



# 2017

## ANNUAL REPORT



**EXPERIENCE MATTERS**



## 2 STRATEGY AND PERFORMANCE

or tension and critical topics. This will be used to re-orient the HR Strategy both globally and on a regional level.

- Implementation of a new Reward Strategy: What is valued within SBM Offshore has been restated and in line with this, how it should be rewarded will change. Based on renewed insights the Company continues to increase the alignment of its daily reward policies and practices.
- Reshape Performance Appraisal process: The Performance Appraisal process is being simplified and made more transparent and fair. One new element is the introduction of 360-degree feedback. There will also be more emphasis on team goals. The aim is to support the focus on talent and drive engagement.
- Replace Job Descriptions with Role Profiles from first quarter 2018 with the main objective to enable a company-wide overview of current and future resources, as well as efficiency in HR processes. Each profile will describe the purpose of the role, what should be achieved and the required behavioral and functional competencies.

In conclusion, SBM Offshore continues to invest in and develop its people and to evolve its talent management

programs in line with changes in the Company and a transforming industry. SBM Offshore continues to pursue its high standards in vital areas of consistency, equity and transparency across the Company. Management believes that satisfied and engaged employees will lead to increased productivity, as well as the desired entrepreneurial and ownership behaviors and ultimately to the achievement of the Company's goals and delivery of the desired results for its clients.

### 2.9 Technology

#### MANAGEMENT APPROACH

To develop its technology strategy, SBM Offshore first engages externally with its clients and internally with Product Line divisions to identify and analyze the key technical and business trends in the offshore industry. Armed with this market-based information, the Company predicts future technology gaps and strives to find innovative, safe, reliable and cost-effective solutions to meet these challenges. SBM Offshore's technology team actively works towards this goal by transforming and innovating to ensure that the Company is well positioned for future projects as clients' needs evolve.

#### Wael Sawan – Shell

*Executive Vice President – Deepwater*

'SBM Offshore's technology capability enabled the Stones *Turritella* (FPSO) to meet the Gulf of Mexico's requirement for a detachable turret with Steel Lazywave Risers (SLR) in ~2,900m water depth, which was a first for Shell, SBM Offshore and the industry. SBM Offshore was able to deliver this new technology in parallel with executing the project.'



In 2017 the Company continued to transition its focus from FPSO and mooring technology, where it is already recognized as a world leader, to increasingly diversify its efforts into emerging technologies associated with Gas, Power and Renewable Energies.

The Company operates a robust technology development process, which ensures that continued

investment in each new development project or innovation is justified against a business case. Moreover, SBM Offshore develops its new technology through a structured stage-gate process – in place since 2012 – to ensure that it is fully mature before being offered for sale or introduced into projects. This Technology Readiness Level (TRL) process includes full scale prototype testing of new proprietary components and

full FEED level definition of new systems as part of the qualification requirements.

In 2017, to complement the TRL process, the Company introduced a Business Readiness Level (BRL) system, which manages business maturity, measuring the readiness of functions such as procurement, construction, installation and operations to adopt the new technology. The BRL process endeavors to ensure business maturity progresses at the same pace as technical maturity.

### KPIs and Targets

Technology development continues to be guided by four key principles:

1. To be driven by market demand – development projects must reflect the current and future challenges faced by customers
2. To strive for improved safety through inherently safe design
3. To increase the Company's overall rate of return on investment through reduced costs, increased efficiency and/or improved performance
4. To retain its technology leadership position in the offshore market by continually innovating and developing sustainable solutions

Given the market's need to reduce capital costs, and SBM Offshore's strategy for affordability and improved competitiveness, a significant part of the development work in 2017 focused on using technology to reduce field development costs, or to increase functionality for the same cost. This primary objective to reduce the cost of its core products is already giving tangible benefits.

The success of SBM Offshore's Technology division is measured by the quantity and quality of new designs and proprietary components delivered and ready for market (TRL4). The Company sets targets for the number of new systems and components to be delivered at various TRL levels during the year, and actively manages the development work to achieve these. Over 100 TRL stage gates were passed in 2017.

### Competitive Advantage through Technology

SBM Offshore strives to deliver high performance solutions that meet or exceed client's expectations and go beyond what is available in the market. During 2017, revenues were generated from several projects where technology played an important part in SBM Offshore being selected for the contract award.

### 2017 Performance

The major development projects undertaken in 2017 include:

- Fast4Ward™ standardization project has transitioned to full project execution mode.
- Floating Offshore Wind, where the mini-TLP concept has been further developed to optimize industrialization potential, and a development study is ongoing with a client.
- The S3 WEC (Wave Energy Converter) project continues towards pilot tests at sea.
- Latest digital solutions adopted to improve fleet operational performance and increase EPCI efficiency. Pilot projects were completed in 2017 with benefits to operations. The plan is to roll them out to wider application in the Company's fleet in 2018.
- Continued development for floating gas solutions with its innovative TwinHull™ FLNG concept, targeted at mid-scale capacities and its new build hull concepts for FLNG, covering a range of capacities.
- Development of FLNG topsides concepts jointly with a leading LNG contractor.
- Development of a new LNG-to-Power concept, combining an FSRU with an on-board power plant for direct export of electricity to shore.
- Continued work to build expertise in the Steel Lazy Wave Riser (SLWR) design as a cost effective solution for ultra-deep water and/or HPHT fields.
- A range of new swivels for enhanced performance is being developed, and construction of a prototype swivel was completed in 2017, with fabrication of a dedicated test rig now underway.
- Company secured its first co-development project in Brazil, under the ANP R&D funding program.

### Intellectual Property

The Company maintains a significant Intellectual Property (IP) portfolio including patents, trademarks, and copyrights. Around 170 patent families cover a wide range of items including FPSO mooring and turret systems, semi-submersible and tension leg FPU's, hydrocarbon transfer and processing systems including LNG and gas processing, drilling and riser technologies and offshore installation. During 2017, the Company divested non-core patents, made 16 new patent applications in different countries and progressed with action against several parties for infringement of SBM Offshore patents, reaching settlement with two parties. The Company has also agreed the sale of its share of joint IP for a mechanical connector for steel

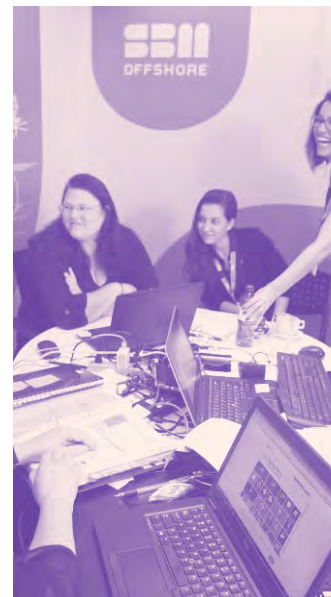
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risers to partner GMC Inc, who will continue to commercialize the product.

### Technical Standards

A key driver for the cost of new projects is the technical standards to be applied in addition to the local regulatory requirements. Typically, these standards can fall into three categories – client standards, contractor standards or a hybrid set of customized standards. In the current climate of severe cost pressure there is a logical push in the industry towards wider acceptance of contractor standards. By leveraging its expertise, SBM Offshore can minimize project customization and efficiently deliver more standard products with significant cost and schedule savings.

The Company achieves this through its Group Technical Standards (GTS), by integrating key elements of its accumulated project and fleet operational experience. To date the Company has executed over 20 major projects using its GTS as the basis, since they were established in 2003. The Company aims to continuously improve and develop the GTS.



### 2.10 SUPPLY CHAIN

#### STRATEGY

The Supply Chain function remains focused on improving its method of procurement of goods and services, while prioritizing safety and quality. This year particular focus was put on strengthening the Vendor Qualification process to better assess subcontractors' capabilities upfront. A systematic assessment of other dimensions took place, such as collaboration with the Compliance function, to ensure this aspect is fully embedded in the Supply Chain activities.

The Supply Chain strategy is built around three main guiding principles, bringing benefits to both parties and ultimately adding value for the Company's clients:

- Strategic partnering
- Quality improvement
- Strategic Sourcing

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- A vendor qualification campaign was conducted as part of achieving more ambitious objectives for quality. It resulted in an enhanced portfolio of vendors with a scope on current projects. This exercise was undertaken with relevant internal stakeholders of the Supply Chain to guarantee a multi-dimensional assessment.
- Strategic sourcing activities, in-line with the Company's Product Lines' requirements and priorities, have led to key deliverables such as an

approved list of vendors, framework agreements and market intelligence information for each category.

- The collaboration with SBM Offshore's strategic vendors has been further developed through various key events: Vendors Compliance Day, Partner Technology Days, Executive and Operational Steering Committees and Supply Chain Vendor Days.
- Embedded in the contractual agreement signed by every supplier is a commitment to adhere to the SBM Offshore Code of Conduct or similar code. Signature of the Supply Chain Charter as part of the supplier qualification process is an indicator of commitment to meet Human Rights standards among others. In cases where a supplier does not sign the Charter, it is considered a red flag and further investigation and clarification is required before the supplier will qualify.

#### Performance measurements:

- 37 Frame Agreements signed
- Supplier days in three locations
- 7 Steering committee meetings organized with key vendors
- A Compliance Vendor Day organized in Monaco
- 152 vendors qualified under revised qualification process of which 97% signed Supply chain charter.

#### FUTURE

The Supply Chain function has an important role to play supporting Product Lines, Projects and Operations in their ambition to achieve customer satisfaction and add