SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

	Directional		IFRS	
in US$ million	FY 2019	FY 2018	FY 2019	FY 2018
Revenue	**2,171**	**1,703**	**3,391**	**2,240**
Lease and Operate	1,315	1,298	1,327	1,302
Turnkey	856	406	2,064	938
EBITDA[1]	**921**	**995**	**1,010**	**838**
Lease and Operate	842	824	783	761
Turnkey	53	278	290	184
Other	26	(107)	(63)	(107)
Underlying EBITDA	**832**	**784**	**1,010**	**844**
Lease and Operate	842	824	783	761
Turnkey	53	24	290	147
Other	(63)	(64)	(63)	(64)
Profit/(loss) attributable to shareholders	**235**	**301**	**366**	**212**
Underlying profit attributable to shareholders	**171**	**113**	**391**	**247**

1 EBITDA, earnings (profit attributable to shareholders) excluding net financing costs, income tax expense, depreciation, amortization and impairment as well as share of profit/(loss) of equity-accounted investees

General

The Company's primary business segments are 'Lease and Operate' and 'Turnkey' plus 'Other' non-allocated corporate income and expense items. Revenue and EBITDA are analyzed by segment, but it should be recognized that business activities are closely related.

During recent years the Company's awarded lease contracts were systematically classified under IFRS as finance leases for accounting purposes, whereby the fair value of the leased asset is recorded as a Turnkey 'sale' during construction. For the Turnkey segment, this accounting treatment results in the acceleration of recognition of lease revenues and profits into the construction phase of the asset, whereas the asset generates the cash mainly only after construction and commissioning activities have been completed, as that is the moment the Company is entitled to start receiving the lease payments. In the case of an operating lease, lease revenues and profits are recognized during the lease period, in effect more closely tracking cash receipts. Following the implementation of accounting standards IFRS 10 and 11 starting January 1, 2014, it has also become challenging to extract the Company's proportionate share of results. To address these accounting issues, the Company discloses Directional reporting in addition to its IFRS reporting. Directional reporting treats all lease contracts as operating leases and consolidates all co-owned investees related to lease contracts on a proportional basis. Under Directional, the accounting results more closely track cash flow generation and this is the basis used by the Management Board of the Company to monitor performance and for business planning. Reference is made to 4.3.2 Operating Segments and Directional Reporting for further detail on the main principles of Directional reporting.

As the Management Board, as chief operating decision maker, monitors the operating results of its operating segments primarily based on Directional reporting, the financial information in this section 4.1 Financial Review is presented both under Directional and IFRS while the financial information presented in note 4.3.2 Operating Segments and Directional Reporting is presented under Directional with a reconciliation to IFRS. For clarity, the remainder of the financial statements are presented solely under IFRS, except where expressly stated.

4.1.2 FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights (please refer to note 4.3.1 Financial Highlights for further detail).

ExxonMobil awards Liza Unity contracts to SBM Offshore

On May 10, 2019, the Company announced that Esso Exploration and Production Guyana Limited (EEPGL), an affiliate of Exxon Mobil Corporation, has confirmed the award of contracts to the Company for the next phase of the Liza project in Guyana. Under these contracts, the Company will construct, install and thereafter lease and operate FPSO *Liza Unity* for a period of up to two years after which the ownership and operations will transfer to ExxonMobil. The FPSO *Liza Unity* design is based on the Fast4Ward® program as it incorporates the Company's new-build, multi-purpose hull combined with several standardized topsides modules.

On October 16, 2019 the Company announced that it completed the project financing of FPSO *Liza Unity* for a total of US$1.14 billion.

Completion 2019 Share Repurchase Program

On May 20, 2019 the Company completed its EUR175 million (US$196 million) share repurchase program. Between February 14, 2019 and May 20, 2019 a total of 10,422,259 common shares were repurchased, at an average price of EUR16.79 per share.

Closing of Brazil legacy case

In 2018 the Company entered into two Leniency Agreements in Brazil in relation to its legacy issue; the one with the Brazilian Ministry of Transparency and Comptroller's General Office (Ministério da Transparência e Controladoria-Geral da União – 'CGU'), the General Counsel for the Republic (Advocacia Geral da União – 'AGU') and Petróleo Brasileiro S.A. ('Petrobras'), as reported on July 26, 2018 ('July LA'), and the other with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF'), as reported on September 1, 2018 ('September LA').

The July LA was immediately effective upon signing. In October 2019, the Company provided an additional update on the Brazilian Federal Court decision, which has formally closed the Improbity Lawsuit filed by the Brazilian Federal Prosecutors Office (Ministério Público Federal, MPF) in 2017. This approval made the September LA effective. The court decision is subject to a mandatory re-examination by the Brazilian Court of Appeal.

CGU and AGU informed the Company that the signing of an amendment to the July LA, foreseen in order to align the amounts of the July LA with those of the September LA shall occur after the mandatory re-examination by the Court of Appeal.

ExxonMobil awards contracts to SBM Offshore for third FPSO in Guyana

On November 7, 2019 the Company announced that ExxonMobil subsidiary Esso Exploration and Production Guyana Limited (EEPGL) has awarded the Company contracts to perform Front End Engineering and Design (FEED) for a Floating Production, Storage and Offloading vessel (FPSO) for the Payara development project located in the Stabroek block in Guyana.

FPSO *Prosperity* will utilize a design that largely replicates the design of FPSO *Liza Unity*. As such, FPSO *Prosperity* will become the second vessel built under the Company's Fast4Ward® program.

Prior to the necessary government approvals and final project sanction, the award of contracts initiated a limited release of funds to the Company to begin FEED activities and secure a Fast4Ward® hull.

SBM Offshore and Constellation complete transaction regarding minority ownership in SBM Offshore operated FPSO companies

On November 22, 2019, the Company and Constellation Oil Services Holding S.A. ('Constellation') jointly confirmed that they had completed the transaction regarding the sale to the Company of Constellation's equity ownership in the lease and operating entities related to five Brazilian FPSOs (with Constellation's ownership percentage in brackets): Cidade de Paraty (20%), Cidade de Ilhabela (12.75%), Cidade de Marica (5%), Cidade de Saquarema (5%) and Capixaba (20%). The Company was already the majority shareholder of the entities and operator of these FPSOs before the transaction was completed. Upon completion of the transaction, the Company paid the total cash consideration of US$149 million.

The shares acquired by the Company are subject to potential repurchase by the Company's partners in the lease and operating entities related to the five FPSOs, to the extent of their pro-rata portion of their existing ownership in the investees. The partners have waived their rights to repurchase shares, except for two partners, who expressed interest in purchasing their portion of shares in the lease and operating entities related to one FPSO.

SBM Offshore orders two additional Fast4Ward® hulls

On December 5, 2019, the Company announced that it has signed contracts for the construction of the Company's fourth and fifth hulls under its purchase program for Fast4Ward® new build multi-purpose hulls. The contracts were signed with Shanghai Waigaoqiao Shipbuilding and Offshore Co., Ltd. (SWS) and China Merchants Industry Holdings (CMIH).

SBM Offshore optimizes FPSO N'Goma project loan

On December 9, 2019, the Company announced the closure of a supplemental non-recourse project loan facility of US$250 million related to Sonasing Xikomba Ltd., the entity that owns FPSO *N'Goma*. The total outstanding loan amount increased to c.US$450 million and the original maturity date of the loan was extended by c. 4.5 years to an expiration date of 15 May 2026, to match more closely the term of the underlying contract of the vessel.

SBM Offshore signs FPSO Sepetiba lease and operate contracts and sells down minority share

On December 11, 2019, the Company announced that is has signed the contracts with Petróleo Brasileiro S.A. (Petrobras) for a 22.5 years lease and operate of FPSO *Sepetiba*. These contracts follow the signing of the binding Letter of Intent (LOI) as announced on June 11, 2019. The Company will design and construct the FPSO *Sepetiba* using the Fast4Ward® program. Delivery of the FPSO is expected in 2022.

On December 13, 2019, following the signature of the contracts with Petrobras, the Company announced that it has entered into a shareholder agreement with Mitsubishi Corporation (MC) and Nippon Yusen Kabushiki Kaisha (NYK) regarding the divestment of a 35.5% interest in the special purpose companies related to the lease and operation of FPSO *Sepetiba*. MC acquired 20% and NYK acquired 15.5% while the Company, as operator, remained as the majority shareholder with a 64.5% ownership interest.

FPSO Liza Destiny producing and on hire

FPSO *Liza Destiny* has produced first oil as of December 20, 2019 and is formally on hire.

4.1.3 FINANCIAL REVIEW DIRECTIONAL

	Directional	
in US$ million	FY 2019	FY 2018
Revenue	**2,171**	**1,703**
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Lease and Operate	842	824
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	Directional	
in US$ billion	FY 2019	FY 2018
Backlog	20.7	14.8

UNDERLYING PERFORMANCE

Non-recurring items in 2019 impacted the Directional profit attributable to shareholders by US$65 million as follows:

- A US$90 million impact on EBITDA related to the gain that arose on the acquisition of the minority ownership in five Brazilian FPSOs from Constellation on November 22, 2019. Refer to note 4.3.1 Financial Highlights for full detail on this transaction.
- A total impairment of US$(25) million relating to two, individually not material, impairments of property, plant and equipment of which one already impacted the Company's half-year results.