SBM OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

2.10 SUPPLY CHAIN

STRATEGY

The main objective in 2016 was to commence putting in place identified solutions that will contribute to the competitiveness of the Company. Within the context of today's market, particular focus is placed on cost efficiencies to be achieved, while continuously improving safety and quality. This more efficient way of working with suppliers is part of SBM Offshore's overall strategy to adapt to the market reality and ensure consistency and synergies thanks to a more mature and structured organization. Management believes that a collaborative dialogue between SBM Offshore and its vendors helps build a partnership for the benefit of both parties and ultimately adds value for the clients.

Supply Chain main pillars are:

- Strategic sourcing
- Strategic partnering

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- Strategic sourcing, which consists of the development of the most appropriate procurement strategies for each strategic category. The selection process for new vendors has continued to evolve in line with industry best practices, with a strengthening of the qualification process to include more stakeholders and dimensions. Strong emphasis is placed on compliance with the necessary due diligence completed and more stringent controls in place; effectively a gate system assigns a clear 'Go/No Go' result for new vendors based on a strict qualifying process.
- Strategic partnering is being materialized through Frame Agreements, which facilitate engagement with key vendors. This has resulted in a greater understanding among vendors of the needs of SBM Offshore's clients and helps in identifying the optimum ways to meet those needs. Through collaborative partnerships with its strategic vendors, SBM Offshore is building a sustainable and cost efficient supply chain. By working together in a structured and systematic manner, the benefits will add value to clients' future projects. In particular the Frame Agreements target vendors, which advance SBM Offshore's Fast4Ward project to fast-track and standardize FPSOs. By year-end a significant part, over 35% of the spend on an FPSO was covered by signed Frame Agreements. This includes equipment and services, for example 3rd party maintenance services for vessel inspections. Management believes that this strategy will ensure that SBM Offshore is well-positioned for when the market picks up.

Compliance with Supply Chain Charter

Embedded in the contractual agreement signed by every supplier is a commitment to adhere to the SBM Offshore Code of Conduct or similar code. These codes cover Human Rights issues as formulated in the Universal Declaration of Human Rights continuous improvement programs. 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.

The percentage of suppliers signed up to the Supply Chain Charter is a KPI for SBM Offshore. The target is to obtain 100% signing by suppliers as part of the qualification process.

All processes are based on:

- An multi-discipline approach, which benefits from lessons learnt and contribution from all valuable stakeholders feeding the Supply Chain (including Engineering, Construction, Operations, Quality, HSSE and QA).
- A Total Cost of Ownership approach to capture the spend during the full life cycle.

Performance measurements:

- Frame Agreements signed
- Supplier days organized by Supply Chain departments worldwide – four of the five Regional Centers completed this initiative
- Steering committee meetings organized with key vendors
- Vendors who have signed the Supply Chain Charter

Management is satisfied that the targeted performance for the year was achieved.

FUTURE

The strategic vision implemented this year moves SBM Offshore from a 'project to project' approach to a pro-active, sustainable and holistic approach with the Supply Chain function playing a key role in the added value of a project. The steps taken to date are aimed at offering future project teams improved technical solutions based on standardization. In addition, pre-negotiated contractual and commercial conditions with qualified vendors will save time and will ensure consistency across projects. Other benefits will include savings on effort and resources, while assisting Project teams in avoiding costly customization options that may be unnecessary to meet a project's specifications.

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

SBM Offshore operates its floating production systems offshore throughout the world. The Company will also construct substantial parts of the facilities in the countries of operation depending on local content requirements, existing infrastructure and project economics.

MANAGEMENT APPROACH

The management approach is to engage and create a positive impact on local communities and when possible their development, through the Company's core business as well as the localization of employees in-country and the development of local talent and local community programs.
A competitive advantage is created with successful localization programs and the development of construction yards. Development of local economy and workforce improves the social and economic situation in country.

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Nationals employed in workforce (Localization)

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