

2017

ANNUAL REPORT



EXPERIENCE MATTERS

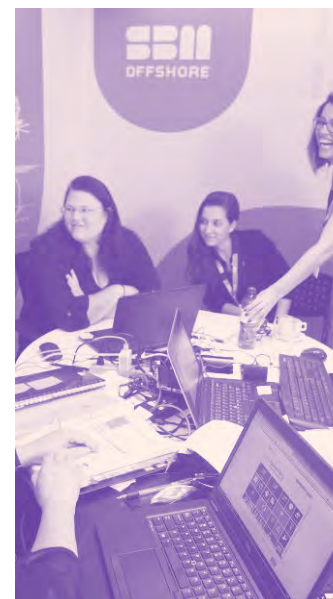
2 STRATEGY AND PERFORMANCE

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

value to projects, particularly in the current business environment. In this vein, greater emphasis will be put on globalized framework agreements with vendors that have broad and diversified product portfolios. Focus on strategic vendors' account activities will continue for the coming year. The vendor qualification campaign will evolve to respond to developments in the market place, including intensified efforts to embed sustainability into Supply Chain activities.

2.11 LOCAL CONTENT

The operational activities of SBM Offshore have a significant social and economic impact on local communities in countries where the Company executes long-term lease and operate contracts offshore for clients. The Company also recognizes potential exposure to human rights issues through its supply chain for both its Operations and Turnkey activities.

Both social and economic impact on local communities and human rights are considered material topics for SBM Offshore and are discussed in more detail in the following chapters.

2.11.1 LOCAL COMMUNITIES

MANAGEMENT APPROACH

The Company engages with and creates a positive impact on local communities through its operational activities. SBM Offshore operates its floating production systems offshore with a substantial percentage of local employees. The Company constructs substantial parts of the vessels in the countries of operation depending on local content requirements, existing infrastructure and project economics. Development of the local economy and workforce improves the social and economic situation in-country. This is achieved through the Company's core business as well as the localization of employees in-country, the development of local talent and local community programs. A competitive advantage is created with successful localization programs and the development of construction yards.

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Nationals employed in workforce (Localization)

For fleet operations, engagement and development of the local workforce is the main indicator for successful local content development. SBM Offshore monitors the percentage of local workforce - a KPI for the Company - and invests in training to increase or maintain the targeted level.

Key Markets

- 34% of the permanent workforce consists of Brazilian nationals
- 10% of the permanent workforce consists of Angolan nationals

Localization programs in both countries focus on education and training of nationals to enter the workforce.

Local community activities and programs in 2017

Working with the local communities where the Company has offices has been important to SBM Offshore. The programs are designed to maximize the value of activities for both the Company's community partners and the business. Below are examples of some of the initiatives that took place in 2017:

Angola

- SBM Offshore, in partnership with the local community, supports the Lubango Orphanage to house and school young girls.
- The Company provides the students with computer training and assists in securing employment for them. The orphanage has been run for almost 13 years since the Company undertook its construction as a key part of its social development program.

Brazil

- Monthly donations made to support the child care institution, **Babylonia Day Care Center**.
- BRASA yard promoted a coastline cleaning initiative in São Lorenzo Channel and collected two tonnes of waste.

Equatorial Guinea

- The Company supported the refurbishment and extension of a Social Project Boarding School, **Bososo** in 2017.
- During the year, the Company committed to fund a new social project in partnership with the government.

Malaysia

A newly created Corporate Social Responsibility (CSR) team aligned its efforts with the wider United Nations Sustainability Development Goals. Some of the volunteer activities include: