SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 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.

2019

	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.

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).