



**OFFSHORE**

ENERGY. COMMITTED.

# ANNUAL REPORT 2021

## 1.4.2 SIGNIFICANT RISKS TO THE BUSINESS

SIGNIFICANT RISKS TO THE BUSINESS  
Assessed and mapped against Material Topics and internal risk reports

### RISK OVERVIEW 2021

STRATEGIC		FINANCIAL	
Climate Change	↑	Funding	↑
Technological developments	▬	<b>COMPLIANCE RISKS</b>	
Portfolio	▬	Changes in laws and regulations	↑
Competitiveness	▬	Governance, transparency and integrity	▬
3 <sup>rd</sup> parties	▬		
Oil price	↓		
OPERATIONAL			
Process safety events	▬		
Project execution	▬		
Transformation	↓		
Cybersecurity and data protection	▬		
Enduring effects of the COVID-19 pandemic	▬		
Human capital	↑		
Supply Chain constraints	↑		

  

**RISK EXPOSURE \***

↑ RISK IS INCREASING      ↓ RISK IS DIMINISHING      ▬ RISK IS STABLE

\* Management assessment of how the inherent risk exposure (i.e. excluding our mitigating measures) is expected to develop in the coming 3 years

# 1 BUSINESS ENVIRONMENT

RISK	DEFINITION	RESPONSE MEASURES
<b>Strategic Risks</b>		
Climate change	SBM Offshore could face the impact of an accelerated energy transition driven by climate change. SBM Offshore may miss opportunities if it does not succeed i) in marketing competitive, sustainable technologies and/or (ii) enhancing the energy efficiency of its existing offerings.	SBM Offshore continuously updates its offerings in light of the changing energy landscape. It is enhancing products from its New Energies & Services (NES) 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 and 2.1.10.
Technological developments	SBM Offshore is committed to pioneering new technologies, incl. digitalization and New Energies products, 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 SBM Offshore'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 before being adopted on projects. A strong technical assurance function ensures compliance with internal and external technical standards, regulations and guidelines.  See section 2.1.9.
Portfolio	SBM Offshore has a concentration of fossil-fuel related business activities in Brazil and Guyana. SBM Offshore could thus have impact from changes in local legislative and business environments, potentially affecting SBM Offshore's business results.	SBM Offshore aims to achieve a more balanced portfolio by diversifying into new markets, with different products, such as in New Energies & Services (NES) and developing low emission products. SBM Offshore conducts thorough risk assessments before any new country entry and actively engages with its clients to monitor and mitigate the respective country-related regulatory, commercial and technical risks.  See section 1.2.1.
Competitiveness	Some of SBM Offshore'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, SBM Offshore has taken various initiatives in relation to digitalization and standardization, which are the basis for SBM Offshore's Fast4Ward® approach.  See section 2.1.
3 <sup>rd</sup> parties	SBM Offshore's activities leverage financial, strategic and operational partners in order to build new business and execute projects. Partnerships which do not live up to SBM Offshore's expectations may affect the performance of projects and overall ambitions of SBM Offshore.	Through robust processes, executed by subject matter experts within the relevant functions of SBM Offshore, SBM Offshore aims to select appropriate parties to work with. Examples of functions involved are Supply Chain, Construction, Compliance and Human Rights.  See sections 2.1.4.3 and 2.1.3.
Oil price	A limited headroom between the actual oil price and the breakeven oil price is an inherent risk for upcoming projects. These projects could be put under scrutiny as well as investments to achieve SBM Offshore's emissionZERO® ambition.	SBM Offshore aims to maintain double resiliency in the volatile market environment by focusing on offering clients cost competitive and low carbon footprint solutions. SBM Offshore is also actively diversifying the product portfolio, e.g. to have >2GW of Floating Offshore Wind (FOW) installed or under construction by 2030.  See section 2.1.11.

RISK	DEFINITION	RESPONSE MEASURES
<b>Operational Risks</b>		
Process safety events	Potential acute or chronic exposure to hazards during SBM Offshore's product life cycle can trigger an impact on people, the environment or assets. This can have further impact on other risks identified (such as human capital, access to funding).	SBM Offshore manages its HSSE-related risks under three streams: i) engagement through development of a positive and proactive culture of care and leadership; and ii) alignment of practices as defined by management systems (this is supported by assurance of competency); and iii) predictive maintenance and proactive management of asset integrity to ensure suitability of critical plant systems. SBM Offshore enables learning, whereby lessons learned in operational experience facilitate risk-based decision-making in the Win and Execute phase, bringing safer design options, predictive maintenance and a focus on safety and environmentally critical equipment and tasks.  See section 2.1.2.
Project execution	Inherent project risks exist, owing to a combination of potential effects of the COVID-19 pandemic, geo-political, regulatory, technical and third-party risks. This could lead to a potentially negative impact on people, the environment, reputation, cost and schedule.	Managing projects is part of SBM Offshore's DNA. Proper business-case analysis, 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.  See section 2.1.4.
Transformation	SBM Offshore needs to ensure that the benefits of its Fast4Ward®, emissionZERO® and Digitalization program are reaped. Failure to achieve the anticipated benefits could damage SBM Offshore's competitiveness.	Change management has been identified as a key success factor of the Fast4Ward®, emissionZERO® and Digitalization programs. Change management ambassadors have been appointed and are working closely with the business in the journey towards the new ways of working.  See sections 2.1.8 and 2.1.9.
Cybersecurity and data protection	SBM Offshore relies on data, much of which is confidential and is stored and processed in electronic format. Intrusion into SBM Offshore's data systems may affect onshore and offshore activities. Secondary risks include theft of cash, proprietary and/or confidential information, with potential loss of competitiveness and/or business interruption as a consequence.	The evolving nature of cybersecurity threats, including personnel working from home as a result of COVID-19, requires ongoing attention. There is continuous improvement to reduce risks through investment in hardware, software, monitoring and awareness training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and follow recognized standards is subject to 24/7 monitoring, independent testing and audits.
Enduring effects of COVID-19	Continuation of the effects of COVID-19 could cause an impact on employees and their families, and on aspects of the project life-cycle and supply chain. Globally, this could cause disruption in the execution of projects and fleet operations.	When the consequences of the COVID-19 were felt in 2020, SBM Offshore put in place a robust oversight framework which sought to mitigate the impact on SBM Offshore and its employees. In 2021, SBM Offshore has been optimizing measures based on experience from 2020 to focus on areas such as protecting employees from COVID-19, offshore job rotation and mental health.  See section 2.1.5.
Human capital	SBM Offshore aims to source and retain the correct capacity and capabilities of its human resources to support existing and upcoming projects, as well as to maintain the operational fleet. Failure to attract, care for physical/mental health and retain staff, especially in light of COVID-19, could have an adverse impact on SBM Offshore's operations and quality of execution of projects.	SBM Offshore remains focused on the health and well-being of employees. To maintain capacity and capabilities, SBM Offshore has streamlined its operating model and engages in partnerships. A talent development program is in place to engage and retain key personnel, thereby ensuring a sustainable future.  See section 2.1.5.

# 1 BUSINESS ENVIRONMENT

RISK	DEFINITION	RESPONSE MEASURES
Supply Chain constraints	A ramp-up of the post-COVID economy puts increased pressure on SBM Offshore's supply chain, resulting in increased demand, limited availability and eventually increased prices charged by SBM Offshore's suppliers and vendors.	Management of supply chain risks is a cross-functional activity, in order to build flexibility, redundancy and ultimately resilience. Through strategic sourcing programs, SBM Offshore aims to mitigate the exposure from supply-chain-related risks.  See section 2.1.4.3.
<b>Financial Risks</b>		
Funding	Financial institutions are facing increasing scrutiny on their exposure to fossil fuel related projects. Access to debt and equity funding is essential to the execution of FPSO projects, and failure to obtain funding could hamper SBM Offshore's growth and ultimately prevent it from taking on new Lease & Operate projects.  Financial covenants may need to be met with SBM Offshore's Revolving Credit Facility (RCF) lenders, as well as under certain project financing facilities. Failure to comply with the covenants may adversely affect SBM Offshore's ability to finance its ongoing activities.	SBM Offshore aims to maintain an optimal capital structure and actively monitors its short- and long-term liquidity position, including the RCF and cash in hand. SBM Offshore aims to have sufficient headroom in relation to the financial ratios 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.
<b>Compliance Risks</b>		
Changes in laws and regulations	Changes in tax- and regulatory frameworks, for example the implementation of the Global Anti-Base Erosion Proposal (GloBE) – Pillar 2, or laws that require certain levels of local content, may expose SBM Offshore to financial impact.  If not properly identified and taken into account, these changes may result in fines, sanctions or penalties.	SBM Offshore takes great care to carry out its activities in compliance with laws and regulations, including international protocols or conventions that apply to its specific segments of operation. SBM Offshore values public perception, good relationships with authorities and is committed to acting as a good corporate citizen. The monitoring of laws and regulations is carried out continuously with attention and substantive changes are escalated.  The impact on the Company as a result of GloBE, if any, will only be known with sufficient accuracy when the OECD has released the commentary associated to the Model Rules and after the EU has reached an agreement on the Pillar 2 directive. The financial risk of change in laws and regulations is mitigated as much as possible in contracts.  See section 3.7.
Governance, transparency and integrity	Fraud, bribery or corruption could severely harm SBM Offshore's reputation and business results. Failure by employees or business partners to live up to SBM Offshore's values could lead to SBM Offshore incurring financial penalties, reputational damage and other negative consequences.	SBM Offshore'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 SBM Offshore's Compliance Program. SBM Offshore'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 SBM Offshore's principles, which are further reinforced by contractual obligations where applicable.  See section 2.1.1.

### 1.4.3 CLIMATE CHANGE RISK & OPPORTUNITY

A key challenge, and an opportunity, for SBM Offshore is to make a real and meaningful contribution to the energy transition. SBM Offshore is aware of the time-pressure building for the world to achieve a responsible transition in which energy stays affordable to those in need, while mitigating climate change impacts from greenhouse gas emissions from more traditional forms of energy. SBM Offshore's vision for safe, sustainable and affordable energy is founded upon the belief that it has a role to play in the physical and transitional challenges that climate change brings.

SBM Offshore commits to a strategy and actions compatible with its ambition to achieve net-zero by no later than 2050, including emissions in Scope 1, Scope 2 and Scope 3 – Downstream Leased Assets. SBM Offshore envisages to apply a science-based approach, using key frameworks such as below, or equivalent:

1. Assess the impact on the business using frameworks from the Task Force on Climate-Related Financial Disclosures (TCFD).
2. Set targets, using guidance from the Science Based Targets initiative.
3. Measure performance, based on guidance from the Greenhouse Gas Protocol and the EU Taxonomy.
4. Disclose performance, leveraging above standards to disclose in this Report and the CDP Benchmark.

Through the above, SBM Offshore contributes to a responsible energy transition, where the safety, affordability and sustainability of energy are balanced to benefit the world.

Climate Change Management and Adaptation is a key topic and discussed at Management Board level. This is the case for regular performance management meetings – where performance of New Energies and the emissionZERO® transformation program is reviewed. On a quarterly basis, progress on the UN SDGs is discussed, including climate-change-related company targets. Climate change risk and opportunities are also discussed as per the risk-management cycle described in section 3.6. Outcomes of these meetings are, for example, the risk appetite statement mentioned in section 1.4.1, the long-term goals described in section 2.2 and the climate change ambitions and scenarios described in this paragraph. These scenarios are part of an ongoing process to challenge perspectives on the future business environment, rather than predictions of outcomes. Above ambitions reflect current understanding of the business and are subject to further development in the future.

Climate change impact assessments are also undertaken for client projects, in close co-operation with project lenders and external consultants, and provide insight on the physical and transitional risks on these projects. Examples of the physical risk metrics used are the exposure to flooding in yards under different climate scenarios and the number of storms in offshore locations. Transitional risk metrics examine the exposure to oil & gas supply/demand changes under various scenarios and the potential impact of carbon pricing.

SBM Offshore applies these insights to its strategy development and actions as part of its Enterprise Risk Management process. The sections below cover the mitigation of significant risks relating to climate change and portfolio risk, as explained in section 1.4.2.

#### SBM OFFSHORE'S STRATEGY AND CLIMATE CHANGE

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

Under the strategy pillar *Optimize*, SBM Offshore focuses its efforts towards Target Excellence over the lifecycle of its assets, including asset integrity and operational readiness in the various weather conditions these assets are designed for. Furthermore, SBM Offshore is working to optimize its disclosure under the TCFD framework.

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

Finally, under its *Innovate* strategic pillar, SBM Offshore focuses on the energy transition, i.e. bringing lower and non-carbon energy production solutions to market, such as floating offshore wind, wave energy and hydrogen, as explained in section 2.1.10.

#### 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 5.1.4.

1. A **steady** Climate Change Scenario with a positive impact on climate change, but which falls short of meeting the Paris Agreement goals.