



OFFSHORE

ENERGY. COMMITTED.



ANNUAL REPORT 2019

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2019 and 2018:

	<i>Note</i>	2019	2018
Expenses on construction contracts		(1,319)	(469)
Employee benefit expenses	<i>4.3.6</i>	(575)	(519)
Vessels operating costs		(312)	(289)
Depreciation, amortization and impairment		(268)	(235)
Selling expenses		(30)	(22)
Other costs		(153)	(142)
Total expenses		(2,657)	(1,676)

Year-on-year, expenses on construction contracts increased mainly as a result of higher activity on Turnkey projects. The main projects responsible for the increase of expenses are: 2019 awards of FPSO *Liza Unity* and FPSO *Sepetiba* and the initial limited scope awarded for the FPSO *Prosperity* project.

In 2019, depreciation, amortization and impairment was impacted by a US\$16 million impairment of semi-submersible production facility Thunder Hawk and a US\$9 million impairment of Deep Panuke MOPU.

Expenses related to short-term leases and leases of low value assets amounted to US\$6 million in 2019 (2018: US\$4 million).

4.3.6 EMPLOYEE BENEFIT EXPENSES

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

	<i>Note</i>	2019	2018
Wages and salaries		(329)	(308)
Social security costs		(54)	(51)
Contributions to defined contribution plans		(33)	(31)
Contributions to defined benefit plans		(3)	(1)
Share-based payment cost		(17)	(17)
Contractors costs		(88)	(64)
Other employee benefits		(51)	(47)
Total employee benefits	<i>4.3.5</i>	(575)	(519)

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 25,688 Merchant Navy Officers and their dependents out of which approximately 90 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 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.