SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

2.4 FINANCIAL PERFORMANCE

The Company’s primary business segments are Lease and Operate and Turnkey. Although financial results are presented per segment, activities between business segments are closely related. In addition to reporting under International Financial Reporting Standards (IFRS) guidelines, the Company's Directional reporting methodology was implemented to reflect Management’s view of the Company and how it monitors and assesses financial performance. This chapter of the Annual Report presents numbers based on Directional reporting.

PROFITABILITY

Full-year 2019 Directional revenue was US$2,171 million, a solid increase of 27% compared with 2018. This increase is mainly the result of a ramp-up in Turnkey activity, leading to a Turnkey revenue of US$856 million, representing a growth of more than 100% compared with 2018. Directional Lease and Operate revenue totaled US$1,315 million in 2019, stable when compared with US$1,298 million in the year before, despite three vessels (*Turritella* (FPSO), FSO *Yetagun* and FSO *N’Kossa II*) leaving the fleet in 2018. Offsetting the decrease from this change is an overall improvement in performance of the fleet and the first contribution of FPSO *Liza Destiny*.

Excluding non-recurring items, 2019 Underlying Directional EBITDA increased to US$832 million compared with US$784 million in the prior year, driven by improvements in operational performance, both in the Turnkey and Lease and Operate segments. In the context of improving market conditions, Underlying full year 2019 Directional Turnkey EBITDA was US$53 million, a US$29 million increase versus 2018. The impact of a number of positive project close-out items in 2018 was more than offset by strong project execution in the context of increased activity year-on-year. Underlying Directional Lease and Operate EBITDA increased from US$824 million in 2018 to US$842 million. This reflects an overall improvement in performance of the fleet and the start of the FPSO *Liza Destiny* contribution during the last quarter of 2019. Underlying other non-allocated costs charged to EBITDA stood at US$(63) million, stable when compared with the year-ago period.

2019 Underlying Directional net income attributable to shareholders stood at US$171 million, an increase of US$58 million compared with the previous year, driven by the ramp-up in Turnkey activity and the solid contribution from the Lease and Operate segment.

The above Underlying figures exclude several non-recurring items described in section 4.1.3 Financial Review Directional. These items had a impact positive on the 2019 Directional EBITDA for an amount of US$90 million and on net profit attributable to shareholders of US$65 million. Including these items, total reported 2019 Directional EBITDA was US$921 million and net profit attributable to shareholders was US$235 million.

BACKLOG

The Directional backlog, which is presented on a pro-forma basis in note 4.1.3 Financial Review Directional, grew to a total of US$20.7 billion at December 31, 2019, compared with US$14.8 billion at year-end 2018.

This significant year-on-year growth is explained by the awarded Lease and Operate contracts for (i) FPSO *Liza Unity*, (ii) FPSO *Sepetiba*, (iii) the initial scope to begin FEED activities and build a Fast4Ward® hull for the FPSO *Prosperity* project and (iv) the acquisition of the minority share in the lease and operating entities related to five Brazilian FPSOs. Following the award of the above contracts, the backlog now provides cash flow visibility of more than 25 years, up to 2045.

STATEMENT OF FINANCIAL POSITION

The Company's financial position remains strong as a result of the cash flow generated by the fleet and the adaptation of the Turnkey segment to a recovering market.

Directional shareholders equity decreased from US$1,317 million to US$1,179 million, despite the US$235 million net profit attributable to shareholders generated in 2019. This was primarily due to the completion of the EUR175 million share repurchase program, the dividend distribution to the shareholders for an amount of US$75 million and a decrease of the hedging reserves by US$105 million caused by the decrease in market interest rates.

Directional net debt increased by US$1,107 million to US$3,460 million at year-end 2019. With the Lease and Operate segment generating strong operating cash flow in line with expectation, the increase of the net debt mainly reflected signficant investment for the future through capital expenditure in FPSOs *Liza Destiny*, *Liza Unity* and *Sepetiba* over the period. It should be noted that the investment in the FPSOs *Liza Destiny* and *Liza Unity* are expected to be recovered through the sale of these vessels to the client in a period of up to two years following the start of the operations of each unit. Other significant cash outflows over the period related to (i) the payment of the agreed part of the Yme insurance proceeds to Repsol, (ii) the return of funds to the shareholders through dividend and the share repurchase program, (iii) the acquisition of the minority shares in the lease and operating entities related to five Brazilian FPSOs, as well as (iv) the expected unwinding of a large portion of working capital in the

Turnkey segment (significant milestone payments were invoiced and received in 2018).

At December 31, 2019, all of the Company's debt (except for the lease liabilities and the project loans on FPSO *Liza Destiny* and FPSO *Liza Unity*), consists of non-recourse project financing held in special purpose vehicles.

CASH FLOW/LIQUIDITIES

Cash and undrawn committed credit facilities amount to US$2,422 million, of which US$132 million is considered as pledged to project debt servicing in the special purpose vehicles or otherwise restricted in its utilization, US$155 million is the remaining capacity of the project loan dedicated to FPSO *Liza Destiny* and US$809 million is the remaining capacity of the project loan dedicated to FPSO *Liza Unity*.

For a total overview of the Company's financials, please see the Financial Statements in section 4 of the Annual Report.

2.5 OPERATIONAL PERFORMANCE

2.5.1 FLEET

SBM Offshore's assets are key value drivers for the Company, generating a predictable revenue for SBM Offshore through long-term Lease and Operate contracts. The expertise and experience of around 2,500 offshore crew and onshore staff supporting the fleet ensures value creation through the safe, reliable and efficient operation of the Company's offshore fleet.

KEY FIGURES

- 5.9 billion barrels of production cumulated to date
- 8,722 oil offloads cumulated to date
- Over 330 cumulative contract years of operational experience

2019 represented a strong year for the Company's operations, with particularly good performance achieved in terms of occupational and process safety and the highest production uptime of the last six years. As a forward-looking operator, SBM Offshore works to leverage its unrivalled experience and industry-leading digital and technological solutions to deliver sustainable, ethical operations with highest standards of safety, reliability and efficiency.

In 2019, accelerated digital initiatives under the 'Smart Operations' program have realized the first steps of an ambitious transformation plan aimed at delivering safer, more reliable and more efficient operations.

In Guyana, operational readiness milestones were achieved well on schedule and organizational presence established ahead of the start up of the FPSO *Liza Destiny*. Initiatives are ongoing to further develop SBM Offshore's presence in-country and receive additional units in the coming years.

In 2019, the following changes occurred in the fleet operated by SBM Offshore:

- *FSO Yetagun*, which was decommissioned and sold to new owners in 2018, underwent recycling in-line with SBM Offshore policies and in accordance with the Hong Kong Convention.
- PFC (MOPU) *Deep Panuke*, which ceased gas production in 2018, continued to be decommissioned in close collaboration with the client, aiming for a scheduled completion during 2020.
- FPSO *Liza Destiny* arrived in Guyanese waters in August 2019 and, following receipt of its certificate acceptance from the client, joined SBM Offshore's fleet on November 1, 2019. First oil was achieved on December 20, 2019.