SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2021

The following table presents the unsatisfied performance obligations as at December 31, 2021 (in billions of US$):

Unsatisfied performance obligations related to:	2021	2020
- constructions contracts including finance leases	6.0	3.0
- operating contracts	10.0	7.0
Total	16.0	10.0

The unsatisfied performance obligations for the committed construction contracts relate mostly to five major construction FPSO contracts as well as the remaining work to be performed on the award of limited scope on the FPSO for the Yellowtail development project. Revenue related to these construction contracts is expected to be recognized over the coming three years in line with the construction progress on these projects.

The unsatisfied performance obligations for the operating contracts relate to i) the Company's vessels leased to clients where the Company is the operator (both operating and finance lease contracts) and ii) one operating contract for operating services on a vessel that is owned by the client. The operating contracts end between 2022 and 2050. The Company will recognize the unsatisfied performance obligation over this period in line with the work performed.

The Company can agree on various payment arrangements which generally reflect the progress of delivered performance obligations. However, if the Company's delivered performance obligation exceeds instalments invoiced to the client, a 'Construction work-in-progress' (contract asset) is recognized (see note 4.3.20 Construction Work-In-Progress). If the instalments invoiced to the client exceed the work performed, a contract liability is recognized (see note 4.3.26 Trade and Other Payables).

As a result of various commercial discussions with clients, the Company recognized revenue amounting to US$6 million in 2021 (2020: US$28 million) originating from performance obligations satisfied in previous periods.

Lease revenue recognized for leases where the Company is the lessor, for both operating and finance leases, relates to fixed and variable lease payments. Most of the Company's revenue from lease contracts is based on fixed day rates. To the extent that lease payments are dependent on an index or a rate, they are excluded from the initial recognition of the lease payments receivable. The impact related to a change in index or a rate is recognized in the consolidated income statement when a change occurs.

4.3.4 OTHER OPERATING INCOME AND EXPENSE

	2021	2020
Insurance claim income	16	-
Gains from sale of financial participations, property, plant and equipment	2	(1)
Other operating income	1	5
Total other operating income	**19**	**4**
Other operating expenses	(12)	(1)
Impairment of other assets and onerous contracts	-	(10)
Restructuring expenses	(1)	(46)
Total other operating expense	**(13)**	**(57)**
Total	**7**	**(53)**

In 2021, the other operating income mainly included an insurance recovery of US$16 million related to the reimbursement in respect of damage on one of the Brazilian units that occurred in January 2016. The other operating expense mainly included the US$7.6 million penalty order against the Company issued by the Swiss public prosecutor in November 2021 (refer to section 4.3.1 Financial Highlights).

The decrease in expenses compared with the prior period is mainly due to restructuring expenses recognized in 2020.

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2021 and 2020:

	Note	2021	2020
Expenses on construction contracts		(1,732)	(1,245)
Employee benefit expenses	4.3.6	(669)	(614)
Vessels operating costs		(413)	(378)
Depreciation, amortization and impairment		(88)	(439)
Selling expenses		(16)	(24)
Other costs		(114)	(189)
Total expenses		**(3,032)**	**(2,891)**

In 2021, expenses on construction contracts significantly increased as a result of the further ramp-up of the activity on Turnkey projects since the Company has five FPSO's under construction and FEED activities on the FPSO for the Yellowtail development project.

Vessel operating costs have increased mainly as a result of (i) an increase in the net incremental costs from the implementation of additional safety measures linked to COVID-19, (ii) some repair costs incurred in 2021 on damaged mooring lines on one Unit (for which compensation from insurance is not yet secured) and (iii) higher maintenance and repair activities, including maintenance campaigns postponed to 2021 due to the COVID-19 new pandemic context in 2020;

The significant decrease of depreciation, amortization and impairment in 2021 in comparison to 2020 mainly relates to the previous year specific events being (i) the full depreciation of Deep Panuke MOPU due to the redelivery of the unit, (ii) the requalification as finance lease of the *FPSO Espirito Santo* following lease contract extension and (iii) some impairments on one installation vessel and two units of the Company's fleet.
Expenses related to short-term leases and leases of low value assets amounted to US$4 million in 2021 (2020: US$5 million).

The decrease in Other costs is mainly driven by the prior year impact of restructuring costs of US$46 million.

4.3.6 EMPLOYEE BENEFIT EXPENSES

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

	Note	2021	2020
Wages and salaries		(353)	(353)
Social security costs		(49)	(53)
Contributions to defined contribution plans		(35)	(35)
Contributions to defined benefit plans		(2)	(1)
Share-based payment cost		(27)	(27)
Contractors costs		(139)	(84)
Other employee benefits		(64)	(60)
Total employee benefits	4.3.5	**(669)**	**(614)**

Contractors costs include expenses related to contractor staff not on the Company's payroll. The increase in contractors' costs compared with previous year reflects the general ramp-up of Turnkey activities and the Company's strategy aiming to maintain flexibility in its workforce monitoring. 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 (MNOPF). The MNOPF is a defined benefit multi-employer plan, which is closed to new members. The fund is managed by a corporate Trustee, MNOPF Trustees Limited, and provides defined benefits for nearly 22,830 (2020: 23,447) Merchant Navy Officers and their dependents out of which approximately 29 (2020: 29) are SBM Offshore former employees.