
SBM
OFFSHORE
ENERGY. COMMITTED.
ANNUAL REPORT 2020

1.2 BUSINESS CONTEXT

1.2.1 MARKETS AND ACTIVITIES

SBM Offshore provides floating production solutions to the offshore energy industry, over the full product lifecycle. The Company leads the market in leased floating production systems, with multiple units currently in operation worldwide, and has a unique breadth of operational experience in this field.

SBM Offshore is active in multiple offshore energy markets – oil, gas and renewables. Oil markets mainly supply the transportation and industry sectors, while gas and renewables feed into power generation, industry and consumer sectors. Currently, most of SBM Offshore's revenues are derived from services to the deep water oil and associated gas markets. The Company is the leader in its market in terms of total energy production capacity (boepd) and the number of FPSO units delivered to date, accumulating almost 350 contract years of operating experience. Within the Renewables market, the Company focuses on floating offshore wind and wave energy, as well as investing in research and development of products for future markets.

MARKET SEGMENTATION

In order to maintain its leading position in its core markets, SBM Offshore focuses on :

- Leveraging the Company's experience and business model to strengthen its position and to develop sustainable business in new areas.
- Transformation programs to increase return for customers: Fast4Ward®, focusing on better performance, delivered faster, and emissionZERO™, focusing on the decarbonization of products.
- Concrete SDG-related targets for the short- and long-term, and delivering on the roadmaps to achieve these targets.

Based on these guidelines, SBM Offshore is developing its product portfolio within the oil, gas and renewable energy sectors.

OIL

FPSO

The global market for FPSOs can be roughly split into three segments (new-build, large conversions and small conversions), with SBM Offshore focusing on two of them :

- New-build FPSOs, with production volumes typically around 200,000 barrels of oil per day, which are the focus of SBM Offshore's Fast4Ward® FPSO. The Company has built three Fast4Ward® Multi-Purpose Floater hulls allocated to FPSO EPC projects, with two more hulls ordered in anticipation of future projects.
- Large conversion FPSOs, which are SBM Offshore's traditional market. Oil tankers, also known as Very Large Crude Carriers (VLCCs), are converted to FPSOs with production capabilities of up to 150,000 barrels of oil per day. In 2019, SBM Offshore completed the conversion of *Liza Destiny* (FPSO), currently operating in Guyana.

SBM Offshore is taking a selective approach to market opportunities focusing on the main FPSO markets of Brazil and Guyana where the majority of low break-even oil-price prospects are concentrated. The Company is also developing business in other regions. Looking ahead, up to 24 FPSO projects could reach FID between 2021-2023.

GAS

The Company has developed a portfolio of products and a business strategy to be positioned for the evolving global energy mix, where gas has an increasing role as replacement for coal as a fuel.

LNG to Power

The Company is developing solutions in the LNG to power and LNG terminals markets. Demand for LNG-produced electricity is driving the market for near-shore LNG-to-power solutions, which have significant advantages over a traditional onshore gas-fired plants including low-to-nil land acquisition costs, shorter plant delivery schedules and flexibility in relocating to other sites. SBM Offshore has therefore developed a floating power plant concept named LNG2Wire to provide electrification to remote locations and also aimed at large industrial consumers considering a switch to greener power.

LNG Terminals

For small scale LNG projects, SBM Offshore has developed a jetty-free offloading solution which can aid remote areas, such as islands, to switch to LNG, producing cleaner power from cleaner fuel.

DEEP WATER EXPERIENCE BY WATER DEPTH

		bpd	
475m	*FPSO Serpentina*	110k	Equatorial Guinea
720m	*FPSO Saxi Batuque*	100k	Angola
728m	*FPSO Mondo*	100k	Angola
960m	*FPSO Aseng*	80k	Equatorial Guinea
1,221m	*FPSO Cidade de Anchieta*	100k	Brazil
1,250m	*N'Goma FPSO*	100k	Angola
1,365m	*FPSO Kikeh*	120k	Malaysia
1,485m	*FPSO Capixaba*	100k	Brazil
1,525m	*Liza Destiny* (FPSO)	120k	Guyana
1,600m	*Liza Unity** (FPSO)	220k	Guyana
1,780m	*FPSO Espirito Santo*	100k	Brazil
1,850m	*Thunder Hawk*	60k	USA
1,900m	*Prosperity** (FPSO)	220k	Guyana
2,000m	*FPSO Sepetiba**	180k	Brazil
2,100m	*FPSO Cidade de Paraty*	120k	Brazil
2,120m	*FPSO Cidade de Maricá*	150k	Brazil
2,130m	*FPSO Cidade de Saquarema*	150k	Brazil
2,140m	*FPSO Cidade de Ilhabela*	150k	Brazil

** under construction*

RENEWABLE ENERGY

SBM Offshore is currently focusing on two renewable energy production markets :

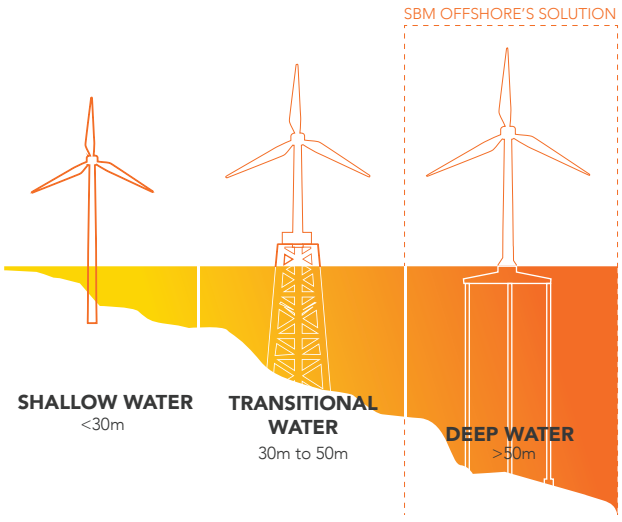
- Floating Offshore Wind (FOW)
- Wave Energy Converter (WEC)

Both markets are in development and are linked to the readiness of innovative technologies. The Company is also investing in research and development of products for other future markets.

Floating Offshore Wind

The FOW market is developing worldwide, in anticipation of future commercial projects. The Company is working on its first pilot project, leveraging its experience in the design of floating solutions and mooring systems, to produce an effective FOW solution that can be designed, built and installed on a commercial scale.

SEGMENTATION OF OFFSHORE WIND ENERGY SOLUTIONS



Wave Energy Converter

The nascent wave energy market will emerge in tandem with newly developing technologies, of which SBM Offshore's WEC S3® is an example. The first pilot project of this technology, which uses electro-active polymers and has no mechanical components, is under development. The Company's solution is aiming for low capital and operating costs to achieve a low Levelized Cost of Energy (LCOE).

Future Markets
SBM Offshore is also investing in research and development of products within selected segments that support the energy transition, such as Energy Storage, Hydrogen and Ammonia technologies.

OPERATING STRUCTURE

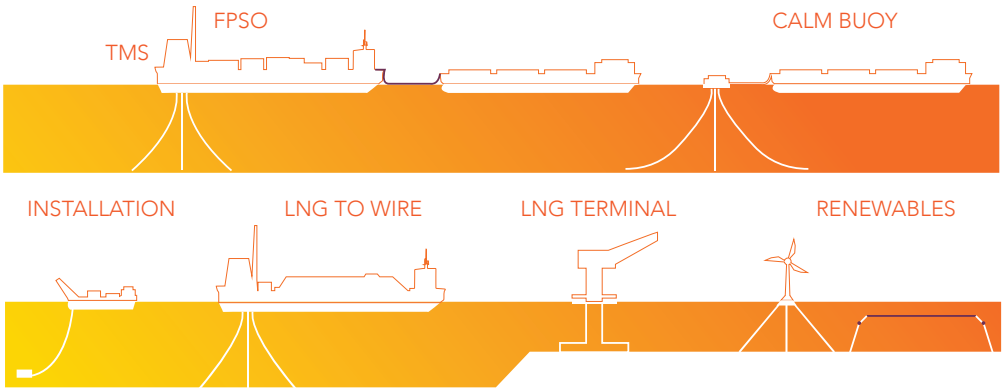
The Company's main activity is the design, supply, installation, operation and life extension of Floating Production Storage and Offloading (FPSO) vessels, which are either owned and operated by SBM Offshore and leased to its clients on a long- or short-term basis or supplied on a turnkey sale basis. SBM Offshore also focuses in the design and supply of products in the Gas and Renewable energy market and services. In addition, other products such as Turrets & Mooring Systems and Offshore Terminals are part of its portfolio.

The Company's financial performance is managed through the operating segments of Turnkey and Lease & Operate and Other as explained in section 2.1.5 and the financial statements in chapter 4.

At year-end, the Company operated a fleet of 14 FPSOs and one semi-submersible worldwide and had gained almost 350 cumulative contract years of operational experience.

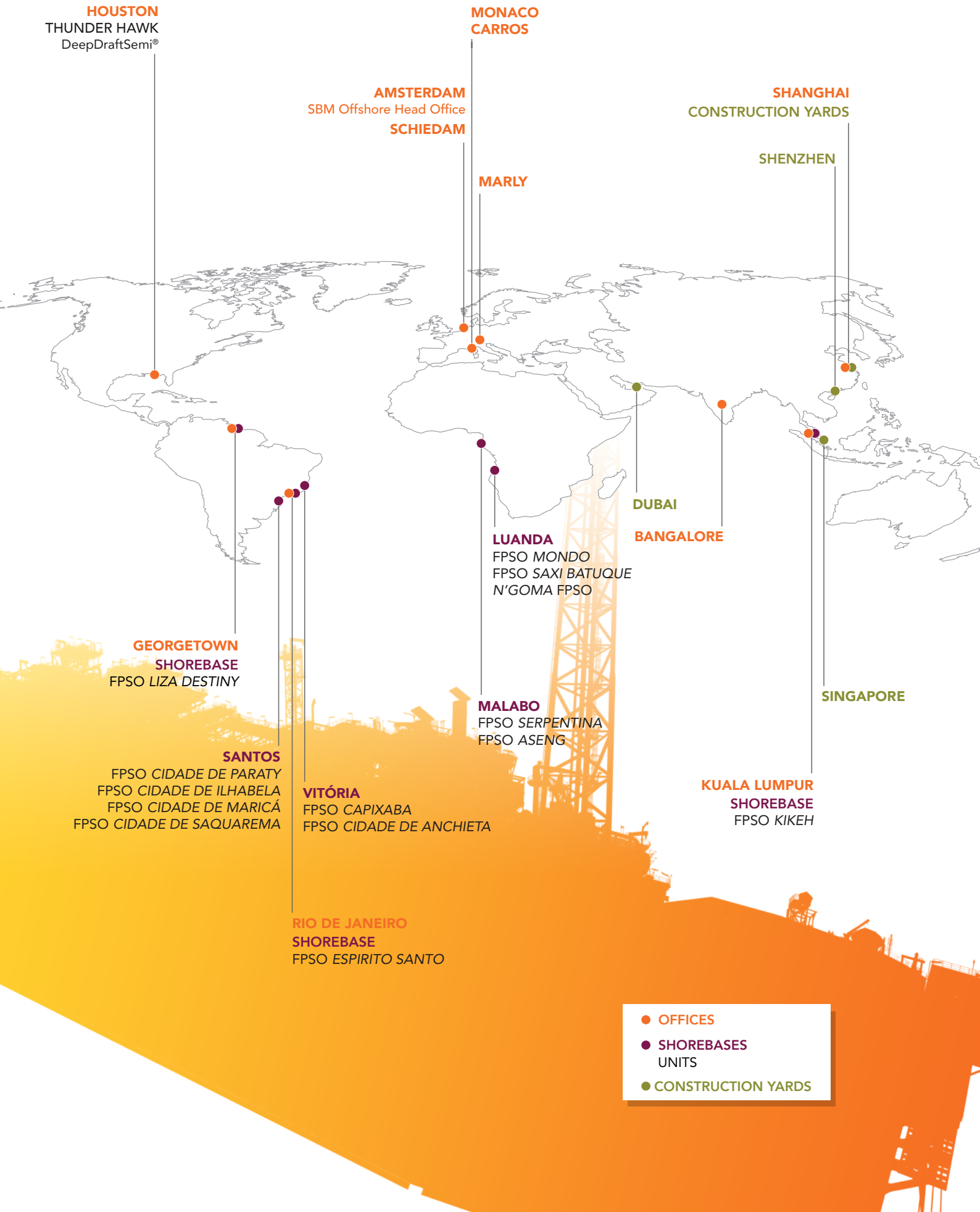
Headquartered in Amsterdam, SBM Offshore employs approximately 4,570 people worldwide, including joint ventures (JV) company employees but excluding contractors. Employees are spread over key regions in offices, operational shore bases, and onboard vessels.

SBM OFFSHORE ACTIVITIES



FPSO Floating Production Storage and Offloading
TMS Turret Mooring System
CALM Buoy Catenary Anchor Leg Mooring Buoy

SBM OFFSHORE GLOBAL PRESENCE



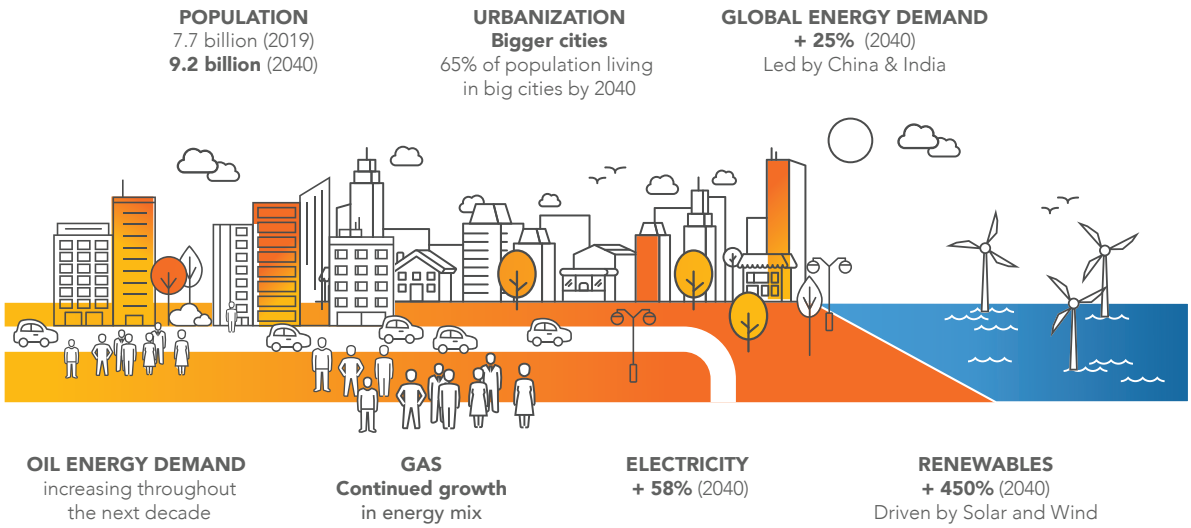

NORMAND
INSTALLER

CURRENT, NEAR-TERM AND FUTURE IMPACTS ON COMPANY ACTIVITIES

The COVID-19 pandemic has impacted the global economy and the demand for energy, with some offshore developments cancelled or deferred. Most of the Company's projects still proceeding are located in SBM Offshore's key markets, demonstrating the value of a disciplined approach to market opportunities.

During 2020, the energy transition and the demand for lower-emission solutions have been accelerating, with clients repositioning and adjusting their strategies towards operating in a carbon neutral environment. In addition, there is an increasing focus across most sectors on Environmental, Social and Governance (ESG) targets. SBM Offshore is following these trends closely and is continuously assessing its strategy and performance against them. Hence, the Company has set targets under the Sustainable Development Goals framework, launched the emissionZERO™ program and announced its ambition to increase the Company's revenues from Renewables and Gas to 25% of the total by 2030, further details of which can be found in sections 2.1.6 and 2.2.

OUTLOOK OF WORLD ENERGY DEMAND



Sources: IEA World Energy Outlook, United Nations World Urbanization Prospects 2019, worldometers.info

MACRO TRENDS

By 2040, the world population will surpass 9 billion people, with 65% of the total population living in big cities close to the oceans. Global energy demand is set to grow by more than 25% in the coming decades. While oil and natural gas will still play a significant part in the primary energy mix, renewable energy is increasing its share. The demand for oil is expected to continue to grow in the coming years after which it should plateau towards the end of the decade at approximately 102 million barrels a day. Despite this, field depletion plays an important role for new greenfield projects to be sanctioned. Supply gaps are probable and offshore deep water oil production will continue in the years to come.

Geopolitical events make energy supply and demand inherently volatile. SBM Offshore has a solid foundation to cope with such market volatility owing to its long-term Lease and Operate contracts with very low lifting costs. Furthermore, SBM Offshore is applying its principle-based Fast4Ward® program across its product portfolio, enabling 'Better Performance, Delivered Faster'. Fast4Ward® is part of the Company's effort to fast-track projects, reduce risks and provide reliable execution plans, making projects even more competitive and delivering more value for our clients by facilitating quicker production start-ups.

The Company expects that, in the coming years, a combination of a robust technology portfolio, strong project management and engineering capabilities, operations expertise and financing capabilities will be needed to deliver sizeable deep-water projects across the energy mix. In addition, its success will depend on partnering with other companies similarly committed to its energy transition strategy and activities, with a focus on lifecycle value of projects, from early client engagement till recycling phases.

Section 1.4.3 presents Climate Change Scenarios which provide insight into various possible developments relating to decelerated and accelerated energy transition paths.

1.2.2 STAKEHOLDERS AND MATERIAL TOPICS

The main stakeholders are the Company's employees, shareholders, lenders, clients, business partners and suppliers. Other important stakeholders are export credit agencies, governments in operating areas, local communities, non-governmental organizations (NGOs), industry associations, universities, researchers and potential investors. Throughout the year, SBM Offshore engages with these stakeholders as part of daily business to capture their feedback. Stakeholder feedback is used to further develop SBM Offshore's strategy and target setting, including SDGs.

In 2020, engagement through digital means had an important role. SBM Offshore undertook video conferencing with its key stakeholders for an in-depth dialogue on 'material topics', i.e. those topics that could materially impact value to SBM Offshore and its stakeholders (see graph below for the list). Furthermore, employee engagement was set up through Management Calls on latest developments. A blog, Keep Connected, was launched for SBMers to stay connected during times of confinement. The Annual General Meeting was hosted online as well as a lender's roundtable and various client engagements.

MATERIALITY ANALYSIS

In order to understand stakeholder views and the impact SBM Offshore has on them, SBM Offshore carries out a Materiality Analysis. Materiality interviews are carried out to validate the Company's strategy and derive an updated overview of material topics. These are topics considered a) most important to our stakeholders and b) to have the highest impact on the Business context. Below figure shows the process taken with further explanation in section 4.8.2.

APPROACH TO MATERIALITY ANALYSIS

The **10 material topics** are Ethics & Compliance; Employee Health, Safety & Security; Energy Transition; Economic Performance; Market Positioning; Operational Excellence; Emissions; Innovation; Digitalization and Retaining & Developing Employees. Definition of these and other key topics are found in section 4.8.2. Compared to 2019 the topic of Energy Transition strongly increased in importance and (reduction of) emissions became a material topic.

Ethics & Compliance and **Employee Health, Safety & Security** are seen as prerequisites to be in business. Vendors and partners, especially, rank both topics very highly and aspire to comply with SBM Offshore's high standards. The regulatory and NGO institutions ranked Ethics & Compliance as the most important topic. Clients put Employee Health, Safety, and Security first, with Ethics & Compliance in the top five. Clients also see Process Safety Management as a critical topic in ensuring high safety standards and mitigating the risk of hazard accidents. Employee Health has proven to be a critical topic during the COVID-19 pandemic. Furthermore, Human Rights are increasingly embedded in the industry's approach to Employee Health Safety & Security. SBM Offshore takes an active role, as explained in section 2.1.2.

A topic that has gained importance over the past years is the **Energy Transition**. Many of the stakeholders agree that the energy transition is one of the key challenges this industry is facing. Often the energy transition is referred to as critical in dealing with Climate Change-related challenges, at the same time as providing a source of future economic value.

Stakeholders see a role for SBM Offshore in applying its experience, technology and capability to helping to make the energy transition happen. Employees value the commitment of the Company as it allows them to work on renewable energy and other innovative, lower carbon solutions. Furthermore, investors and lenders are interested in working with industry players on the development of new energy solutions. Supply chain partners of SBM Offshore