



## **Attachment 1 to the Agenda of the AGM to be held on 17 April 2014**

### **Rationale for changing the Remuneration Policy for the Management Board of SBM Offshore N.V. as of 1 January 2015 (RP2015)**

#### **Abbreviations:**

RP2015:	The Remuneration Policy 2015
RP2011aa:	Remuneration Policy 2011 as amended on 27 June 2012
AGM	Annual General Meeting of Shareholders
A&RC:	Appointment & Remuneration Committee of the Supervisory Board
STI:	Short Term Incentive
LTI:	Long Term Incentive
CSR:	Corporate Social Responsibility
TSR:	Total Shareholder Return
Company	SBM Offshore N.V. and its direct and indirect subsidiary companies including its participations in Joint Ventures

#### **Introduction**

RP2011aa was approved by the shareholders on 27 June 2012, because it was recognised that RP2011 did not provide enough flexibility to adequately align the Management Board with shareholders during the turnaround period. However, the A&RC recognises that it would be inappropriate to retain certain of the measures that were introduced in RP2011aa, such as the Special Incentive, after the end of the turnaround period, which it is expected will be completed by the start of 2015.

Accordingly, in the course of 2013, following resolution of a number of the Company's legacy issues and the successful strengthening of the Company's Balance Sheet (through a Private Placement of 9.95% new shares to HAL Investments B.V. on 20 December 2012 and the 10% rights offering fully underwritten by HAL Investments ("HAL") of new ordinary shares), the A&RC decided to revise RP2011aa as the remuneration policy that governed the turnaround years 2012, 2013 and 2014 with the aim to develop a robust, sustainable remuneration policy for 2015 and beyond (RP2015).

It has been the explicit intention of the A&RC to limit the total at Maximum remuneration opportunity for the Management Board at the start of 2015, at the same level as the at Maximum opportunity under RP2011aa so as not to increase total remuneration. This equivalence was arrived at by calibrating the allocation of the Management Board share in a Share Pool out of which all share based payments to the Management Board and eligible senior managers will be made.

The A&RC engaged PwC as specialist remuneration consultant in April 2013 and the draft RP2015 and related documentation was completed by the A&RC by the end of 2013. A final draft, together with this AGM note, was submitted by the A&RC to the Supervisory Board at its meeting of 5 February 2014 where RP2015 was adopted for submission to shareholders at the AGM of 17 April 2014.

### Comparison of current and proposed remuneration policy

	Subject	RP2011aa	RP2015
1	Market reference and positioning	Median level of the Peer Group	No more than third quartile of the Peer Group
2	Peer Group composition	18 companies	12 companies
3	STI opportunity: Threshold, Target and, Maximum expressed as % of Base Salary	CEO: 40% / 100% / 200% Other MB Members: 40% / 100% / 150%	CEO: 40% / 100% / 200% Other MB Members: 40% / 100% / 150%
4	STI Performance Indicators	Company Performance: minimum 1/3 of total; Individual Performance: maximum 2/3 of total CSR Multiplier: - 5% to + 5%	Company Performance: 50% to 75% Personal Performance: 25% to 50% CSR Multiplier: - 10% to + 10% List of various STI Performance indicators from which selection will be made each year
5	STI payment	80% cash and 20% shares with matching shares (ratio 1:1) after 3 years	100% cash
6	LTI Opportunity: Threshold, Target and Maximum	Expressed as a percentage of Base Salary: CEO: 50% / 125% / 250% Other MB Members: 50% / 125% / 187.5%	Expressed as a multiple of the Target LTI opportunity (= 1.0): CEO: Threshold 0.4, Maximum 2.0 Other MB Members: Threshold 0.4, Maximum 1.5
7	LTI Performance Indicators	50% EPS and 50% TSR relative to Peer Group (same as used for Base Salary) and Special Incentive	List of financial LTI Performance Indicators from which a selection is made for each LTI performance period
8	LTI Shares vesting (at end of 3-year LTI performance period)	Computed by reference to: <ul style="list-style-type: none"> <li>• Base Salary, and</li> <li>• LTI Performance Indicators and LTI Opportunity</li> </ul>	Computed by reference to: <ul style="list-style-type: none"> <li>• MB's proportion of the Share Pool of 1% of the outstanding share capital, and</li> <li>• Performance against the Targets set for the LTI Performance Indicators and LTI Opportunity</li> </ul>
9	Share Ownership Requirement	None	Vested LTI Performance Shares to be held until a share ownership level is achieved of 300% of Base Salary for the CEO and 200% of Base Salary for the other MB members

### Rationale for proposed changes

#### Market reference and positioning

As part of the in-depth evaluation of RP2011aa, the A&RC reviewed the (current) composition of the Peer Group in RP2011aa and revisited the appropriate market positioning.

The selection of the Peer Group companies has been made on the basis of global peer companies that may compete with the Company for business opportunities and talent. Companies have been selected to be comparable in size (revenue and market capitalization), industry (global oil and gas services companies) and in terms of complexity, data transparency and geography.

The Peer Group in RP2015 consists of 12 companies (RP2011aa: 18 companies). As a result of the review, the A&RC removed 10, added 4, and maintained 8 companies of the RP2011aa Peer Group. The RP2015 Peer Group better reflects the competitive environment for executive talent in which the Company operates. Under RP2015, the Peer Group will only be used for remuneration benchmarking and no longer to determine the LTI Performance Indicator of relative TSR.

### Peer Group

Amec PLC	Foster Wheeler AG	Oceaneering International
Dresser Rand Group	Fugro N.V.	Petrofac LTD
Ensco	McDermott International	Petroleum Geo Services
FMC Technologies	Noble	Wood Group PLC

The market reference for Base Salary in RP2015 is the third quartile of the Peer Group (RP2011aa: median). The decision to move the market positioning from 'at median' to not more than the third quartile is driven by the Company's strategy of being the market leader in FPSOs and to provide flexibility to the A&RC to target Base Salary up to the third quartile where appropriate. It is worth noting that under RP2015 LTI is no longer computed as a percentage of Base Salary, but total compensation is monitored versus the Peer Group.

There has been no effect on the base salaries of any Member of the Management Board, and none is currently anticipated, as a result of the combined effect of the change in the Peer Group and the move of the market reference to no more than third quartile. The increase in the CEO's Base Salary was effectuated under RP2011aa.

### STI Performance Indicators

The A&RC believes that better alignment with shareholders can be achieved if it has greater flexibility in selecting the most appropriate STI Performance Indicators for any particular performance year, so that it can respond adequately and in a timely manner to the challenges the Company is facing. Accordingly, the A&RC proposes to use a limited number of easily identifiable and quantifiable performance indicators. Based on a balanced scorecard approach, the A&RC will agree with the Management Board, for each performance period, what the limited number of STI Company Performance Indicators and their relative weighting shall be, and will set STI Personal Performance Indicators for each Member of the Management Board individually.

As compared to RP2011aa, RP2015 also provides for an increase in the CSR and Quality Multiplier from 5% to 10%, in recognition of the importance of these objectives to both the value of the Company and its wider social responsibilities. Also, specific underlying performance indicators will now be used to determine what each year's percentage CSR and Quality Multiplier will be.

The annual procedure for STI under RP2015 as proposed will be as follows:

- At the start of each year (ex ante): selection of the appropriate STI Company Performance Indicators from the list in RP2015 and determination of their relative weighting;
- At the start of each year (ex ante): setting of appropriately demanding and robust STI Performance Targets for both the STI Company and Personal Performance Indicators;
- Upon publication of the annual results for the performance year (ex post): computation of STI pay-out for each Management Board Member by reference to actual performance against the Performance Targets set for the selected STI Company and Personal Performance Indicators, and by applying the CSR and Quality Multiplier; and
- Disclosure (ex ante) of STI Performance Indicator selection and of the relative weightings; and
- Account (ex ante) for STI pay-out in the Remuneration Report for the year.

### Amended LTI structure

RP2011aa was approved by the shareholders on 27 June 2012, because it was recognised that RP2011 did not provide enough flexibility to adequately align the Management Board with shareholders during the turnaround period. However, the A&RC recognises that it would be inappropriate to retain certain of the measures that were introduced in RP2011aa, such as the Special Incentive, after the end of the turnaround period. It is expected that the turnaround period will be completed by the start of 2015.

Accordingly, the A&RC has sought to devise an LTI that aligns the Management Board as closely as possible with shareholders and which meets all the design principles as specified in RP2015; namely an LTI that is competitive, flexible, predictable, drives the right behavior, provides for compulsory Management Board share ownership, is as simple as possible and, of course, complies with applicable legislation and governance practice.

Additionally, a fundamental design criterion was that the maximum total remuneration opportunity under RP2011aa, expressed as a percentage of Base Salary, should stay at the same level at the time of submission to the AGM of RP2015.

The proposed RP2015 LTI provides for the following key features:

- a) A **Share Pool**, which shall limit the total cost of all share based variable pay made to the Management Board and to all eligible executive managers and senior managers. Previously LTI share based variable pay for the Management Board had been computed by reference to multiples of Base Salary, with no overall limit on the number of shares.
- b) **LTI Performance Indicators**, which have been amended from two fixed and rather opaque LTI Performance Indicators applied in a rigid manner irrespective of the Company's Strategy Plan, to the selection from a list of three easily identifiable and quantifiable LTI Performance Indicators. They will be selected in a way that supports the Company's Strategic Plan and applies to the relevant (3-year) LTI performance period;
- c) LTI Performance Ranges, which are unchanged from before; and
- d) A **Share Ownership Requirement**, whereby the Management Board Members shall be required for the first time, to retain vested LTI shares to build up and maintain for the duration of their membership of the Management Board a significant shareholding in the Company, to more closely align them with ordinary shareholders.

These changes are further explained below:

### Share Pool

Each year the Company shall earmark a pool of shares (the 'Share Pool') that is to be available for all share based variable pay. With respect to each (3-year) LTI performance period, the Share Pool comprises 1% of the Company's outstanding share capital as at 31 December of the year immediately preceding the first year of the LTI performance period. This 1% allocation cannot be exceeded and covers the Maximum LTI opportunity for the Management Board and share based payments to a range of senior managers for that year and is expressed as a fixed number of shares. The earmarked shares, comprising the Share Pool, will not be issued until the time awards actually vest; when, in the case of the Management Board, the exact number vesting and being issued will depend on actual performance, as measured by reference to the Performance Targets set for each chosen LTI Performance Indicator and the LTI Performance Ranges.

1% has been chosen as the amount for the Share Pool because:

- It is comparable to the Maximum opportunity that currently exists for all Management Board Members under the LTI Performance Share plan plus the number of shares awarded to eligible executive managers and senior managers under the personnel share incentive scheme;
- It is intended that the maximum total remuneration opportunity under RP2011aa, expressed as a percentage of Base Salary, should stay at the same level at the time of introduction of RP2015; and

- Such a percentage is in line with current market practice.

It should be noted that the 1% represents only the number of shares to be earmarked and not the actual number of shares that will be issued on vesting. The 1% is the maximum and the actual number of shares that will be issued on vesting will be lower when scoring at Target or Threshold.

At the beginning of each (3-year) LTI performance period, the A&RC reserves a portion of the Share Pool for Members of the Management Board as LTI Shares (the 'MB Reserved Shares'). The portion that is reserved is determined having regard to all the circumstances, including the performance of the individuals and total remuneration as benchmarked to the Peer Group. The Management Board Reserve with respect to the first LTI performance period of RP2015 is 20% of the Share Pool. This 20% has been determined so as to ensure that the Maximum total remuneration opportunity under RP2011aa, expressed as a percentage of Base Salary, stays at the same level at the time of submission of RP2015 to the AGM.

### **LTI Performance Indicators**

Compared to RP2011aa, LTI Performance Indicators are more aligned with the Company's Strategy Plan, as applied to the relevant (3-year) LTI performance period. Management Board Members are thereby properly incentivised to deliver both that plan and value for shareholders.

Accordingly, the A&RC proposes to use a limited number of easily identifiable and quantifiable financial LTI Performance Indicators. At the beginning of each (3-year) LTI performance period, the A&RC agrees the LTI Performance Indicators and their relative weighting.

The annual procedure for LTI under the proposed RP2015 will be as follows:

- At the start of the (3-year) LTI performance period (ex ante): selection of LTI Performance Indicators from the list in RP2015 and agreement on their weightings;
- At the start of the (3 year) LTI performance period (ex ante): setting of appropriately demanding and robust LTI Performance Targets taking into account the Group's Strategic Plan, the economic environment, market and investor expectations and the level of reward that Members of the Management Board might receive for the Performance Ranges.
- At the end of the LTI performance period (ex post): computation of LTI Shares to vest for each Management Board Member, by reference to actual performance against the Performance Targets set for the selected LTI Performance Indicators;
- Disclosure, in the Remuneration Report for the year (i.e. after the event), of the LTI Performance Indicators chosen, their weightings and the resulting number of LTI Shares vesting for each Management Board Member;
- Accounting (ex ante) for LTI pay-out in the Remuneration Report for the year following the end of the (3-year) LTI performance period

### **Share Ownership Requirement**

The newly instituted share ownership requirement is fully endorsed by the Management Board Members. It is in line with current developments in the market and should result in a stronger alignment of interests between the Management Board and ordinary shareholders.

### **Rules**

In order to provide guidance for the implementation of the RP2015, Rules will be developed and will apply and may be amended from time to time, subject to the approval of the Supervisory Board acting on the recommendation of the A&RC. The Rules will, in addition, contain provisions dealing with Change of Control situations. The Rules will be published on the Company's website.

### **RP2015 in summary**

The proposed remuneration policy for 2015 and beyond is designed on the basis of the Company's remuneration principles and can be summarised as follows:

1. Base Salary is competitive and benchmarked against the Peer Group companies. The market reference for Base Salary will be no more than the third quartile of the Peer Group. The Peer Group will be composed of 12 similar sized global oil and gas service companies adjusted as appropriate in line with RP2015.
2. The STI opportunity will be computed as a multiple of Base Salary. Actual STI payable will be computed by reference to the Performance Targets set for the pre-selected and weighted STI Company and Individual Performance Indicators. The STI is a cash award. No shares or matching shares will be paid under the STI.
3. The CSR multiplier of plus or minus 10% shall be used to determine the final cash pay-out.
4. The LTI Opportunity shall be determined by reference to a Share Pool that is defined as 1% of the outstanding shares at the end of the financial year immediately preceding the start of the relevant (3-year) LTI performance period. From this Share Pool, initially, 20% is reserved for the Management Board of which 40% is available to be awarded to the CEO and 20% each to the other 3 Management Board Members.
5. LTI Shares will vest only at the end of the (3-year) LTI performance period and the final number of shares that shall vest shall depend on the extent to which the pre-determined Performance Targets for the LTI Performance Indicators have been met. Upon vesting, the vested LTI Shares shall be subject to a 2 year holding period.
6. In order to align interests with shareholders, Management Board Members are required to build up a significant shareholding as a certain multiple of their Base Salary and to retain shares vesting from LTI awards until the required level has been attained (and to maintain their holding for the duration of their employment).
7. The A&RC will determine the appropriate level of any severance payments which will not exceed one times annual Base Salary or (if the termination occurs during the first term of office) up to two times annual Base Salary in particular circumstances.
8. The A&RC has the discretionary authority to adjust upwards or downwards the pay-out of any STI or LTI and a clawback provision is included in the service contracts enabling the Company to recover STI or LTI payments made on account of incorrect financial data.

We expect the proposed RP2015 will ensure that the remuneration of the Management Board is transparent, fully-aligned with shareholders' interests and supportive of the Company's Strategy Plan and Operating Plan.