SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

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 IFRS guidelines, SBM Offshore'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 2018 Directional revenue was US$ 1,703 million, an increase of 2% compared with 2017 revenues of US$ 1,676 million, with an improvement in the Turnkey segment more than offsetting a decrease in the Lease and Operate segment. Directional Turnkey revenue totaled US$ 406 million, compared to US$ 175 million in 2017. This reflected an overall general ramp-up of Turnkey activity in the context of improving market conditions. Directional Lease and Operate revenue totaled US$ 1,298 million, compared to US$ 1,501 million in the year before. This decrease mainly resulted from *Turritella* (FPSO) leaving the fleet after the successful handover of the vessel to Shell on January 16, 2018.

Excluding non-recurring items, Underlying Directional EBITDA was broadly stable at US$ 784 million compared with 2017 US$ 806 million in the prior year. Underlying Directional Lease and Operate EBITDA decreased from US$ 954 million in 2017 to US$ 824 million, explained by *Turritella* (FPSO) leaving the fleet and planned maintenance. This decrease was partly offset by an increase of US$ 110 million in Underlying Directional Turnkey EBITDA driven by the increased activity year-on-year, the impact of implementing IFRS 16 and realized savings on overhead cost. Underlying other non-allocated costs charged to EBITDA stood at US$ (64) million in 2018, stable when compared with US$ (62) million reported in 2017.

2018 Underlying Directional net income attributable to shareholders stood at US$ 113 million, an increase of US$ 33 million compared with the previous year. After considering depreciation and net financing cost, both decreasing following *Turritella* (FPSO) leaving the fleet, the ramp-up in Turnkey activity was more than sufficient to absorb the decreased contribution of the Lease and Operate segment.

The above Underlying figures exclude several non-recurring items described in section 4.1.3 Financial Review Directional and positively impacting the 2018 Directional EBITDA and net profit attributable to shareholders by US$ 211 million and US$ 188 million respectively. Including this, the 2018 Directional EBITDA was US$ 995 million and the net profit attributable to shareholders was US$ 301 million.

BACKLOG

The Directional backlog, which is presented on a pro-forma basis in note 4.1.3 Financial Review Directional, remains solid at US$ 14.8 billion compared to US$ 16.8 billion at year-end 2017.

The year-on-year variance is mainly explained by the recognition of US$ 1.7 billion turnover for the period and the update of the backlog related to FPSO *Liza Destiny*, for which discussions with the client are underway regarding a potential accelerated transfer of ownership using the purchase option in the ten-year lease contract. The outcome of these discussions are expected to lead to a transfer of the FPSO ownership and operation after a period of up to two years after start-up. As a result, the pro-forma backlog has been adjusted to reflect a shortened Lease and Operate duration of two years for FPSO *Liza Destiny*. These impacts are partially mitigated by various new orders and variation orders amounting to c.US$ 0.4 billion, mainly in the Turnkey segment.

STATEMENT OF FINANCIAL POSITION

The Company's financial position remains very robust. Directional shareholders equity increased from US$ 1,097 million to US$ 1,317 million, mostly due to the 2018 result, partly offset by dividends paid to shareholders.

Directional net debt decreased to US$ 2,353 million at year-end 2018, compared to US$ 2,687 million in 2017, despite (i) significant investments in FPSO *Liza Destiny* and two Fast4Ward™ hulls over the period (approximately US$ 410 million) and (ii) recognition of lease liabilities due to IFRS 16 implementation (a net book value of US$ 189 million at December 31, 2018) . This has been possible thanks to the strong operating cash flow from the Lease and Operate segment, while the net proceeds from the Yme insurance claim and the *Turritella* (FPSO) disposal offset to a large extent the payment of the non-recurring penalties as a result of the Leniency Agreement.

At December 31, 2018, all of the Company's debt, not considering the lease liabilities recognized as a result of IFRS 16, consists of project financing held in special purpose vehicles. Over 2018, the Company did not utilize its revolving credit facility and, as such, does not hold any debt at corporate level.

CASH FLOW/LIQUIDITIES

Cash and undrawn committed credit facilities amounted to US$ 2,377 million, of which US$ 133 million is considered as pledged to specific project debt servicing or otherwise restricted in its utilization and US$ 720 million comprises a project loan dedicated to FPSO *Liza Destiny*.

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

2.5 ECONOMIC 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 2,200 offshore crew and onshore staff, supporting the fleet, ensures value creation through safe and efficient operations of the Company's offshore fleet.

KEY FIGURES IN 2018

- 5.6 billion barrels production cumulated to date
- 9,286 oil offloads cumulated to date
- 319 cumulative years of operational experience

2018 represented a year of consolidation and ongoing optimization of the Company's operations. A solid performance was achieved in terms of occupational health and safety and overall asset operational performance, while significant progress was also made on transformation programs such as process safety management and digitalization. These programs are essential to SBM Offshore's work as a forward-looking operator with the ambition of excellence in operational efficiency and incident prevention. Furthermore, SBM Offshore progressed per plan in the readiness activities for the future operations of FPSO *Liza Destiny*, offshore Guyana.

In 2018, the following changes occured in the fleet operated by SBM Offshore:

- *Turritella* (FPSO): The handover of ownership and operations of *Turritella* (FPSO) to Shell was concluded in January as planned and SBM Offshore supported the client in the transition period to November 2018.
- *FSO Yetagun* terminated operations in April and was decommissioned and sold to new owners. Under the latter's responsibility and in-line with SBM Offshore policies and in accordance with the Hong Kong convention, the vessel subsequently entered its green recycling phase.
- *FSO N'Kossa II* was handed over to client TEPC (Total Congo) as planned, following conclusion of the charter contract on December 31, 2018.
- PFC (MOPU) *Deep Panuke* received notification from Encana Corporation of cessation of gas production in May 2018. SBM Offshore is working closely with the client to achieve a smooth decommissioning of the facility.