



**OFFSHORE**

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# ANNUAL REPORT 2018

## 3 GOVERNANCE

### 3.5 CORPORATE GOVERNANCE

In this section, the broad outline of SBM Offshore's corporate governance structure is explained, partly by reference to the principles mentioned in the Dutch Corporate Governance Code. This chapter indicates to what extent SBM Offshore applies the principles and best practice provisions in the Dutch Corporate Governance Code. This chapter describes the role of the corporate bodies, the role of the External Auditor and of the Stichting Continuïteit SBM Offshore.

#### 3.5.1 CORPORATE GOVERNANCE STRUCTURE

SBM Offshore N.V. is a limited liability company ('Naamloze Vennootschap') incorporated under the laws of the Netherlands with its corporate seat in Amsterdam. The Company is listed on Euronext Amsterdam. The Company has a two-tier board consisting of a Supervisory Board and a Management Board. Each Board has its specific roles and tasks regulated by laws, the articles of association, the Corporate Governance Code, the Supervisory Board rules and Management Board rules. Further to the implementation of the revised Corporate Governance Code, the Supervisory Board rules and Management Board rules were amended in August 2017 and are published on the Company's website, together with the articles of association. The implementation of the Corporate Governance Code has not led to substantial changes in the corporate governance structure of the Company.

SBM Offshore complies with all applicable principles and best practice provisions of the Dutch Code, the full text of which can be found on [www.mccg.nl](http://www.mccg.nl). The details on compliance with the Dutch Corporate Governance Code can be found on SBM Offshore's corporate website under 'Rules governing the Supervisory Board'.

#### 3.5.2 MANAGEMENT BOARD

The Management Board currently consists of four members: the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Chief Governance and Compliance Officer. The members of the Management Board are appointed and can be suspended or dismissed at the General Meeting. Further information about the appointment

and dismissal of Management Board members can be found in SBM Offshore's articles of association.

The Management Board manages the Company. The Management Board is responsible for the continuity of the Company and its business. The Management Board establishes a position on the relevance of long-term value creation for the Company and its business and takes into account the relevant stakeholders' interests. In fulfilling its responsibilities, the Management Board is guided by the interests of the Company and its business.

Each year, the Management Board presents to the Supervisory Board the strategy of the Company, the Operational Plan and the financial objectives that allow quantification and progress measurement of the strategy implementation. The Company's Long-Term Strategic Plan has been discussed with and was approved by the Supervisory Board in December 2018. The Operating Plan for 2019 was formally adopted during the meeting of the Supervisory Board in February 2019.

The Management Board is responsible for determining the Company's risk profile and policy, designed to realize the Company's objectives, to assess and manage the Company's risks and to ensure that sound internal risk management and control systems are in place. The Management Board monitors the operation of the internal risk management and control systems and carries out a systematic assessment of their design and effectiveness at least once a year. This monitoring covers all material control measures relating to strategic, operational, compliance and reporting risks. Attention is given to observed weaknesses, instances of misconduct and irregularities, indications from whistle blowers.

The Management Board has adopted corporate core values for the Company that contribute to a culture focused on long-term value creation. These values are Integrity, Care, Entrepreneurship and Ownership and are regularly discussed with the Supervisory Board. The Management Board encourages behavior that is in keeping with the values and propagates these values through leading by example. The Management Board is responsible for the incorporation and maintenance of the values.

More information about the ways of working of the Management Board can be found in the Management Board rules, available on the Company's website.

### **3.5.3 SUPERVISORY BOARD AND COMMITTEES**

The Supervisory Board supervises the policies, the management of the Company and its businesses, the effectiveness and the integrity of the internal control and risk management systems and procedures implemented by the Management Board, as well as the general conduct of affairs of the Company and its businesses. The Supervisory Board also supervises the activities of the Management Board for creating a culture aimed at long-term value creation for the Company and its businesses. Furthermore the Supervisory Board assists the Management Board with advice in accordance with the Dutch Corporate Governance Code, the articles of association and the Supervisory Board rules. In the performance of its duties, the Supervisory Board is guided by the interests of the Company's various groups of stakeholders. In addition, certain (material) decisions of the Management Board, as stipulated in the Dutch Civil Code, articles of association or the Supervisory Board and Management Board rules, require the Supervisory Board's prior approval.

The Supervisory Board currently consists of eight members. Members of the Supervisory Board are appointed at the General Meeting following nomination by the Supervisory Board. Further information about the appointment and dismissal of Supervisory Board members can be found in SBM Offshore's articles of association.

Following the implementation of the 2017 Dutch Corporate Governance Code, the appointment and re-appointment periods of Supervisory Board members were amended. A Supervisory Board member is appointed for a period of four years and may then be re-appointed once for another four-year period. A Supervisory Board member may subsequently be re-appointed again for a third period of two years, which may be extended by at most two years.

The Supervisory Board has three subcommittees: the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and

Commercial Committee. The Appointment and Remuneration Committee is a joint committee with two separate chairpersons and two separate tasks: the selection and appointment preparation of Management Board and Supervisory Board members and the preparation of decision-making regarding remuneration matters. SBM Offshore has an internal audit department with direct reporting to the Supervisory Board through the Audit and Finance Committee. More information about the ways of working of the Supervisory Board and its committees can be found in the Supervisory Board and Committee rules, as available on the Company's website. The Supervisory Board has drawn up a retirement schedule for its members, which is also available on the Company's website.

### **3.5.4 SHARES AND THE ANNUAL GENERAL MEETING**

The authorized share capital of the Company amounts to EUR 200 million and is divided into 400,000,000 ordinary shares with a nominal value of EUR 0.25 and 400,000,000 protective preference shares also with a nominal value of EUR 0.25. The preference shares can be issued as a protective measure, as explained below in the section on the Stichting Continuïteit SBM Offshore.

With reference to the articles of association, all shareholders are entitled to attend the General Meeting, to address the General Meeting and to vote. At the General Meeting each Ordinary Share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote. Each protective preference share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote, when issued. None of the protective preference shares have been issued to date. Unless otherwise required by law or the articles of association of the Company all resolutions shall be adopted by an absolute majority of votes. The General Meeting may adopt a resolution to amend the articles of association of the Company by an absolute majority of votes cast, but solely upon the proposal of the Management Board, subject to the approval of the Supervisory Board. The articles of association are reviewed on a regular basis and were last amended in April 2016.

In 2018, SBM Offshore did not enter into transactions with persons who hold at least ten percent of the



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shares in the Company where there were conflicts of interest of material significance to the Company.

As per December 31, 2018, 205,671,305 (2017: 205,671,305) ordinary shares are issued. No preference shares have been issued.

Every year the General Meeting is held within six months after the start of a new calendar year. The agenda for this meeting generally includes the following standard items:

- the report of the Management Board concerning the Company's affairs and the management as conducted during the previous financial year,
- the report of the Supervisory Board and its committees,
- the adoption of the Company's Financial Statements, the allocation of profits and the approval of the dividend,
- the discharge of the Management Board and of the Supervisory Board,
- Corporate Governance,
- the delegation of authority to issue shares and to restrict or exclude pre-emptive rights,
- the delegation of authority to purchase own shares
- the composition of the Supervisory Board and of the Management Board

In addition, certain specific topics may be added to the agenda by the Supervisory Board.

An Extraordinary General Meeting can be held whenever the Management Board and/or the Supervisory Board shall deem this necessary. The General Meetings can be held in Schiedam, Rotterdam, The Hague, Amsterdam, Hoofddorp, Amstelveen or Haarlemmermeer (Schiphol).

Proposals to the agenda of General Meetings can be made by persons who are entitled to attend General Meetings, solely or jointly representing shares amounting to at least 1% of the issued share capital. Proposals of persons who are entitled to attend the shareholders meetings will only be included in the agenda if such proposals are made in writing to the Management Board not later than sixty (60) days before that meeting.

The proxy voting system used at the General Meetings of SBM Offshore is provided through ABN Amro Bank N.V. and by SGG Financial Services

B.V. as independent third parties. The articles of association do not provide for any limitation of the transferability of the ordinary shares and the voting rights of shareholders is not subject to any limitation.

Analysts meetings, presentations to institutional or other investors and direct discussions with investors did not take place shortly before the publication of the regular financial information.

At the April 11, 2018 General Meeting, 131,287,110 ordinary shares participated in the voting, equal to 63.83% (2017: 62.23%) of the then total outstanding share capital of 205,671,305 ordinary shares. All the proposed resolutions were approved with a majority of the votes. The outcome of the voting of the meeting was posted on the Company's website on the day following the General Meeting.

#### 3.5.5 ISSUE AND REPURCHASE OF SHARES

The General Meeting or the Management Board, if authorized by the General Meeting and with the approval of the Supervisory Board, may resolve to issue shares.

The General Meeting or the Management Board, subject to the approval of the Supervisory Board, shall set the price and further conditions of issue, with due observance of the provisions contained in the articles of association. Shares shall never be issued below par, except in the case as referred to in article 2:80 (2) Dutch Civil Code. At the General Meeting of April 11, 2018, the shareholders have delegated to the Management Board for a period of eighteen months and subject to the approval of the Supervisory Board, the authority to issue ordinary shares up to 10% of the total outstanding shares at that time. In addition, authorization was granted to issue an additional 10% in case of mergers, acquisitions and/or strategic cooperation. In the same meeting, the shareholders have delegated the authority to the Management Board for a period of eighteen months as from April 11, 2018 and subject to the approval of the Supervisory Board to restrict or withdraw preferential rights of the shareholders in respect of ordinary shares when ordinary shares are being issued.



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The Management Board may, with the authorization of the General Meeting and the Supervisory Board and without prejudice to the provisions of article 2:98 Dutch Civil Code and the articles of association, cause the Company to acquire fully paid up shares in its own capital for valuable consideration. The Management Board may resolve, subject to the approval of the Supervisory Board, to dispose of shares acquired by the Company in its own capital. No pre-emption right shall exist in respect of such disposal. At the General Meeting of 2018, the shareholders have delegated the authority to the Management Board for a period of eighteen months as from April 11, 2018 and subject to approval of the Supervisory Board, to acquire up to 10% of the total outstanding shares at that time. The Management Board may resolve, with the approval of the Supervisory Board, to cancel shares repurchased up to the number of the aforementioned authorization.

#### 3.5.6 AUDITORS

The external auditor of SBM Offshore is appointed by the General Meeting on the proposal of the Supervisory Board. During the Annual General Meeting of 2014, PricewaterhouseCoopers Accountants N.V. ('PricewaterhouseCoopers') was appointed for a term of four years (for the audit of the financial years 2014-2017). The Audit and Finance Committee, together with the Supervisory Board and the Management Board, made an independent evaluation of the performance of PricewaterhouseCoopers. In view of the positive outcome of the evaluation, the Supervisory Board proposed to re-appoint PricewaterhouseCoopers as external auditor. During the Annual General Meeting of 2018, PricewaterhouseCoopers was re-appointed as external auditor for a period of three years (for the audit of the financial years 2018-2020).

The current lead auditor is Michael de Ridder of PricewaterhouseCoopers. The external auditor attends all meetings of the Audit and Finance Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. The external auditor receives the financial information and underlying reports of the quarterly figures and is given the opportunity to comment and respond to this information.

Based on auditor independence requirements, the lead auditor in charge of the SBM Offshore account is

changed every five years. Pursuant to the Dutch Audit Profession Act (Wet op het accountantsberoep), the audit firm of a so-called public interest entity (such as a listed company) will have to be replaced if the audit firm performed the statutory audits of the Company for a period of ten consecutive years, at the latest in 2024.

Pursuant to the Audit Profession Act, the auditors are prohibited from providing the Company with services in the Netherlands other than 'audit services aimed to provide reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board, as referred to in the reports mentioned'. During 2018, a small number of limited-scope non-audit services were provided by foreign member firms of the PricewaterhouseCoopers global network, taking into account the global independence rules and SBM Offshore's own policy in this regard.

#### 3.5.7 STICHTING CONTINUÏTEIT SBM OFFSHORE

In this paragraph, SBM Offshore's anti-takeover measures are described, as well as the circumstances under which it is expected that these measures may be used.

A Foundation 'Stichting Continuïteit SBM Offshore' (the Foundation), was established on March 15, 1988. In summary, the objectives of the Foundation are to represent the interests of SBM Offshore in such a way that the interests of the Company and of all parties involved in this are safeguarded, and that influences which could affect the independence, continuity and/or the identity of the Company in breach of those interests are deterred. The Foundation will perform its role, and take all actions required, at its sole discretion. In the exercise of its functions it will, however, be guided by the interests of the Company and the business enterprises connected with it, and all other stakeholders, including shareholders and employees.

The Foundation is managed by a Board, the composition of which is intended to ensure that an independent judgement may be made as to the interests of the Company. The Board consists of a number of experienced (former) senior executives of multinational companies. To be kept informed about



the business and interests of the Company, the Chairman of the Supervisory Board, CEO and the CGCO are invited to attend the Foundation Board meetings.

The Board of the Foundation consists of: Mr. A.W. Veenman, Chairman, former CEO of the Nederlandse Spoorwegen, Mr. B. Vree, Vice-Chairman, former CEO of APM Terminals, Mr. R.H. Berkvens, CEO of Damen Shipyard, Mrs. H.F.M. Defesche, former Company Secretary & Group Legal Counsel of Bosal Nederland B.V. and Mr. J.O. van Klinken, General Counsel & member of the Management Board at Aegon N.V.

The Management Board, with the approval of the Supervisory Board, has granted a call option to the Foundation to acquire a number of preference shares in the Company's share capital, carrying voting rights, equal to one half of the voting rights carried by the ordinary shares outstanding immediately prior to the exercise of the option, enabling it effectively to perform its functions as it, at its sole discretion and responsibility, as it deems useful or desirable.

The option agreement between SBM Offshore and the Foundation was lastly amended and restated in 2011, to reflect a waiver by the Company of its put option and the alignment of the nominal value of the protective preference shares with the nominal value of ordinary shares by reducing the nominal value of EUR 1 to EUR 0.25 and the related increase in the number of protective preference shares as per the amended articles of association of the Company. The Foundation is independent as stipulated in article 5:71 (1) (c) Financial Market Supervision Act.

### **3.5.8 OTHER REGULATORY MATTERS**

#### **CONFLICTS OF INTEREST**

The members of the Management Board have a services contract with SBM Offshore N.V. These contracts stipulate that members of the Management Board may not compete with the Company. A change of control clause is included in the service agreement between the Company and each of the members of the Management Board.

The Management Board Rules and the Code of Conduct of the Company regulate matters of conflict of interest. The Supervisory Board Rules also contain a regulation based on the Dutch Corporate

Governance Code that deals with reporting of conflict of interest of the Chairman and members of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with Management Board members that are of material significance to the Company and/or to the relevant Management Board members require the approval of the Supervisory Board. In 2018, there were no such transactions.

The Company's Code of Conduct does not permit employees and directors to accept gifts of value for themselves or their relatives, to provide advantages to third parties to the detriment of the Company or to take advantage of business opportunities to which SBM Offshore is entitled.

No loans or guarantees have been provided to members of the Management Board. The Company is compliant with best practice 2.7.3 to 2.7.4 of the Dutch Corporate Governance Code as no conflicts of interest in relation to the members of the Management Board or the Supervisory Board were reported during the year 2018.

#### **REGULATIONS CONCERNING OWNERSHIP OF AND TRANSACTIONS IN SHARES**

In addition to the Company's Insider Trading Rules, the Supervisory Board and Management Board rules contain a provision with regard to the ownership of and transactions in shares in the Company and in shares of Dutch listed companies other than SBM Offshore N.V. This provision stipulates that Supervisory Board and Management Board members will not trade in Company shares or other shares issued by entities other than the Company on the basis of share price sensitive information if this information has been obtained in the course of managing the Company's business.

For information about the shares (or other financial instruments) held in SBM Offshore N.V. by members of the Management Board, reference is made to note 4.3.23 to the consolidated financial statements.

#### **MANDATES WITH THIRD PARTIES**

Reference is made to the overview of the Management Board and Supervisory Board members in section 3.1 and 3.2 of this report in which their material mandates outside SBM Offshore are listed. Management Board and Supervisory Board members shall inform the Supervisory Board before accepting

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positions outside the Company. Positions may not be accepted without the Supervisory Boards' prior approval. The position can not be in conflict with the Company's interest. Mandates are discussed annually in the Supervisory Board meeting. The Company is fully compliant with best practice 2.4.2 of the Dutch Corporate Governance Code. Members of the Management Board may also be appointed to the statutory board of the Company's operational entities.

#### CODE OF CONDUCT AND REPORTING OF ALLEGED IRREGULARITIES

The Company has a Code of Conduct, which was updated in April 2018 and is posted on the Company's website. The Company also has a procedure allowing employees to report alleged irregularities with respect to the Code of Conduct without jeopardizing their employment position. A free-phone and web-based reporting facility (the SBM Offshore Integrity Line) is in place, which employees can use – anonymously if they wish – in their own language. The facility is operated by an external provider, People Intouch. For more details on SBM Offshore's compliance program reference is made to section 3.8.

#### DIVERSITY

The Company's diversity policy for the Supervisory Board and the Management Board is published on the Company website. The diversity policy addresses the aspects that have been identified as relevant for the Company when composing the Supervisory Board and the Management Board and selecting persons for (re-)appointment, namely nationality / cultural background, age, gender and (work) experience. The target is to have a minimum of 30% women and a minimum of 30% men on each of the Management Board and Supervisory Board. The members of the Supervisory Board have a diverse mix of knowledge, skills and expertise, in line with the required profile (see also Schedule 2 of the Supervisory Board Rules). Currently 25% of the Supervisory Board members are female and 100% of the Management Board is male. Two of the six members that complete the Executive Committee are female. The nationality / cultural background is diverse as each of the Management Board and Supervisory Board covers four nationalities. Two additional nationalities are represented in the Executive Committee.

In succession planning, the relevant diversity aspects are taken into consideration. Ultimately the most qualified candidate will be nominated for appointment. To reach the diversity targets for future (potential) internal candidates for the Management Board, the relevant diversity aspect shall be considered and taken into account for recruitment, talent management, appointment to roles, retention of employees, succession planning, training and development. The relevant diversity aspects will also be considered in case of (re-)appointments of Supervisory Board members.

#### EXECUTIVE COMMITTEE

Since the end of 2012, an Executive Committee is in place. The Executive Committee facilitates decision-making without detracting from the exercise of statutory responsibilities by the members of the Management Board and the internal company authority matrix. Currently the Executive Committee is comprised of the Management Board members, the Managing Directors of Floating Production Solutions, Global Resources & Services, Operations and China/Singapore, as well as the Group HR Director and the Chief Strategy Officer. The Executive Committee meets on a monthly basis. In the meetings both strategic and operational topics are discussed.

#### MISCELLANEOUS

SBM Offshore N.V. has a revolving credit facility agreement under which the agreement of the participating banks must be obtained in the event of a change in control of the Company after a public take-over bid has been made. Certain vessel charter contracts contain clauses to the effect that the prior consent of the client is required in case of a change of control or merger or where the company resulting from such change of control or merger would have a lower financial rating or where such change of control or merger would affect the proper execution of the contract. In addition, local bidding rules and regulations (e.g. in Brazil for Petrobras) may require client approval for changes in control.

#### FURTHER INFORMATION

The Investor Relations and the Corporate Governance sections of the Company website provide extensive information including the articles of association, the Company Code of Conduct, the Supervisory Board and Committee rules and the Management Board rules. The website also contains



the contact details of the Investor Relations department and of the Company Secretary for questions regarding corporate governance matters.

## 3.6 SHAREHOLDER INFORMATION

### LISTING

SBM Offshore has been listed on Euronext Amsterdam since 1965. The market capitalization as at year-end 2018 was US\$ 3.0 billion. The majority of the Company's shareholders are institutional long-term investors.

### FINANCIAL DISCLOSURES

SBM Offshore publishes audited full-year earnings results and unaudited half-year earnings results, which include financials, within sixty days after the close of the reporting period. For the first and third quarters, SBM Offshore publishes a trading update, which includes important Company news and financial highlights. The Company conducts a conference call and webcast for all earnings releases and a conference call only for all trading updates during which the Management team presents the results and answers questions. All earnings-related information, including press releases, presentations and conference call details are available on the SBM Offshore website. Please see the Financial Calendar of 2019 at the end of this section for details of the timing of publication of financial disclosures for the remainder of 2019.

In 2018, the Company expanded its 'Directional' reporting. In addition to the Directional income statement, reported since 2013, a Directional balance sheet and cash flow statement are also disclosed in section 4.3.2 Operating Segments and Directional Reporting of the Consolidated Financial Statements. Expanding Directional reporting aims to increase transparency in relation to SBM Offshore's cash flow generating capacity and to facilitate investor and analyst review and financial modeling. Furthermore, it also reflects how Management monitors and assesses financial performance of the Company. Directional reporting is reported as an integral component of the Company audited Consolidated Financial Statements under the section 4.3.2 Operating Segments and Directional Reporting. As such, Directional accounts are audited by the Company's external auditor.

### DIVIDEND POLICY & CAPITAL ALLOCATION

The Company's policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of the underlying cash flow position and of 'Directional net income', where a target payout ratio of between 25% and 35% of 'Directional net income' will also be considered.

On May 4, 2018, SBM Offshore paid a cash dividend of US\$ 0.25 or EUR 0.2019 per share in relation to the 2017 results, 64% of underlying Directional net income, after adjustment for non-recurring exceptional items concerning compliance-related settlements.

In line with the Company's dividend policy and further taking into account the specific circumstances relating to 2018, including the nature of the non-recurring items, the Company proposes a dividend of US\$ 0.37 per share in respect of 2018, to be declared at the AGM on April 10, 2019. This represents a circa 50% increase per share compared to last year and represents a pay-out of circa 25% of Directional 2018 net result. The proposed ex-dividend date is April 12, 2019. The dividend is payable within 30 days following the AGM and will be calculated in US dollars, but payable in euros. The conversion into euros will be effected on the basis of the exchange rate on April 10, 2019. Given the Company's cash position, the dividend will be fully paid in cash.

The Company reviews its dividend policy on a regular basis. The Company plans to simplify the policy by focusing purely on cash flow and removing the additional reference to Directional net income in the policy. This results in the new policy as follows: "*The Company's policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position*". The proposed change to the dividend policy will be presented for discussion at the AGM on April 10, 2019.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares, depending on residual financial capacity and cash flow outlook.