

2017

ANNUAL REPORT



EXPERIENCE MATTERS

3 GOVERNANCE

3.7.3 SIGNIFICANT RISKS FACING THE BUSINESS

The oil and gas 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
Strategic Risks		
Crude oil price 'Lower for Longer'	Whilst the oil price began to recover steadily during 2017, in the event that it does not maintain a sufficiently high price over the long-term, the current industry downturn will continue and demand for offshore services may be impacted with cancellation or delay of planned investments, leading 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 remains a priority for the Company, as demonstrated by the new FPSO project Fast4Ward™, which will facilitate clients' projects within a 'lower-for-longer' environment. SBM Offshore is involved in strategic steps to boost efficiency, such as optimizing operations, improving the supply-chain, digitalization initiatives, and gradually diversifying its product portfolio through investments in R&D and innovation; for example its Renewables technology.
Strategic Risks		
Technological Developments	SBM Offshore is committed to pioneering new technologies and maintaining a high level of technical expertise. In 2017, progress was made in many areas, including Gas, Renewables and the Company's Digital FPSO project. Main risks identified with these developments are: 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 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 is aimed at ensuring compliance with internal and external technical standards, regulations and guidelines.
Strategic Risks		
Portfolio Risks	With the Company's backlog having limited geographical distribution, there is a particular concentration of business activities in Brazil and to a lesser extent Angola. SBM Offshore thus has portfolio risks which 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 impact the Company's potential to acquire new business, as was seen in Brazil in 2017.	SBM Offshore aims to reach a more balanced regional portfolio, achievable by diversifying into new markets (e.g. Guyana) and products (Gas, Power & Renewables - see above 'Technological Developments'). Tendering efforts are increasingly targeted at emerging markets to spread the risk. Before considering entering into new countries, extensive risk analysis is conducted and management approval is required.
	The Company also recognizes its dependence on a limited number of current and potential clients as well as project execution challenges in new markets such as Guyana.	SBM Offshore values all existing clients and endeavours to continuously provide them with units that have high up time and operational efficiency. Furthermore the company has a Client Relationship Management process in place. In addition, the Company conducts risk assessments for new country entries.
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 HSE 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 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 can be incorporated into upgrades onboard further enhancing safety. Specialist teams are in place in the event of any process safety incidents.

RISK	DEFINITION	RESPONSE MEASURES
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 which could adversely affect the Company's business results and financial condition.</p>	<p>The Company maintains an adequate capital structure and cash at hand. The Company has access to US\$ 1 billion Revolving Credit Facility (RCF) fully available until December 2021. Both 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.</p>
Operational 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> <p>In December 2017, Brazil introduced legislation which is still subject to interpretation and clarification by the tax authorities. The Company will assess the practical implications once clarification is forthcoming.</p>
Operational Risks		
Cyber Security Risks and data protection	<p>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.</p>	<p>Multiple levels of defense are being put in place, and a dedicated improvement campaign, sponsored by a senior steering committee, is being carried out in order to reduce the risk profile through investments in hardware, software and training. The new architecture will enhance the ability to withstand cyber attacks and meet recognized standards in independent testing and audits.</p> <p>SBM Offshore uses its in-house ICOSIT process (based on COBIT) to assess the adequacy of control of its existing and new IT domains. It continues to work to strengthen the controls.</p>
Operational Risks		
Covenants	<p>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.</p>	<p>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. In the case of an anticipated risk impacting the financial condition of the Company, the Company will engage with the RCF lenders in a timely manner to discuss proposed solutions.</p>

3 GOVERNANCE

RISK	DEFINITION	RESPONSE MEASURES
Operational Risks		
Human Capital	<p>The Company aims to maintain the resources to support its anticipated 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 the risk that capability shrinkage would 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 which holds leaders at all levels accountable for their projects' commercial success, and rewards results.</p> <p>SBM Offshore continuously monitors the availability of resource across the supply chain. The Company also assesses supplier capability and financial strength as part of the selection process when tendering sub-contract work.</p>
Compliance Risks		
Changes in applicable Laws and Regulations	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, 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 impact the proposed execution methods for projects.	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.
Compliance Risks		
Climate Change and Paris Agreements	At the Paris climate conference (COP21), 195 countries adopted a legally binding global climate deal. The implementation of COP21 agreements will accelerate the transition towards greener sources of energy and potentially lower the demand for hydrocarbon fuels in the long-term. This may lead to additional regulatory measures, which might ultimately result in higher costs and even project delays or cancellations, in the worst case scenario.	SBM Offshore is monitoring developments and analysing market trends in the change in the energy mix. As part of its response to such changes SBM Offshore furthered its efforts with the creation of a new Gas, Power & Renewables Product Line during 2017. In addition, initiatives are ongoing within the Company to reduce the amount of CO ₂ released across the fleet, with the support and engagement of clients.
Compliance Risks		
Failures of governance, transparency and integrity	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 have led to financial penalties being imposed on the Company in the past in the Netherlands and this year by authorities (DoJ) in the USA. The Company has provisioned for a settlement (the Leniency Agreement) with the Brazilian authorities. The timing and value of such a settlement cannot be confirmed, which means there is a risk of prolongation of the inability to win orders from Petrobras.	The Company's Compliance Program provides policy, training, guidance and risk-based oversight and control on compliance risk, and its components aim to strengthen awareness and enhance employees' capabilities for 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. The Company continues to engage with the Brazilian authorities on the conclusion of the Leniency Agreement. Until this is finalized the Company has determined not to participate in any further FPSO tenders from Petrobras.

3.8 COMPLIANCE

MANAGEMENT APPROACH

SBM Offshore's reputation and license to operate depends on responsible business conduct.

SBM Offshore is committed to complying with all applicable laws and regulations. SBM Offshore does not tolerate bribery, corruption, fraud, violations of trade sanctions, anti-money laundering or anti-competition

laws, or any other illegal or unethical conduct in any form by anyone working for or on behalf of the Company. All employees and those working for or on behalf of SBM Offshore must embrace and act in accordance with the core values of the Company (see section 1.3), the Code of Conduct and the Company's internal policies and procedures. SBM Offshore fosters a culture of trust and fairness where dilemmas are openly addressed enabling employees to make the