



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

As a result of the Company's hedging policy, the decrease of Libor 3M in 2020 had a limited impact on Financial expenses as it led both to a decrease of Interest expenses on financial liabilities at amortized costs and to an increase of interest expenses on hedging derivatives.

4.3.10 INCOME TAX EXPENSE

The relationship between the Company's income tax expense and profit before income tax (referred to as 'effective tax rate') can vary significantly from period to period considering, among other factors: (i) changes in the blend of income that is taxed based on revenues versus profit; (ii) the different statutory tax rates in the location of the Company's operations and (iii) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available.

Some of the taxes are withholding taxes (paid on revenues). The assessment of whether the withholding tax is in scope of IAS 12 is judgmental; the Company performed this assessment in the past and some of the withholding taxes that the Company pays in certain countries qualify as income taxes as it creates an income tax credit or it is considered as deemed profit taxation.

Consequently, income tax expense does not change proportionally with profit before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the effective tax rate is impacted by the unrecognized tax loss.

The components of the Company's income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	2020	2019
Corporation tax on profits for the year		(47)	(38)
Adjustments in respect of prior years		(1)	(2)
Total current income tax		(48)	(40)
Deferred tax	4.3.17	10	9
Total		(38)	(31)

The Company's operational activities are subject to taxation at rates, which range up to 35% (2019: 35%).

For the year ended December 31, 2020, the respective tax rates, the change in the blend of income tax based on income withholding tax and deemed profit assessment versus income tax based on net profit, the unrecognized deferred tax asset on certain tax losses, tax-exempt profits and non-deductible costs resulted in an effective tax on continuing operations of 11% (2019: 6.2%).

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The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2020		2019	
	%		%	
Profit/(Loss) before income tax		366		542
Share of profit of equity-accounted investees		17		43
Profit/(Loss) before income tax and share of profit of equity-accounted investees		349		500
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(87)	25%	(125)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other jurisdictions	(24%)	82	(10%)	52
Withholding taxes and taxes based on deemed profits	5%	(18)	4%	(21)
Non-deductible expenses	20%	(71)	2%	(10)
Non-taxable income	(25%)	87	(18%)	88
Adjustments related to prior years	0%	(1)	0%	(2)
Adjustments recognized in the current year in relation to deferred income tax of previous year	(3%)	9	(1%)	3
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	11%	(39)	3%	(16)
Movements in uncertain tax positions	0%	(1)	(0%)	0
Total tax effects	(14%)	48	(19%)	94
Total of tax charge on the Consolidated Income Statement	11%	(38)	6%	(31)

The 2020 effective tax rate of the Company was primarily impacted by additional tax in Canada due to the redelivery of the Deep Panuke platform and the lease and operation contracts in Guyana. Similar to last year, the effective tax was also impacted by unrecognized deferred tax assets concerning Brazil, USA, Switzerland, Luxembourg, Monaco and the Netherlands.

With respect to the annual effective tax rate calculation for the year 2020, the most significant portion of the current income tax expense of the Company was generated in countries in which income taxes are imposed on net profits including United Kingdom, Equatorial Guinea, Guyana and Canada.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes per country

	2020	2019
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Withholding tax
Angola	(1)	(1)
Brazil	(6)	(4)
Guyana	(9)	(15)
Other	(2)	(2)
Total withholding and overseas taxes	(18)	(21)

TAX RETURNS AND TAX CONTINGENCIES

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company believes there is a sound basis for its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the

ultimate liability to have a material effect on its consolidated statement of financial position or results of operations, although it could have a significant adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the difference in alignment between the Company's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax increase of US\$14 million in respect of ongoing tax audits and in respect of the Company's review of its uncertain tax positions. This amount is primarily in relation to uncertain tax positions concerning various taxes other than corporate income tax. However, it is possible that the ultimate resolution of the tax exposures could result in tax charges that are materially higher or lower than the amount provided.

The Company conducts operations through its various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, the Company may identify changes to previously evaluated tax positions that could result in adjustments to its recorded assets and liabilities. Although the Company is unable to predict the outcome of these changes, it does not expect the effect, if any, resulting from these adjustments to have a material effect on its consolidated statement of financial position, results of operations or cash flows.

4.3.11 EARNINGS/(LOSS) PER SHARE

The basic earnings per share for the year amounted to US\$1.00 (2019: US\$1.84); the fully diluted earnings per share amounted to US\$1.00 (2019: US\$1.84).

Basic earnings/(loss) per share amounts are calculated by dividing net profit/(loss) for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net profit/loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive shares into ordinary shares.

The following reflects the share data used in the basic and diluted earnings per share computations:

Earnings per share

	2020	2019
Earnings attributable to shareholders (in thousands of US\$)	190,641	365,896
Number of shares outstanding at January 1 (excluding treasury shares)	196,227,113	204,725,425
Average number of treasury shares transferred to employee share programs	914,487	1,421,227
Average number of shares repurchased / cancelled	(7,331,229)	(7,576,677)
Weighted average number of shares outstanding	189,810,371	198,569,975
Impact shares to be issued	-	5,000
Weighted average number of shares (for calculations basic earnings per share)	189,810,371	198,574,975
Potential dilutive shares from stock option scheme and other share-based payments	1,651,613	5,333
Weighted average number of shares (diluted)	191,461,984	198,580,308
Basic earnings per share in US\$	1.00	1.84
Fully diluted earnings per share in US\$	1.00	1.84

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, except for issuing of Value Creation Stake shares for the Management Board, Matching Shares and Ownership Shares for the Company's senior management (see note 4.3.6 Employee Benefit Expenses).