

# 2017

## ANNUAL REPORT



**EXPERIENCE MATTERS**

## 3 GOVERNANCE

### 3.3 REPORT OF THE SUPERVISORY BOARD

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#### Message from the Chairman of the Supervisory Board

Dear Shareholders,

As Chairman of the Supervisory Board of SBM Offshore, I am pleased to present you this Report of the Supervisory Board for 2017. Before reporting on the activities of the Supervisory Board in 2017, I would like to take the opportunity to highlight three matters of special importance for SBM Offshore.

#### Market and Oil price

The oil price remained somewhat volatile in 2017 which led to continued challenges in the industry. After previous cost reduction programs, in 2017 the Company continued focussing on its cost structure and resources. The Supervisory Board paid specific attention to the effect of the cost savings on the organization, whilst at the same time maintaining core competencies in order to be prepared once the market picks up again.

The Company's guiding principles of 'optimize, transform and innovate' were applied when looking at new ways of working in the industry and to prepare SBM Offshore in the best possible way for the future. As an example, an important milestone was reached in its Fast4Ward™ program whereby clients can benefit on two levels. Firstly, the standardization of installations releases the benefits to be had from the so-called topsides catalogue. Secondly, the program allows for the use of a standard, multi-purpose, new-build hull. Using such a generic hull, Fast4Ward™ can accelerate delivery of an FPSO by up to twelve months increasing the (DCF) value of an oil field development of our clients. Another example of new ways of working is the introduction of the Gas, Power & Renewables Product Line. This group puts focus on business planning, business acquisition, product development and project execution for floating renewable energy systems, floating cryogenic gas systems and floating power generation systems. The Supervisory Board supports the Management Board's new direction of business, looking at long-term sustainability.

#### Operational and Commercial events

In March 2017, MEGI, a subsidiary of Exxon Mobil in Equatorial Guinea awarded a five-year extension to our jointly owned subsidiary GEPsing to operate and maintain the FPSO *Serpentina*, which is located in Equatorial Guinea. In the summer of 2017, Exxon Mobil has formally confirmed the award of contracts for the next phase of the Liza Project in Guyana. Under these contracts SBM Offshore will construct, install, lease and operate an FPSO. It was also announced that Shell has notified SBM Offshore that it is exercising its right under the charter agreement to purchase the *Turritella* (FPSO). The transaction was completed in January 2018.

In August 2017, SBM Offshore entered into a binding settlement with a 83.6% majority group of the US\$ 500 million primary insurance layer against a cash payment of US\$ 281 million in full and final settlement of its claim against participating insurers in relation to the Yme project. SBM Offshore continues to pursue its claims against all remaining insurers (including two excess layers). The settlement monies will be used first to reimburse legal fees and other claim related expenses incurred to date. The funds received will first be used to cover legal fees and expenses incurred in the claim, with the balance then being shared equally with Repsol.

In December 2017, the Company announced that it was awarded the contract and received the corresponding notice from Statoil to proceed with the engineering, procurement, construction (EPC) work scope for a large-scale turret mooring system for its Johan Castberg development (situated in the Barents Sea in Norway). The Castberg turret incorporates SBM Offshore's unique experience in designing large-scale mooring systems suitable for operating in harsh conditions.

#### Legacy Issues

In November 2017, the Company signed a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the reopened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil. As part of the resolution the Company agreed to pay monetary penalties in the total amount of US\$ 238 million. The terms of the resolution reflect the Company's cooperation and confidence in the quality of the Company's compliance program and efforts by current management.

As disclosed by the Company earlier, in 2017 the Company was presented with two separate leniency agreements by the Brazilian authorities, namely the MPF agreement with the Federal Prosecutor's Office ('MPF') and the MTFC agreement with the other authorities (the Ministry of Transparency, Oversight and Control ('MTFC') and the General Counsel for the Republic ('AGU')) and Petrobras. Following the issuance of an injunction order by the Federal Court of Accounts ('TCU') suspending signing of the MTFC agreement, the TCU hereafter decided to allow the MTFC, AGU and Petrobras to move forward with the signing of the MTFC agreement. The Company reported in December 2017 that the MPF had filed a damage claim based on the Brazilian Improbability Act with the Federal Court in Rio de Janeiro against certain SBM Offshore companies and a number of individuals. The Company is analyzing the legality of the MPF damage claim and the potential impact of these developments on the ongoing discussions at large and is actively seeking the view of the authorities involved. The Supervisory Board has discussed and shall continue to discuss the legacy issues frequently. Although the process is time consuming and complex, the Company continues to aim at final closure of its legacy issues which emerged in 2012.

For further details about the activities of the Supervisory Board and its committees, I refer to the next sections of this chapter.

F.J.G.M. Cremers  
Chairman of the Supervisory Board

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## THE SUPERVISORY BOARD

In 2017, the Supervisory Board held six regular meetings according to the pre-set schedule (in February, April, May, August, November and December). In addition to the regular meetings, three extra meetings were held in 2017 (July, October and November). The purpose of

these extra meetings was to provide updates on the developments on Brazil and the discussions and resolution with the U.S. Department of Justice. The attendance percentage of the Supervisory Board was 96.8% (meetings only) and 85.4% (meetings including conference calls).

The Management Board prepared detailed supporting documents as preparation for these meetings. The pre-set regular meetings lasted approximately five hours. These meetings were spread over two days, starting on the first day with the meetings of the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and Commercial Committee. The Company Secretary is also the secretary of the Supervisory Board and its sub-committees. The Management Board and the Company Secretary attended all meetings of the Supervisory Board. Prior to each of the regular Supervisory Board meetings, an informal pre-board dinner was held, in most instances in the presence of the Management Board. At the end of each Supervisory Board meeting, a meeting outside the presence of the Management Board was held.

Standard items on the agenda of Supervisory Board meetings were updates from each of the Management Board members including the following topics:

- Health, Safety, Security and Environment
- Operational performance
- Financial performance
- Updates on various topics related to compliance matters and the negotiations with the Brazilian authorities and the U.S. Department of Justice
- Risk and Opportunity reporting
- Market environment and commercial activities
- Strategic initiatives

More specifically, in 2017, amongst other items, the following was discussed in the Supervisory Board meetings:

- In February 2017, the Supervisory Board discussed and approved the Annual Financial statements 2016. The Supervisory Board approved the proposal to the General Meeting of an all cash dividend distribution, an amendment of the dividend policy and cancellation of ordinary shares following the 2016 share repurchase program. In that same meeting, the Operating Plan 2017 was approved in its final form.
- Also in February 2017, the New Dutch Corporate Governance Code 2016 was discussed, leading to the

approval of amended Supervisory Board Rules and Management Board rules in August 2017.

- In April 2017, the Supervisory Board prepared for the General Meeting.
- In August 2017, the Half Year Financial Statements 2017 were approved.
- In the November 2017 meeting, the Supervisory Board discussed the Q3 2017 Trading Update. In this meeting, the Supervisory Board also discussed succession planning of the Management Board and senior management of the Company. In an extra meeting in November 2017, the details of the resolution with the DoJ were discussed and approved.
- The Supervisory Board discusses the long-term value creation strategy, the implementation of the strategy and the principle risks associated with it on a regular basis. This was for example discussed during the August 2017 meeting and in the December 2017 meeting, in which the Long Term Strategic Plan was discussed and approved. In this context the most significant risks have been taken into account. The Supervisory Board annually discusses the Company's Risk Appetite statement.
- Finally, during each regular Supervisory Board meeting the three committees provided feedback of



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their meetings and made recommendations for decisions by the Supervisory Board.

Except for Mr. Hepkema, who was a Management Board member of SBM Offshore until his appointment as a Supervisory Board member in April 2015, all Supervisory Board members are independent from the Company within the meaning of best practice provisions 2.1.7 to 2.1.9 inclusive of the Dutch Corporate Governance Code. None of the Supervisory Board members are on the Management Board of a Dutch listed company in which a member of the Management Board of the Company is a Supervisory Board member.

#### THE SUPERVISORY BOARD COMMITTEES

There is a standing invitation to join committee meetings for those Supervisory Board members who are not a member of a specific committee. This invitation is frequently made use of.

#### AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee convened five times in 2017 (February, April, August, November and December). The attendance percentage of the Audit and Finance Committee was 100%. The Management Board, the Group Internal Audit Director, the Group Controller, the Group Corporate Finance & Treasury Director and the External Auditor attended the meetings. It is noted that although the 2017 Half-Year results were not formally reviewed by the External Auditor, the External Auditor attended the August Audit and Finance Committee meeting. After each regular Audit and Finance Committee meeting, private meetings of the Audit and Finance Committee with the External Auditor outside the presence of the Management Board were held. The Chairman of the Audit and Finance Committee held regular meetings with SBM Offshore's Group Internal Audit Director.

Besides the standard agenda, topics such as reports on Financial Performance, Compliance, Risk, Litigation and Internal Audit activities, the following was discussed in 2017:

- Funding, covenants and liquidity
- The dividend proposal, proposed amendment to the dividend policy and cancellation of shares
- Review of payments to agents
- External Auditor's audit plan, management letter and board report

- Functioning of and relationship with the External Auditor
- Financing Strategy
- The Group's tax structure, tax planning and transfer pricing policies
- IT and Cyber security

#### APPOINTMENT AND REMUNERATION COMMITTEE

The Appointment and Remuneration Committee met six times in 2017 (February, April, July, August, November and December). The attendance percentage of the Appointment and Remuneration Committee Meetings was 100%. The Appointment and Remuneration Committee consists of two parts as prescribed by the Corporate Governance Code: a part for Selection and Appointment matters and a part for Remuneration matters. During the Supervisory Board meetings, the respective Chairmen reported on the selection and appointment matters and on the remuneration matters reviewed by the Committee, on actions arising and the follow-up of such actions. They made recommendations on those matters that require a decision from the Supervisory Board. The meetings were attended by the Management Board and the Group HR Director, except where the Appointment and Remuneration Committee chose to discuss matters in private. At various times, the members of the Appointment and Remuneration Committee met outside of formal meetings in preparation for the regular meetings.

The main subjects discussed by the Appointment and Remuneration Committee - besides the standard topics - were as mentioned below, whereby the views of the Management Board members on their own remuneration have been noted.

#### Remuneration matters

- Determination of the relevant Short-Term and Long-Term Incentive setting and realization in accordance with the applicable Remuneration Policy
- Share based incentives for senior management
- Supervisory Board Remuneration
- Remuneration Policy 2018

#### Selection and Appointment matters

- Succession planning
- Talent Management
- The Company's organization and rightsizing actions presented by the Management Board. Further details on remuneration can be found in the remuneration report (paragraph 3.4 of the Management Report).

## TECHNICAL AND COMMERCIAL COMMITTEE

The Technical and Commercial Committee met four times in 2017 (February, April, August and November). The attendance percentage of the Technical and Commercial Committee meetings was 100%. The Chairman of the Technical and Commercial Committee reported to the Supervisory Board on the principal issues discussed, on actions arising and the follow-up of such actions and made recommendations on those matters requiring a decision. The meetings were attended by the CEO, the COO, the CFO, and mostly by the Managing Director of the Product Line FPSO, the Managing Director for Operations and the Technology Director. Other senior managers gave presentations on specific topics within the remit of the Technical and Commercial Committee.

The main subjects discussed by the Technical and Commercial Committee were the following:

- Health, Safety, Security and Environment performance
- Project Delivery
- Operational performance and strategy
- Commercial prospects and the international competitive environment
- Technology and innovation developments
- Gas/LNG and Renewables
- Progress on Fast4Ward™ project
- Risk assessment

## Composition of the Committees of the Supervisory Board

Members	Audit and Finance Committee	Technical and Commercial Committee	Appointment and Remuneration Committee	
			Appointment matters	Remuneration matters
F.J.G.M. Cremers (Chairman)		√	Chairman	√
T.M.E. Ehret (Vice-Chairman)		Chairman		
L.A. Armstrong		√	√	√
F.G.H. Deckers	√		√	Chairman
F.R. Gugen	Chairman			
S. Hepkema	√			
L.B.L.E. Mulliez		√		
C.D Richard			√	√

## PERFORMANCE EVALUATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

During 2017, an external (self) appraisal took place of the Supervisory Board's performance, also looking back a number of years. The appraisal was amongst others based on in depth interviews held with all Supervisory Board-, Management Board members and the Company Secretary. A special Supervisory Board session was held in November 2017 to discuss the outcome of this (self) appraisal. In general it is concluded that the Supervisory Board works well, is composed balanced and is complementary in backgrounds and styles. In the light of the importance of renewable energy the Company's strategy was considered to be the most important subject for the Supervisory Board for frequent and ongoing future discussion. Also teambuilding was considered as an item for improvement. In the year, as in previous years, regular conversations took place between the Chairman of the Supervisory Board and the CEO. Furthermore, there were regular contacts between the Committee chairmen and their respective counterparts in the Management Board on various topics. As done in previous years the Management Board performed a self-assessment by means of a survey.

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#### CONCLUSION

The Financial Statements have been audited by the external auditors, PricewaterhouseCoopers Accountants N.V. Their findings have been discussed with the Audit and Finance Committee and the Supervisory Board in the presence of the Management Board. The External Auditors have expressed an unqualified opinion on the Financial Statements. The Supervisory Directors have signed the 2017 Financial Statements pursuant to their statutory obligations under article 2:101 (2) of the Dutch Civil Code.

The members of the Management Board have signed the 2017 Financial Statements pursuant to their statutory obligations under article 2:101(2) of the Dutch Civil Code and article 5:25c (2) (c) of the Financial Market Supervision Act.

The Supervisory Board of SBM Offshore N.V. recommends that the Annual General Meeting of Shareholders adopts the Financial Statements for the year 2017.

#### Supervisory Board

F.J.G.M. Cremers, Chairman

T.M.E. Ehret, Vice-Chairman

L.A. Armstrong

F.G.H. Deckers

F.R. Gugen

S. Hepkema

L.B.L.E. Mulliez

C.D. Richard

Schiphol, the Netherlands

February 7, 2018

