SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

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**
Lease and Operate	1,315	1,298
Turnkey	856	406
EBITDA	**921**	**995**
Lease and Operate	842	824
Turnkey	53	278
Other	26	(107)
Underlying EBITDA	**832**	**784**
Lease and Operate	842	824
Turnkey	53	24
Other	(63)	(64)
Profit/(loss) attributable to shareholders	**235**	**301**
Underlying profit attributable to shareholders	**171**	**113**

	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.

For reference, non-recurring items for 2018 were impacting the Directional profit attributable to shareholders by US$188 million as follows:

- EBITDA for US$211 million relating to (i) the realized gain on the sale of *Turritella* (FPSO) (US$217 million), (ii) the Yme project estimated net insurance claim income (US$37 million) and (iii) the additional fine payable following the signature of the agreement with the Brazilian Federal Prosecutor's Office (US$(43) million).
- A net impairment impact of US$(11) million.
- US$(13) million impact on profit attributable to shareholders, relating to the updated estimate of the liability and unwinding of the discount on the liability for the signed Leniency Agreement with Brazilian authorities and Petrobras. Note that from 2019 onwards, this item will no longer be excluded from the Company's underlying performance due to the recurring and insignificant nature of this item.

BACKLOG

Change in ownership scenarios and lease contract duration have the potential to significantly impact the Company's future cash flows, net debt balance as well as the profit and loss statement. The Company therefore provides a pro-forma backlog on the basis of the most likely ownership scenarios for the various projects.

The pro-forma backlog at the end of 2019 reflects the following key assumptions:

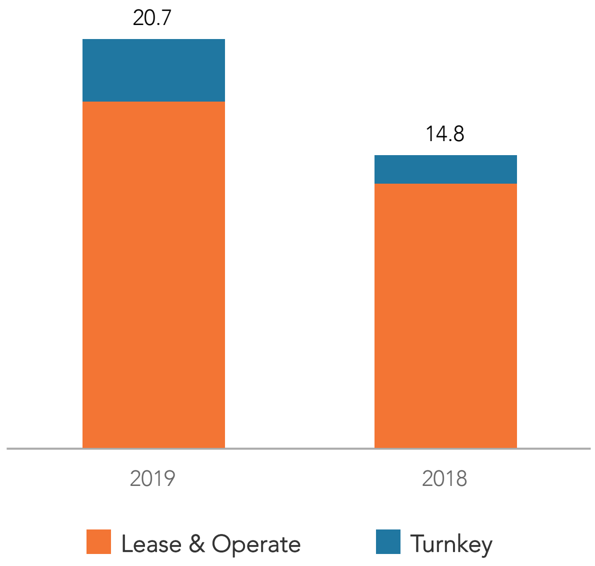
- The *Liza Destiny* contract covers 10 years of lease and operate but based on discussions with the client, it is expected that the client will purchase the unit after a period of up to two years of operations. As a result, the pro-forma backlog has been adjusted to reflect a shortened lease and operate period of two years for FPSO *Liza Destiny*. The impact of the subsequent sale of FPSO *Liza Destiny* is reflected in the Turnkey backlog.
- The *Liza Unity* contract covers a maximum period of two years of lease and operate within which the unit will be purchased by the client. Under the Company's policy, the backlog would not yet take the operating and maintenance scope on FPSO *Liza Unity* into account which is agreed in principle but pending a final work order. However, to be consistent with prior year and to better reflect the current reality, the pro-forma backlog represented below takes the operating and maintenance scope on FPSO *Liza Unity* into account. The impact of the sale of FPSO *Liza Unity* is reflected in the Turnkey backlog.
- With respect to FPSO *Prosperity*, for which the full lease and operate contract award is subject to necessary government approvals and final work order to be received from the client, the amount included in the pro-forma backlog is limited to the value of the initial limited release of funds to the Company to begin FEED activities and secure a Fast4Ward® hull.
- With respect to the completion of the Constellation transaction (refer to note 4.3.1 Financial Highlights), the Company included the acquired backlog, with the exception of 7% ownership in one FPSO for which two partners have expressed interest in purchasing their pro-rata share.

The pro-forma Directional backlog at the end of December 2019 increased by almost US$6 billion to a total of US$20.7 billion. This increase was mainly the result of (i) the awarded lease and operate contracts for FPSO *Liza Unity* and FPSO *Sepetiba*; (ii) the awarded initial scope to begin FEED activities and build a Fast4Ward® hull for the FPSO *Prosperity* project and (iii) the acquisition of the minority shares in the lease and operate entities related to the five Brazilian FPSOs. Turnover for the period consumed US$2.2 billion of backlog.

Consequently, the pro-forma Directional backlog at the end of 2019 is substantial at US$20.7 billion (US$14.8 billion at the end of 2018).

in billions of US$	Turnkey	Lease & Operate	Total
2020	0.6	1.6	2.2
2021	1.2	1.5	2.7
2022	0.2	1.2	1.4
Beyond 2022	1.3	13.1	14.4
Total Backlog	**3.2**	**17.4**	**20.7**

Pro-forma Backlog (in billions of US$)

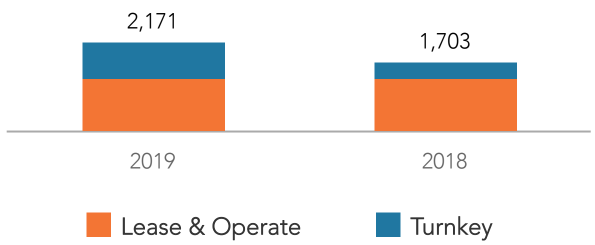


PROFITABILITY

Revenue

Total Directional revenue increased by 27% to US$2,171 million compared with US$1,703 million in 2018, with the increase primarily attributable to an improvement in the Turnkey segment.

Revenue Directional (in millions of US$)



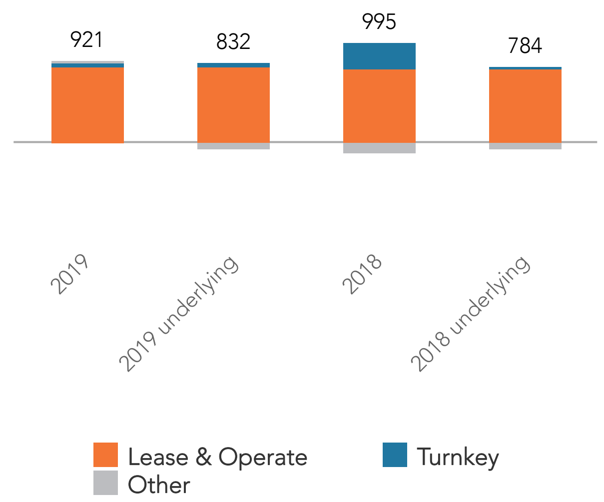
Directional Turnkey revenue increased to US$856 million, representing 39% of total 2019 revenue. This compares with US$406 million, or 24% of total revenue, in 2018. The increase was mostly attributable to the progress made on the Johan Castberg Turret Mooring System EPC project, in addition to a general ramp-up of Turnkey activities. This includes i) the construction activities on FPSO *Sepetiba*, which started to contribute to Directional revenue thanks to disposal of the minority share of 35.5% to MC and NYK, and ii) the contribution of upfront payments related to specific construction work before the commencement of the lease on the *Liza* projects.

Directional Lease and Operate revenue was stable at US$1,315 million, versus US$1,298 million in the prior period, despite several vessels leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*). Lease and Operate revenue in 2019 represents 61% of total Directional revenue contribution in 2019, down from a 76% contribution in 2018.

EBITDA

Directional EBITDA amounted to US$921 million, representing a 7% decrease compared with US$995 million in 2018. The 2019 EBITDA figure includes a non-recurring item of US$90 million, while 2018 Directional EBITDA includes non-recurring items totalling US$211 million (refer to the paragraph on Underlying Performance in this same section).

EBITDA Directional (in millions of US$)



Adjusted for non-recurring items, Underlying Directional EBITDA increased to US$832 million in 2019 compared with US$784 million in 2018. This variance is further detailed as follows by segment:

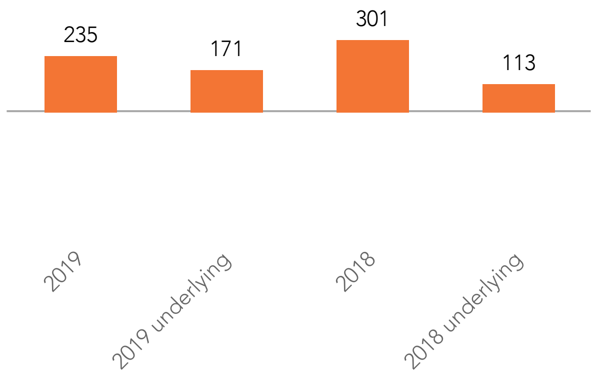
- Underlying Directional Lease and Operate EBITDA increased to US$842 million versus US$824 million in the year-ago period. The impact of units leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) was more than offset by a reduction in planned maintenance, an overall improvement in performance of the fleet and the first contribution of FPSO *Liza Destiny* after achieving first oil at the end of 2019. Full year 2019 Underlying Directional Lease & Operate EBITDA margin was stable at 64% (64% in 2018).
- Underlying Directional Turnkey EBITDA increased by US$29 million to US$53 million. The impact of a number of positive project close-out items in 2018 was more than offset by the contribution of the Johan Castberg Turret Mooring System EPC in 2019. The Underlying Directional Turnkey EBITDA margin expressed as a percentage of Turnkey revenue stood at 6%, equal to the year-ago period. The level of activity resulting in Directional EBITDA during 2019 was sufficient to absorb the structural costs of the segment.
- The Underlying Other non-allocated costs charged to EBITDA stood at US$(63) million, stable when compared with the year-ago period.

It should be noted that the (finalized) EPC work on FPSO *Liza Destiny* and the ongoing EPC works on FPSO *Liza Unity* and FPSO *Prosperity* did not contribute to Directional gross margin over the period. This is because the contracts are 100% owned by the Company and are classified as operating leases as per Directional accounting principles. The Company has indeed determined that it is optimal from an operational and financial perspective to retain full ownership as opposed to partnering on these projects. As a consequence, under the Company's Directional accounting policy, the revenue recognition on these projects is as follows:

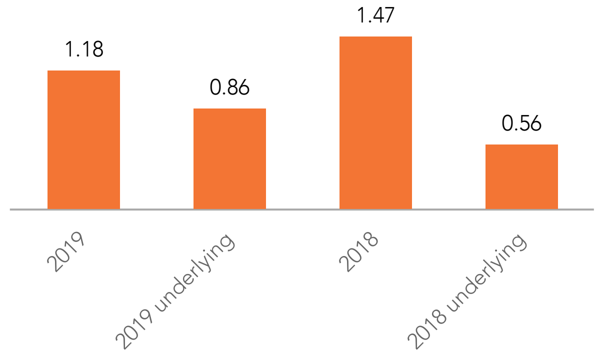
- The Company does not recognize any revenue and margin during the Turnkey phase of the project unless defined invoicing (if any) to the client occurred during the construction phase to cover specific construction work and/or services performed before the commencement of lease. These upfront payments are recognized as revenues and the costs associated with the related construction work and/or services are recognized as cost of sales with no margin during construction.
- The Company will book all revenue and margin associated to the lease and operate contracts for its 100% share in the Lease and Operate phase, in line with the cash flows, during the lease period.
- Upon transfer of the FPSO to the client, after reaching the end of the lease and operate period or upon exercising of the purchase option by the client, the Company will book all revenue and margin associated with the transfer in the Turnkey segment.

Net income

Net Income Directional (in millions of US$)



Weighted Average Earnings Per Share Directional (in US$)



Underlying Directional depreciation, amortization and impairment increased by US$41 million year-on-year primarily due to a US$25 million impairment charge accounted for in 2019 related to two, individually not material, impairments of property, plant and equipment.

Directional net financing costs totaled US$142 million in 2019, showing a decrease versus US$166 million in the year-ago period, following the scheduled amortization of project loans. The Directional effective tax rate increased to 15% versus 11% in the year-ago period.

As a result, the Company recorded an Underlying Directional net profit of US$171 million, or US$0.86 per share, a 51% and 54% increase respectively when compared with US$113 million, or US$0.56 per share, in the year-ago period.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2019	2018
Total equity	1,179	1,317
Net debt[1]	3,460	2,353
Net cash	458	657
Total assets	7,414	6,535
Solvency ratio[2]	35.7	36.1

1 Net debt is calculated as total borrowings (including lease liabilities) less cash and cash equivalents.
2 Solvency ratio is calculated in accordance with the definition provided in section 4.3.24 Covenants

Shareholder's equity decreased from US$1,317 million at year-end 2018 to US$1,179 million at year-end 2019, mostly due to completion of the EUR175 million share repurchase program executed between February 14, 2019 and May 20, 2019, dividend distributed to the shareholders for US$75 million and a decrease of the hedging reserves by US$105 million, partly offset by the positive net result in 2019. The movement in hedging reserve is mainly caused by the impact of the marked-to-market value of the interest rate swaps due to declining market interest rates during the year.

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 significant capital expenditures over the period, the payment of the agreed part of the Yme insurance proceeds (net of legal fees and other claim-related expenses) to Repsol, the return of funds to the shareholders through dividend and the completed share repurchase program, the acquisition of the minority shares in lease and operating entities related to five Brazilian FPSOs as well as the expected unwinding of a large portion of working capital in the Turnkey segment (significant milestone payments invoiced and received in 2018). It should be noted that the optimization of the project loan on FPSO *N'Goma* contributed to the reduction of the level of net debt as the additional funds received from the co-owned entity have partially been used to reimburse a funding loan against the Company.

All of the Company's debt (except for lease liabilities and the project loans on FPSO *Liza Destiny* and FPSO *Liza Unity*) consisted of non-recourse project financing in special purpose investees with no borrowing at corporate level as of December 31, 2019. Following the start of production on FPSO *Liza Destiny* in December 2019, the Company is currently going through the process of releasing the corporate guarantee after which the project loan on FPSO *Liza Destiny* will become non-recourse. The financing on FPSO *Liza Unity* will become non-recourse once the FPSO is completed and the pre-completion guarantees have been released.

Total assets increased to US$7.4 billion as of December 31, 2019, compared with US$6.5 billion at year-end 2018, with the investments in property, plant and equipment (mainly FPSO *Liza Destiny*, FPSO *Liza Unity* and FPSO *Sepetiba*), partially financed by the use of the cash available at Corporate level, being partially offset by a consequent decrease of net cash and regular depreciation of property, plant and equipment.

The relevant covenants (solvency ratio and interest cover ratio) applicable for the Company's RCF, undrawn as at year-end 2019, were all met at December 31, 2019. In line with previous years, the Company had no off-balance sheet financing.

The Company's financial position has remained strong as a result of the cash flow generated by the fleet and the adaptation of the Turnkey segment to a recovering market. It should be noted that the significant investment in the FPSOs *Liza Destiny* and *Liza Unity* are expected to be fully recovered through the sale of these vessels to the client in a period of up to 2 years following the start of operations of each unit.

CASH FLOW / LIQUIDITIES

Cash and undrawn committed credit facilities amount to US$2,422 million at December 31, 2019, of which US$132 million is considered as pledged to specific project debt servicing or otherwise restricted in its utilization, US$155 million comprises a project loan dedicated to FPSO *Liza Destiny* and US$809 million comprises a project loan dedicated to FPSO *Liza Unity*.

The consolidated cash flow statement under Directional reporting is as follows:

in millions of US$	2019	2018
EBITDA	**921**	**995**
Adjustments for non-cash and investing items		
Addition/(release) provision	2	78
(Gain)/loss on disposal of property, plant and equipment	(0)	(221)[1]
(Gain) / loss on acquisition of shares in investees	(90)[2]	0
Share-based payments	17	17
Changes in operating assets and liabilities		
(Increase)/Decrease in operating receivables	(130)	100
Movement in construction work-in-progress / contract liability	(50)	98
(Increase)/Decrease in inventories	(3)	(90)[3]
Increase/(Decrease) in operating liabilities	(230)[4]	(317)[5]
Income taxes paid	(35)	(35)
Net cash flows from (used in) operating activities	**401**	**625**
Capital expenditures	(764)	(332)
(Addition) / repayments of funding loans	85	(60)
Other investing activities	(118)[6]	584[7]
Net cash flows from (used in) investing activities	**(796)**	**192**
Additions and repayments of borrowings and lease liabilities	627	(783)[8]
Dividends paid to shareholders	(74)	(51)
Share repurchase program	(196)	-
Interest paid	(150)	(176)
Net cash flows from (used in) financing activities	**207**	**(1,010)**
Foreign currency variations	(10)	(29)
Net increase/(decrease) in cash and cash equivalents	**(198)**	**(222)**

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$(217) million.
2 The amount of US$90 million represents the gain on the purchase of shares in FPSO Cidade de Paraty, FPSO Cidade de Ilhabela, FPSO Cidade de Saquarema, FPSO Cidade de Marica and FPSO Capixaba.
3 Mainly includes investment in two Fast4Ward® hulls.
4 Includes (i) US$(21) million payment for the settlement with Brazilian authorities and Petrobras and (ii) US$(181) million payment to Repsol for shared insurance proceeds.
5 Includes US$(196) million payment for the settlement with Brazilian authorities and Petrobras and US$(80) million compensation paid to the partners in the investee owning the Turritella (FPSO) before acquisition by Shell.
6 Includes US$149 million payment for the purchase of shares in FPSO Cidade de Paraty, FPSO Cidade de Ilhabela, FPSO Cidade de Saquarema, FPSO Cidade de Marica and FPSO Capixaba.
7 Mainly includes the Company 55% share in the proceeds from the sale of Turritella (FPSO) for US$544 million.
8 Includes the Company 55% share in the redemption of Turritella (FPSO) project financing loan for US$(398) million.

The strong operating cash flows and drawdowns on the project loans related to FPSO *Liza Destiny*, FPSO *Liza Unity* and FPSO *N'Goma* have, together with some of the Company's existing cash, primarily been used to: (i) invest in the FPSO *Liza Destiny*, FPSO *Liza Unity* and FPSO *Sepetiba* projects, including the construction of the allocated Fast4Ward® new-build multi-purpose hulls, (ii) pay Yme insurance proceeds to Repsol, (iii) return funds to the shareholders through dividend and the completed share repurchase program as well as serve the Company's non-recourse debt and interests in accordance with the respective repayment schedules. As a result cash and cash equivalents decreased from US$657 million at year end 2018 to US$458 million at year-end 2019.