



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

3.7.3 SIGNIFICANT RISKS FACING THE BUSINESS

The Offshore Energy industry and the execution of the Company's strategy expose SBM Offshore to a

number of business risks. The table below summarizes identified significant risks and the Company's response to them.

RISK	DEFINITION	RESPONSE MEASURES
Business Risks		
Crude oil price dependency of Turnkey business	Whilst the oil price has begun to recover steadily since 2017 onwards and signals of a turnaround of the industry are positive, 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.	Although SBM Offshore's business model allows for a stable cash flow from the Lease and Operate segment, cost optimization and de-risking remains a priority for the Company in order to offer highly competitive solutions to our clients. To drive better performance and faster, the Company is undertaking multiple initiatives in relation to digitalization and standardization, which are the basis for the Company's Fast4Ward™ principle-based approach, along with early engagement with clients and partnering in the supply chain combined with flawless execution.
Strategic Risks		
Energy transition	There is a requirement to have a strategy to address the potential impacts of the energy transition. The Company may lose its competitiveness if it does not succeed in (i) development of concrete and competitive technologies to enhance its product portfolio and (ii) enhance energy efficiency of its existing offerings.	SBM Offshore regularly updates its strategy in light of the evolution of the energy landscape. It is gradually diversifying its product portfolio through investments in R&D and innovation. Under separate Renewables and Floating Gas Solutions Product Lines, the Company is developing strategic execution models.
Strategic Risks		
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 employing immature new technologies and the risk of implementing proven technologies incorrectly causing potential damage to 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 of their development phase by senior technical experts, before being adopted within projects. Furthermore, a strong technical assurance function ensures compliance with internal and external technical standards, regulations and guidelines.
Strategic Risks		
Different industry business models	Clients are exploring different business models that could influence the long-term validity of the operations business model as pursued by the Company today. This presents opportunities (different pricing models) as well as risks.	SBM Offshore is pro-actively engaging with its clients to develop value propositions for the traditional as well as newer business models and carefully monitors market trends.
Strategic Risks		
Portfolio / Client Risks	While the Company's project portfolio in 2018 is becoming more balanced, the Company's backlog has a limited geographical distribution. There is a particular concentration of business activities in Brazil and to a much lesser extent Angola. 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. In addition, such potential changes, among others, might negatively affect the Company's potential to acquire new business, as was seen in Brazil over the recent years. The Company also 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 reach a more balanced regional portfolio, achievable by diversifying into new markets and products (Gas and Renewables - see above under 'Energy transition'). SBM Offshore values all existing clients and endeavors to continuously provide them with units that have high up time and operational efficiency. Understanding client requirements and expectations form an essential component of the Company's client relationship management. In addition, the Company conducts risk assessments for new country entries. The Company actively engages with its clients to monitor and mitigate the respective country related regulatory, commercial and technical risks.

3 GOVERNANCE

RISK	DEFINITION	RESPONSE MEASURES
Operational Risks		
Risks related to incidents involving strategic assets	SBM Offshore operates a large fleet of FPSOs worldwide for many clients. Given the long duration of Lease and Operate contracts, several factors such as HSSE incidents or accidents may have immediate and/or long-term effects on the operation of the assets and their capability to perform according to the design criteria, negatively affecting the Company's business results and financial condition.	The Company devotes considerable resources to ensure the fleet is performing safely and to high quality standards. Control and maintenance of all equipment are vital to daily activities on board, particularly for safety critical elements. Fleet performance is continuously monitored and feedback to the technology team helps to mitigate risk and ensure inherent safety at the design stage. Ongoing advances are incorporated into upgrades onboard, further enhancing safety. Specialist teams are in place in the event of any process safety incidents.
Operational Risks		
Project execution risks	Inherent Turnkey project execution risks require continuous oversight and control. This inherent risk exists due to a combination of geopolitical country(s) risk, challenging/immature regulatory environment, technical risk (such as related to technical specifications and harsh environments), asset integrity risks and third party management risks leading to potential negative impact on people, reputation, cost, schedule and environment.	Managing Turnkey project execution risk is part of SBM Offshore's DNA and embedded in SBM Offshore's core business processes and ways of working. Proper business case analysis, suitable Turnkey 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 knowledge and understanding of the countries of Turnkey project execution and delivery. Technology and Business Readiness Level (TRL/BRL) mitigate specific technical development related execution risks.
Operational Risks		
Access to capital	<p>Access to multiple sources of debt and equity funding is necessary in order to entertain a sustainable growth of SBM Offshore's leased FPSO fleet and other Product Lines.</p> <p>Failure to obtain such financing could hamper growth for the Company and ultimately prevent it from taking on new projects that could adversely affect the Company's business results and financial condition.</p>	The Company maintains an adequate capital structure and cash at hand. The Company has access to a Revolving Credit Facility (RCF) and both the cash and the RCF can be used to finance investments in new projects. From a long-term perspective, adequate access to debt and equity funding is secured through selling equity to third parties and use of long-term project financing for each Lease and Operate contract. Debt funding is sourced from multiple markets such as international project finance banks, US Private Placement Investors (USPP) and Export Credit Agencies.
Operational Risks		
Covenants	Financial covenants need to be met with the Company's RCF lenders. Failure to maintain financial covenants may adversely affect the Company's ability to finance its activities.	The Revolving Credit Facility (RCF) contains a set of financial covenants. The Company aims to have sufficient headroom in relation to the financial ratios. The covenants are monitored continuously, with a short-term and a long-term horizon.
Operational Risks		
Cyber Security Risks and data protection	In order to carry out its activities, SBM Offshore relies on information and data, much of which is confidential or proprietary, that is stored and processed in electronic format. Potential intrusion into the Company's data systems hosted on servers and offshore equipment may affect office activities and offshore operations. Secondary risks include theft of proprietary and confidential information, with potential loss of competitiveness and business interruption.	Given the evolving nature of cyber security threats, this requires continuous focus. There is a dedicated ongoing improvement campaign, sponsored by a senior steering committee, in order to reduce the risk profile through investments in hardware, software and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognized standards is periodically subject to independent testing and audits.

RISK	DEFINITION	RESPONSE MEASURES
Operational Risks		
Human Capital	<p>The Company aims to maintain the resources in terms of capacity as well as capability to support its anticipated increased project activity levels as well as the ongoing operational fleet. Failure to attract and retain the right level of competences could ultimately have an adverse impact on the Company's operations and contractual relationships with clients.</p> <p>The Company also recognizes the reliance upon its supply chain and strategic contractors such as yards and the risk that inadequate capability and capacity could represent.</p>	<p>A talent-retention program is in place in order to specifically retain key personnel. This is particularly important in specialized areas such as design innovation in order to maintain our technology leadership position. The Company fosters an environment that holds leaders at all levels accountable for their projects' commercial success and rewards results.</p> <p>SBM Offshore continuously monitors the availability of adequate resources across the supply chain and contractors. The Company also assesses supplier and contractor capability and financial strength as part of the selection process when tendering sub-contract work.</p>
Compliance Risks		
Changes in applicable Laws and Regulations	<p>SBM Offshore's activities are carried out in compliance with Laws and Regulations valid in the relevant territory, including international protocols or conventions, which apply to the specific segment of operation. Changes to such regulatory frameworks, including changes in enforcement strategies by local regulators if not properly identified and implemented may expose the Company to fines, sanctions or penalties. Moreover, changes to the applicable 'local content' requirements may expose the Company to additional costs or delays and affect the proposed execution methods for projects.</p>	<p>Rigorous, continuous monitoring of applicable laws and regulations is constantly carried out by relevant functions within SBM Offshore and substantive changes are brought to the attention of Management. Compliance is enforced across all the various operating segments within the Company.</p>
Compliance Risks		
Failures of governance, transparency and integrity	<p>Integrity failure could severely harm the Company's reputation, finances and business results. It is of utmost importance across the Company's Management that such events shall be prevented. Previous failures to live up to the values before 2012 have led to financial penalties being imposed on the Company in the past in the Netherlands and last year by authorities (DoJ) in the USA. This year the Company entered into settlements (the Leniency Agreement and the Agreement with the Brazilian Federal Prosecutor's Office) with the Brazilian authorities.</p>	<p>The Company's Compliance Program provides policy, training, guidance and risk-based oversight and control on compliance risk, that [seek to] ensure ethical decision-making. The Company's Core Values and Code of Conduct guide employees and business partners on compliant behaviors in line with the Company's principles. For further details, see section 3.8 Compliance.</p>
Compliance Risks		
Change in Tax Laws	<p>Tax Regulations applicable in jurisdictions of operation may change resulting in an increase in the effective tax burden, which could adversely affect the Company's business, results and financial condition.</p> <p>Additionally, public perception of the ways that corporations manage their tax affairs continues to evolve with potential adverse impacts on the Company's reputation.</p>	<p>With the exception of some short-term contracts, all contracts entered into by the Company include some provisions to protect the Company against an increase in tax burden resulting from changes in tax regulations, or the interpretation thereof.</p> <p>The Company's approach to changes in tax regulations is that they should not result in a gain or a loss for the Company. As such, the Company aims at achieving a stable tax burden over the life of contracts and cooperates closely with clients' tax teams to this end.</p> <p>SBM Offshore values public perception, good relationships with tax authorities and is committed to act as a responsible stakeholder, in order to ensure that the Company's tax policy is in line with the expectations of society.</p>