.125
30 June 2008	0.63	0.65	1.26	1.28	0.125	0.121
31 December 2007	0.68	0.73	1.36	1.46	0.126	0.125
30 June 2007	0.74	0.75	1.49	1.48	0.126	0.124

Dash 7 flying a MEGATEM electromagnetic survey, Arizona, USA.



In the United Kingdom Fugro operates a number of pension schemes. All the schemes available to new employees are defined contribution schemes. There is one defined benefit scheme open for long-serving employees and there are other defined benefit schemes which have been closed but which have on-going obligations to their members. Measures have been taken to ensure these obligations can be paid when required.

In the other countries where Fugro has organised retirement provisions for its employees, obligations arising from these provisions are covered by items recognised in the balance sheet of the relevant operating company.

Information and communication technology (ICT)

Fugro relies on a range of ICT systems (including hardware, software, computer networks and communication links) to manage its business, support operations and to deliver many of the advanced technological solutions which help to differentiate the company in the marketplace. While much of the hardware and software used by Fugro is purchased from reputable suppliers, Fugro also develops proprietary hardware and software in order to facilitate its range of specialist services and to strengthen its market position.

Fugro's ICT infrastructure is designed to effectively support the needs of a decentralised global organisation in a reliable and secure manner. The ICT needs of individual Fugro companies vary considerably, so companies typically have local responsibility for their Local Area Network (LAN) infrastructure including its support. At a local or regional level, operating companies are encouraged to share ICT knowhow and support services in order to generate efficiencies of scale. At a global level, the interface between each operating company's LAN and that of another Fugro company or the 'outside world' is secured by 'Firewall' devices and other security related systems which are monitored by a dedicated team of ICT security specialists.

Fugro endeavours to mitigate the risks associated with ICT systems through a variety of measures:

- Fugro maintains a dedicated ICT security team consisting of a global ICT security officer and six regional ICT security personnel. This team is responsible for maintaining and monitoring the security aspects of Fugro's ICT infrastructure, such as access to the internet, e-mail and intranet applications. The ICT security team is independent from the ICT support staff in the operating companies.
- The adoption of new third party software and software upgrades (such as that used in the office environment) is generally delayed until sufficient time has passed to prove that the software is stable and does not pose a security risk. Once adopted for use, critical 'patches' to fix software bugs are applied as they become available.
- Proprietary software is subject to comprehensive testing procedures before operational use.
- Access to client data and other confidential information is restricted to specific people in the operating company concerned, who have a legitimate reason for such access.
- Data communications within Fugro's global wide area network (WAN) are channelled over a virtual private network (VPN), the security of which is monitored around the clock.
- Fugro's ICT systems are constantly monitored for evidence of contamination by viruses or 'malware' using a variety of independent means.
- Access from Fugro's WAN to 'social network' sites is restricted for security reasons.

Insurance and legal risks

Fugro is insured against a number of risks. Risks related to professional indemnity and general liability are covered at a Group level. Equipment is insured locally and local cover is arranged for risks associated with normal business operations, such as insurance for the vehicle fleet, the buildings and for employees.

Some operating companies are involved in claims, either as the claimant or the defendant, within the context of normal business operations. Where necessary proper provisions have been accounted for in the annual accounts. Based on developments thus far, it is not anticipated that Fugro's financial position will be noticeably affected by any of these proceedings. With regard to items included in the annual report adjustments to estimates are possible.

Internal systems

Due to the generally short-term nature of its assignments, constant monitoring of its markets and its operating and financial results is intrinsic to Fugro's modus operandi.

Clarity and transparency are an absolute must for assessing and evaluating risks. These are fundamental characteristics of the Fugro culture. Due to the wide variety of markets, clients and regions and Fugro's extensive activity portfolio, the management of the operating companies is responsible for the application and monitoring of and compliance with the internal control systems. The monitoring systems consist of the internal control framework described below.

Corporate handbook

Fugro's corporate handbook contains mandatory instructions regarding many business aspects, including risk management. This handbook is for the senior management members responsible for further application within the operating companies. The latest update was issued in November 2009.

Financial handbook

This handbook contains detailed guidelines for the financial reporting. The financial handbook is for the senior management and the controllers of all operating companies. The latest update was issued in December 2010.

Insurance manual

The insurance manual contains detailed guidelines with respect to risks to be insured. The insurance manual is distributed to managers of all operating companies and their employees who are responsible for insurances at the subsidiaries. The latest update was issued in September 2009.

Information and communication technology (ICT)

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Project Management handbook

This handbook provides procedures in preparation to and for the execution of projects. This handbook is used by project managers. The latest update was issued in October 2007.

Planning

The business plans of every Fugro unit are translated into budgets. Adherence to the budgets is checked on a monthly basis. Any unforeseen circumstances that arise, or any substantial deviation from the budgets, must be reported immediately by the operating company managements to the relevant responsible Executive Committee member and to the Board of Management. The monthly reports submitted by the operational management to Fugro include an analysis of the achievements versus the approved plans and a forecast for the coming period.

Authorisation level

Managers are bound by clear authorisation restrictions regarding representation. Projects and contracts with a value or risk that exceeds a specified amount must be approved by either regional managers or the appropriate member of the Executive Committee.

Letter of representation

Every six months all managers and controllers of operating companies and the responsible member of the Executive Committee sign a detailed statement regarding the financial reporting and internal control.

Internal Audit

Regular and frequent internal audits of the various operating companies are carried out. The findings are reported directly to the (relevant members of the) Executive Committee. The findings are also shared with the Audit Committee.

Peer reviews

'Peer reviews' are also carried out on a regular basis. A peer review involves a review of an operating company by a team from other operating companies. The results are reported directly to the (relevant members of the) Executive Committee.

Audit Committee

The Audit Committee comprises three members of the Supervisory Board and it ensures an independent monitoring of the risk management process from the perspective of its supervisory role. The Audit Committee focuses on the quality of the internal and external

reporting, the effectiveness of the internal audits and the functioning of the external auditor. Further information on the Audit Committee is available on pages 16 and 17 and in the terms of reference of the Audit Committee. These terms of reference are available on Fugro's website: www.fugro.com.

External audit

The annual accounts of Fugro and most of its subsidiaries are audited annually by external auditors. These audits take place on the basis of generally accepted auditing standards.

Advisory roles

If necessary, professional external advice is sought of third parties. The external auditor does not act in an advisory capacity, except for occasionally due diligence as part of mergers and acquisitions and activities relating to the annual accounts.

Safety

Subsidiaries are externally certified in accordance with OHSAS 18001 or equivalent. Compliance audits are done by internal specialists and by external agencies when re-certification has to take place. The last update was issued in May 2009.

Quality

Where required Fugro operating companies work in accordance with the relevant certificates such as ISO 9001 or equivalent. Compliance audits are carried out internally, by clients and by external agencies.

Whistle-blower's regulation

Fugro operates a 'whistle-blower's charter' to ensure that any possible infringement of the Group's policy and procedures can be reported without this act of submitting such a report having any adverse consequences for the 'whistle-blower'.

Declaration regarding risk management

Taking the above into account, to the best knowledge of and in the opinion of the Board of Management, Fugro's internal risk management and control systems as described in this annual report provide a reasonable assurance that the financial reporting does not contain any errors of material importance and these systems worked properly in the year under review.