



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

1.4.2 MATERIAL RISKS TO THE BUSINESS

SIGNIFICANT RISKS TO THE BUSINESS

The Offshore Energy industry and the execution of the Company's strategy expose SBM Offshore to a number of inherent business risks. The table below summarizes identified significant risks and the Company's response to them.

STRATEGIC RISKS		FINANCIAL RISKS	
Oil price dependency	==	Funding	↑
Climate Change	==	COMPLIANCE RISKS	
Technological developments	↑	Changes in laws and regulations	==
Portfolio risks	==	Governance, transparency and integrity	==
Competitiveness	↓		
OPERATIONAL RISKS			
Process safety events	==		
Project execution	↑		
Transformation risk	↓		
Social License to Operate	↑		
Cyber Security and data protection	↑		
Human capital	==		
Enduring effects of pandemic	↓		

RISK EXPOSURE *

↑ RISK IS INCREASING ↓ RISK IS DIMINISHING == RISK IS STABLE

** Management assessment of how the inherent risk (i.e. excluding our mitigating measures) is expected to develop in the coming 3 years, compared with the previous year*

RISK	DEFINITION	RESPONSE MEASURES
Strategic Risks		
Oil price dependency	Dependency on the oil price remains an inherent Company risk. The Company continues to be mindful of this dependency over the long-term, where a negative development, with delays or cancellations of planned investments, could lead to a severe effect on SBM Offshore's new order intake.	Focusing on cost optimization and de-risking remains a priority for the Company, along with diversifying the product portfolio, e.g. to have 25% of 2030 activities to be in gas and renewables. The Company maintains offering highly competitive solutions to its clients. See section 2.1.10 Market Positioning
Climate change	SBM Offshore could face the impact of an accelerated energy transition driven by, among other things, climate change. The Company may miss business opportunities if it does not succeed in (i) developing competitive technologies to enhance its Gas & Renewables product portfolio and (ii) enhancing the energy efficiency of its existing offerings.	SBM Offshore regularly updates its strategy in light of the evolution of the energy landscape. It is enhancing its gas and renewables product portfolio through investment in new technology. In addition, SBM Offshore is reducing the emissions of its existing units through emissionZERO™. See sections 1.4.3 Climate Change Risk & Opportunity and 2.1.9 Energy Transition

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RISK	DEFINITION	RESPONSE MEASURES
Technological developments	SBM Offshore is committed to pioneering new technologies, including digitalization, and maintaining a high level of technical expertise. Main risks include the possibility of deploying immature new technologies or implementing proven technologies incorrectly, potentially causing damage to the Company's business results and reputation.	SBM Offshore employs a rigorous Technology Readiness Level (TRL) assessment of new technologies, which are verified and controlled at several stages during the development phase by senior technical experts before being adopted on projects. A strong technical assurance function ensures compliance with internal and external technical standards, regulations and guidelines. See section 2.1.8 Innovation
Portfolio risks	The Company has a concentration of business activities in Brazil and Guyana. SBM Offshore thus has portfolio risks that may increase the impact of changes in local legislative and business environments, potentially affecting the Company's business results. The Company recognizes its dependence on a limited number of current and potential clients, as well as project execution challenges in new markets.	SBM Offshore aims to achieve a more balanced portfolio by diversifying into new markets and different products, such as in gas and renewables. The Company conducts thorough risk assessments for new country entries and actively engages with its clients to monitor and mitigate the respective country-related regulatory, commercial and technical risks. See section 1.2.1 Markets and Activities
Competitiveness	Some of the Company's Product Lines are in- or could be facing- harsh market conditions. To win projects, SBM Offshore needs to remain competitive in terms of price (by reducing costs), schedule (by shortening the date to first oil) and quality (by providing best-in-class products).	To drive better performance, delivered faster, the Company has taken various initiatives in relation to digitalization and standardization, which are the basis for the Company's Fast4Ward® principle-based approach. See section 2.1 Performance Review
Operational Risks		
Process safety events	The potential acute or chronic exposure to hazards during SBM Offshore's product life cycle can trigger impacts on people, the environment or assets. This can have further impact on other risks identified (such as social license to operate, human capital, access to funding).	The Company has a structured approach to managing HSSE-related risks, under two main streams: i) engagement across the organization through the development of a positive and proactive culture of care and leadership development; and ii) alignment of practices as defined by its management systems. This is supported by competency assurance through human resource management. Tools and processes identify practice improvements and sustain improved performance. SBM Offshore's execution model supports learning, whereby the Operate experience increases knowledge in the decision-making of the Execute phase, bringing safer design options, predictive maintenance and a focus on safety and environmentally critical equipment. See section 2.1.2 Employee Health Safety and Security
Project execution	Inherent project risks exist, owing to a combination of potential effects of the COVID-19 pandemic, (geo-political) country, regulatory, technical and third-party risks. This could lead to potentially negative impacts on people, the environment, reputation, cost and schedule.	Managing projects is part of SBM Offshore's DNA and is embedded in SBM Offshore's business processes and ways of working. Proper business case analysis, country (entry) risk assessments, suitable project management capabilities and capacities, combined with SBM Offshore's professional ways of working, processes and procedures mitigate project execution risk. Additional risk-mitigating measures are in place related to the knowledge and understanding of the countries in which project execution and delivery take place. Technology and Business Readiness Level (TRL/BRL) practices mitigate specific technical development-related execution risks. See section 2.1.3 Operational Excellence and Quality

RISK	DEFINITION	RESPONSE MEASURES
Transformation	SBM Offshore is set to reap the benefits of its Fast4Ward® model and Digitalization program. Failure to achieve the anticipated benefits could damage the Company's competitiveness, reputation and credibility with stakeholders. The Company's business optimization program is following a parallel journey, enhancing the Company's capability to embrace new ways of working and incorporate lessons learned along the way.	The Fast4Ward® and Digitalization programs are of the utmost importance to SBM Offshore. Change management has been identified as a key success factor of these programs and therefore change management ambassadors have been appointed and are working closely with the business in the journey towards the new ways of working. See sections 2.1.7 Digitalization and 2.1.4 Retaining and developing employees
Social License to Operate	Should the perception of oil & gas in the energy transition erode, it could damage the brand, impacting the social license to operate and limiting the Company's ability to finance projects and recruit staff. The effect of this and/or severe breaches of human rights as a result of our activities, could negatively impact reputation and have a material adverse effect.	SBM Offshore's vision is that the oceans will provide the world with safe, sustainable and affordable energy for generations to come. Company strategy flows from this vision and engagement with stakeholders is aimed at creating a joint roadmap in line with this vision. This is substantiated by the pursuit of credible, ambitious sustainability initiatives and disciplined governance, for example, the emissionZERO™ initiative. See section 2.1.9 Energy Transition
Cyber Security and data protection	SBM Offshore relies on information and data, much of which is confidential or proprietary, which is stored and processed in electronic format. Intrusion into the Company's data systems hosted on servers and offshore equipment may affect onshore and offshore activities. Secondary risks include theft of cash, proprietary and/or confidential information, with potential loss of competitiveness and business interruption.	The evolving nature of cyber security threats in 2020, including effects of COVID-19 when personnel had to work from home, means this topic requires continuous attention. There is an ongoing improvement campaign to reduce risks through investment in hardware, software, monitoring and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognized standards is subject to 24/7 monitoring, independent testing and audits.
Human capital	The Company aims to source and maintain the correct capacity and capabilities of its human resources to support existing and upcoming projects, as well as maintain the operational fleet. Failure to attract, care for and retain the right level of skills, especially in light of COVID-19, could have an adverse impact on the Company's operations and quality of execution of projects.	In 2020, as a result of COVID-19, the Company was particularly focused on the health and wellbeing of employees. To maintain capacity and capabilities, the Company streamlined its operating model with a Transformation and Restructuring program and put in place a Talent-Development program to engage and retain key personnel, thereby ensuring a sustainable future. See section 2.1.4 Retaining and developing employees
Enduring effects of the COVID-19 pandemic	Continuation of the COVID-19 pandemic could cause an impact on employees and their families, and on aspects of the project life cycle and supply chain. As a global company, this could cause disruption to the execution of projects and fleet operations.	When the consequences of the COVID-19 pandemic were felt in 2020, SBM Offshore put in place a robust framework which mitigated the impact on the Company and its employees. This framework was run by global and local task forces, consisting of representatives from Health Safety, Security and Environment (HSSE), Human Resources (HR), Project Management and Operations Management, with Management Board oversight. See section 2.1.4 Retaining and developing employees

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RISK	DEFINITION	RESPONSE MEASURES
Financial Risks		
Funding	<p>Access to debt and equity funding is essential to facilitate the growth of SBM Offshore's Lease & Operate FPSO fleet and other product lines. Failure to obtain such funding could hamper Company growth and ultimately prevent it from taking on new projects.</p> <p>Financial covenants may need to be met with the Company's Revolving Credit Facility (RCF) lenders, as well as under certain project financing facilities. Failure to comply with the covenants may adversely affect the Company's ability to finance its ongoing activities.</p>	<p>The Company aims to maintain an optimal capital structure and actively monitors its short- and long-term liquidity position, including the RCF and cash on hand. The Company aims to have sufficient headroom in relation to the financial ratios as agreed with RCF lenders. The covenants are monitored continuously, with a short- and a long-term time-horizon. Adequate access to debt and equity funding is secured through use of SBM Offshore's existing liquidity, by selling equity to third-parties, the use of bridge loans and long-term project financing. Debt funding is sourced from multiple markets, such as international project finance banks, capital markets transactions and Export Credit Agencies.</p>
Compliance Risks		
Changes in Laws and Regulations	<p>Changes affecting regulatory frameworks, including tax regulations and regulators' enforcement strategies, if not properly identified and taken into account, may expose the Company to fines, sanctions or penalties. Changes to laws and regulations, for example 'local content' requirements, may expose the Company to additional costs or delays and affect the proposed execution methods for projects.</p>	<p>SBM Offshore takes great care to carry out its activities in compliance with laws and regulations valid in the relevant country, including international protocols or conventions that apply to the specific segment of operation. SBM Offshore values public perception, good relationships with (tax) authorities and is committed to acting as a good corporate citizen. The monitoring of laws and regulations is carried out continuously by the relevant functions and substantive changes are escalated. Furthermore, the financial risk of change in laws and regulations is mitigated as much as possible within contracts.</p> <p>See section 3.7 Company Tax Policy</p>
Governance, transparency and integrity	<p>Fraud, bribery or corruption could severely harm the Company's reputation and business results. It is of the utmost importance that such events are prevented. Failure to live up to the Company's values could lead to the Company incurring financial penalties, reputational damage and other negative consequences.</p>	<p>The Company's Compliance Program provides policy, training, guidance and risk-based oversight and control of compliance, to ensure ethical decision-making. The use of digital tools supports the continuous development of the Company's Compliance Program. The Company's Core Values, Code of Conduct and Anti-Bribery and Corruption Policy provide guidance to employees and business partners on responsible business conduct in line with the Company's principles which are further reinforced by contractual obligations where applicable.</p> <p>See section 2.1.1 Ethics & Compliance.</p>

1.4.3 CLIMATE CHANGE RISK & OPPORTUNITY

SBM Offshore's vision for safe, sustainable and affordable energy is founded upon the belief that the Company has a role to play in the challenges that climate change brings. The Company routinely assesses the risks it faces and adapts its strategy in response, including climate change-related risks and opportunities. Activities are supervised by the CEO and CGCO and outcomes are discussed at Management Board level. Frameworks from the Task Force on Climate-Related Financial Disclosures (TCFD) have been used to perform these assessments (see section 4.8.4). The sections below cover mitigations of material risks relating to climate change, social license to operate and portfolio risk.

The Company welcomes engagement on this topic with its stakeholders.

SBM OFFSHORE'S STRATEGY AND CLIMATE CHANGE

As explained in our Annual Report 2019, key climate change-related impacts are changing the market, policies and physical risks. These impacts still hold and are addressed through the Company's strategy.

Taking part in the energy transition and decarbonization of business operations are key elements in the Company's strategy. SBM Offshore sets targets accordingly – most notably the Ambition 2030, explained in section 1.3 and specific targets under SDGs 7, 9 and 13 as per section 2.2. Below is a description of how the Company mitigates