SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

4.1.4 FINANCIAL REVIEW IFRS

in US$ million	IFRS FY 2019	FY 2018
Revenue	**3,391**	**2,240**
Lease and Operate	1,327	1,302
Turnkey	2,064	938
EBITDA	**1,010**	**838**
Lease and Operate	783	761
Turnkey	290	184
Other	(63)	(107)
Underlying EBITDA	**1,010**	**844**
Lease and Operate	783	761
Turnkey	290	147
Other	(63)	(64)
Profit/(loss) attributable to shareholders	**366**	**212**
Underlying profit attributable to shareholders	**391**	**247**

UNDERLYING PERFORMANCE

Not all 2019 non-recurring items described in note 4.1.3 Financial Review Directional have the same impact under IFRS and Directional reporting:

- The purchase of minority shares in the lease and operating entities related to *Cidade de Paraty*, *Cidade de Ilhabela*, *Cidade de Marica*, *Cidade de Saquarema* and *Capixaba* is considered a transaction with non-controlling interest owners under IFRS and is therefore accounted for directly in equity. As a result, there is no impact of non-recurring items on 2019 EBITDA.
- The total impairment of US$(25) million relating to two individually not material impairments of property, plant and equipment has the same impact on IFRS and Directional 2019 profit attributable to shareholders.

For reference, non-recurring items for 2018 impacted the IFRS profit attributable to shareholders by US$(35) million.

PROFITABILITY

Revenue

Total IFRS revenue increased by 51% to US$3,391 million compared with US$2,240 million in 2018. This increase was driven by the Turnkey segment with full-year construction activities related to FPSO *Liza Destiny* and the Johan Castberg Turret Mooring System EPC and the start of construction activities on FPSO *Liza Unity*, FPSO *Sepetiba* and FPSO *Prosperity*.

Lease and Operate revenue was stable year-on-year at US$1,327 million in 2019 compared with US$1,302 million in the year-ago period with the reduction of planned maintenance and improved performance throughout the fleet more than offsetting the impact of units leaving the fleet in 2018 and the declining profile of interest revenue from finance leases.

EBITDA

EBITDA amounted to US$1,010 million, representing a 20% increase compared with Underlying EBITDA of US$844 million in the year-ago period, mainly driven by the Turnkey segment with the full-year contribution of the Johan Castberg Turret Mooring System EPC, finalization of FPSO *Liza Destiny* project and the start of construction activities on FPSO *Liza Unity* more than offsetting the impact of a number of positive project close-out items in 2018.

Net income

Excluding non-recurring items, 2019 underlying consolidated IFRS net income attributable to shareholders stood at US$391 million, an increase of US$144 million from the previous year.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2019	2018	2017	2016	2015
Total equity	3,613	3,612	3,559	3,513	3,465
Net debt[1]	4,416	3,818	4,613	5,216	5,208
Net cash	506	718	957	904	515
Total assets	10,287	9,992	11,007	11,488	11,340

1 Net debt at is calculated as total borrowings (including lease liabilities) less cash and cash equivalents.

Total equity was stable at US$3,613 million versus US$3,612 million at December 31, 2018 mainly explained by (i) the completion of the EUR175 million share repurchase program executed between February 14, 2019 and May 20, 2019, ii) dividends distributed to the shareholders, iii) the net impact of the acquisition of the minority shares in the lease and operating entities related to five Brazilian FPSOs, iv) equity repayment and dividends paid to non-controlling interests and v) a decrease of the hedging reserves, fully offset by the result over the year and equity contributions of non-controlling interest.

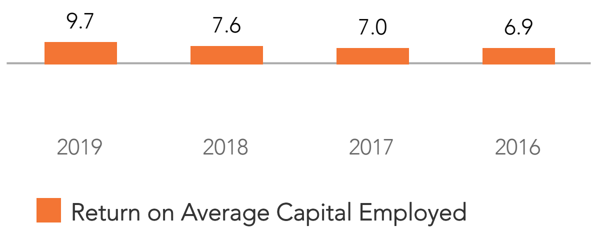
IFRS net debt stood at US$4,416 million at year-end 2019 compared with US$3,818 million in 2018. With the Lease and Operate segment generating strong operating cash flow in line with expectation, the increase of the net debt mainly reflected significant investments over the period in FPSO *Liza Destiny*, FPSO *Liza Unity* and FPSO *Sepetiba*, the payment of the agreed part of the Yme insurance proceeds to Repsol, the return of funds to the shareholders through dividend and the completed share repurchase program, 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$10.3 billion as of December 31, 2019, compared with US$10.0 billion at year-end 2018, with the investments in FPSO *Liza Destiny,* FPSO *Liza Unity* and FPSO *Sepetiba*, partially financed by the use of the cash available at Corporate level, being largely offset by a consequent decrease of net cash, reduction of the gross amount of finance lease receivable in line with the repayment schedule and regular depreciation of property, plant and equipment.

RETURN ON AVERAGE CAPITAL EMPLOYED

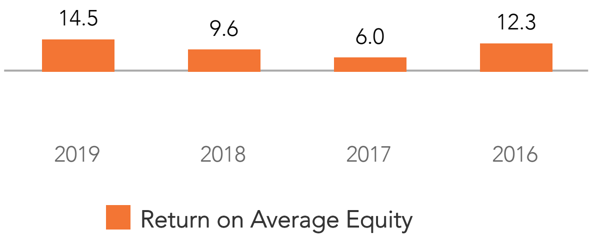
Return on average capital employed (ROACE) is a measure of the return generated on capital invested in the Company. The measure provides a guide for long-term value creation by the Company. ROACE is calculated as Underlying EBIT divided by the annual average of: i) total equity, ii) total borrowings and lease liabilities, iii) non-current provisions and iv) deferred tax liabilities minus the cash and cash equivalents. It should be noted that historically the Company used EBIT as opposed to Underlying EBIT to calculate ROACE. Historical numbers have been updated to reflect this change.



2019 ROACE stood at 9.4%, well above the past three year average of 7.1%. This is driven by a higher EBIT, mainly explained by the increase in Turnkey activity.

RETURN ON AVERAGE EQUITY

Return on average equity (ROAE) measures the performance of the Company based on the average equity attributable to the shareholders of the parent company. ROAE is calculated as Underlying profit attributable to shareholders divided by the annual average of equity attributable to shareholders of the parent company. It should be noted that historically the Company used profit attributable to shareholders as opposed to Underlying profit attributable to shareholders to calculate ROAE. Historical numbers have been updated to reflect this change.



2019 ROAE stood at 14.5%, well above the past three year average of 9.3%. This is driven by a higher underlying profit attributable to shareholders, mainly explained by the increase in Turnkey activity.

4.1.5 OUTLOOK AND GUIDANCE

The outlook for the market segment in which the Company operates continues to improve in line with expectation: the demand for complex, large capacity FPSOs remains strong. Major offshore developments which are sanctioned are characterized by attractive economics and low break-even oil prices, provided that production systems are delivered reliably and on time. Projects awarded in 2019 have significantly reduced available capacity in the Company's market segment. Therefore, the Company reiterates the fact that it will remain selective regarding the market opportunities it will focus on.

The Company's 2020 Directional revenue guidance is above US$2.3 billion, of which around US$1.6 billion is expected from the cash generating Lease and Operate segment and around US$700 million from the Turnkey segment. Directional EBITDA guidance is around US$900 million for the Company.