SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2021

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.

The Trustee apportions its funding deficit between Participating Employers, based on the portions of the Fund's liabilities, which were originally accrued by members in service with each employer. When the Trustee determines that contributions are unlikely to be recovered from a Participating Employer, it can re-apportion the deficit contributions to other Participating Employers.

Entities participating in the MNOPF are exposed to the actuarial risk associated with the current and former employees of other entities through exposure to their share of the deficit those other entities default. As there is only a notional allocation of assets and liabilities to any employer, the Company is accounting for the MNOPF in its financial statements as if it was a defined contribution scheme. There are no contributions to the plan agreed at present.

DEFINED BENEFIT PLANS AND OTHER LONG-TERM BENEFITS

The employee benefits provisions recognized in accordance with accounting principles, relate to:

	Note	2021	2020
Pension plan		2	6
Lump sums on retirement		9	11
Defined benefit plans		**11**	**17**
Long-service awards		16	17
Other long-term benefits		**16**	**17**
Employee benefits provisions	*4.3.25*	**26**	**34**

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2021			31 December 2020		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	33	9	42	39	11	**50**
Fair value of plan assets	(31)	-	(31)	(33)	-	**(33)**
Benefit (asset)/liability	**2**	**9**	**11**	**6**	**11**	**17**

The main assumptions used in determining employee benefit obligations for the Company's plans are shown below:

Main assumptions used in determining employee benefit obligations

in %	2021	2020
Discount rate	0.25-1.25	0.00-1.00
Inflation rate	2.00	1.75
Discount rate of return on plan assets during financial year	0.25	0.00
Future salary increases	1.00 - 3.00	1.00 - 3.00
Future pension increases	-	-

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

The remuneration of key management personnel of the Company paid during the year, including pension costs and performance related Short-Term Incentives (STI), amounted to US$20 million (2020: US$19 million). There are no loans outstanding to the members of the key management or guarantees given on behalf of members of the key management.

The performance-related part of the remuneration of the Management Board, comprising Value Creation Stake and STI components, was 67% (2020: 68%). The Management Board's remuneration (which is Euro denominated) decreased in 2021

versus 2020, explained by a lower valuation of the Value Creation Stake mainly offset by a higher STI. The Management Board's remuneration in US$ increased by US$282 thousand due to the change in foreign currency conversion.

The increased remuneration of other key personnel is mainly related to the addition of an additional member of the Executive Committee, it now has 7 members (2020: 6).

The total remuneration and associated costs of the Management Board and other key management personnel (members of the Executive Committee) is specified as follows:

Remuneration key management personnel

in thousands of US$	Base salary	STI[1]	Sharebased compensation[2]	Other[3]	Pensions[4]	Total remuneration
Management Board Members						
2021	3,109	3,486	5,818	630	840	13,883
2020	3,002	3,094	6,177	514	814	13,601
Other key personnel[5]						
2021	2,757	836	1,637	601	368	6,198
2020	2,514	427	1,492	564	204	5,201
Total 2021	**5,866**	**4,341**	**7,455**	**1,231**	**1,209**	**20,082**
Total 2020	**5,516**	**3,522**	**7,669**	**1,078**	**1,018**	**18,803**

1 For the Management Board this represents the actual STI approved by the Supervisory Board, which has been accrued over the calendar year, payment of which will be made in the following year.
2 This share-based compensation represents the period expense of share-based payments in accordance with IFRS 2.
3 Consisting of social charges, lease car expenses, and other allowances.
4 This represents company contributions to defined contribution pension plans; in case of absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.
5 The definition of 'Other key personnel' is aligned with the Executive Committee, as disclosed on the Company's website.

The table above represents the total remuneration in US dollar, being the reporting currency of the Company.

The following table represents the movements during 2021 of all unvested shares of (former) Management Board members (the total number of vested shares held by (former) Management Board members are reported in note 4.3.23 Equity Attributable to Shareholders). As at December 31, 2021 there are no share-based incentives outstanding:

Shared-based incentives	Outstanding at the beginning of period	Granted	Vested	Outstanding at the end of period
2021	-	-	-	-
2020	247,689	-	247,689	-

SHORT-TERM INCENTIVE PROGRAM OF THE MANAGEMENT BOARD

The Short-Term Incentive Program is based upon the short-term operational performance, which includes three sets of Performance Indicators as noted below:

- Profitability;
- Growth;
- Sustainability Performance.

The Supervisory Board may adjust the outcome of the STI down by 10%. Any such adjustment would be reported in the Remuneration Report. No such reduction has been made for 2021 or 2020.

For 2021 (equal to 2020), the Supervisory Board concluded that the Company's performance indicators had outcomes ranging from threshold to maximum. For the year 2021 a total of seven performance indicators were established (2020: seven). The Company's performance resulted in performance of 133% (2020: 122%) of salary for the CEO and 100% (2020: 92%) for the other Management Board members.

VALUE CREATION STAKE SHARES OF THE MANAGEMENT BOARD

Under the Remuneration Policy 2018, the members of the Management Board are entitled to a Value Creation Stake, being a number of shares determined by a four-year average share price (volume weighted). These shares vest immediately upon the award date, and must be retained for five years from the vesting date, or – in the event of retirement or termination – two years after such event.

Number of issued shares	2021	2020
Total	313,239	324,875

The number of shares granted is based upon 175% of the individual's base salary and determined by the 4-year average volume-weighed share price (VWAP) over the years 2017 through 2020 (2020: 2016 through 2019), being EUR14.69 (2020: EUR14.16). The grant date fair value of these shares upon issue was EUR15.71, being the opening share price of January 3, 2021 (2020: EUR16.74).

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the RSU plan in 2021 was 754,450 (2020: 638,780), with the three year employment period starting on January 1, 2021 (2020: January 1, 2020).

The annual RSU award is based on individual performance. The RSU plans themselves have no performance condition, only a service condition, and will vest at the end of three years' continuing service. The fair value is determined based on the share price at the grant dates, with an adjustment for the present value of the expected dividends during the vesting period.

	2021	2020
RSU grant date fair value per share	€ 11.89	€ 10.41

For RSUs, a vesting probability (based on expectations on for example the number of employees leaving the Company before the vesting date of their respective RSU plan) of 5% is assumed. The Company periodically reviews this estimate and aligns to the actual forfeitures.

OWNERSHIP SHARES

Ownership Shares is an annual award in shares to compensate the overall STI target reduction of 3-6% of annualized gross salary under the Company's 2019 STI plan awarded to employees based on seniority. The Ownership Shares have no performance conditions, only a service condition. The Ownership Shares are subject to a three-year holding requirement after the grant date. This means that a fixed population of onshore employees, based on seniority in the Company, are eligible to the Ownership Shares equal to 4-8% of annualized gross salary.

The total number of Ownership Shares that vested during 2021 was 90,189 shares (2020: 95,681). The fair value of the Ownership Shares is measured at the opening share price of February 1, 2021.

	2021	2020
Ownership Shares grant date fair value per share	€ 14.21	€ 11.78

MATCHING SHARES

Under the STI plans for the management and staff of the Company, 20% of the STI is or can be paid in shares. Subject to a vesting period of four years, an identical number of shares (matching shares) will be issued to participants, assuming a probability of 95%. The Company periodically reviews this estimate and aligns to the actual forfeitures. The grant date fair value is measured indirectly based on the grant date price of the equity instrument, with an adjustment for the present value of the expected dividends during the vesting period.

The assumptions included in the calculation for the matching shares are:

	2021	2020
Matching shares grant date fair value per share	€ 13.40	€ 10.75

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in operating profit for all share-based payment transactions have been summarized by taking into account both the provisional awards for the current year and the additional awards related to prior years. Total share-based compensation has slightly decreased in comparison to 2020.

2021	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	15,153	4,523	19,676
Total expenses 2021	**15,153**	**4,523**	**19,676**

2020	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	15,288	4,780	20,068
Total expenses 2020	**15,288**	**4,780**	**20,068**

Rules of conduct with regard to inside information are in place to ensure compliance with the act on financial supervision. For example these rules forbid the exercise of options or other financial instruments during certain periods, more specifically when an employee is in possession of price-sensitive information.

The movement in the outstanding number of shares which could potentially vest at a point in time under the Company share-based payment plans is illustrated in the following table.

in number of shares	2021	2020
Outstanding at 1 January	**2,530,336**	**1,991,476**
Granted	1,734,267	1,631,655
Vested	(1,090,015)	(955,922)
True-up at vesting		
Cancelled or forfeited	(263,863)	(136,873)
Total movements	**380,389**	**538,860**
Outstanding at 31 December	**2,910,725**	**2,530,336**

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR656,000 (2020: EUR741,000) and can be specified as follows:

	2021			2020		
in thousands of EUR	Basic remuneration	Committees	Total	Basic remuneration	Committees	Total
Total	**579**	**77**	**656**	**659**	**82**	**741**

There are no share-based incentives granted to the members of the Supervisory Board. Nor are there any loans outstanding to the members of the Supervisory Board or guarantees given on behalf of members of the Supervisory Board.

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

	2021		2020	
By operating segment:	Average	Year-end	Average	Year-end
Lease and Operate	1,872	1,971	1,714	1,772
Turnkey	1,898	1,999	1,790	1,796
Other	496	522	473	470
Total excluding employees working for JVs and associates	**4,265**	**4,492**	**3,976**	**4,038**
Employees working for JVs and associates	532	527	531	536
Total	**4,797**	**5,019**	**4,507**	**4,574**

Number of employees (by geographical area)

	2021		2020	
By geographical area:	Average	Year-end	Average	Year-end
the Netherlands	430	424	444	435
Worldwide	3,836	4,068	3,532	3,603
Total excluding employees working for JVs and associates	**4,265**	**4,492**	**3,976**	**4,038**
Employees working for JVs and associates	532	527	531	536
Total	**4,797**	**5,019**	**4,507**	**4,574**

The figures exclude fleet personnel hired through crewing agencies as well as other agency and freelance staff for whom expenses are included within other employee benefits. The increase in headcount is primary due to 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.

4.3.7 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to US$29 million (2020: US$24 million) and mainly relate to the internal projects 'Digital FPSO' and Renewables development costs.

The amortization of development costs recognized in the statement of financial position is allocated to cost of sales when the developed technology is used through one or several projects. Otherwise, it is allocated to research and development expenses.

4.3.8 NET IMPAIRMENT GAINS/(LOSSES) ON FINANCIAL AND CONTRACT ASSETS

In the context of recovering oil and gas market and raising oil price, the Company's clients' credit ratings generally have significantly improved comparing to 2020 despite the remaining uncertainties regarding the COVID-19 pandemic. As part of the regular update of 'Impairment gains/(losses) on financial and contract assets', the Company has therefore recognized an overall net impairment gain of US$12 million (December, 2020: loss of US$(24) million).

During the year, the following gains/(losses) related to credit risks were recognized:

	2021	2020
Impairment losses		
- Movement in loss allowance for trade receivables	0	(1)
- Movement in loss allowance for construction work-in-progress	3	(4)
- Movement in loss allowance for finance lease receivables	1	(1)
- Movement in loss allowance for other assets	2	(18)
(Impairment)/impairment reversal losses on other financial assets	7	-
Net impairment gains/(losses) on financial and contract assets	**12**	**(24)**

During the year 2021, the Company recognized a partial impairment reversal of a funding loan provided to an equity accounted joint venture. The impairment reversal of US$7 million was recognized based on updated forecasted cash available at the level of the joint venture.