



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

3 GOVERNANCE

3.8 COMPLIANCE

MANAGEMENT APPROACH

SBM Offshore’s reputation and license to operate depends on responsible business conduct. SBM Offshore is committed to complying with all applicable laws and regulations. SBM Offshore does not tolerate bribery, corruption, fraud, violations of trade sanctions, anti-money laundering or anti-competition laws, or any other illegal or unethical conduct in any form by anyone working for or on behalf of the Company. All employees and those working for or on behalf of SBM Offshore must embrace and act in accordance with the core values

of the Company (see section 1.3), the Code of Conduct and the Company’s internal policies and procedures. SBM Offshore fosters a culture of trust and fairness where dilemmas are openly addressed enabling employees to make the right decisions, with commitment to integrity at all levels. This commitment is one of the foundations of the Company’s license to operate and license to grow in support of SBM Offshore’s vision. Building on the accomplishments of recent years, the Company will strive for continuous improvement in embedding compliance as an integral part of its business processes.



Governance

The Group Compliance function is, on behalf of the Management Board, responsible for ensuring that the entire SBM Offshore organization operates within its clearly defined Compliance Program. The Group Compliance function has a leadership role in proactively advising the Management Board and Management on acting in a compliant manner, both from a strategic and an operational perspective. An important part of its role includes the focus on the prevention of misconduct.

Governance Management

The Company’s Management Board has overall accountability and the Chief Governance and Compliance Officer (CGCO) has the overall responsibility for compliance, risk and legal matters. Reporting to the CGCO, the Group Risk and Compliance Director (GRCD) leads the Compliance Program, drives its execution and regularly reports on its operating effectiveness to the Management Board and the Audit and Finance Committee of the

Supervisory Board, while also reporting on the Company’s key compliance risks and incidents. The GRCD is chair of the Company’s Validation Committee for the review and approval of third parties before engaging in a business relationship. Furthermore, the GRCD chairs the Company’s Risk Assurance Committee, ensuring an integrated approach to risk management. The integrated Risk and Compliance department comprises a global team of fourteen Risk and/or Compliance professionals, reporting directly to the GRCD, located within the Company’s worldwide locations and at corporate headquarters. Business leadership has accountability and responsibility to manage compliance and integrity risks within their fields of management control.

STRATEGY

SBM Offshore’s Compliance Program aims to guide the Company’s Management and employees in applying their moral compass as well as strengthening the management control system.

SBM Offshore has integrated the Compliance Program into its organizational structure and is promoting a culture of integrity and compliance in the day-to-day way of working of all employees. SBM Offshore maintains an effective compliance risk management and control system, which includes monitoring and reporting and upholds the Company's zero tolerance for bribery, corruption, fraud or any other form of misconduct. The Company maintains a global management control framework, while the Company's Management is responsible for embedding compliance in day-to-day business practice.

The Compliance Program is built on three pillars:

- Compliance governance and organization
- Hard and soft controls²¹
- Organizational culture and employee behavior



²¹ Hard controls are the explicit, tangible controls that guide employee behavior through defined policies and procedures while on the other hand, soft controls are intangible factors that influence the behavior of employees and ensure compliance with procedures such as openness, discussability and enforcement. Soft controls can be strengthened by for instance, training, improving the speak-up culture and facilitating the discussion of ethical dilemmas.

Key elements of the Compliance Program

- Commitment of the Management Board and the Supervisory Board
- Responsibility and accountability for compliance implementation and management residing in line management and ultimately with the Management Board
- Oversight and autonomy of the GRCD and adequate, qualified resources in the department
- Company Code of Conduct and Compliance policies and procedures
- Regular communication, training and continued guidance and advice
- Regular monitoring of compliance risks, mitigating measures and risk-based controls as well as incident and action reporting
- A thorough third party management process, including an internal Validation Committee which reviews the due diligence outcome on high-risk third parties prior to engagement
- Independent verification (e.g. compliance audits)
- Compliance-related internal financial controls, following ICOFR principles
- Confidential reporting procedures, including an Integrity Line and internal investigations
- Annual compliance statements from employees in middle and senior management positions



3 GOVERNANCE

NOTABLE DEVELOPMENTS AND ACHIEVEMENTS IN 2018

Updated Code of Conduct: Development, communication and Company-wide deployment of an updated Code of Conduct entitled 'Building Trust'	Two-day Compliance Leadership Program: Development and implementation of a two-day Compliance Leadership Program titled 'From rules to mindset' for Company senior leadership; Program held in April, July and October, aimed at Executive Committee members, top 50 business leaders and group function directors	New face-to-face training program for employees 'From rules to mindset': Accompanying the updated Code of Conduct development and deployment of new face-to-face training program entitled 'From rules to mindset' aimed at promoting speaking up and openly discussing compliance-related matters
New e-learning: Launch of new e-learning program on the Code of Conduct for all employees onshore and offshore leadership	Risk & Compliance Charter: Development and deployment of a Risk & Compliance Charter for US-based group entities	Strengthening staffing Risk & Compliance function: Further to the organizational changes. Aligned R&C function staffing to match the developments in the Product Lines
Compliance country risk assessment: Compliance China strategy plan developed and deployed	GDPR deployment: Initial GDPR project completed and continuous improvement effort undertaken to enhance maturity of the implementation. The Corporate Privacy Officer has been appointed.	Strengthening risk reviews: Optimization of tender and project risk review process as joint effort with GEMS, Project Controls and Cost Control functions
Enhanced compliance third party monitoring: Enhanced compliance monitoring and audit plan deployed combined with acquisition of a supporting tool GAN to optimize data analytics on third-party information and continuous monitoring	Embedding the Annual Risk Appetite: Annual Risk Appetite, including compliance consideration now embedded in the Corporate Guidance for strategic planning purposes, further contributing to integrating compliance mindset in day-to-day business decision-making on compliance	Legacy Issues. For information on the Company's Legacy Issues see sections 1.1, 2.4, 4.1, 4.3.1, 4.3.5, 4.3.26, 4.3.27, 4.3.28 and 5.2.5.

How SBM Offshore measures performance

- As part of performance management processes, the Company sets, monitors and reports on compliance KPIs for its Business Pillars, Product Lines and Operations
- Compliance training hours and completion ratios by employee target group
- Employee feedback surveys after each face-to-face training
- Annual Code of Conduct certification by staff in leadership positions
- Use of a Company-wide tool to approve, register and monitor giving and receiving of gifts, hospitality and entertainment
- Use of a Company-wide tool for continuous risk identification, assessment, registration and reporting
- Registration, review and monitoring of integrity reports through a Company-wide Compliance Case Management System
- Integrated quarterly Group Risk and Compliance reports to the Management Board and the Audit and Finance Committee of the Supervisory Board

expanded the training program. The number of Ethics and Compliance training hours for direct hires has increased from 2,397 hours in 2017 to 5,780 hours in 2018.

ANNUAL COMPLIANCE STATEMENTS AND TRAININGS OF DESIGNATED STAFF

Number of employees in Designated Staff ¹ per year-end	886
Onshore completion ratio	99%
Offshore completion ratio	42%

¹ Designated Staff reflects all employees in Hay grade 11 or above.

COMPLIANCE TRAININGS TO DESIGNATED STAFF

Number of employees in Designated Staff ¹ per year-end	2,711
Onshore Completion ratio	90%
Offshore Completion ratio	55%

¹ Designated staff reflects all Onshore staff and Offshore Leadership. Offshore Leadership represents <5% of designated staff.

Metrics

Following continuous improvement, this year's results have exceeded the Company's initial target. Compared to 2017, SBM Offshore has further

OVERALL NUMBER OF COMPLIANCE TRAININGS CONDUCTED IN 2018 WORLDWIDE:

Face-to-face trainings ¹	1,534
e-Learnings	3,858

Face to face training hours	3,490
e-Learning hours	2,785

¹ The number represents the overall number of compliance face-to-face trainings. Certain SBM Offshore employees have participated in multiple trainings.

INTEGRITY LINE REPORTS:

Integrity Line reports received under the Company's Integrity reporting policy	58
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The Company is promoting a Speak Up culture. The nature of the Integrity Line reports over 2018 was predominantly workplace related.

The objectives for 2018 are to continuously strengthen compliance management and control, focusing on the importance of the right behavior and enhancing efficiencies in the management process.

3.9 COMPANY TAX POLICY

SBM Offshore's tax policy is summarized as follows:

- The Company aims to be a good corporate citizen in the countries where it operates, by complying with the law and by contributing to the countries' progress and prosperity through employment, training and development, local spending, and through payment of the various taxes it is subject to, including wage tax, personal income tax, withholding tax, sales tax and other state and national taxes as appropriate
- The Company aims to be tax efficient in order to be cost competitive, whilst fully complying with local and international tax laws

The Company operates in a global context, with competitors, clients, suppliers and a workforce based around the world. A typical FPSO project sees a hull conversion in Asia, topsides construction in Asia, Africa or South America, engineering in Europe, Asia or the USA and large scale procurement from dozens of companies in many countries across the globe. In each of these countries the Company complies with local regulations and pays direct and indirect taxes on local value added, labor and profits and in some cases pays a revenue based tax. To coordinate the international nature of its operations and its value

flows and to consolidate its global activities, in 1969 the Company created Single Buoy Moorings Inc, which continues to perform this function today from its offices in Marly, Switzerland.

The Company:

- Complies with the OECD transfer pricing guidelines
- The Company supports the OECD's commitment to enhance tax transparency and is committed to be in full compliance with applicable laws in countries where it operates. Consistent with this approach, the Company supports the initiatives on base erosion and profit shifting, including but not limited to the recent European Union Anti-Avoidance directives. The Company is required to file detailed reports and transfer pricing documentation in accordance with BEPS' action 13 as is now implemented in Dutch tax law. The disclosures contained in the country-by-country reporting (CbCR) have been prepared to meet the OECD requirements and have been filed with the Dutch tax authorities for the year 2017.
- Makes use of the availability of international tax treaties to avoid double taxation
- Does not use intellectual property as a means to shift profits, nor does it use digital sales. Furthermore, the Company does not apply aggressive intra-company financing structures such as hybrids. The Company treats tax as a cost, which needs to be managed and optimized in order to compete effectively in the global competitive arena. In 2018, the Company reported a current corporate income tax charge of US\$ 19.9 million under IFRS (compared to US\$ 16.6 million in 2017). Due to the large losses incurred on the legacy projects and the current industry downturn, some tax loss carry forward positions exist at the global contracting company, which are limiting the current tax payments in Switzerland and in jurisdictions of the Company's locations.