SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 FINANCIAL HIGHLIGHTS

Impact of COVID-19 pandemic

In 2020, the COVID-19 pandemic had an impact on the global economy and the demand for energy, with some offshore projects cancelled or deferred. However, during 2020, the Company has successfully navigated through this challenging period, having mitigated the COVID-19 impact on projects under construction and the fleet under operation.

Offshore energy industry

The Company globally serves the offshore energy industry by supplying engineered products, vessels and systems, as well as offshore energy production services. These construction and service activities are rendered based on long-term contracts. Consequently, SBM Offshore has a substantial proforma contractual backlog, which is not linked to the oil price, amounting to US$21.6 billion at December 31, 2020 (2019: US$20.7 billion). This provides the Company with 25 years cash flow visibility up to 2045. The pandemic and associated impact on the oil market has caused oil and gas companies to reassess their portfolios and investments. However, deep water projects in high quality resource basins rank very competitively, as illustrated by the award of contracts to the Company for an FPSO for the Payara development project located in the Stabroek block in Guyana in October 2020. In this context, the Company continues to anticipate FPSO market opportunities in 2021 and future years, while continuing to diversify its product offering through innovative solutions for the offshore gas and renewables markets.

Based on the strength and resilience of its business model, as it has demonstrated in the past, the Company has the ability to navigate through current uncertainties.

Operational activities

The Company was able to maintain the fleet's uptime at historical highs by minimizing the impact of a COVID-19 environment offshore. In order to achieve such results, specific measures were implemented by the Company such as: (i) optimization of crew rotations (in order to adjust to the impact of international travel restrictions), (ii) implementation of pre-screening protocols prior to offshore embarkation, (iii) creation of local secured quarantine facilities and (iv) development of internal Polymerase Chain Reaction (PCR) testing capability, which is now available in most operating locations. More generally, the Company's COVID-19 response strategy aims to prevent the occurrence of cases on board of the vessels and in onshore locations and to minimize impact on operations if and when cases were identified.

Construction activities were impacted during 2020 for SBM Offshore major projects. Nevertheless, the projects' progress was still achieved, although at a lower pace. SBM Offshore's project teams have worked together with clients and suppliers in order to mitigate impacts in terms of costs and delays. The ultimate delivery of major projectsis not considered at risk at the end of 2020, based on currently known circumstances.

Implications on 2020 Financial performance

Due to the COVID-19 pandemic, the Company incurred additional costs in order to satisfy its performance obligations on some of its Turnkey projects. This was mainly due to delay in project delivery following lockdown periods, subsequent acceleration programs negotiated with sub-contractors, international travel restrictions and remote working. These costs, which have been partially recharged to the Company's clients, contribute to the progress of transfer of control of the construction asset to the customer over the construction period and have therefore been considered as part of the revenue recognition over time. The related amount recognized as revenue during 2020 is less than 1% of the Company's total revenue for the year 2020.

On the Lease and Operate segment, the incremental costs from the implementation of additional safety measures linked to COVID-19 have been partially recharged to clients within the contractual terms of reimbursable contracts.

Financial risk management

In the context of the COVID-19 pandemic and the low oil price environment, in particular the Company focused on liquidity, credit and counterparty risks. The Company performed analyses on the credit and counterparty risks of its clients and financial partners. The analysis resulted in a limited impact materializing through a net impairment on financial and contract assets of US$24 million accounted over 2020. Please refer to note 4.3.29 Financial Instruments – Fair Values and Risk Management.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company conducted various liquidity scenarios, financial stress tests and sensitivity analyses. The conclusion was that the Company's lease portfolio and the existing financing facilities are sufficient to ensure that the Company will continue as a going concern in the foreseeable future and that it can sustain future growth plans. Furthermore, under its Lease and Operate contractual arrangements with clients the Company has considerable time under charters to deal with disruptions from events outside the Company's control, thus providing it with considerable financial protection. To date, the Company has been able to manage the COVID-19 situation without the need to use such protection. As at December 31, 2020 the Company had a total liquidity position of US$1.7 billion, including US$1 billion under its undrawn Revolving Credit Facility.

Impairment of non-financial assets
During the year of 2020, due to the COVID-19 pandemic, the Company decided to put the SBM Installer installation vessel in lay-up for a period of three months (until July 2020) in order to protect the crew and reduce the costs in a context of low activity. Furthermore, the Company downgraded expectations regarding future economic benefits to be generated by the vessel given the expected slowdown of the offshore services business in the coming few years (which may create over-supply in offshore markets and therefore reduce the vessel utilization). As a result, an impairment charge of US$57 million was accounted for in the 2020 full year results.

The *Thunder Hawk* semi-submersible production facility in the US Gulf of Mexico is the only facility in the Company lease fleet portfolio for which revenue is dependent on volumes produced. Over the period, the facility was temporarily shut down for a period of 45 days upon the operator's request. In addition, the credit rating of the operator of the facility was downgraded by rating agencies. As a result of the impairment test, an impairment charge of US$10 million was accounted for in the 2020 full year results.

Share Repurchase Program
On April 3, 2020, the Company completed its EUR150 million share repurchase program. Between February 13, 2020 and April 3, 2020 a total of 12,094,623 common shares were repurchased, at an average price of EUR12.40 per share.

The repurchases were made under the EUR150 million share repurchase program announced on and effective from February 13, 2020. The objective of the program was to reduce share capital and, in addition, to provide shares for regular management and employee share programs.

Completion of US$600 million bridge loan for FPSO Sepetiba
The Company secured a US$600 million bridge loan facility for the financing of the construction of *FPSO Sepetiba*. The facility was secured by the special purpose company owning *FPSO Sepetiba* and was agreed with a consortium of four international banks. The Company is the majority owner of this special purpose company (with 64.5% equity ownership), together with Mitsubishi Corporation (20%) and Nippon Yusen Kabushiki Kaisha (15.5%).

The facility has been drawn in July 2020 to finance the ongoing construction of the *FPSO Sepetiba*. The tenor of the bridge loan is six months with an extension option which has been exercised for another six months ending in July 2021. The facility benefits from sponsor guarantees, which are to be released upon repayment.

Adaptation of the Business Model
The Company's strategy is set to adapt its products and business model to an environment of shorter oil price cycles and increased volatility. Consequently, the Company reorganized the allocation of activities in its centers in order to become more efficient. These measures will enable the Company to lower its break-even point and allow the Company to scale activities in line with market demand.

Compared with year-end 2019, the reorganization has led to a reduction of approximately 600 positions. The annualized cost of these positions is approximately US$100 million. Severance costs incurred in 2020 amounted to US$(46) million.

SBM Offshore prepares for sale DSCV SBM Installer

The Company was the long-term charterer of the diving support and construction vessel (DSCV) SBM Installer under a contract ending in 2026. The Company had 25% equity ownership in the entity holding the vessel, OS Installer Limited (OSI). The vessel operates in a non-core market for the Company. In order to gain the flexibility required to divest the vessel, the Company first acquired the remaining 75% equity ownership in OSI for a cash consideration of US$34 million on September 30, 2020. OSI's existing debt facility remains in place. Please refer to note 4.3.13 Property, Plant and Equipment.

SBM Offshore awarded contracts for ExxonMobil FPSO Prosperity

Esso Exploration and Production Guyana Limited (EEPGL), an affiliate of Exxon Mobil Corporation, confirmed the award of contracts for the next phase of the Payara development project located in the Stabroek block in Guyana. Under these contracts, the Company will construct, install and then lease and operate *Prosperity* (FPSO) for a period of up to two years, after which the FPSO ownership and operation will transfer to EEPGL.

The award follows completion of front-end engineering and design studies, completion of the multi-purpose hull, receipt of requisite government approvals and the final investment decision on the project by ExxonMobil and block co-venturers. The *Prosperity* (FPSO) will utilize a design that largely replicates the design of the *Liza Unity* (FPSO). As such, the design is based on the Company's industry leading Fast4Ward®program.

The contract qualifies and is 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.

SBM Offshore awarded contracts for Floating Offshore Wind

The Company was awarded by EDF Renouvelables for the engineering, procurement, construction and installation of three floating units and its mooring system, for offshore wind turbines with a total capacity of 25.2 MW. The units will be deployed offshore Marseille for the project Provence Grand Large.

The contract is accounted for as construction contract under IFRS 15.

Redelivery of the Deep Panuke MOPU

The Deep Panuke MOPU, located offshore Nova Scotia, Canada, was safely redelivered by the client to the Company in July 2020. Under the final settlement signed with the client, the redelivery of the unit does not affect the contractually agreed amount and timing of the financial considerations to be received by the Company as per the initial charter contract. This includes the option for the client to continue payments until the end of the initial charter period or to elect for an early lump sum payment. As a result of the redelivery of the unit and the final settlement, the lease period of the unit, as per accounting requirements, ended and the Company (i) recognized the remaining contractual revenue in 2020 (US$122 million), which also includes the portion of the financial consideration to be received in 2021 in case no early lump sum payment is made (i.e. US $77 million), as well as (ii) fully depreciated the remaining value of the asset (US$123 million) in 2020, including the portion of depreciation that would have been recognized in 2021 as per initial depreciation schedule (i.e. US$78 million). As a consequence, the redelivery of the unit has led to accelerated revenue and EBITDA recognition of US$77 million in 2020, while the gross margin and net income (after depreciation) were negligibly impacted. Please refer to note 4.3.13 Property, Plant and Equipment.

Update on legacy

The Deferred Prosecution Agreement SBM Offshore signed with the United States Department of Justice on November 29, 2017 includes, among other things, an obligation to report on the status of the Company's compliance program. The Company confirms that this three-year period has now ended, without extension or other conditions.

In Switzerland, three of the Company's subsidiaries received a notification from the Bundesanwaltschaft (federal prosecutor's office) in Bern. It concerns a suspicion that from 2005 till 2012 these subsidiaries failed to take the necessary measures to prevent the execution of corrupt payments during said period. The notification refers to the legacy settlements the Company concluded in the Netherlands (2014) and Brazil (2018) as well as the Deferred Prosecution Agreement with the United States. The suspicion regarding the compliance controls shortcoming relate to payments covered by these agreements.

Update on lease and operate backlog

SBM Offshore signed an agreement with its client Shell for a five years' extension for the lease and operate contracts of the *FPSO Espirito Santo* located in Brazil. The end of the contractual lease and operate period was extended from December

2023 to December 2028. SBM Offshore is the majority owner of the lease and operating companies related to *FPSO Espirito Santo* with 51% equity ownership, together with MISC Berhad with 49% equity ownership. As a result of the revised terms and conditions, the new agreements had to be accounted for as a finance lease under IFRS, while the previous arrangements were accounted for as an operating lease. As a consequence, a revenue of US$249 million, and an associated Gross Margin of US$123 million, were accounted for in the 2020 full year results under IFRS. This transaction had no impact on the 2020 full year results under Directional, where the new agreements remain classified as an operating lease. Please refer to note 4.3.15 Finance Lease Receivables.

ExxonMobil affiliate Esso Exploration and Production Guyana Limited, has also initiated discussions with SBM Offshore on the lease and operations durations for FPSOs in Guyana.

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
- Other.

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 operations under IFRS 11, whereby all lines of the income statement, statement of financial position and cash flow statement are consolidated based on Company's percentage of ownership (hereafter referred to as 'proportionate consolidation'). Yards and installation vessel related joint ventures remain equity accounted.

In 2020, all other accounting principles remain unchanged compared with applicable IFRS standards.

The above differences to the consolidated financial statements between Directional reporting and IFRS are highlighted in the reconciliations provided in this note on revenue, gross margin, EBIT and EBITDA as required by IFRS 8 'Operating segments'. The Company also provides the reconciliation of the statement of financial position and cash flow statement under IFRS and Directional reporting. The statement of financial position and the cash flow statement under Directional reporting are evaluated regularly by the Management Board in assessing the financial position and cash generation of the Company. The Company believes that these disclosures should enable users of its financial statements to better evaluate the nature and financial effects of the business activities in which it engages, while facilitating the understanding of the Directional reporting by providing a straightforward reconciliation with IFRS for all key financial metrics.

SEGMENT HIGHLIGHTS

Over 2020 the Lease and Operate segment was impacted by non-recurring items mainly coming from:

- Accelerated Revenue and EBITDA recognised for US$77 million following the early redelivery of Deep Panuke MOPU and the final settlement signed with the client in July 2020 triggering the end of the lease period of the unit. Considering the associated depreciation of the vessel, this transaction only negligibly impacted the gross margin and the profit attributable to shareholders;
- An aggregate impairment of US$(29) million (individually not material) relating to the impairment of two of the units (please refer to note 4.3.13 Property, Plant and Equipment); and the increased impairment loss on financial assets specifically regarding one of the unit's demobilization receivable (please refer to note 4.3.8 Net Impairment Gains/(Losses) on Financial and Contract Assets).

In 2020, the Lease and Operate Directional revenue and EBITDA increased versus the year ago period mainly driven by (i) *Liza Destiny* (FPSO) joining the fleet after achieving first oil at the end of 2019 and (ii) the Company's additional percentage