



**OFFSHORE**

ENERGY. COMMITTED.

ANNUAL REPORT 2020

# 1 BUSINESS ENVIRONMENT

| RISK  | DEFINITION   | RESPONSE MEASURES  |
|---|--|--|
| <b>Financial Risks</b>                        |  |  |
| <b>Funding</b>                                | <p>Access to debt and equity funding is essential to facilitate the growth of SBM Offshore's Lease &amp; 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> |
| <b>Compliance Risks</b>                       |  |  |
| <b>Changes in Laws and Regulations</b>        | <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>  |
| <b>Governance, transparency and integrity</b> | <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 &amp; 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

physical and transitional risks and captures opportunities relating to climate change.

Under the strategy pillar **Optimize**, the Company delivers projects able to face extreme weather scenarios through its Target Excellence approach, including asset integrity and operational readiness. Furthermore, the Company is working to optimize its disclosure under the TCFD framework.

The **Transform** pillar of the Company includes its emissionZERO™ program, under which SBM Offshore addresses decarbonization of its solutions, hence contributing to reduction of greenhouse gases.

Finally, SBM Offshore aims to **Innovate** for the energy transition, i.e. bringing lower and non-carbon energy production solutions to market, such as floating offshore wind and wave energy, as explained in section 2.1.9.

## FUTURE-PROOFING: CLIMATE CHANGE SCENARIOS

SBM Offshore has adopted two climate change scenarios to future-proof current strategy and take appropriate action. The scenarios are based on the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) data, as explained in section 4.8.4.

1. A **Steady** Climate Change Scenario with a positive impact on climate change, but which falls short of meeting the Paris Agreement goals.
2. A **Bold** Climate Action Scenario providing for strong commitment towards targets, as per the Paris Agreement.

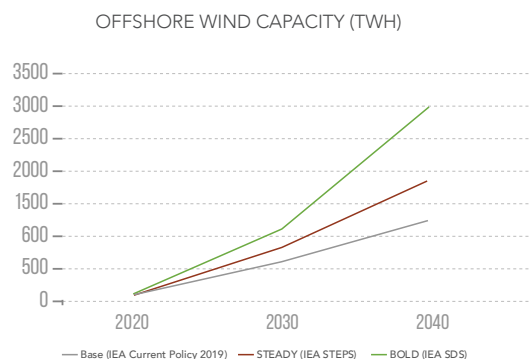
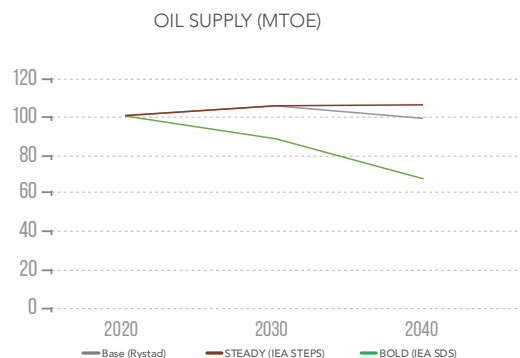
A number of conclusions can be drawn from the two scenarios, based on indicators such as the energy mix, demand for oil, carbon pricing and weather-related indicators such as sea levels, floods, storms and heat waves.

In a **Steady** scenario, oil demand would keep growing until early 2030s – beyond the Company's assumptions in section 1.2. In this scenario, there would be prolonged demand for oil- and gas-related floating energy production solutions. At the same time, the market for renewable energy would more than triple between 2020 and 2040. In the Steady scenario, the world would face a greater adverse physical impact from climate change. Global sea levels might rise between 60 and 110cm by 2100, with rainfall extremes and the number of hot days increasing by 36% and 25% respectively. The physical risk for the Company is a disruption of onshore operations due to extreme weather events and climate patterns, either in its offices or at yard locations. These are less likely to impact offshore operations, as the units are equipped to withstand and/or

avoid extreme weather events as can be seen, for example, in the case of *Turritella* (FPSO) in 2020, helping our client Shell ensure safe operations. The Company mitigates these risks via specific emergency response plans tailored to specific scenarios in each location and more generally, through mitigations for Process Safety Events and Project Execution risks as explained in section 1.4.2. Physical impacts could also provide opportunities for SBM Offshore – i.e. by providing floating energy production systems with high resiliency.

In the **Bold** scenario, the energy mix will change more rapidly towards lower and non-carbon energy sources than is assumed today. The demand for renewable energy will increase more than six-fold between 2020 and 2040 – with demand for offshore wind solutions growing thirty times the 2018 level. This scenario assumes that peak oil will be behind us at this stage, with oil demand decreasing by almost 35% between 2020 and 2040. According to the IEA, this scenario would require a carbon price of US\$43-63 per tonne CO<sub>2</sub> by 2025, leading to additional costs for SBM Offshore and, most notably, its clients. Physical risks in this scenario would still be present, but to a much lesser extent than the Steady scenario.

### Energy mix under steady and bold scenarios (Index 2020 = 100)



# 1 BUSINESS ENVIRONMENT

## CLIMATE CHANGE RISK, OPPORTUNITY & IMPACT

### Steady scenario

- **Key risks** in this scenario are insufficient resources to keep up with demand in core markets, and lower new market development owing to reduced need for diversification and the introduction of local carbon prices
- **Key opportunities** in the Steady scenario are the need for resilient ocean energy solutions owing to increased weather events, a sustained demand for FPSOs and a larger opportunity for renewable energy solutions.

The bottom-line **impact** of the scenario is limited, namely a slight improvement in revenue potential through a stronger FPSO demand outlook and an opportunity for resilient energy production solutions and projects. Any contingency investments needed for weather-related capex investments and operations disruptions would need to be borne by project pricing.

### Bold scenario

- **Key risks** in this scenario are the decrease in demand for FPSOs with a traditional emission profile, insufficient

internal resources to address the energy transition and increasing carbon taxes

- **Key opportunities** in the Bold scenario are the development of new ocean energy solutions that address the energy transition, customer demand for zero-emission oil and gas solutions and the ability to attract new investors supporting SBM Offshore's sustainability agenda. At the same time an increased carbon price would lead to a more favorable business case for renewable energy and emissionZERO™ products.

The bottom-line **impact** of the scenario on SBM Offshore's traditional markets could be significant if unmitigated and, as such, it is covered by scenario planning under the Company's Group Strategy Development and Performance Management approach. This also applies to a further, even bolder, scenario where demand for renewable energy projects would bring a much stronger opportunity than is assumed today. Further detail is provided in the table below.

### SBM Offshore Strategy and additional measures explored per climate change scenario

| SBM Offshore Strategy  | Steady Scenario  | Bold Scenario   |
|--|--|---|
| The strategy of SBM Offshore addresses climate change related risks & opportunities in the following way :   | Key impact : Slight improvement in FPSO demand outlook; opportunity for resilient energy production solutions and projects. Additional potential response by SBM Offshore versus current strategy :  | Key impact : Demand for traditional product declines; leading to revenue potential declines. Demand for renewable energy projects brings further significant revenue potential. Additional potential response by SBM Offshore versus current strategy :   |
| <ul style="list-style-type: none"> <li>▪ <b>Targets</b> : Ambition 2030, SDGs 7, 9 &amp; 13</li> <li>▪ <b>Optimize</b> : Target Excellence approach – including emissions management &amp; asset integrity. TCFD based disclosure.</li> <li>▪ <b>Transform</b> : Fast4Ward®, Digitalization &amp; emissionZERO™</li> <li>▪ <b>Innovate</b> : investment in New Energies and associated technology development &amp; services.</li> </ul> | <ul style="list-style-type: none"> <li>▪ <b>Business Model/Portfolio Mix</b> : Increased focus on asset integrity in light of climate change, alignment of engineering designs with potential change to Metocean data models.</li> <li>▪ <b>Capabilities &amp; Technologies</b> : Further invest in resources &amp; people development perspective in light of emissionZERO™ FPSO. Explore further product development to address climate change adaptation &amp; management.</li> </ul> | <ul style="list-style-type: none"> <li>▪ <b>Business Model/Portfolio Mix</b> : Increased alliancing within the value chain on renewable energy &amp; decarbonization, leveraging increased carbon price. Decelerate traditional products.</li> <li>▪ <b>Capabilities &amp; Technologies</b> : Increased investment in alternative products and positions within the value chain for energy transition.</li> </ul> |



