SBM OFFSHORE



EXPERIENCE MATTERS

2016 ANNUAL REPORT

3.3 REPORT OF THE SUPERVISORY BOARD

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 2016. Before reporting on the activities of the Supervisory Board in 2016, I would like to take the opportunity to highlight four matters of special importance for SBM Offshore.

Market and Oil price
After the sharp decline of the oil price in 2015 and a lack of new projects in the oil and gas industry, the industry's difficulties continued throughout 2016. After cost reductions in 2015, the Company was forced to take even more rigorous measures to manage its cost structure and resources. In 2016, the Supervisory Board paid specific attention to the effect of the cost savings on the organization, whilst at the same time maintaining core competencies. The Company's guiding principles of 'optimize, transform and innovate' were applied when looking at new ways of working in the industry. In this respect, the Supervisory Board is pleased with the development of the Fast4Ward multi-purpose floater concept as one example of the Management Board's focus to prepare SBM Offshore in the best way possible for the future.

Operational and Commercial events
During 2016, SBM Offshore successfully completed no less than three FPSO projects, all awarded in the year 2013. FPSO *Cidade de Marica* and FPSO *Cidade de Saquarema* went into production in Brazil and FPSO *Turritella* in the Gulf of Mexico. Whilst the oil industry continued to suffer from the low oil price, the Company was awarded new contracts related to FPSO activity. In January 2016, Premier Oil plc awarded the Company the Front-End Engineering and Design (FEED) contract for an FPSO for Phase 1 of its Sea Lion development in the North Falkland Basin. And in December 2016, Exxon Mobil awarded the FEED and Engineering, Procurement and Construction contract for their Liza Project in Guyana. The development of this project is subject to client's final investment decision. In the area of new business developments, in November 2016 it was announced that EDF Energies Nouvelles will construct a pilot floating wind farm offshore France for which SBM Offshore's floating systems solution will be deployed.

Brazil
In 2016, SBM Offshore progressed in its efforts to close legacy matters. On July 16, 2016, SBM Offshore announced that the Company signed a settlement agreement with various authorities in Brazil and with Petrobras. This Settlement Agreement is subject to approval of the Fifth Chamber for Coordination and Review and Anti-Corruption of the Federal Prosecutor Service. The settlement will additionally be sent to the Federal Court of Accounts. As disclosed by the Company earlier, the Settlement Agreement was not approved by the Fifth Chamber and is currently therefore not in its final form. The Supervisory Board has discussed and continues to discuss this matter frequently. In the press releases of January 25, 2016, it was announced that Mr. Chabas and Mr. Hepkema accepted the Public Prosecutor's proposal for an out-of-court settlement, on a no admission of guilt basis, of the allegations made against them on December 17, 2015. The settlement was confirmed by the judge handling the case on April 4, 2016. The Supervisory Board affirmed its earlier statement of support of Messrs. Chabas and Hepkema and was satisfied that the allegations were settled in a relatively short period of time.

Shareholder Resolutions
In April 2016, Shareholders voted in favor of a proposed US$ 0.21 per ordinary share all cash dividend distribution. After the delegation of the authority to repurchase shares by the General Meeting, SBM Offshore announced in August 2016 a share repurchase program up to EUR 150 million. This repurchase program was completed in December 2016. At the AGM of April 6, 2016, two Supervisory Board members, Mr. Deckers and Mr. Ehret, were reappointed for a third term of four years. And at the EGM of November 30, 2016 Mr. Van Rossum retired as CFO and Management Board member. The Supervisory Board thanked Mr. Van Rossum for his leadership and excellent contribution since July 2012 in a period of recurring turmoil for SBM Offshore. During the same meeting, Mr. Van Rossum's successor Mr. Wood was appointed for a first period of four years. 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

ACTIVITIES OF THE SUPERVISORY BOARD

MEETINGS

In 2016, the Supervisory Board held five regular meetings according to the pre-set schedule (in February, April, August, November and December). One Supervisory Board member could not attend the August meeting. During all other meetings the Supervisory Board was complete. In addition to the regular meetings, three extra meetings were held in 2016 (one in January and two in May). These meetings were attended by all Supervisory Board members, sometimes by telephone. The purpose of these extra meetings was to provide updates on the developments in Brazil and on the performance in the first quarter.

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 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 the presence of the Management Board. The pre-meetings aim at enhancing the effectiveness of the Supervisory Board meeting. 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
- Risk and Opportunity reporting
- Market environment and commercial activities
- Strategic initiatives

More specifically, in 2016, amongst other items, the following was discussed in the Supervisory Board meetings:

- In February 2016, the Supervisory Board discussed and approved the Annual Financial statements 2015. The Supervisory Board approved the proposal to the General Meeting of an all cash dividend distribution. In that same meeting, the Operating Plan 2016 was approved in its final form.
- Updates related to a potential initial public offering of a Master Limited Partnership (MLP). It was decided to delay further preparation of the MLP due the difficult market environment.
- In April 2016, the Supervisory Board discussed the IT strategy and prepared for the General Meeting during which Mr. Van Rossum (CFO) was reappointed and Mr. Deckers and Mr. Ehret were reappointed as Supervisory Board members.
- In August 2016, the Half Year Financial Statements 2016 were approved. In addition, commercial activities and tender preparations were on the agenda as well as a strategic analysis as a result to the changing market circumstances, in particular the low oil price. Also in August 2016, the Supervisory Board approved the share repurchase program.
- In the November 2016 meeting, the Supervisory Board discussed the Q3 2016 Trading Update. In addition, a report regarding the benefits of the

process improvement program Odyssey24 was presented. In this meeting, the Supervisory Board also discussed succession planning of the Management Board and senior management of the Company.

- In the December meeting of 2016, the Strategy Plan 2017-2019 was discussed and approved. During this meeting, the Supervisory Board also discussed extensively the design and effectiveness of the internal risk management systems. The Supervisory Board annually discusses the Company's Risk Appetite statement.
- Finally, during each Supervisory Board meeting the three committees provided feedback of their meetings and made recommendations for decisions by the Supervisory Board.



THE SUPERVISORY BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee convened six times in 2016 (February, March, April, August, November and December). During the August meeting, one member could not attend. All other Audit Committee meetings were attended by all members. In March, the Audit Committee held an extra meeting by telephone to discuss the preparation of the Half Year Reporting process. The Management Board, the Group Internal Audit Manager, the Group Controller, the Group Corporate Finance Director and the External Auditor attended the meetings. Depending on the agenda, other Directors joined the meetings too. After each regular Audit Committee meeting, private meetings of the Audit Committee with the External Auditor outside the presence of the Management Board were held. The Chairman of

the Audit Committee held regular meetings with SBM Offshore's 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 2016:

- Funding, covenants and liquidity
- The dividend proposal and the repurchase program
- Review of payments to agents
- PwC's audit plan, management letter and board report
- The implementation of a new consolidation tool
- The preparations for a Master Limited Partnership
- 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 2016 (February, April, August, September, November and December). 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 of the regular meetings.

The main subjects discussed by the Appointment and Remuneration Committee besides the standard topics were the following:

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

Selection and Appointment

- Succession planning of the Supervisory Board and proposal for reappointment of Mr. Deckers and Mr. Ehret as members of the Supervisory Board as resolved by the AGM of April 6, 2016
- The proposal for reappointment of Mr. van Rossum (CFO) as members of the Management Board as resolved by the AGM of April 6, 2016 and the selection and nomination of Mr. Wood as new Management Board member and CFO, who was appointed during the EGM on November 30, 2016
- An overview of succession candidates for critical senior management positions
- The Company's organization and rightsizing actions presented by the Management Board

TECHNICAL AND COMMERCIAL COMMITTEE

The Technical and Commercial Committee met four times in 2016 (February, April, August and November). 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 Managing Director of the Product Line FPSO and the Managing Director

for Operations. 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 developments
- Progress on Fast4Ward project
- Risk assessment of new projects

PERFORMANCE EVALUATION OF THE SUPERVISORY BOARD

In November 2016, the Supervisory Board assessed its performance in 2016 on the basis of a questionnaire that was completed by all Supervisory Board and Management Board members. An executive evaluation meeting was held in December 2016. The conclusions and actions deriving from this review were noted and are being implemented. In its self-evaluation meeting, the Supervisory Board focused amongst other things on its own role with regard to strategy development of the Company.

Composition of the Committees of the Supervisory Board

	Audit Committee	Technical & Commercial Committee	Appointment & Remuneration Committee	
Members			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			√	√

CONCLUSION

The Financial Statements have been audited by the external auditors, PricewaterhouseCoopers Accountants N.V. Their findings have been discussed with the Audit 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 2016 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 2016 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 Annual Report 2016 incorporating the Financial Statements for the year 2016.

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 8, 2017