SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 FINANCIAL HIGHLIGHTS

ExxonMobil awards Liza Unity contract to SBM Offshore

On May 10, 2019, the Company announced that Esso Exploration and Production Guyana Limited (EEPGL), an affiliate of ExxonMobil 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.

The contract is qualified and accounted for as a finance lease under IFRS 16. The operating and maintenance scope of the FPSO, which is agreed in principle, is pending a final work order.

The Company announced the completion of the project financing of FPSO *Liza Unity* for a total of US$1.14 billion on October 16, 2019. The Company expects to draw the loan in full, phased over the construction period of the FPSO. The financing will become non-recourse once the FPSO is completed and the pre-completion guarantees have been released. The project loan has a tenor of two years post completion, in line with the duration of the charter, and carries a variable interest cost of LIBOR plus 1.50%.

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.

SBM Offshore awarded contracts for ExxonMobil's 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 build under the Company's Fast4Ward® program.

Prior to the necessary government approvals and final project sanction to be formalized by a work order, the contract award initiated a limited release of funds to the Company to begin FEED activities and secure a Fast4Ward® hull.

Following authorization to proceed with the next phase, the Company will construct, install and thereafter lease and operate FPSO *Prosperity* for a period of up to two years after which the ownership and operations will transfer to EEPGL. Therefore the contract is qualified and accounted for as a finance lease under IFRS 16.

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

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 operate entities related to five Brazilian FPSOs (with Constellation's former 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 a total cash consideration of US$149 million.

The shares acquired by the Company from Constellation are subject to potential repurchase by other partners (Nippon Yusen Kabushiki Kaisha (NYK), Itochu Corporation and Mitsubishi Corporation) to the extent of the 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. At December 31, 2019, the shares that are subject to potential repurchase have not yet been purchased by these partners and are therefore still owned by the Company.

Under IFRS reporting, since the Company already controlled the lease and operating entities subject to the transaction, the entities were fully consolidated and a corresponding non-controlling interest (NCI) was recognized in equity. The acquisition of the minority shares from Constellation is therefore a transaction with a minority shareholder and is accounted for as follows:

- The book value of the NCI related to the acquired portion of the entities is transferred to equity attributable to shareholders of the parent company for an amount of US$269 million.
- The Company recognized the purchase price of US$149 million against equity attributable to shareholders of the parent company.
- As a result, under IFRS, the transaction resulted in a net increase of the Company's equity attributable to shareholders of the parent company of US$121 million.
- Subject to final agreement, the partners are expected to pay a total of US$28 million to the Company for their pro-rata shares in the lease and operating entities related to one FPSO upon finalization of the sale. This equals the price the Company paid for these shares.

The impact on the consolidated financial statements for the year ended December 31, 2019 under Directional reporting significantly differs from that under IFRS and is as follows:

- The Company proportionately consolidated the entities subject to the transaction. Under Directional reporting, it is therefore the Company's policy to account for acquisitions of minority interests as a business combination, with the previously owned interest not being revalued.
- The Company determined the fair value of the assets and liabilities acquired in this transaction per the acquisition date, anticipating the repurchase by two partners for their pro-rata share in the lease and operating entities related to one FPSO, and applied these fair values for the recognition of the additionally acquired portion of assets and liabilities. The fair value adjustment was applied only to those assets and liabilities where the impact was exceeding a threshold of US $10 million. The net fair value of the acquired portion of assets and liabilities at the acquisition date, excluding that part of the assets and liabilities that is expected to be transferred to two partners, was determined at US$210 million.
- The total acquisition price of Constellation's equity ownership in the lease and operate entities was US$149 million, of which US$28 million is allocated to the pro-rata shares in the lease and operating entities related to one FPSO that are expected to be sold to two partners. As a result, the transaction price for the acquired portion of assets and liabilities at the acquisition date, excluding that part of the assets and liabilities that is expected to be transferred to two partners, is US$120 million, resulting in a non-recurring gain on the transaction of US$90 million at the acquisition date.
- For the potential acquisition of shares by the other partners in the lease and operating entities related to one FPSO, the Company recognized a financial asset at the amount of US$28 million at December 31, 2019. The amount has been determined based on the expected price that the partners will pay for the shares in these entities.

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 that it has closed a supplemental non-recourse project loan facility of US$250 million related to Sonasing Xikomba Ltd., the entity that owns the 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 May 15, 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 it has signed the contracts with Petróleo Brasileiro S.A. (Petrobras) for a 22.5 years lease and operate arrangement for 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. The contract is qualified and accounted for as a finance lease under IFRS 16.

On December 13, 2019, the Company announced that it had entered into an agreement with Mitsubishi Corporation (MC) and Nippon Yusen Kabushiki Kaisha (NYK) for the disposal of 35.5% of the Company's share in the entities, incorporated for the purpose of owning and operating FPSO *Sepetiba*, at the shares' nominal value. After the completion of this transaction, the Company has kept control of the related entities and the transaction has therefore been accounted for as an equity transaction under IFRS. The transaction had a non-material impact on the equity of the Company.

In the operating segments disclosure, as a result of this transaction and as per the principles of Directional reporting, the Company recognized the share of construction revenues made on the new partners' share.

FPSO Liza Destiny producing and on hire

FPSO *Liza Destiny* has produced first oil as of December 20, 2019 and is formally on hire. Following the FPSO achieving first oil, the construction work-in-progress balance related to the construction of FPSO *Liza Destiny* has been transferred to the line item finance lease receivable in the IFRS Consolidated Statement of Financial Position.

Simultaneously, under Directional reporting, the asset-under-construction balance related to FPSO *Liza Destiny* has been transferred to property, plant and equipment in the Directional Consolidated Statement of Financial Position, triggering the start of depreciation of the FPSO.

4.3.2 OPERATING SEGMENTS AND DIRECTIONAL REPORTING

OPERATING SEGMENTS

The Company 's reportable operating segments as defined by IFRS 8 'Operating segments' are:

- Lease and Operate;
- Turnkey.

DIRECTIONAL REPORTING

Strictly for the purposes of this note, the operating segments are measured under Directional reporting, which in essence follows IFRS, but deviates on two main points:

- All lease contracts are classified and accounted for as if they were operating lease contracts under IFRS 16. Some lease and operate contracts may provide for defined invoicing ('upfront payments') to the client occurring during the construction phase or at first-oil (beginning of the lease phase), to cover specific construction work and/or services performed during the construction phase. These 'upfront payments' are recognized as revenues and the costs associated with the construction work and/or services are recognized as 'Cost of sales' with no margin during the construction. As a consequence, these costs are not capitalized in the gross value of the assets under construction.
- All investees related to Lease and Operate contracts are accounted for at the Company's share as if they were classified as Joint Operation under IFRS 11, using the proportionate consolidation method (where all lines of the income statement, statement of financial position and cash flow statement are consolidated for the Company's percentage of ownership). Yards and installation vessel related joint ventures remain equity accounted.
- All other accounting principles remain unchanged compared with applicable IFRS standards.