



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

4 CORPORATE STATEMENTS 2020

4.3.12 DIVIDENDS PAID AND PROPOSED

The Company's dividend 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. As part of the Company's regular planning process, following review of its cash flow position and forecast, the Company has concluded that the outlook for cash flow generation has improved given the increase in the quantum of the Lease and Operate backlog. Based on this, a dividend of US\$165 million (which equals to US\$0.89 per share, based on the number of shares outstanding less the number of treasury shares held at December 31, 2020), to be paid out of retained earnings, will be proposed at the Annual General Meeting on April 7, 2021. This represents an increase of 10% compared to the dividend paid in 2020.

4.3.13 PROPERTY, PLANT AND EQUIPMENT

The line item 'Property, plant and equipment' consists of property, plant and equipment owned by the Company and right-of-use assets:

Property, plant and equipment (summary)

	31 December 2020	31 December 2019
Property, plant and equipment excluding leases	490	890
Right-of-use assets	52	115
Total	542	1,005

PROPERTY, PLANT AND EQUIPMENT OWNED BY THE COMPANY

The movement of the Property, plant and equipment during the year 2020 is summarized as follows:

2020

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	57	3,299	82	22	3,460
Accumulated depreciation and impairment	(28)	(2,490)	(52)	-	(2,570)
Book value at 1 January	29	809	30	22	890
Additions	4	35	10	(3)	46
Disposals	-	(126) ¹	(0)	-	(126)
Depreciation	(5)	(279)	(10)	-	(294)
Impairment	-	(24)	-	(0)	(24)
Foreign currency variations	2	-	1	0	3
Other movements	1	-	2	(8)	(5)
Total movements	2	(394)	3	(11)	(400)
Cost	67	2,751	93	11	2,921
Accumulated depreciation and impairment	(35)	(2,335)	(61)	(0)	(2,431)
Book value at 31 December	32	416	32	11	490

¹ The net disposal amount for FPSO Espirito Santo of US\$126 million consists of historical cost of US\$584 million less accumulated depreciation of US\$458 million.

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	58	3,266	75	11	3,410
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	(2,337)
Book value at 1 January	34	1,004	23	11	1,072
Additions	-	34	14	12	59
Depreciation	(5)	(203)	(7)	-	(214)
Impairment	-	(25)	-	-	(25)
Foreign currency variations	(1)	-	(0)	(0)	(1)
Other movements	-	-	(0)	(1)	(1)
Total movements	(5)	(194)	6	10	(183)
Cost	56	3,299	82	22	3,459
Accumulated depreciation and impairment	(28)	(2,490)	(52)	-	(2,570)
Book value at 31 December	29	809	30	22	890

During the 2020 period, the following main events occurred regarding owned property, plant and equipment:

- Additions mainly relate to the acquisition of the remaining 75% ownership in OS Installer Limited, resulting in the addition of the vessel at fair value of US\$25 million;
- US\$(294) million of annual depreciation charges, which includes the full depreciation of the net book value of the Deep Panuke MOPU at the ending date of the lease in July 2020 (US\$123 million including US\$78 million that would have been recognized as per initial depreciation schedule in 2021); and
- US\$(24) million impairments recognized and details as follow: US\$10 million related to the *Thunder Hawk* facility (see below), US\$8 million related to the Deep Panuke MOPU unit (see below), and US\$6 million related to other fixed assets (refer to section below 'Right of Use Assets').
- A decrease in net book value in Vessels and floating equipment of US\$126 million due to the new signed agreements with the client on *FPSO Espirito Santo* on December 7, 2020 in relation to the extension of the lease and operate period from the year 2023 to the year 2028. As a result, this new contract has been classified as a finance lease as per IFRS 16. Please refer to note 4.3.15 Finance Lease Receivables.

SBM Offshore prepares for sale DSCV SBM Installer

The Company acquired the remaining 75% equity ownership in OS Installer Limited for a consideration of US\$34 million on September 30, 2020. The transaction was classified as an asset acquisition that does not constitute a business as per IFRS 3 requirements. This mainly resulted in the following impacts:

- The recognition of the vessel (DSCV) (US\$25 million) and the external debt (US\$69 million) in the Company's financial statements;
- The existing lease liability related to the long-term charter was derecognized since the obligation became an intercompany liability to be eliminated in the group consolidated financial statements; the value of the lease liability at the acquisition date was US\$87 million; please note that the related right-of-use asset was previously fully impaired as explained in the section below 'Right-of-Use' assets;
- The 25% investment in OSI (value of US\$12 million at the acquisition date), which was accounted for at equity method prior to the transaction, was also derecognized. Please refer to note 4.3.31 Investment in Associates and Joint Ventures
- The net impact between (i) the financial consideration paid to acquire the 75% share in OSI (US\$(34) million), (ii) the recognition of the acquired assets and liabilities (US\$(38) million) and (iii) the derecognized lease liability (US\$87 million) and previously held investment (US\$(12) million), has been recognized as a gain (US\$3 million) on the line items 'Other Operating Income and Expense'. Please refer to note 4.3.4 Other Operating Income and Expense.

This asset acquisition is included in the Company's cash flow statement on the line Investment in property, plant and equipment at US\$(30) million, which is net of cash acquired.

Furthermore, since the vessel operates in a non-core market for the Company, the Company's intention is to dispose the vessel in 2021 after fulfilling existing contractual obligations related to services to be provided by the vessel to various clients. As a result, the SBM Installer has not been classified as asset held for sale as of December 31, 2020.

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Impairment of Thunder Hawk

The *Thunder Hawk* semi-submersible production facility in the US Gulf of Mexico is the only facility in the Company lease fleet portfolio for which revenue is dependent on volumes produced. Over the period, the facility was temporarily shut down for a period of 45 days upon the operator's request. In addition, the credit rating of the operator of the facility was downgraded by rating agencies.

As a result of these triggering events, the Company prepared an updated value-in-use calculation considering a higher post-tax discount rate of 11.6% compared with the 6.1% used for the former impairment test of the facility performed in 2019 (the increase in the discount rate is caused by the higher credit risk of the operator). The Company also considered a more conservative production profile ending in 2025. As a result of the impairment test, an impairment charge of US\$10 million is accounted for in the 2020 full year results. If the discount rate varies by +/- 1%, the impairment would vary by +/- US\$1 million respectively. If the operations of the facility would continue beyond 2025, the impairment of the asset would decrease accordingly, depending on the extended period of operations and anticipated production volume.

Impairment of Deep Panuke

An impairment assessment of Deep Panuke MOPU was performed due to progress made on the decommissioning of the asset, leading to a reassessment of the expected demobilization, towing and green recycling costs. This resulted in adverse cash flows and an impairment of US\$8 million was accounted for in the 2020 full year results. The impairment assessment was performed assuming that the client will continue to pay the contractual charter rate until the end of the initial lease period.

If the discount rate used in the impairment test would vary by +/- 1%, the impairment would change by +/- US\$1 million. If towing and green recycling costs would vary by +/- US\$1 million, the impairment would change by +/- US\$1 million.

Property, plant and equipment at year-end comprises of:

- Two (2019: three) integrated floating production, storage and offloading systems (FPSOs) (namely *FPSO Capixaba* and *FPSO Cidade de Anchieta*) each consisting of a converted tanker, a processing plant and one mooring system. These two FPSOs are leased to third parties under an operating lease contract. As noted above, following the newly agreed terms and conditions for *FPSO Espirito Santo* the accounting treatment for this vessel is no longer an operating lease, but a finance lease;
- One second-hand tanker (2019: one);
- One semi-submersible production platform, the *Thunder Hawk* (2019: one), leased to third parties under an operating lease contract;
- One MOPU facility, the *Deep Panuke* (2019: one), under scrapping as of December 31, 2020; and
- One installation vessel, the SBM Installer (2019: nil), acquired by the Company on September 30, 2020.

The depreciation charge for the semi-submersible production facility *Thunder Hawk* is calculated based on its future anticipated economic benefits, resulting in a depreciation plan based on the unit of production method. All other property, plant and equipment is depreciated on a straight-line basis.

Company-owned property, plant and equipment with a carrying amount of US\$282 million (2019: US\$479 million) has been pledged as security for liabilities, mainly for external financing.

No interest has been capitalized during the financial year as part of the additions to property, plant and equipment (2019: nil).

RIGHT-OF-USE ASSETS

As of December 31, 2020, the Company leases buildings and cars. The movement of the right-of-use assets during the year 2020 is summarized as follows:

2020

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	59	55	1	115
Additions	11	-	1	12
Depreciation	(14)	(4)	(1)	(19)
Impairment	(6)	(51)	-	(57)
Foreign currency variations	2	-	0	2
Other movements	0	-	(1)	(1)
Total movements	(7)	(55)	(1)	(63)
Cost	93	20	3	116
Accumulated depreciation and impairment	(41)	(20)	(2)	(64)
Book value at 31 December	52	-	1	52

2019

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	61	63	1	126
Additions	13	-	1	13
Depreciation	(14)	(8)	(1)	(23)
Foreign currency variations	(1)	-	(0)	(1)
Total movements	(2)	(8)	(0)	(11)
Cost	84	71	3	158
Accumulated depreciation and impairment	(25)	(16)	(1)	(43)
Book value at 31 December	59	55	1	115

During the year 2020, the main movements regarding right-of-use assets related to (i) US\$19 million of depreciation charges, (ii) US\$51 million impairment of the SBM Installer right-of-use asset to nil and (iii) an impairment charge of US\$6 million on right-of-use assets related to office buildings, which was a result of the Company's restructuring activities and the reallocation of activities and resources, which also led to certain leased office buildings being vacated.

Impairment of SBM Installer

The Company leased the SBM Installer installation vessel through a charter contract, which ends in 2026. The contract included the option for the Company to acquire the vessel during the charter period. During the year of 2020, due to the COVID-19 pandemic, the Company decided to put the vessel in lay-up for a period of three months (until July 2020) in order to protect the crew and reduce the costs in a context of low activity. Furthermore, the Company downgraded expectations regarding future economic benefits to be generated by the vessel given the expected slowdown of the offshore services business in the coming few years (which may create over-supply in offshore markets and therefore reduce the vessel utilization).

Based on the performed impairment test with a pre-tax discount rate of 11.6%, the Company concluded that the entire book value of the right-of-use asset had to be impaired for a total amount of US\$51 million in the first half of 2020. As a part of this impairment assessment, the Company also fully impaired other fixed assets related to the SBM Installer with a book value of US\$6 million. The total impairment related to the SBM Installer recognized for the period was US\$57 million. If revenue were to be increased by 10% on the relevant period, this would result in US\$6 million less impairment loss.

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Subsequent to the impairment, the Company decided in September 2020 to acquire the remaining 75% ownership in OS Installer Limited. As a result, the installation vessel was added to property, plant and equipment and the fully impaired right-of-use asset was derecognized.

Office leases

The other significant contracts relate to the lease of offices. The contract periods of the Company's office rentals vary between one to ten years and most of the contracts include extension options between three to fifteen years. The extension options have been taken into account in the measurement of lease liabilities when the Company is reasonably certain to exercise these options. The lease agreements do not impose any covenants.

OPERATING LEASES AS A LESSOR

The category 'Vessels and floating equipment' mainly relates to facilities leased to third parties under various operating lease agreements which terminate between 2022 and 2030. Leased facilities included in the 'Vessels and floating equipment' amount to:

Leased facilities included in the vessels and floating equipment

	31 December 2020	31 December 2019
Cost	2,683	3,257
Accumulated depreciation and impairment	(2,317)	(2,481)
Book value at 31 December	367	777

In December 2020, the Company entered into a new contract with the client on the *FPSO Espirito Santo* and agreed new terms and conditions including the extension of the contract from the year 2023 to 2028 and additional annual extension options up to 2033. As a result, this new contract has been classified as a finance lease as per IFRS 16 instead of an operating lease. Further, The Deep Panuke MOPU, located offshore Nova Scotia, Canada, was safely redelivered by the client to the Company in July 2020. As such, the Deep Panuke MOPU is not a leased facility anymore as of December 31, 2020. As a result, the book value of the leased facilities included in the vessels and floating equipment has decreased by US\$410 million.

The nominal values of the future expected bareboat receipts (undiscounted lease payments) in respect of the remaining operating lease contracts are:

Nominal values of the future expected bareboat receipts

	31 December 2020	31 December 2019
Within 1 year	277	319
2 years	145	297
3 years	95	134
4 years	94	121
5 years	92	94
After 5 years	399	508
Total	1,103	1,473

A number of agreements have extension options, which have not been included in the above table.

Purchase and termination options in operating lease contracts

The operating lease contract of semi-submersible *Thunder Hawk* includes a call option for the client to purchase the underlying asset. The exercise of this call option would have resulted in a gain for the Company as of December 31, 2020.