



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

4 CORPORATE STATEMENTS 2020

Acquisition of 75% equity ownership in OS Installer Limited

The Company acquired the remaining 75% equity ownership in OS Installer Limited for a consideration of US\$34 million on September 30, 2020. The net impact between (i) the financial consideration paid to acquire the 75% share in OS Installer Limited, (ii) the recognition of the acquired assets and liabilities and (iii) the derecognition of lease liability and previously held investment, has been recognized in the line item 'Other operating income' for US\$3 million. Please refer to note 4.3.13 Property, Plant and Equipment.

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2020 and 2019:

	Note	2020	2019
Expenses on construction contracts		(1,245)	(1,319)
Employee benefit expenses	4.3.6	(614)	(575)
Vessels operating costs		(378)	(312)
Depreciation, amortization and impairment		(439)	(268)
Selling expenses		(24)	(30)
Other costs		(189)	(153)
Total expenses		(2,891)	(2,657)

In 2020, expenses on construction contracts decreased by 6% reflecting the lower activity on Turnkey projects.

Vessel operating costs have increased as a result of *Liza Destiny* (FPSO) first oil at the end of 2019, additional maintenance costs and costs related to preventive measures implemented as a result of COVID-19.

Depreciation, amortization and impairment was impacted in 2020 by the following non-recurring items:

- The depreciation of US\$(78) million for Deep Panuke MOPU following the end of the lease period;
- A full impairment of US\$(57) million of the SBM Installer installation vessel; and
- Other impairments of US\$(29) million (individually not material) relating to: (i) partial impairment of two units and (ii) increased impairment loss on financial assets.

Expenses related to short-term leases and leases of low value assets amounted to US\$5 million in 2020 (2019: US\$6 million).

The increase in Other costs is mainly driven by the impact of the 2020 restructuring severance costs of US\$46 million.

4.3.6 EMPLOYEE BENEFIT EXPENSES

Information with respect to employee benefits expenses are detailed as follows:

	Note	2020	2019
Wages and salaries		(353)	(329)
Social security costs		(53)	(54)
Contributions to defined contribution plans		(35)	(33)
Contributions to defined benefit plans		(1)	(3)
Share-based payment cost		(27)	(17)
Contractors costs		(84)	(88)
Other employee benefits		(60)	(51)
Total employee benefits	4.3.5	(614)	(575)

Contractors costs include expenses related to contractor staff not on the Company's payroll. Other employee benefits mainly include commuting, training, expatriate and other non-wage compensation costs.

DEFINED CONTRIBUTION PLAN

The contributions to defined contribution plans includes the Company participation in the Merchant Navy Officers Pension Fund (MNOF). The MNOF is a defined benefit multi-employer plan, which is closed to new members. The fund is managed by a corporate Trustee, MNOF Trustees Limited, and provides defined benefits for nearly 23,447 (2019: 25,688) Merchant Navy Officers and their dependents out of which approximately 29 (2019: 90) are SBM Offshore former employees.

The Trustee apportions its funding deficit between Participating Employers, based on the portions of the Fund's liabilities, which were originally accrued by members in service with each employer. When the Trustee determines that contributions are unlikely to be recovered from a Participating Employer, it can re-apportion the deficit contributions to other Participating Employers.

Entities participating in the MNOF are exposed to the actuarial risk associated with the current and former employees of other entities through exposure to their share of the deficit those other entities default. As there is only a notional allocation of assets and liabilities to any employer, the Company is accounting for the MNOF in its financial statements as if it was a defined contribution scheme. There are no contributions to the plan agreed at present.

DEFINED BENEFIT PLANS AND OTHER LONG-TERM BENEFITS

The employee benefits provisions recognized in accordance with accounting principles, relate to:

	<i>Note</i>	2020	2019
Pension plan		6	6
Lump sums on retirement		11	7
Defined benefit plans		17	13
Long-service awards		17	14
Other long-term benefits		17	14
Employee benefits provisions	<i>4.3.26</i>	34	28

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2020			31 December 2019		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	39	11	50	38	7	45
Fair value of plan assets	(33)	-	(33)	(32)	-	(32)
Benefit (asset)/liability	6	11	17	6	7	13

The main assumptions used in determining employee benefit obligations for the Company's plans are shown below:

Main assumptions used in determining employee benefit obligations

in %	2020	2019
Discount rate	0.00-1.00	0.25 - 2.00
Inflation rate	1.75	1.00 - 1.75
Discount rate of return on plan assets during financial year	0.00	0.50
Future salary increases	1.00 - 3.00	1.00 - 3.00
Future pension increases	-	-

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

4 CORPORATE STATEMENTS 2020

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

The remuneration of key management personnel of the Company paid during the year, including pension costs and performance related Short-Term Incentives (STI), amounted to US\$19 million (2019: US\$19 million). There are no loans outstanding to the members of the key management or guarantees given on behalf of members of the key management.

The performance-related part of the remuneration, comprising Value Creation Stake and STI components, was 68% (2019: 70%). The Management Board's remuneration (which is Euro denominated) increased in 2020 versus 2019, explained by an increase in remuneration for two members and a higher fair value of the Value Creation Stake.

The total remuneration and associated costs of the Management Board and other key management personnel (members of the Executive Committee) is specified as follows:

Remuneration key management personnel

in thousands of US\$	Base salary	STI ¹	Sharebased compensation ²	Other ³	Pensions ⁴	Total remuneration
Management Board Members						
2020	3,002	3,094	6,177	514	814	13,601
2019	2,651	2,532	6,513	439	713	12,848
Other key personnel⁵						
2020	2,514	427	1,492	564	204	5,201
2019	2,254	1,028	1,170	1,358	130	5,940
Total 2020	5,516	3,522	7,669	1,078	1,018	18,803
Total 2019	4,905	3,560	7,683	1,798	842	18,789

1 For the Management Board this represents the actual STI approved by the Supervisory Board, which has been accrued over the calendar year, payment of which will be made in the following year.

2 This share-based compensation represents the period expense of share-based payments in accordance with IFRS 2.

3 Consisting of social charges, lease car expenses, and other allowances.

4 This represents company contributions to defined contribution pension plans; in case of absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.

5 The definition of 'Other key personnel' is aligned with the Executive Committee, as disclosed on the Company's website.

The table above represents the total remuneration in US dollar, being the reporting currency of the Company.

The following table represents the movements during 2020 of all unvested shares of (former) Management Board members (the total number of vested shares held by (former) Management Board members are reported in note 4.3.23 Equity Attributable to Shareholders). Unvested LTI shares in the columns Outstanding at the beginning and/or end of the year, are reported at the Target LTI numbers. The actual vesting hereof in the year is shown for the actual number as per the outcome of the performance criteria as per the Remuneration Policy. As at December 31, 2020 there are no share-based incentives outstanding:

Shared-based incentives	Outstanding at the beginning of period	Granted	Vested	Outstanding at the end of period
2020	247,689	-	247,689	-
2019	574,062	-	326,373	247,689

SHORT-TERM INCENTIVE PROGRAM OF THE MANAGEMENT BOARD

The Short-Term Incentive Program is based upon the short-term operational performance, which includes three sets of Performance Indicators as noted below:

- Profitability;
- Growth;
- Health, Safety, Social and Environment (HSSE).

The Supervisory Board may adjust the outcome of the STI down by 10%. Any such adjustment would be reported in the Remuneration Report. No such reduction has been made for 2020 or 2019.

For 2020 (equal to 2019), the Supervisory Board concluded that the Company's performance indicators had outcomes ranging from below threshold to maximum. For the year 2020 a total of seven performance indicators were established (2019: seven). The Company's performance resulted in performance of 122% (2019: 115%) of salary for the CEO and 92% (2019: 86%) for the other Management Board members.

VALUE CREATION STAKE SHARES OF THE MANAGEMENT BOARD

Under the Remuneration Policy 2018, the members of the Management Board are entitled to a Value Creation Stake, being a number of shares determined by a four-year average share price (volume weighted). These shares vest immediately upon the award date, and must be retained for five years from the vesting date, or – in the event of retirement or termination – two years after such event.

Number of issued shares	2020	2019
Total 2020	324,875	320,330

The number of shares granted is based upon 175% of the individual's base salary and determined by the 4-year average volume-weighted share price (VWAP) over the years 2016 through 2019 (2019: 2015 through 2018), being EUR14.16 (2019: EUR12.92). The fair value of these shares upon issue was EUR16.74, being the opening share price of January 2, 2020 (2019: EUR 12.67). For the additional Value Creation Stake shares granted following the decision on the salary increase of two Management Board members the fair value upon issue was EUR15.65, being the opening share price of November 12, 2020.

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the RSU plan in 2020 was 638,780 (2019: 601,200), with the three year employment period starting on January 1, 2020 (2019: January 1, 2019).

The annual RSU award is based on individual performance. The RSU plans themselves have no performance condition, only a service condition, and will vest at the end of three years continuing service. The fair value is determined based on the share price at the grant dates, with an adjustment for the present value of the expected dividends during the vesting period.

	2020	2019
RSU grant date fair value per share	€ 10.41	€ 11.80

For RSUs, an average annual forfeiture percentage (based on expectations on for example the number of employees leaving the Company before the vesting date of their respective RSU plan) of 5% is assumed. The Company periodically reviews this estimate and aligns to the actual forfeitures.

OWNERSHIP SHARES

Ownership Shares is an annual award in shares to compensate the overall STI target reduction of 3-6% of annualized gross salary under the Company's 2019 STI plan awarded to employees based on seniority. The Ownership Shares have no performance conditions, only a service condition. The Ownership Shares are subject to a three-year holding requirement after the grant date. This means that a fixed population of onshore employees, based on seniority in the Company, are eligible to the Ownership Shares equal to 4-8% of annualized gross salary.

The total number of Ownership Shares that vested during 2020 was 95,681 shares (2019: 113,877). The fair value of the Ownership Shares is measured at the opening share price of April 1, 2020.

	2020	2019
Ownership Shares grant date fair value per share	€ 11.78	€ 14.08

4 CORPORATE STATEMENTS 2020

MATCHING SHARES

Under the STI plans for the management and staff of the Company, 20% of the STI is or can be paid in shares. Subject to a vesting period of four years, an identical number of shares (matching shares) will be issued to participants, assuming a probability of 95%. The grant date fair value is measured indirectly based on the grant date price of the equity instrument, with an adjustment for the present value of the expected dividends during the vesting period.

The assumptions included in the calculation for the matching shares are:

	2020	2019
Matching shares grant date fair value per share	€ 10.75	€ 15.67

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in operating profit for all share-based payment transactions have been summarized by taking into account both the provisional awards for the current year and the additional awards related to prior years. Total share-based compensation has increased in comparison to 2019.

2020	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	15,288	4,780	20,068
Total expenses 2020	15,288	4,780	20,068

2019	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	13,211	2,050	15,262
Performance conditions	1,795	0	1,795
Total expenses 2019	15,007	2,050	17,057

Rules of conduct with regard to inside information are in place to ensure compliance with the act on financial supervision. For example these rules forbid the exercise of options or other financial instruments during certain periods, more specifically when an employee is in possession of price-sensitive information.

The movement in the outstanding number of shares which could potentially vest at a point in time under the Company share-based payment plans is illustrated in the following table.

in number of shares	2020	2019
Outstanding at 1 January	1,991,476	2,406,331
Granted	1,631,655	1,581,616
Vested	(955,922)	(1,935,761)
True-up at vesting		(11,755)
Cancelled or forfeited	(136,873)	(48,955)
Total movements	538,860	(414,855)
Outstanding at 31 December	2,530,336	1,991,476

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR741,000 (2019: EUR778,000) and can be specified as follows:

in thousands of EUR	2020			2019		
	Basic remuneration	Committees	Total	Basic remuneration	Committees	Total
Total	659	82	741	684	94	778

There are no share-based incentives granted to the members of the Supervisory Board. Nor are there any loans outstanding to the members of the Supervisory Board or guarantees given on behalf of members of the Supervisory Board.

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

By operating segment:	2020		2019	
	Average	Year-end	Average	Year-end
Lease and Operate	1,714	1,772	1,596	1,656
Turnkey	1,790	1,796	1,620	1,783
Other	473	470	409	475
Total excluding employees working for JVs and associates	3,976	4,038	3,624	3,914
Employees working for JVs and associates	531	536	635	525
Total	4,507	4,574	4,259	4,439

Number of employees (by geographical area)

By geographical area:	2020		2019	
	Average	Year-end	Average	Year-end
the Netherlands	444	435	414	453
Worldwide	3,532	3,603	3,211	3,461
Total excluding employees working for JVs and associates	3,976	4,038	3,624	3,914
Employees working for JVs and associates	531	536	635	525
Total	4,507	4,574	4,259	4,439

The figures exclude fleet personnel hired through crewing agencies as well as other agency and freelance staff for whom expenses are included within other employee benefits. Despite the restructuring of the Company, the increase in headcount is due to the ramp-up of the center located in India, supporting the Company's Engineering, Procurement and Construction ('EPC') activities and fleet support for operations as well as an increase in onshore and offshore staff linked to *Liza Destiny* (FPSO). The departures linked to the 2020 restructuring of the Company were not all effective as per December 31, 2020.

4.3.7 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to US\$(24) million (2019: US\$(24) million) and mainly relate to the internal projects 'Digital FPSO' and Renewables development costs.

The amortization of development costs recognized in the statement of financial position is allocated to cost of sales when the developed technology is used through one or several projects. Otherwise, it is allocated to research and development expenses.

4.3.8 NET IMPAIRMENT GAINS/(LOSSES) ON FINANCIAL AND CONTRACT ASSETS

In the context of the COVID-19 pandemic and low oil prices, during the year 2020 companies were experiencing conditions often associated with a general economic downturn. In a very short period of time, the credit ratings of various oil companies deteriorated and they announced significant cost reductions and other measures to preserve their liquidity. In response to this situation, the Company (i) reassessed whether there is a significant increase in credit risk related to its financial assets as of December 31, 2020, and (ii) updated estimates in terms of 'probability of default' and 'loss given default' in order to determine the expected credit losses.

Finance Lease Receivables

There was no payment default on any finance lease contracts over the period. In addition, despite the overall economic downturn, the Company concluded that the counterparties of the finance lease receivables still have a strong capacity to meet their contractual cash flow obligations based on existing contractual arrangements, which include parent company guarantees. Based on the available forward-looking information related to the oil price, it is also assumed that none of the assets leased under the Company's finance lease contracts would become un-economic to operate for its clients.

Therefore, the Company concludes that (i) the credit risk has not increased significantly since the initial recognition of the finance lease receivable, and (ii) the finance lease receivables still have a low credit risk as of December 31, 2020.