SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

LOSS ALLOWANCE ON FINANCIAL ASSETS AND CONSTRUCTION WORK-IN-PROGRESS

The movement of loss allowance during the year 2020 is summarized as follows:

	Finance lease receivable		Construction work-in-progress		Trade receivables		Other financial assets	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Opening loss allowance as at 1 January	**0**	**0**	**(0)**	**(1)**	**(4)**	**(7)**	**(99)**	**(99)**
Increase in loss allowance recognized in profit or loss during the year	(1)	-	(4)	(0)	(3)	(1)	(15)	-
Receivables written off during the year as uncollectible	-	-	-	-	2	-	-	-
Unused amount reversed	0	-	0	1	2	4	0	-
At 31 December	**(1)**	**0**	**(4)**	**(0)**	**(3)**	**(4)**	**(114)**	**(99)**

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, market risks (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company buys and sells derivatives in the ordinary course of business and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set in the Company policy. Generally, the Company seeks to apply hedge accounting in order to manage volatility in the income statement and statement of comprehensive income. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance. Derivatives are only used to hedge closely correlated underlying business transactions.

The Company's principal financial instruments, other than derivatives, comprise trade debtors and creditors, bank loans and overdrafts, cash and cash equivalents (including short-term deposits) and financial guarantees. The main purpose of these financial instruments is to finance the Company's operations. Trade debtors and creditors result directly from the business operations of the Company.

Financial risk management is carried out by a central treasury department under policies approved by the Management Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries and the Chief Financial Officer (CFO) during the quarterly Asset and Liability Committee. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. It is, and has been throughout the year under review, the Company's policy that no speculation in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk.

During the year of 2020, the COVID-19 pandemic caused crises in many aspects of the worldwide economy. This, combined with demand and supply crises in the oil and gas market has required the Company to evolve and adapt to uncertain market conditions. In the light of this situation, the Company reviewed its financial risk management program and concluded that the existing procedures adequately addressed this challenging situation.

In the context of the COVID-19 pandemic and low oil price environment, the Company especially focused on liquidity, credit and counterparty risks:

- The Company conducted various liquidity scenarios, financial stress tests and sensitivity analyses. The conclusion was that the Company's lease portfolio and the existing financing facilities are sufficient to ensure that the Company will continue as a going concern in the foreseeable future and it can sustain future growth plans;
- The Company performed analyses on the credit and counterparty risks of its clients and financial partners. The analysis resulted in no material impact (refer to note 4.3.8 Net Impairment Gains/(Losses) on Financial and Contract Assets); and
- The Company applied its policy on derivative financial instruments and cash and cash equivalents counterparty credit risk. Credit limits per individual counterparty were not exceeded during 2020.