



EXPERIENCE **MATTERS**

2016

ANNUAL REPORT

2 STRATEGY AND PERFORMANCE

limited to processes) focused on preventing and mitigating future occurrences across Company's Win, Execute and Operate activities;

- ISO 9001 certification renewal and upgrade to the ISO 9001:2015 revision;
- Revamping of Company's Management Review process to make it more robust and effective;
- Enhanced coordination of audit activities across all assurance functions and business entities for a more effective use of resources and a less disruptive interface with business activities;
- Maintenance of an effective regulatory watch and interface with Regulators, supporting innovation and new ventures as necessary.

2.8 TALENTED PEOPLE

MANAGEMENT APPROACH

SBM Offshore's people are a key value driver for the Company and critical to its success.

The Company wants to motivate its employees by supporting their professional development and by ensuring that all employees are treated equally on the basis of their skills and by optimizing safe and healthy working conditions. Its ultimate ambition is – notably with regard to employment, recruitment, talent – to generate higher performance and greater employee engagement by identification, mobility, training, remuneration, health and safety using world-class people practices that are supported by common processes and policies throughout the Company.

Investment in its talent base is seen as a key part of SBM Offshore's strategy to ensure that the Company maintains its expertise and talent pool in order to continue delivering quality work that meets clients' expectations.

The last two years represent a period of significant change for SBM Offshore as the Company implemented an ambitious reorganization program

to improve its competitiveness and to maintain its reputation as the leading supplier of floating production systems. This involved restructuring to better manage SBM Offshore's cost base. The latter includes more flexibility to subcontract i.e. more control of the associated overheads. The aim is for a bigger percentage of work not requiring advanced technological know-how to be subcontracted going forward.

The restructuring targets were met in 2016. The desired balance between the planned reduction of headcount and retaining the talent needed for the future was achieved. Overall efficiency has increased and HR costs have decreased. The reorganization has resulted in the optimization of teams and the creation of a more entrepreneurial and productive environment. Management's objective is to ensure that the Company's knowledge and expertise – embodied by its employees – are not jeopardized but nurtured and put to other uses in these lean times. For example talent was diverted to the development of new technologies and their commercialization in expectation of future growth. Although maintaining capacity may be going against the current trend of the industry, the Management Board recognizes that people are at the heart of the Company and its licence to grow and ultimately give it a competitive edge.

Talent Management

By focusing on the assessment and development of its talent pool, SBM Offshore continued the integration of its talent and business activities in 2016. The yearly Talent Management process begins with the identification of the key succession roles within the Company and the potential successors among SBM Offshore employees at the mid-management level. To assess all employees in a consistent manner and regardless of location indicators are used globally: Performance Ability, Engagement and Learning Agility. Clear

responsibilities and plans for talent development are set for the selected employees. Follow up actions and engagement keep the talent agenda live throughout the year. 100% of the eligible population (mid-managers/professionals and above) was assessed in 2016.

To implement the strategy as detailed above, new tools were integrated and existing tools were improved in 2016.

2016 PERFORMANCE

Achievements

- Reduction of cost base:
 1. Restructuring by the end of 2016 resulted in a headcount reduction of 648 (13.2% decrease). Full-time Company employees worldwide at year-end were 4,249 compared to 4,897 at the end of 2015
 2. Salary freeze policy continued for second year running and Short-Term Incentives (STI) were halved in 2016, while Long-Term Incentives (LTIs) remained in place
- Core competencies retained to be ready when the market picks up
- Simplification and alignment of HR global processes in preparation for the future implementation of a global HR Information System
- Role Profiling project – started in 2015 – continued in 2016 with the aim to replace tailored job descriptions in each Regional Center with consistent Role Profiles to be applied Company-wide. By the end of 2017 they will be implemented in two stages: first the core job families (EPCI and Operations) followed by other functions
- Global alignment of functional and behavioral competency frameworks, in hand with Role Profiles is on-going
- Engagement of employees through a series of development actions (including professional certifications/ qualifications, development plans) and increased communications (including town halls, Life Day)
- Implementation of a global e-learning platform (the e-Academy) offering 24/7 learning opportunities available to all SBM Offshore staff
- Review of the Company's mobility policy. Action is being taken to ensure a more regular rotation of employees in order to broaden the knowledge base. Expatriates will be sent on managerial role assignments in different locations to groom local talent as part of the Company's long-term localization strategy for markets
- Company Core Values (see section 1.3) were reaffirmed and also included in the annual appraisal of all employees

FUTURE

- Talent management activities to identify and develop the Company's talents and future leaders will be pursued
- Continuous improvement of the Leadership training program to embed Values and the new Leadership competency model – the latter was deployed across all regions in 2016
- Development planning tool and 360° assessment system were implemented in all Regional Centers in 2016 with the aim to create development plans for most critical competencies in the future
- Implementation of development models, focusing on embedding learning in employees' business activities and identifying relevant developmental job-assignments
- The e-Academy will facilitate the development of critical competencies and support Company Values and competency frameworks

In conclusion, despite a depressed market, SBM Offshore continues to invest in and develop its people. Optimizing its experienced talent pool and integrating it with the Company's market-led business goals, while creating a more

2 STRATEGY AND PERFORMANCE

entrepreneurial and productive environment will ensure that these goals are met and SBM Offshore continues to deliver the desired results to its clients.

2.9 TECHNOLOGY

MANAGEMENT APPROACH

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

The Company's success is driven by its reputation in the industry for being at the forefront of advanced technology, providing market-driven solutions for almost 60 years. There are many field-proven examples and world records to illustrate this, the latest – FPSO *Turritella* – is a showcase of the client's confidence in SBM Offshore's technological expertise contributing towards the exploration of new frontiers. *Turritella* illustrates the effectiveness of teamwork between client and subcontractor.

The Company continues to focus primarily on FPSO and mooring technology to further strengthen its position as a world leader in these areas, but is increasingly diversifying its efforts into emerging technologies associated with Floating LNG and Renewable Energies.

KPIs and Targets

The success of SBM Offshore's Technology division is measured by the quantity and quality of new designs and proprietary components delivered to TRL¹⁸ four, which represents the fully qualified,

project-ready stage. The Company sets a target on the number of new systems and components to be delivered during the year. The quality is measured by the percentage of turnover enabled by new technology.

Given the market's urgent need to reduce capital costs and SBM Offshore's strategy for affordability and improved competitiveness, the majority of the development work in 2016 focused on using technology to reduce field development costs and to increase functionality. This primary objective to reduce the cost of its core products is already giving tangible benefits and has also matured a range of new components and products through prototype testing to be market ready.

Two examples of where this has been successful in 2016 are:

- SBM Offshore's semi-submersible hull and mooring system design was selected as the client's preferred floater option to support potential future field development. SBM Offshore will continue with FEED engineering on the semi-submersible during 2017, while Anadarko continues appraisal drilling to further delineate the opportunity for future FID
- The Fast4Ward FPSO standardization project, where SBM Offshore anticipated the market needs over two years ago and now the matured concept is being marketed as offering significant cost reduction

Technology development continues to be guided by three key principles:

1. To be driven by market demand – development projects will reflect the current and future challenges faced by customers

¹⁸ Technology Readiness Level (TRL) is an internal SBM Offshore process to ensure that the development of the Company's technologies is assessed in a controlled and consistent manner. By going through several stages – each with stringent tests and controls in place – this gateway system effectively ensures that every new technology has met the highest standards before reaching the final level (four) when it is fully qualified and mature enough to be considered for commercialization.