



EXPERIENCE **MATTERS**

2016

ANNUAL REPORT

3.6.3 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 the significant risks identified and the Company's response to them.

RISK	DEFINITION	RESPONSE MEASURES
Strategic Risks		
Crude oil price 'Lower for Longer'	In the event that the price of oil should continue to remain low over the long-term, the current industry downturn will be prolonged accordingly and the demand for offshore services may be impacted with cancellation or delay of planned investments and capital expenditures, with an ultimate severe effect on SBM Offshore's new order intake.	Although SBM Offshore's Business Model allows for a solid and stable cash flow from the Lease and Operate segment, cost optimization remains a priority for the Company. 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.
Strategic Risks		
Technological Developments	Technological advances are targeting key trends in the Industry by addressing technology gaps. SBM Offshore is committed to pioneering new technologies and to maintain a high level of technical expertise. In 2016, important progress has been made in many areas, including renewable energies where the Company is developing projects for a floating wind farm and the Wave Energy Converter, and the Digital FPSO with the launch of a dedicated project aimed at leading the digital transformation of the current SBM Offshore fleet and of the future projects. Main risks associated to this item are: the possibility to employing new technologies which are not yet sufficiently mature, despite gate controls in place, and the risk of implementing proven technologies in an incorrect way 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 the compliance with internal and external technical standards, regulations and guidelines. In response to recent technological advancements, SBM Offshore is also developing digital technologies with the potential to transform operations and create additional profits from existing capacity.
Strategic Risks		
Portfolio Risks	The current configuration of the Company's backlog revenue and the geographical distribution of the fleet, indicates clearly that there is high concentration on business activities in Brazil. SBM Offshore is therefore subject to portfolio risks which may increase its vulnerability in terms of exposure to changes in local legislative and business environments, potentially affecting the Company's business results and financial condition.	SBM Offshore aims to reach a more balanced regional portfolio, achievable by diversifying into new markets and products. Tendering efforts include not only Brazil but also other countries, entries into which are subject to preliminary extensive risk analysis and management approval.

3 GOVERNANCE

RISK	DEFINITION	RESPONSE MEASURES
Operational Risks		
Risks related to incidents involving strategic assets	SBM Offshore operates a large fleet of FPSOs across different areas and for several clients. Given the long duration of lease and operate contracts, several factors such as HSSE incidents or accidents may have an immediate and/or long-term effects on the structural and mechanical soundness of the assets and their capability to perform according to the design criteria, negatively affecting the Company's business results and financial condition.	Important resources have been allocated by the Management Board to ensure the fleet is performing safely and in line with forecasts and expectations. Control and maintenance of Safety Critical Elements is a critical part of day-to-day activities on board and fleet performance is continuously being monitored and dedicated task forces are allocated in case issues arise at any given time.
Operational Risks		
Access to capital	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. Failure to obtain such financing could hamper growth for the Company and ultimately prevent it from taking on new projects and could adversely affect the Company's business, results and financial condition.	The Company maintains an adequate capital structure and, over 2016 it has significantly increased its cash balance. 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 divestment of 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. New types of equity financing are also being contemplated such as Master Limited Partnership (MLP).
Operational Risks		
Change in Tax Laws and Morale	Tax Regulations applicable in jurisdictions of operation may change and result in an increase in the effective tax burden and this could adversely affect the Company's business, results and financial condition. Additionally, the public perception of the Company's management of tax affairs and the public scrutiny of tax practices of multinational enterprises has acquired a rising importance over the past few years, with potential serious impacts on the Company's reputation.	With the exception of some short-term contracts, all contracts entered into by the Company include provisions to protect the Company against an increase in tax burden resulting from changes in tax regulations or the interpretation thereof. 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 stability of the tax burden over the life of contracts and cooperates closely with the tax teams of clients to this end. SBM Offshore values public perception and 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 the civil society and that tax practices are sound and founded on a business rationale.
Operational Risks		
Cyber Security Risks and data protection	In order to carry out its activities, SBM Offshore relies on information and data of a sensitive nature, stored and processed in electronic format. Potential intrusion into the Company's information security operating systems and infrastructures may eventually affect offshore operations or inflict physical damage to assets. Secondary risks include theft of proprietary and confidential information with eventual loss of competitiveness and business interruptions.	Multiple levels of defenses have been put in place, and a dedicated improvement campaign, sponsored by a senior steering committee, has been carried out in order to reduce the residual risk profile through investments in hardware, software and training. The new architecture will further enhance the ability to withstand cyber attacks and meet recognized standards in independent testing and audits.

RISK	DEFINITION	RESPONSE MEASURES
Operational Risks		
Covenants	Financial covenants need to be met with the Company's RCF lenders. Failure to maintain financial covenants may adversely impact the results and financial condition of the Company.	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 an 18 to 24 months forward horizon. In the case of any 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.
Operational Risks		
Human Capital	The restructuring plan implemented within the Company, although needed from a financial point of view, implied a reduction of in-house capabilities in terms of projects execution. Failure to attract and retain the right level of competences in the organization could ultimately have an adverse impact on the Company's operations and contractual relationships with clients.	A talent-retention program is in place in order to specifically retain key personnel. This is particularly important in the specialized areas such as design innovation in order to continue on the path, which has led to many industry firsts for SBM Offshore. The restructuring of the Company has created an environment which holds leaders at all levels accountable for their projects' commercial success and rewards results.
Compliance Risks		
Changes in applicable Laws and Regulations	SBM Offshore's activities are to be 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 captured and implemented may expose the Company to fines, sanctions and 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.	A strict and continuous monitoring of applicable Laws and Regulations is constantly carried out by relevant functions within SBM Offshore. Substantial changes are brought to the attention of management and 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 have 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 request for hydrocarbon fuels in the long-term. This may imply additional regulatory measures, which can ultimately result in higher costs and project delays or cancelations, in the worst case scenario.	SBM Offshore is monitoring developments and analysing market trends in the change in the energy mix. Mindful of the climate change issues and world COP21 commitments, as well as the forecasted increase in demand for energy sources as the population rapidly expands, SBM Offshore aims to further its efforts in developing its renewable energy technology. Solutions in wind energy advanced in 2016 as part of the Company's transition. In addition, initiatives have been launched within the Company that will reduce the amount of CO ₂ released across the fleet.
Compliance Risks		
Failures of governance, transparency and integrity	Integrity failure could harm severely the Company's reputation, finances and business results, and it is of utmost importance across the Company management that such events shall be prevented.	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 3.7 Compliance.