



**OFFSHORE**

ENERGY. COMMITTED.

ANNUAL REPORT 2020

## 3.6 RISK & COMPLIANCE

### GOVERNANCE

The Management Board is responsible for :

- determining the Company's risk profile and policy, which are 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, and
- ensuring that the entire SBM Offshore organization operates within its clearly defined Compliance Program.

The Management Board monitors the operation of the Compliance Program and the internal risk management and control systems and performs an annual systematic assessment of their design and effectiveness. The results are discussed with the Supervisory Board. This monitoring covers all material control measures relating to strategic, operational, financial, compliance and reporting risks. Among other considerations, attention is given to observed weaknesses, instances of misconduct and irregularities and indications from whistle blowers.

### MANAGEMENT APPROACH

The Chief Governance and Compliance Officer (CGCO) has the overall responsibility for compliance, risk and legal matters. The Group Risk & Compliance Function (GRCF) 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 through the Integrity Panel, which oversees and investigates reports of (potential) misconduct. The Company's Validation Committee reviews and approves of high-risk third-parties before engaging in a business relationship.

The integrated Group Risk & Compliance Function comprises a global diverse team of fifteen experienced Risk and Compliance professionals located within the Company's most prominent locations worldwide. Business leadership has accountability and responsibility to manage compliance and integrity risks within their fields of management control.

### 3.6.1 DESIGN AND EFFECTIVENESS OF THE INTERNAL RISK MANAGEMENT AND CONTROL SYSTEM

#### MANAGEMENT APPROACH

The Group Risk & Compliance Function brings the skills to support the business in identifying and managing risks, thereby ensuring the risks are managed within the Risk Appetite (see section 1.4.1.) in order for the Company to achieve its strategic goals and objectives. The Risk Assurance Committee (RAC) reviews the significant risks faced by the Company and the relevant control measures. The RAC guards an integrated risk management approach by bringing together the key heads of functions across the second and third line of defense.








# 3 GOVERNANCE

## 2020 PERFORMANCE

### RISK MANAGEMENT MATURITY ASSESSMENT

The Management Board has assessed its Risk Management framework against a basic maturity model (from 'implemented' to 'future ambitions') across five interrelated components. The components are derived from COSO's framework 'Enterprise Risk Management - Integrating with Strategy and Performance'. The table below displays the Risk Management activities in their maturity level of robustness, as per end of 2020. Overall, the Risk Management framework is deemed to be at an 'improved' level, with the exception of 'Information, Communication & Reporting', which is assessed to be at a 'managed' level. The items in grey are the actions envisioned to be focused in the future.

The table below displays the highlights of the assessment as per end of 2020.

MATURITY	RISK MANAGEMENT COMPONENT				
	 Governance & Culture	 Strategy & Objective-setting	 Performance	 Review & Revision	 Information, Communication & Reporting
<b>FUTURE AMBITIONS</b>	Continue to strengthen Risk by connecting various Risk disciplines and expand global span of Risk, Assurance and Internal Control	Continue to assess risks of the Energy Transition and Climate Change. Improve focus on upside potential (opportunities)	Continue to improve the quality of emerging risk identification and assessments methodologies. Analyze relationships between risks	Continue to improve Risk Management activities and function. Further align assurance activities in the business	Outlook 2022: Develop and implement risk indicators to facilitate real-time scenario tracking
<b>IMPROVED</b>	Risk based decision making is part of the corporate culture. Tone at the top set clear guidance, based on our corporate values	Cross-functional risk assessments, are aligned with strategy (e.g. on Climate Change, Process Safety, Fast4Ward, Digital Transformation and Fraud risk)	Continuous improvement takes place on quality of risk assessments, e.g. in area of Energy Transition and Climate Change. Improved tracking of action plans increases the net result of risk mitigation	Risk enablers (e.g. policies and procedures, risk tooling) are regularly reviewed and improved under the leadership of the RAC	Continue to improve the quality, alignment and impact of risk reporting across the organization, jointly with Internal Control results
<b>MANAGED</b>	The RAC meets monthly. It includes Directors of assurance functions, such as: HSSE, Operational Excellence, Finance (incl. Internal Control), Compliance, and Internal Audit	Project Life Cycle is the foundation of the Risk Appetite Statements. These are updated annually based on company strategy and applied to business decision making	Risk Management and Internal Control activities are performed on a frequent basis and aligned with the company's strategy cycle	RAC ensures an integrated risk management approach across the assurance functions. It periodically assesses the effectiveness of risk management, control framework	Issued special risk reports on COVID-19. Risk reports can be derived real-time and with cross functional insights from an online platform updated by the organization.
<b>REPEATED</b>	Management Board meets senior management for discussion on performance, realization of objectives and responses to emerging issues	Company's Risk Appetite Statement is set in agreement with the Management Board and is supported by the Supervisory Board	Strategy is leading in risk identification and risk assessment. Internal Control matrices are improved with specifications on where control activity takes places	Digital functionalities are in place in risk management for the documentation and assessment of risks, as well as for the facilitation of risk workshops	Every quarter a risk report is drawn up that contains measurement of the Risk Appetite Statement, the significant risks and its mitigating measures
<b>IMPLEMENTED</b>	Management of (financial) risks are Management's responsibility and are carried out with the support of dedicated resources	Risk bearing financial processes are identified and risks and controls are listed in the Internal Control matrices	A yearly review of the Internal Control matrices is performed to assess controls in different locations including review by the Finance Internal Audit	Letter of Representation process, whereby senior management confirms on a quarterly basis that for their responsible area, the financial reports fairly present the position and results of the Company	Organizational units and departments keep track of their risks and actions in risk registers. Its owned by respective management and updates are performed ad hoc

 Achievements before- and in 2020.  Future ambitions

### 3.6.2 COMPLIANCE PROGRAM

#### 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 promotes a culture of integrity and compliance in the day-to-day way of working of all employees, increasingly focusing on targeted training initiatives, digitalization of processes and data analysis. 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.

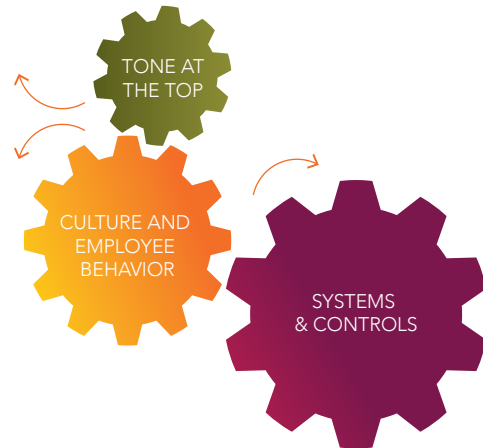
#### The Compliance Program is built on three pillars :

- Compliance governance and organization
- Hard and soft controls<sup>20</sup>
- Organizational culture and employee behavior



#### 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 by and autonomy of the GCD and adequate, qualified resources in the department.
- Company Code of Conduct and Compliance policies and procedures.
- Regular communication, training and continued guidance and advice.
- Convergence of compliance initiatives with other responsible business conduct initiatives
- 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.
- Confidential reporting procedures, including an Integrity Line and internal investigations.
- Annual compliance statements from employees in middle and senior management positions.



<sup>20</sup> 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.

#### MATURITY ASSESSMENT

The Management Board has assessed its Compliance program against a basic maturity model (from 'minimum standards' to 'value led business'). The table below displays the Compliance program maturity level as per end of 2020. Overall, the Compliance program is continuing to transition from 'Compliance culture' to the 'Beyond Compliance'

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level, although certain elements of the Compliance program, notably the focus on responsible leadership behavior, fall within the 'value-led business' maturity level. This is supported by ongoing convergence of compliance initiatives with other initiatives that focus on responsible business conduct, such as LifeDay, Right365 and vendor

engagement events. Through evolving Compliance Program enhancements and by integrating compliance in business events, the Company strives for continuous improvement in embedding compliance as an integral part of its business processes.



### 3.7 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, while 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.
- 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 Anti Tax Avoidance Directive 2 (ATAD 2) or European Union directives enhancing transparency, such as DAC 6. The Company is required to file detailed reports and transfer pricing documentation in accordance with Base Erosion and Profit Shifting's (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 2019.