



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4.3.6 EMPLOYEE BENEFIT EXPENSES

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

	<i>Note</i>	2018	2017
Wages and salaries		(308)	(315)
Social security costs		(51)	(46)
Contributions to defined contribution plans		(31)	(31)
Contributions to defined benefit plans		(1)	(1)
Share-based payment cost		(17)	(12)
Contractors costs		(64)	(58)
Other employee benefits		(47)	(51)
Total employee benefits	4.3.5	(519)	(514)

Contractors costs include expenses related to contractor staff not on the Company's payroll. 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 (MNOFF). The MNOFF is a defined benefit multi-employer plan which is closed to new members. The fund is managed by a corporate Trustee, MNOFF Trustees Limited, and provides defined benefits for nearly 26,000 Merchant Navy Officers and their dependents out of which approximately 90 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 determined 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 MNOFF 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 MNOFF 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:

	<i>Note</i>	2018	2017
Pension plan		5	3
Lump sums on retirement		6	7
Defined benefit plans		11	10
Long-service awards		13	13
Other long-term benefits		13	13
Employee benefits provisions	4.3.26	24	23

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The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2018			31 December 2017		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	38	6	44	40	7	47
Fair value of plan assets	(32)	-	(32)	(37)	-	(37)
Benefit (asset)/liability	5	6	11	3	7	10

The fair value of plan assets decreased due to benefits paid to employees.

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 %	2018	2017
Discount rate	0.75 - 2.00	0.25 - 2.00
Inflation rate	1.00 - 1.75	1.75
Discount rate of return on plan assets during financial year	0.50	0.50
Future salary increases	1.00 - 3.00	3.00
Future pension increases	-	-

The overall expected rate of return on assets is determined 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\$ 23 million (2017: US\$ 20 million).

The performance-related part of the remuneration, comprising both LTI and STI components, was 66% (2017: 56%). The remuneration (including the Management Board's remuneration which is euro denominated), was affected in 2018 by the impact of the fluctuation in the exchange rate of the US dollar (5% higher average rate compared with 2017), introduction, as part of Remuneration Policy 2018, of the Value Creation Stake and to a lesser extent by the phasing out of a 10% voluntary decrease in base salary, which ended on September 1, 2017.

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
Bruno Chabas						
2018	945	1,375	3,517	195	290	6,321
2017	843	1,682	1,881	321	277	5,005
Philippe Barril						
2018	650	710	2,100	173	163	3,796
2017	581	908	1,134	166	156	2,944
Erik Lagendijk						
2018	531	580	1,842	45	133	3,132
2017	432	675	941	42	116	2,205
Douglas Wood						
2018	531	580	1,990	47	133	3,281
2017	497	725	801	47	124	2,193
Peter van Rossum⁵						
2018	-	-	23	-	-	23
2017	179	253	359	12	74	877
Other key personnel⁶						
2018	2,482	1,478	808	1,353	151	6,272
2017	3,297	997	968	1,633	232	7,128
Total 2018	5,138	4,724	10,279	1,813	870	22,825
Total 2017	5,829	5,240	6,083	2,221	979	20,352

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 (for other key personnel this represents STI paid in the year).

2 This amount represents the period allocation to the calendar year of vesting costs of all unvested share-based incentives (notably Long Term Incentive shares (performance shares and Value Creation Stake under Remuneration Policy 2018), matching 'STI' shares, and RSUs COO and CFO), in accordance with IFRS2 rules. The shares of the Value Creation Stake vest immediately, first time in 2018, and hence the entire cost thereof has to be recognized in 2018.

3 Consisting of social charges, lease car expenses, and other allowances, a.o. in connection with the headquarter move, such as housing allowance, settling-in allowance.

4 Representing company contributions to Board member pensions; in the absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.

5 Peter van Rossum retired as Management Board member during the extraordinary meeting of shareholders of November 30, 2016 and his contract ended at the Annual General Meeting of April 13, 2017.

6 The definition of 'Other key personnel' has been amended to align with the Executive Committee, as disclosed on the Company's website.

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

The following table represents the movements during 2018 of all unvested shares (the total number of vested shares held by (former) Management Board members are reported in note 4.3.23 Equity Attributable to Shareholders). Unvested LTI shares in the columns Outstanding at the beginning and/or end of the year, are reported at the Target LTI numbers. The actual vesting hereof in the year are shown for the actual number as per the outcome of the performance criteria as per the Remuneration Policy. As at December 31, 2018 the following share-based incentives are outstanding:

Share-based incentives	Outstanding at the beginning of 2018	Granted	Vested	Outstanding at the end of 2018
Bruno Chabas	282,150	-	158,594	165,495
Philippe Barril	216,249	-	119,899	110,330
Erik Lagendijk	166,249	-	69,899	110,330
Douglas Wood	126,217	-	-	126,217
Peter van Rossum	132,743	-	64,859	61,690

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SHORT-TERM INCENTIVE PROGRAM OF THE MANAGEMENT BOARD

The Short-Term Incentive Program, as amended in the Remuneration Policy 2018, is based upon the short-term operational performance, which includes three sets of Performance Indicators as noted below:

- Profitability;
- Growth;
- Health, Safety, Social and Environment (HSSE).

The Supervisory Board may adjust the outcome of the STI up or down by 10%. Any such adjustment will be explained in the Remuneration Report. However, in case 100% of the Company indicators have been realized, the adjustment will not provide an additional uplift.

For 2018, the Supervisory Board concluded that the Company's performance indicators (for the year 2018 a total of five performance indicators have been established) had outcomes ranging from slightly below target to maximum. The Company performance resulted in performance of 136% of salary for the CEO and 101% for the other Management Board members. The Supervisory Board decided upon an upwards adjustment of 10%. The total performance under the STI, including the adjustment, resulted in 146% for the CEO and 109% for the other Management Board members.

VALUE CREATION STAKE AND LONG-TERM INCENTIVE 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.

Following approval by the Annual General Meeting of Shareholders on April 11, 2018, the Value Creation Stake shares have been issued as follows:

	Number of issued shares
Bruno Chabas	113,452
Philippe Barril	78,112
Erik Lagendijk	63,817
Douglas Wood	63,817
Total 2018	319,198

The number of shares granted in 2018 was based upon 175% of the individual's base salary and determined by the 4-year average volume-weighted share price (VWAP) over the years 2014 through 2017, being EUR 12.34. The fair value of these shares upon issue was EUR 13.295, being the opening share price of April 12, 2018.

Under the Remuneration Policy 2015, the Management Board was entitled to a LTI, built up of EPS and relative TSR performance. For the LTI performance period 2016-2018, both the EPS performance indicator (weighting of 60%) and the relative TSR performance indicator (weighting of 40%) came in at close to the Maximum. The total vesting of the LTI grant 2016 resulted in 193% for the CEO, and 147% for each of the other Management Board members.

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the RSU plan in 2018 was 649,092 (2017: nil), with the three year employment period starting on January 1, 2018.

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.

2018

Regular, relocation and skills retention RSU (share price as at January 2, 2018)

€ 14.72

RSU are valued at a share price at grant date, applying the Black & Scholes model. For regular, relocation and skills retention RSU an average annual forfeiture percentage (including expectations on for example the number of employees leaving the Company before the vesting date of their respective RSU plan) of 2.5% is assumed.

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 three years, an identical number of shares (matching shares) will be issued to participants. Assumed probability of vesting amounts to 95% for senior staff.

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

2018 awards – Fair values

2018

STI matching shares

€ 13.46

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in EBIT for all share-based payment transactions are summarized by taking into account both the provisional awards for the current year and the additional awards related to prior years. This is in addition to a true-up impact related to a change in the Company's compensation structure during 2018 (in thousands of US\$). Total share-based compensation increased by US\$ 5 million compared with 2017 mainly due to the Value Creation Stake, introduced under the Remuneration Policy 2018, which vests immediately upon the award date.

	Performance shares and RSU/ Value Creation Stake	Matching shares	Total
2018			
Instruments granted	11,575	1,442	13,017
Performance conditions	4,281		4,281
Total expenses 2018	15,856	1,442	17,298
2017			
Instruments granted	6,060	964	7,024
Performance conditions	4,831	134	4,965
Total expenses 2017	10,891	1,098	11,989

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.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR 761,000 (2017: EUR 769,000) and can be specified as follows:

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in thousands of EUR	2018			2017		
	Basic remuneration	Committees	Total	Basic remuneration	Committees	Total
Floris Deckers – Chairman from 11/4	107	17	124	75	17	92
Frans Cremers – Chairman till 11/4	34	5	39	120	17	137
Thomas Ehret – Vice-chairman	80	10	90	80	10	90
Lynda Armstrong (till 11/4)	25	5	30	75	16	91
Roeland Baan	54	12	66	-	-	-
Bernard Bajolet	54	6	60	-	-	-
Francis Gugen	75	10	85	75	10	85
Sietze Hepkema	75	8	83	75	8	83
Laurence Mulliez	75	10	85	75	8	83
Cheryl Richard ¹	90	9	99	100	8	108
Total	669	92	761	675	94	769

¹ Including intercontinental travel allowance.

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)

By operating segment:	2018		2017	
	Average	Year-end	Average	Year-end
Lease and Operate	1,524	1,535	1,506	1,513
Turnkey	1,443	1,456	1,489	1,429
Other	323	343	293	302
Total excluding employees working for JVs and associates	3,289	3,334	3,287	3,244
Employees working for JVs and associates	814	745	864	882
Total	4,103	4,079	4,150	4,126

Number of employees (by geographical area)

By geographical area:	2018		2017	
	Average	Year-end	Average	Year-end
the Netherlands	342	374	317	309
Worldwide	2,948	2,960	2,970	2,935
Total excluding employees working for JVs and associates	3,289	3,334	3,287	3,244
Employees working for JVs and associates	814	745	864	882
Total	4,103	4,079	4,150	4,126

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.

4.3.7 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to US\$ 23 million (2017: US\$ 33 million) and mainly relate to the internal project 'Digital FPSO', Renewables and FPSO Product Line development costs and investments in laboratory facilities.