OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2021

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.

4.3.9 NET FINANCING COSTS

	2021	2020
Interest income on loans & receivables	1	3
Interest income on investments	1	3
Net foreign exchange gain	-	2
Other financial income	1	1
Financial income	**3**	**9**
Interest expenses on financial liabilities at amortized cost	(202)	(181)
Interest expenses on hedging derivatives	(99)	(76)
Interest expenses on lease liabilities	(2)	(5)
Interest addition to provisions	(1)	(1)
Net cash flow hedges ineffectiveness	-	(3)
Other financial expenses	0	(0)
Financial expenses	**(304)**	**(265)**
Net financing costs	**(301)**	**(257)**

The increase in net financing costs is mainly due to: (i) higher interest expenses as a result of the Company's new project financing obtained for projects under construction, namely project financing of *FPSO Sepetiba* and *Prosperity* (FPSO), as well as bridge loan for *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão*, and (ii) refinancing of *FPSO Cidade de Ilhabela* through non-recourse senior secured notes transaction. Additionally the Company incurred in 2021 one-off additional financial expenses mostly related to *FPSO Cidade de Ilhabela* refinancing.

4.3.10 INCOME TAX EXPENSE

The relationship between the Company's income tax expense and profit before income tax (referred to as 'effective tax rate') can vary significantly from period to period considering, among other factors: (i) changes in the blend of income that is taxed based on revenues versus profit; (ii) the different statutory tax rates in the location of the Company's operations and (iii) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available.

Some of the taxes are withholding taxes (paid on revenues). The assessment of whether the withholding tax is in scope of IAS 12 is judgmental; the Company performed this assessment in the past and some of the withholding taxes that the Company pays in certain countries qualify as income taxes as it creates an income tax credit or it is considered as deemed profit taxation.

Consequently, income tax expense does not change proportionally with profit before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the effective tax rate is impacted by the unrecognized tax loss.

The components of the Company's income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	2021	2020
Corporation tax on profits for the year		(73)	(47)
Adjustments in respect of prior years		14	(1)
Movements in uncertain tax positions		3	-
Total current income tax		**(56)**	**(48)**
Deferred tax	*4.3.17*	(14)	10
Total		**(71)**	**(38)**

The Company's operational activities are subject to taxation at rates, which range up to 35% (2020: 35%).