SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2019

2019 was a positive year for SBM Offshore. Several years of technological development and the implementation of more standardized ways of working are bearing fruit. The flexibility of our Fast4Ward® program allowed us to adapt to the market's fluctuations in a profitable, efficient and reliable manner.

During the year, the Company moved into new markets, with the arrival of the FPSO *Liza Destiny* in Guyanese waters and a ramp-up in activity in Chinese locations, while re-engaging with our historic market in Brazil. SBMers also made great strides in transformation programs, driving digitalization and supporting sustainable development.

This is our story.

SBM OFFSHORE

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The following sections of this 2019 SBM Offshore Annual Report form the management report ("bestuursverslag") within the meaning of section 2:391 of the Dutch Civil Code (and related Decrees): Chapter 1 At a glance, Chapter 2 Strategy and Performance and Chapter 3 Governance (with the exception of section 3.4 Remuneration Report), section 4.1 Financial Review and the following section of Chapter 5 Non-Financial Data: 5.3 Non-Financial Indicators. The Financial Statements in the meaning of the Dutch Civil Code are included in Chapter 4 Financial Statements 2019 (with the exception of section 4.1 Financial Review, 4.6 Other Information and 4.7 Key Figures).

TABLE OF CONTENTS

FPSO *LIZA DESTINY*

1. AT A GLANCE

#ENERGYCOMMITTED

"The ramp-up in investment by our major clients translated into two FPSO contracts in 2019. These orders both reflect our position in our historical markets and our ability to expand into new territories. They also reflect our selective approach towards market opportunities and the associated discipline in project execution, to better serve our clients and our stakeholders.

In parallel, the call for a reduction in CO_2 emissions is having an impact on our business, more than ever. We continue to play our part in this global effort. We are working to significantly reduce our carbon footprint and are developing solutions for the future."

Bruno Chabas
Chief Executive Officer

1.1 MESSAGE FROM THE CEO

2019 was a positive year for SBM Offshore. Expectations for an offshore industry rebound materialized and coincided perfectly with our readiness to meet demand; steady progress on our series of Fast4Ward® FPSOs illustrates this. SBM Offshore's response to the industry's needs for faster and more reliable solutions are recognized and embraced by our clients and this year's financial figures support our belief that they will lead to profitable growth.

The progress made in 2019 is a result of several years of development in our technologies and new ways of working, as we leveraged our expertise to optimize, transform and innovate. The revival in deep water projects feeds optimism for a brighter market outlook, albeit tempered with continued uncertainty over oil prices in light of macro-economic, geopolitical and environmental developments. However, SBM Offshore is confident of where it is going: the flexibility of our Fast4Ward program allows us to adapt to the market's fluctuations in a profitable, efficient and reliable manner. Continued firm interest from clients for Fast4Ward products is fueling our expansion – of the five hulls under construction in 2019, three are allocated to two different clients and the fourth and fifth are to support our tendering activities.

We are proving that by embracing such solutions from experienced contractors like SBM Offshore, our clients can de-risk their projects and achieve a higher level of economic certainty. The ramp-up in investment in 2019 by the major players translated into two FPSO contracts and one FPSO FEED[1] for SBM Offshore, based on our Fast4Ward new build design, which shows the confidence there is in our program. One of the contracts cements our foothold in our historically strongest market, offshore Brazil, while the other sees the Company expand into the new territory, offshore Guyana. In parallel, we are expanding our global geographic footprint to help us meet demand; this includes our engineering capacity in India and a significant presence in China.

In 2019, one of our major achievements was the delivery of the FPSO *Liza Destiny*, which achieved first oil before year-end, illustrating that the principles of Fast4Ward can be beneficial when applied to the EPC phase for conversions. One of these principles is upfront engagement with our client, which significantly reduced the schedule, allowing us to achieve first oil within three years of the FEED start. The construction of the Turret Mooring System (TMS) for the *Johan Castberg* FPSO advanced into the final phase, with two modules delivered this year. I am particularly proud of the consistent quality work on both projects, in line with our target for excellence. Wherever we operate, safety is our number one priority. Sadly and regrettably one contracted diver was fatally injured in December 2019, despite year-on-year improvement in our ability to prevent injuries. This tragedy underlines the importance of our Life Saving Rules. It serves as a reminder to us all to embrace our HSSE policies and guidelines, to further strengthen our safety culture.

The recycling of our facilities, in particular the former *Yetagun* FSO, was a focus of scrutiny this year – such is the nature of the oil and gas industry and SBM Offshore's role in it - and this is a good thing. We work in line with international standards with the safety and welfare of workers being always our number one priority. We have continued to consistently implement our sustainability strategy with regard to the environment. SBM Offshore strives to be an industry example of how to do the right thing and we are never complacent about these critical issues. This can be seen from our embracing of the United Nations' Sustainable Development Goals (SDGs). For 2019, we set specific business targets in line with the SDGs; we met and exceeded most of them and are taking lessons learned to improve performance going forward. I am proud that SBM Offshore is once again included in the Dow Jones Sustainability Index. In 2019 we increased our commitments to sustainability, as evidenced by our explicit targets on three SDGs being expanded to six. To protect the environment, we aimed high this year, with ambitious targets to reduce the quantity of gas flared by 20% and to reduce the plastic waste generated onboard offshore units by 40%. Although we achieved improvements in our environmental performance, we did not meet all our targets. Setting the bar high helps to intensify the focus and action to improve performance: our crews and onshore base personnel embrace these sustainability goals and strive to achieve them.

Today, we turn our Vision into reality, as we transition into a future where innovation and the digital transformation will continue to be key, long-term value-drivers. Our achievements in this domain represent a solid foundation. As an example, our Operational Intelligence and Performance Optimization Center (OIPOC) is assisting our Assets Integrity team in predictive analytics for our fleet. Our ambition is to build a digital platform for our Operations teams.

We are on track for the energy transition, developing solutions for the future, as part of our ambitions to produce clean energy. Our new solutions are the basis of SBM Offshore's 'Ambition 2030' with the aim of 25% of total revenues to come from Gas and Renewables by 2030.

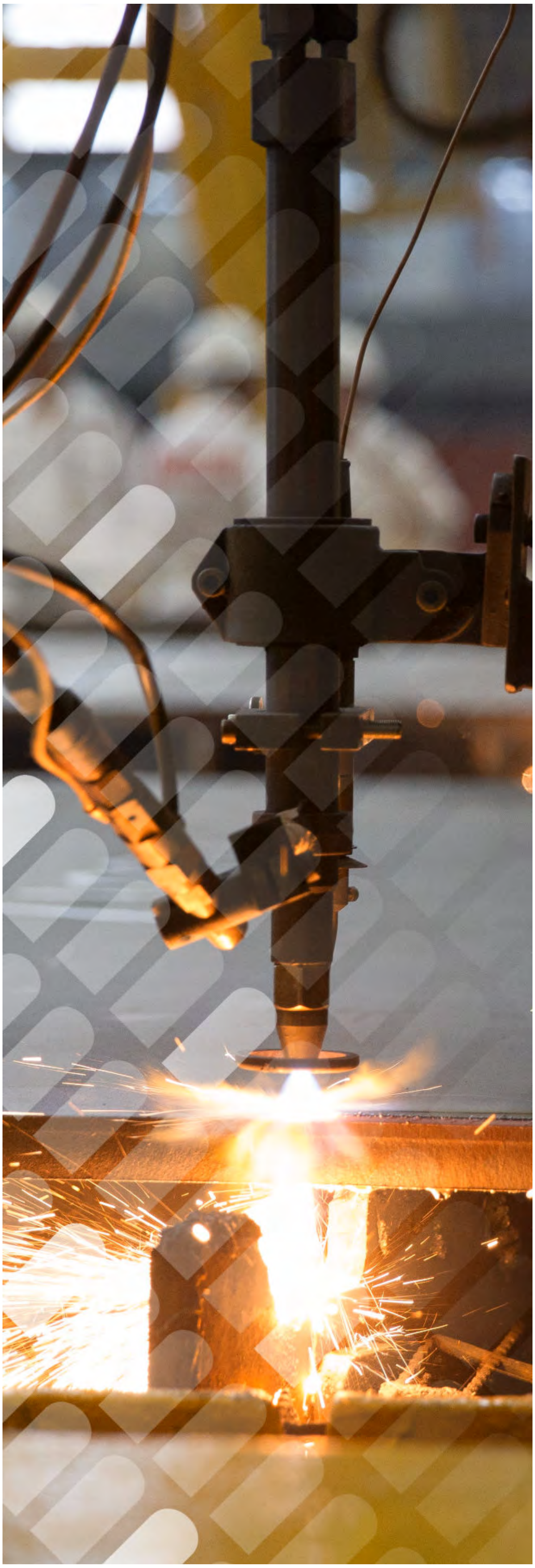
[1] The Prosperity FPSO for ExxonMobil is subject to necessary government approvals and project sanction.

This year, we took a step forward with our S3® Wave Energy Converter, with an offshore test site selected, investment[2] and plans in place, which should see the prototype in the water by 2022. We believe this technology has potential and a role to play in the future renewables market. The design of our wind floater is ready to move to execution and we remain committed to supporting EDF Renewables' Provence Grand Large pilot, which is pending final project sanction.

Although the energy transition shifts the industry away from carbon-based fuels, they will likely be required to play a meaningful part in the energy mix for decades to come. As leaders in FPSOs, we want to contribute further to reducing their environmental impact and as pioneers, we aim high: our ultimate goal is to provide floating production solutions with zero emissions in the future. This is achievable as we continue to execute in a flawless manner and to build on our Fast4Ward innovation and our eMission zero program, using valuable input from our Operations teams. We are accelerating delivery of more sustainable technical solutions.

Our financial results are testament to our track record of performance and indicative of our potential. Key to this is the US$8.2 billion order intake in the year, which drove a substantial increase in our proforma backlog to US$20.7 billion: this provides visibility on cash flow up to 2045 and gives us a solid foundation in potentially uncertain times. The equity acquisition completed at year-end of Constellation's minority stake in five of our leased Brazilian FPSOs has consolidated and improved our portfolio's return. The additional value we have created for shareholders is thanks to the solid infrastructure that we have put in place for the Company. This year's share repurchase program and the 50% increase in our dividend contributed to our overall shareholder return being well above the industry average at 18% (versus 6% for the industry).[3]

I thank all SBMers and our partners for a year of progress and expansion. We will continue to be guided by our Core Values: Integrity, Care, Entrepreneurship and Ownership. I am positive that our Vision continues to lead us in the right direction: we believe that the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen.



[2] The support from the French government (Investissements d'Avenir), entrusted to ADEME has facilitated SBM Offshore in this next step to put a prototype in the open sea.
[3] Figures based on a sample of companies in the oil services industry and over the period between 2016 and H1 2019.

2019
KEY FIGURES

TOTAL OIL PRODUCTION CAPACITY
1,660,000 bopd

0.13
TOTAL RECORDABLE INJURY FREQUENCY RATE (per 200,000 hours)

OIL PRODUCTION UPTIME
99.4%

5,530
PEOPLE

44
TRAINING HOURS PER EMPLOYEE

96%
COMPLETION RATIO FOR ONSHORE COMPLIANCE TRAINING TO DESIGNATED STAFF

DIRECTIONAL REVENUE [1]
US$2,171 million

IFRS REVENUE
US$3,391 million

UNDERLYING DIRECTIONAL EBITDA
US$832 million

UNDERLYING IFRS EBITDA
US$1,010 million

DIRECTIONAL TOTAL ASSETS
US$7.4 billion

IFRS TOTAL ASSETS
US$10.3 billion

MARKET CAPITALIZATION
US$3.7 billion

ENTERPRISE VALUE
US$9.0 billion

UNDERLYING DIRECTIONAL NET PROFIT
US$171 million

UNDERLYING IFRS NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS
US$391 million

1 - Directional revenue is determined in accordance with Directional reporting which in essence follows IFRS but deviates on two main points: (i) all lease contracts related to units are classified and accounted as if they were operating leases, (ii) all investees related to Lease and Operate contracts are accounted for at SBM Offshore's share. For more details refer to section 4.3.2 Operating Segments and Directional Reporting

1.2 SBM OFFSHORE AND ITS GLOBAL PRESENCE

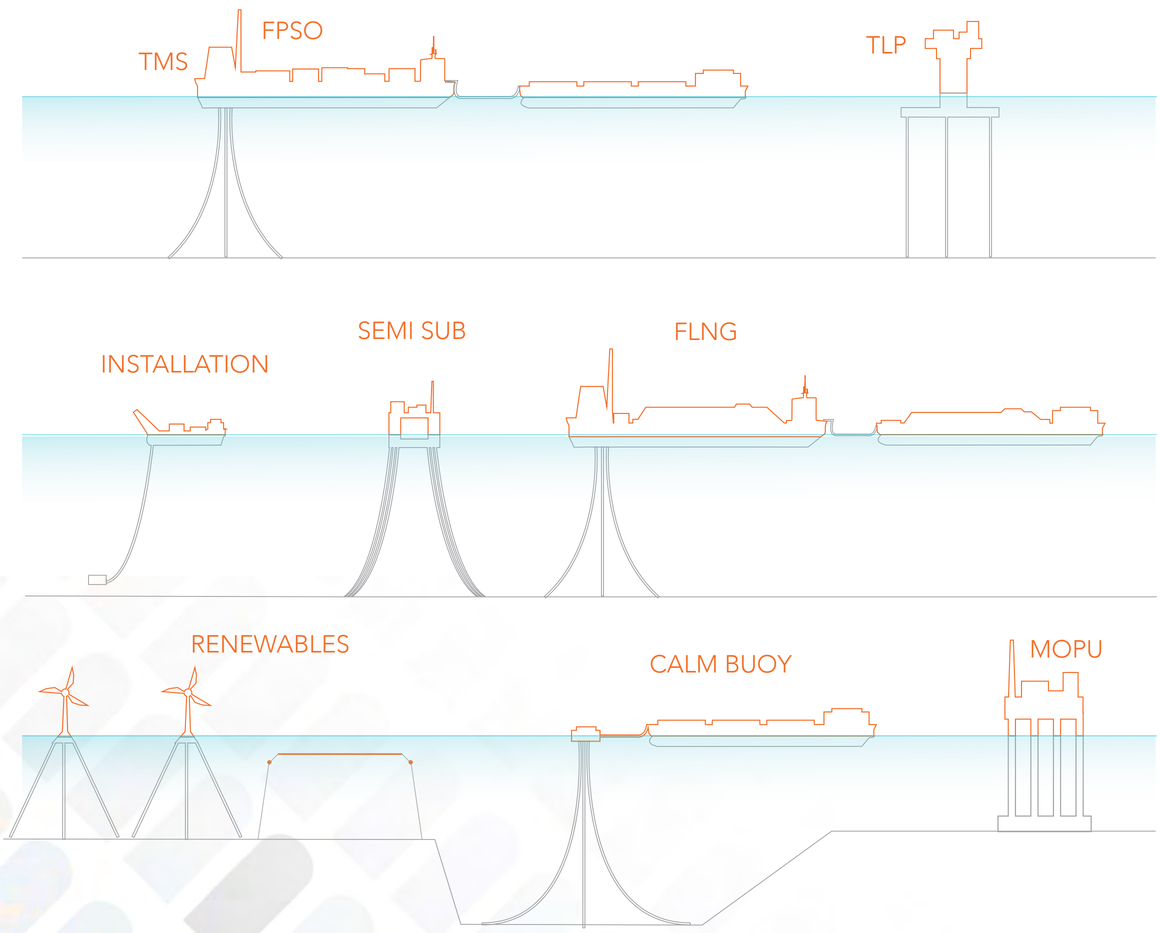
SBM Offshore provides floating production solutions to the offshore energy industry, over the full product lifecycle. The Company is market-leading in leased floating production systems, with multiple units currently in operation worldwide, and has a unique breadth of operational experience in this field.

OPERATING STRUCTURE

The Company's main activities are the design, supply, installation, operation and life extension of Floating Production Storage and Offloading (FPSO) vessels. These are either owned and operated by SBM Offshore and leased to its clients on a long or short-term basis or supplied on a Turnkey-sale basis. Other products include semi-submersibles, Tension Leg Platforms (TLP), Floating Liquidified Natural Gas (FLNG), Turret Mooring Systems (TMS), brownfield, offshore offloading terminals. Additionally, as part of SBM Offshore's commitment to supporting the energy transition, the Company has been leveraging its floating offshore expertise to develop solutions for renewable energy. At year-end, the Company operated a fleet of 14 FPSOs and one semi-submersible in operation worldwide and over 330 cumulative contract years of operational experience.

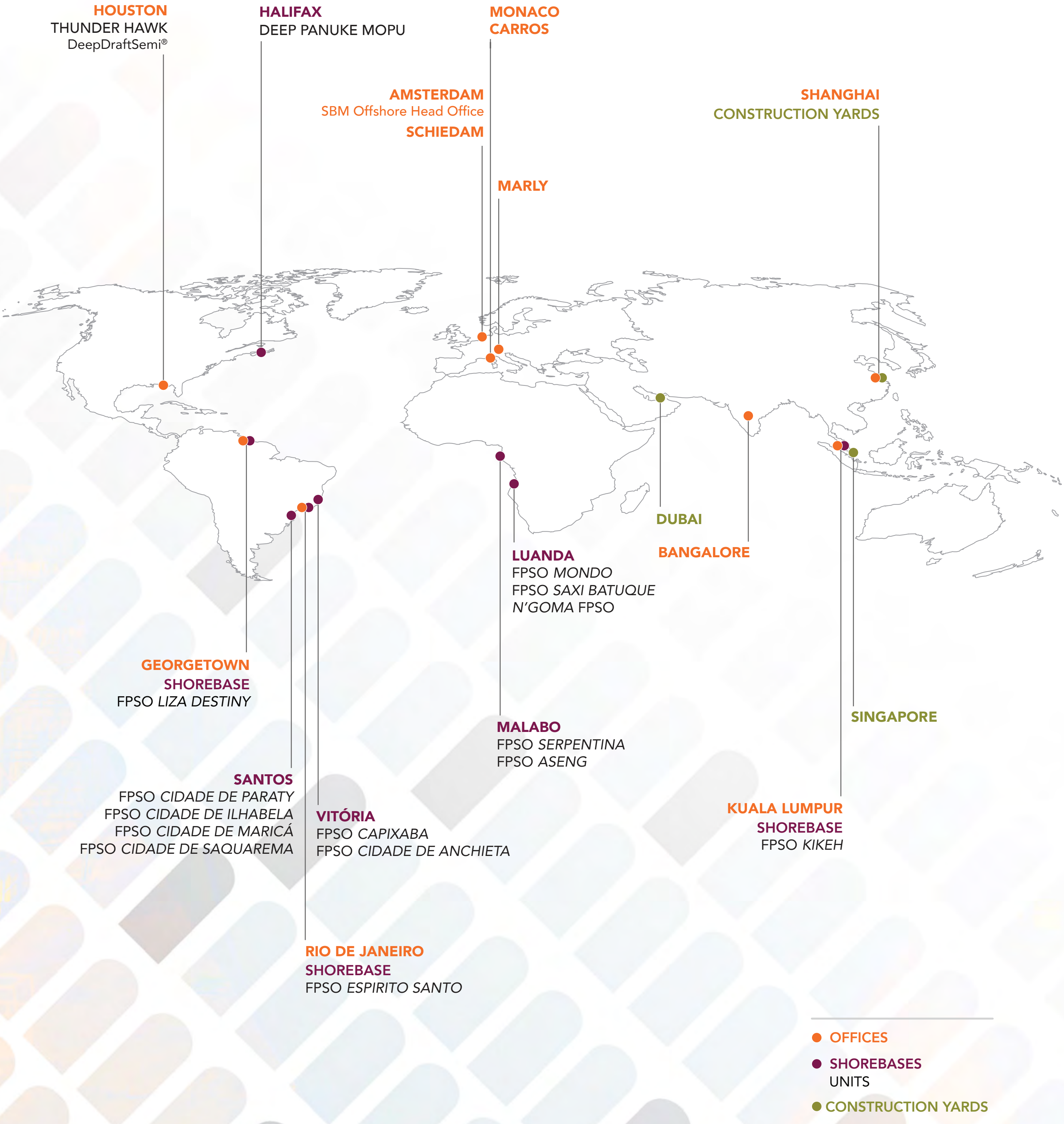
With its corporate seat in Amsterdam, SBM Offshore employs approximately 4,450 people worldwide, including Joint Ventures (JV) but excluding contractors, who are spread over offices in key markets, operational shore bases, and the offshore fleet of vessels.

SBM OFFSHORE ACTIVITIES



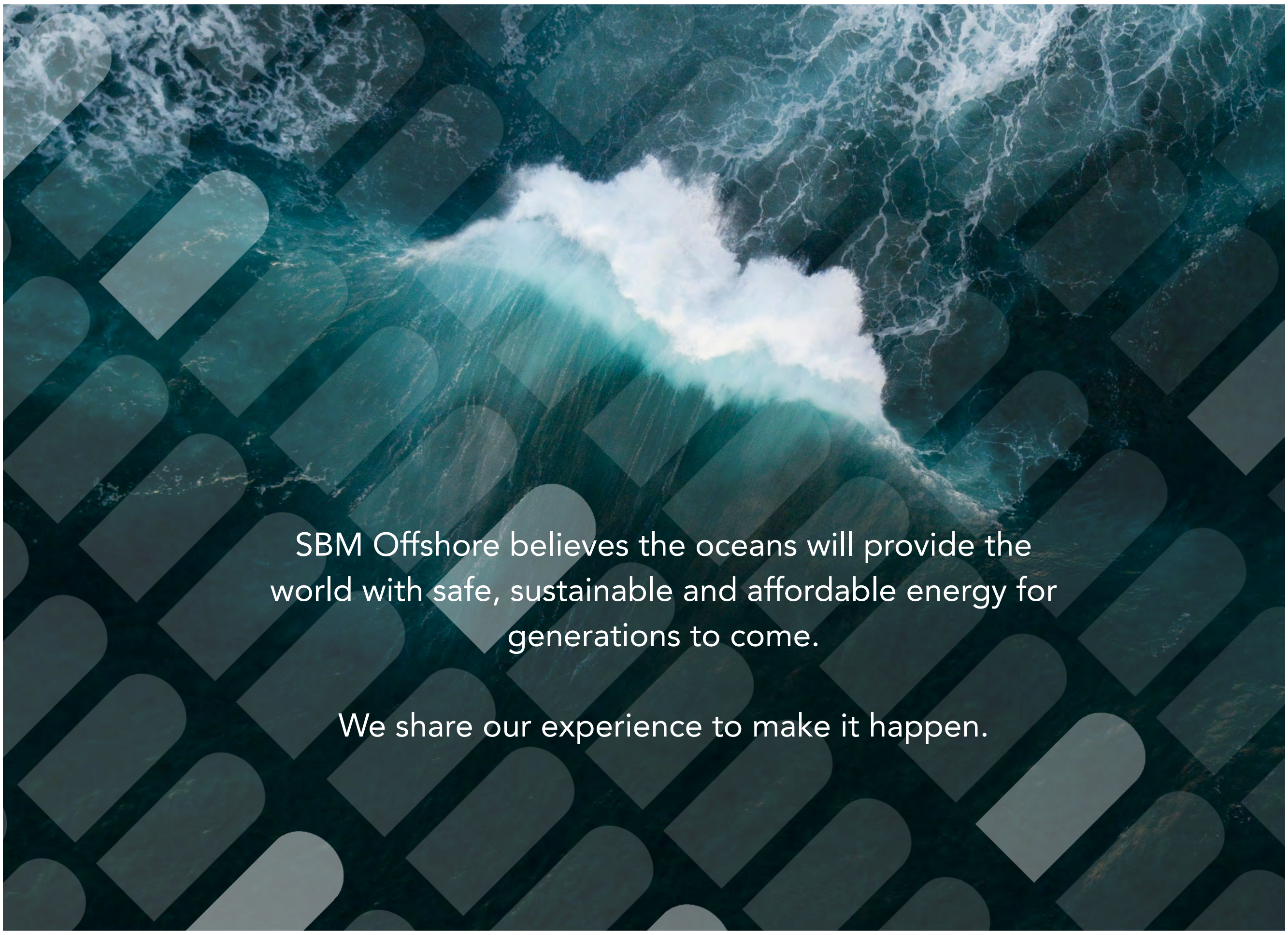
FPSO	Floating Production Storage and Offloading	TLP	Tension-Leg Platform
FLNG	Floating Liquefied Natural Gas	Semi-Sub	Semi-Submersible Platform
TMS	Turret Mooring System	CALM Buoy	Catenary Anchor Leg Mooring Buoy
		MOPU	Mobile Offshore Production Unit

SBM OFFSHORE GLOBAL PRESENCE



1.3 VISION AND VALUES

OUR VISION



OUR VALUES

SBM Offshore's core Values reflect its long history of industry leadership. They are the essence of who each SBMer is and how the Company works. The Values create pride, with each employee embracing them to help realize SBM Offshore's Vision. They form an integrated component of organizational and individual goal-setting, as well as performance evaluation.

Integrity

SBMers act professionally and in an ethical, honest and reliable manner. Transparency, doing the right thing and consistency are essential to the way the Company behaves towards all of its stakeholders.

Care

SBMers respect and care for each other and for the community. Employees value teamwork and diversity. The Company listens to all its stakeholders. Health, Safety, Security and the Environment are paramount to everything the Company does.

Entrepreneurship

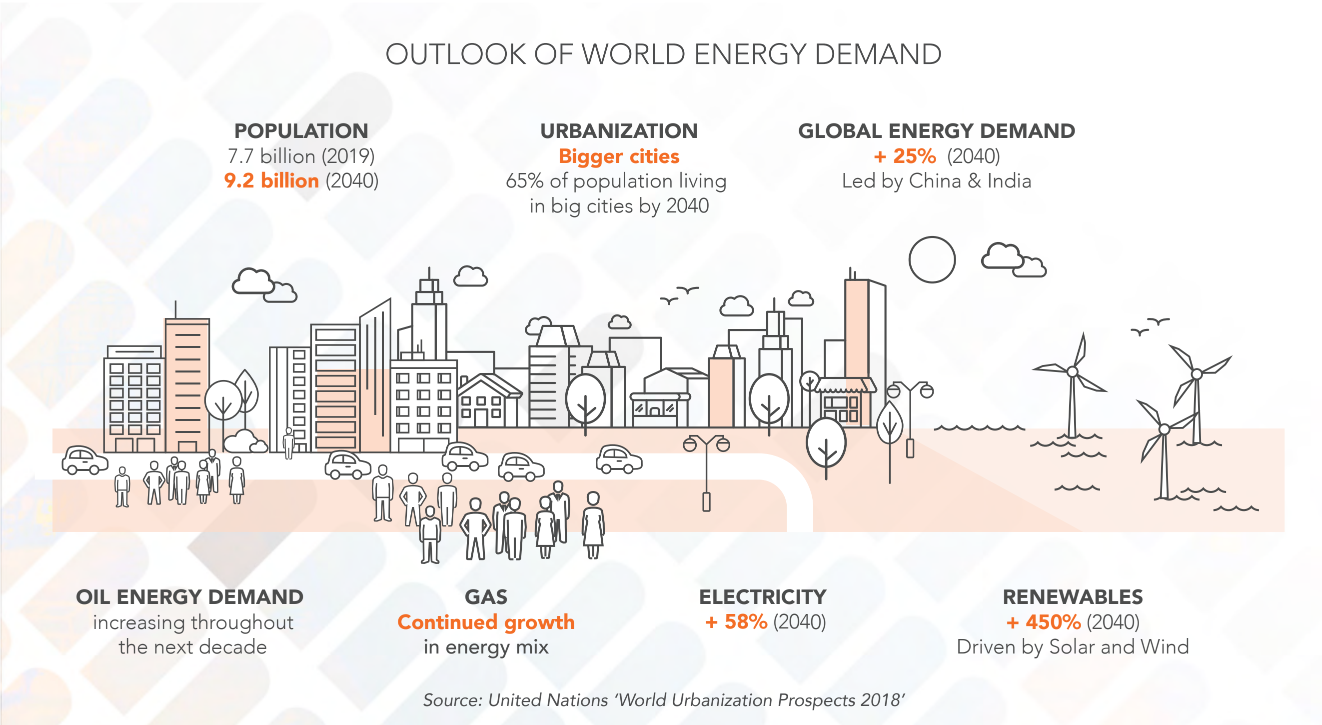
SBMers have an entrepreneurial mindset in everything they do. They deliver innovative and fit-for-purpose solutions with passion. In doing so, the Company aims to exceed its clients' expectations and proactively achieve sustainable growth through balancing risks and rewards.

Ownership

SBMers are all accountable for delivering on their commitments and pursuing the Company's objectives with energy and determination. Quality is of the essence. SBMers say what they do and do what they say.

1.4 ACTIVITIES AND MARKETS

The global offshore market has recovered over the recent past. The number of new greenfield projects reaching final investment decision (FID) is returning to pre-downturn levels. Since 2016, the number of offshore project commitments has more than doubled, with deep water playing an important role. The energy transition is a reality, leading our clients to focus on a more balanced portfolio between oil, gas and renewable energy sources.



Source: United Nations 'World Urbanization Prospects 2018'

MACRO TRENDS

By 2040, the world population will surpass 9 billion people. Taking into account increasing urbanization, with 65% of the total population living in big cities close to the oceans, the global energy demand is set to grow by more than 25% in the coming decades. Consensus among many market analysts is that, while the demand for oil and natural gas will continue to dominate the primary energy mix, renewable energy is gaining a significant position. The demand for oil is also expected to continue to grow throughout the next decade – albeit at a slower pace – and the energy mix will become more balanced. Moreover, oil field depletion plays an important role for new greenfield projects to be sanctioned. Supply gaps are probable and offshore deep water oil production will continue to play a role in the years to come. Furthermore, the shift to alternative energy sources provides SBM Offshore with new market opportunities going forward. The Company is continually reviewing its strategy based on macro trends and believes that it is adapting effectively to the energy transition.

Despite the current upturn, the Company remains vigilant and maintains a disciplined approach to market opportunities, particularly as oil prices can be volatile. Geopolitical events such as tensions in the Middle East, the deteriorating situation in Venezuela, the new coronavirus outbreak, the impact of renewed USA sanctions and the trade issues between China and the USA cause the oil market to be inherently volatile.

SBM Offshore has a solid foundation to cope with such market volatility due to its long-term Lease and Operate contracts. Moreover, to deal with this volatility, which may affect clients' investment decisions, the Company continues to focus on an efficient cost-base, shorter cycle times and standardized ways of working. In line with this, SBM Offshore has matured its Fast4Ward® concept into a principle-based program to be applied across its product portfolio, which will facilitate the philosophy 'Better Performance, Delivered Faster'. Fast4Ward is part of the Company's effort to fast-track projects, reduce risks and provide reliable execution plans, making projects even more competitive.

It is expected that, going forward, a combination of a robust technology portfolio, project management, engineering capabilities, operations expertise and financing capabilities will be needed to deliver sizeable deep water projects across the energy mix. Success will depend not only on internal capabilities and discipline, but also on the right partnering strategy to add value to current business and enhance learning for new business. Focus on the full lifecycle value is becoming increasingly important for the Company's clients.

2019 PERFORMANCE

SBM Offshore's product portfolio focuses on floating production solutions in oil, gas and renewables. The Company continues to be active in the following market segments: FPSOs, Floating Production Units (FPUs), TMS and Terminals. The Company also has a strong focus on the operation of its fleet. In preparation for the energy transition, SBM Offshore is developing its Renewables and Floating Gas solutions.

Following a period of under-investment in oil and gas production infrastructure, the Company believes that fast action is required from its clients to secure future supply for the growing demand. As forecasted in the previous year, nine FPSO contracts were awarded in 2019, with two to SBM Offshore. The Company evaluates each opportunity for relative risk and reward, building on its strengths and engaging early with key clients. This allows a disciplined approach to the Company's tendering activities.

In 2019 progress was made on multiple FPSO projects and a complex TMS. In addition, on-going Front-End Engineering and Design (FEED) activity demonstrates that the Company can leverage its experience – particularly in the critical preparatory stage – to help move clients' projects onto the next stage.

During the year, SBM Offshore completed its first standardized hull, which is allocated to FPSO *Liza Unity* and made progress constructing its second and third one, all based on Fast4Ward; the latter two are allocated to FPSO *Prosperity* and FPSO *Sepetiba* projects. In addition, the Company placed orders for a fourth and fifth standardized hull. This decision to start construction in anticipation of future orders is unique in the industry and reflects Management's confidence in the market upturn and the increased interest from customers in Fast4Ward.

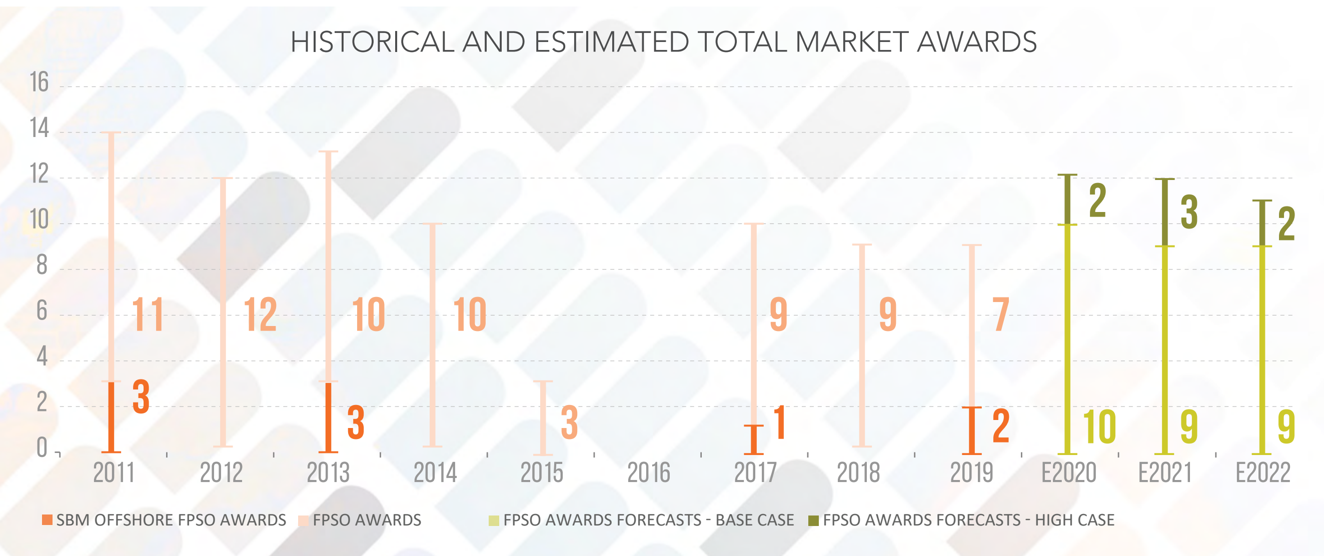
Major achievements throughout the year include:

- FPSO *Liza Destiny* producing and on hire as of December 2019.
- Awarded FPSO Engineering Procurement and Construction (EPC) and Lease and Operate contracts for FPSO *Liza Unity* and FPSO *Sepetiba*, both based on the Fast4Ward program.
- Awarded FEED contract for ExxonMobil's Third FPSO in Guyana, based on its Fast4Ward program.
- Completed transaction with Constellation to acquire minority ownership in SBM Offshore-operated FPSO companies in Brazil.
- Awarded several contracts for CALM Terminals.
- Sea trial offshore Monaco announced for SBM Offshore's innovative S3® Wave Energy Converter (WEC).
- Fleet performance, average production uptime 99.4%.

FUTURE

Looking ahead, up to 35 FPSO projects could reach FID between 2020 and 2022 in the high case scenario. Market estimates remain unchanged from one year ago.

The benefits of the Company's investments during the down-turn, developing its transformation programs (Fast4Ward, Digital and Sustainability) are now yielding results, positioning SBM Offshore for growth. The Company continues to adapt to the fast-moving market, as well as directing efforts towards the energy transition.



1.5 MARKET POSITIONING

SBM Offshore is active in multiple energy markets – oil, gas and renewables. Oil markets mainly supply the transportation and industry sectors, while gas and renewables feed into power generation, industry and consumer sectors. Currently, most of SBM Offshore's revenues are derived from the deep water oil and associated gas markets. The Company is the leader in its market in terms of total oil and gas production capacity (boepd) and the number of FPSO units delivered to date, accumulating over 330 contract years of operating experience. Within the Renewables market, the Company has been focusing on opportunities for the floating offshore wind and wave energy segments, aiming to have pilots installed in the coming years.

MARKET SEGMENTATION

In order to maintain its leading position in its core markets, SBM Offshore focuses on:

- Leveraging the Company's experience and business model by strengthening its position, whilst also looking to develop sustainable business in new regions.
- Transformation programs to increase return for our customers, such as Fast4Ward®, which reduces delivery time via standardization and improves efficiencies and productivity supported by digital initiatives.
- SBM Offshore selected concrete SDG-related targets and is developing roadmaps to contribute to these targets.

Following these guidelines, SBM Offshore develops its product portfolio within the oil, gas and renewable energy sectors.

OIL

FPSO

The global market for FPSOs can be roughly split into three segments (new-build, large conversions and small conversions), with SBM Offshore focusing on two of them:

- New-build FPSOs, with production volumes of typically around 200,000 barrels of oil per day. SBM Offshore is focusing on this segment with its Fast4Ward FPSO design. The Company has three Fast4Ward FPSOs that are allocated to EPC projects, with two more hulls ordered in anticipation of future projects.
- Large conversion FPSOs, SBM Offshore's historical market. Oil tankers, also known as Very Large Crude Carriers (VLCCs), are converted to FPSOs with production capabilities of 60,000 to 150,000 barrels of oil per day. In 2019, SBM Offshore completed the conversion of FPSO *Liza Destiny*, which is designed to produce up to 120,000 barrels of oil per day.

SBM Offshore is taking a selective approach to market opportunities in its main segments, with a focus on project execution discipline.

DEEP WATER EXPERIENCE BY WATER DEPTH (KEY VESSELS)

			bpd	
SHALLOW WATER < 500M	**475m**	FPSO *Serpentina*	110k	Equatorial Guinea
DEEP WATER 500M TO 1,500M	**720m**	FPSO *Saxi-Batuque*	100k	Angola
	728m	FPSO *Mondo*	100k	Angola
	960m	FPSO *Aseng*	80k	Equatorial Guinea
	1,221m	FPSO *Cidade de Anchieta*	100k	Brazil
	1,250m	*N'Goma* FPSO	100k	Angola
	1,365m	FPSO *Kikeh*	120k	Malaysia
	1,485m	FPSO *Capixaba*	100k	Brazil
ULTRA DEEP WATER >1,500M	**1,525m**	FPSO *Liza Destiny*	120k	Guyana
	1,600m	FPSO *Liza Unity**	220k	Guyana
	1,780m	FPSO *Espirito Santo*	100k	Brazil
	1,850m	Semi-Sub Thunder Hawk	60k	USA
	2,000m	FPSO *Sepetiba**	180k	Brazil
	2,100m	FPSO *Cidade de Paraty*	120k	Brazil
	2,120m	FPSO *Cidade de Maricá*	150k	Brazil
	2,130m	FPSO *Cidade de Saquarema*	150k	Brazil
	2,140m	FPSO *Cidade de Ilhabela*	150k	Brazil

* *Under construction*

1 AT A GLANCE

GAS

The Company has developed a solid portfolio and business strategy to meet the needs of an evolving energy mix, with a more dominant role for gas. The growing demand for long-distance transportation of natural gas, as well as production of associated gas, is increasing the market for liquefied natural gas (LNG) solutions. The Company is developing solutions for the FLNG market.

FLNG

The following segments can be identified in this market:

- Large FLNG solutions with a production capacity typically above 3 million tonnes per annum (mtpa)
- Mid-scale FLNG solutions ranging between 1 and 3 mtpa
- Smaller FLNG solutions of <1 mtpa

The Company is targeting mid-scale FLNG and has developed safe and reliable solutions for both new-build and conversion projects. The Company's approach is rooted in 20 years of designing, building and operating large offshore gas and liquefied petroleum gas (LPG) projects, as well as numerous FLNG (pre-)FEED studies, with more than 1 million engineering manhours dedicated to FLNG.

Other Gas developments

Given the increasing role of gas and LNG in the energy mix, SBM Offshore is carefully assessing its gas and LNG product portfolio to further leverage its experience in the sector. The Company is currently investing in the development of solutions for floating Gas to Wire and LNG Terminals.

RENEWABLE ENERGY

SBM Offshore focuses on two markets for renewable energy production:

- Floating Offshore Wind (FOW)
- Wave Energy Converter (WEC)

Both markets are in development and linked to the readiness of innovative technologies.

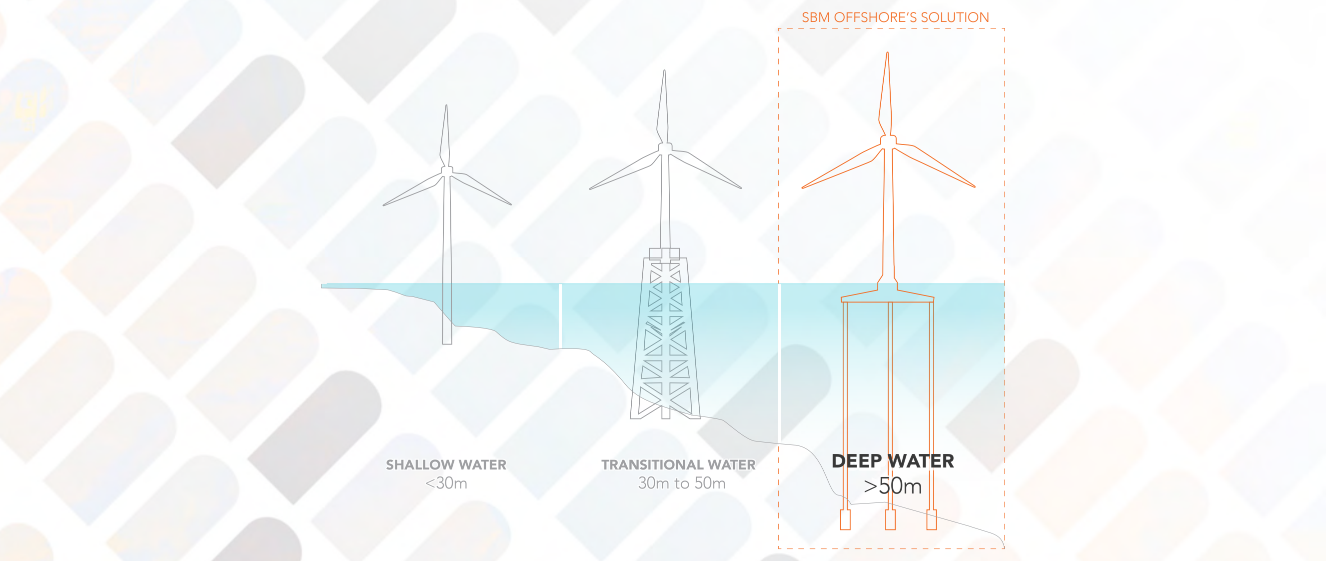
Floating Offshore Wind

The FOW market is developing worldwide, in anticipation of future commercial floating wind farm projects. The Company is focused on developing its first pilot project, leveraging its experience in the design of floating solutions and mooring systems. The aim is to provide the market with an effective FOW solution that can be designed, built and installed on a commercial scale.

Wave Energy Converter

For wave energy, the market is yet to develop and will materialize upon the validation of new technologies. SBM Offshore's WEC is an example of such new technology. Using electro-active polymers, it brings an effective energy solution with no mechanical components, designed to achieve low Capital Expenditure (CAPEX) and Operating Expenditure (OPEX); therefore a low Levelized Cost of Energy (LCOE). The first pilot project is under development.

SEGMENTATION OF OFFSHORE WIND ENERGY SOLUTIONS



1.6 POSITION WITHIN THE VALUE CHAIN

In line with its vision, SBM Offshore provides a broad range of products and services to its clients, aiming to unlock the potential energy associated with the oceans. The next illustration outlines the lifecycle phases of the oil and gas industry, at large, and SBM Offshore's activities within this cycle. The Company has responded to the energy transition by focusing on the renewable energy market, as illustrated at the end of this section.

The Company's clients typically control the complete value chain, from the initial offshore exploration phase to the physical distribution of hydrocarbon-based fuels.
SBM Offshore adds value in this chain primarily with its field development activities. The Company is to a lesser extent involved in the transportation of hydrocarbons via its Terminals products, such as CALM Buoys. SBM Offshore is aware of the challenges inherent to the industry and the different needs of each stakeholder group and sometimes even within stakeholder groups. This is visible in the Value Creation Model in section 1.7 and addressed in the development of the Company's strategy, which is explained in section 2 Strategy and Performance.

SBM OFFSHORE'S OIL AND GAS VALUE CHAIN

The Company adds value by leveraging its experience to succeed in winning business, executing projects on time and on budget and operating its fleet at maximum efficiency.

Engineering and Design

SBM Offshore has the capability to deliver conceptual studies, basic design and detailed design through in-house resources. SBM Offshore invests in product and technology development to maintain the required technology innovation and expertise to meet its clients' requirements for specific field development and to increase its competitive advantage.

Procurement

SBM Offshore's supply chain represents a substantial part of the total costs of constructing a Floating Production System. In line with its Fast4Ward® principles, the Company fosters an integrated supply chain, partnering with suppliers to develop efficient delivery of bulk equipment and services.

Financing

The Company ensures optimum results for clients by offering various financial models:

- Under a Lease and Operate contract, the facility is sold to asset specific companies – SBM Offshore usually retains a majority stake – to charter and operate the asset for the client throughout its lifecycle. The project debt financing is arranged at the asset specific companies level based on the facility's value (which is based on construction costs and a margin).
  SBM Offshore Revolving Credit Facility is generally used to bridge the period until project debt financing is in place. The Company tends to optimize debt financing in the asset specific companies, in order to optimize return on equity. Upon acceptance of the production system by the client, generally upon production start, the Company's corporate guarantee is relinquished and the project debt becomes non-recourse to the parent.
- Under a direct sale, the construction is financed by the client, and a margin is generated from the Turnkey sale.
- Under a hybrid of the two above, such as the build-operate-transfer model (BOT), SBM Offshore builds and commissions the unit, operating it during a defined period (the crucial start-up phase). The transfer of ownership to the client then occurs at the end of this defined period.

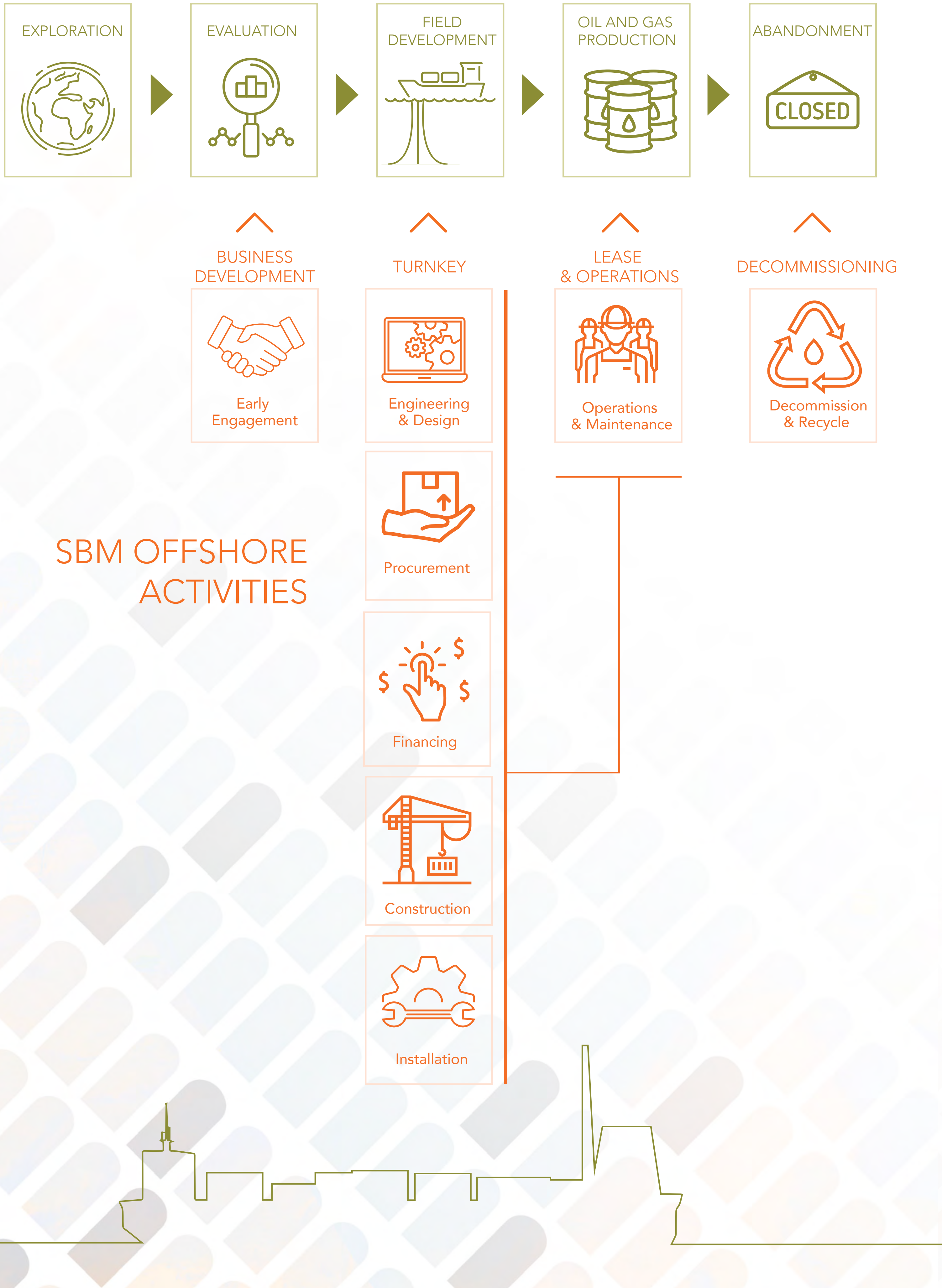
Construction

While maintaining responsibility for delivery and project management, SBM Offshore outsources most construction activities (for either conversion or new build Floating Production Systems) and has agreements in place with yards that allow delivery of Floating Production Systems through different execution models and local content requirements. SBM Offshore provides value through integration and project management.

Installation

Installation of the floating facilities is done with specialized installation vessels and requires specific engineering expertise and project management skills. SBM Offshore is the co-owner of two installation vessels that provide the capability to install its fleet of Floating Production Systems offshore, as well as to perform other offshore works for third-parties. Access to these vessels allows SBM Offshore to control the risks associated with cost fluctuations over the period of several years, from contract award to installation.

OIL AND GAS VALUE CHAIN



Operations & Maintenance

The asset specific companies, fully owned by SBM Offshore or co-owned with partners, which lease offshore facilities to clients, mostly operate such facilities as well. This activity creates value for clients, as the uptime performance of the facility directly impacts the amount of hydrocarbons produced. In most contracts, these asset specific companies are compensated for providing the production facilities by a fixed dayrate complemented by an operating fee. Income is independent of oil price fluctuations.

The FPSO facility processes the well fluids into stabilized crude oil for temporary storage on board, which is then transferred to a shuttle tanker to export it from the field. Oil and gas enhanced recovery systems are used to maintain production levels. To do this, secondary recovery systems for gas injection, water injection and gas lift systems are installed on the production facility. SBM Offshore's latest FPSO designs can include CO_2 removal from gas streams and reinjection into the well offshore. Operating and maintaining floating production facilities requires proven operational expertise and a robust management system: SBM Offshore has over 330 cumulative contract years of operational experience.

Decommissioning & Recycling

At the end of the lifecycle, the facilities are decommissioned and recycled. As the leased FPSOs are under SBM Offshore's full or co-ownership, the Company applies the Hong Kong Convention rules to recycle its units, with the use of certified and regularly audited recycling yards. The processes surrounding the recycling of products at end-of-life are vital to sustainability and SBM Offshore works to ensure a practice of green recycling is met and that internationally-recognized regulations are followed. SBM Offshore has a 'Vessel Decommissioning and Recycling Process', which aims to detail the key steps in order to conduct green recycling of an offshore unit.

The Company uses recycling facilities which have adequately trained management and staff, with required health and safety procedures in place. The Company's process includes inspecting all vessels for hazardous materials, ensuring a controlled removal and disposal of such materials as part of the decommissioning and recycling of the vessel. SBM Offshore considers the environmental and social impacts related to the decommissioning and recycling activities of each vessel on an individual basis, with the objective to minimize adverse impact.

Recycling of Yetagun FSO

In mid-September, there was a broadcast on Dutch television on the recycling of *Yetagun* FSO unit at a shipbreaking yard in India. The broadcast criticized labor conditions in yards in the area and suggested that workers were insufficiently protected against health and safety risks. SBM Offshore did not agree with the picture as presented. *Yetagun* FSO was cleaned before recycling and SBM Offshore had taken additional measures to protect workers against specific contamination risks. The recycling of *Yetagun* FSO was performed in full accordance with widely recognized international standards.

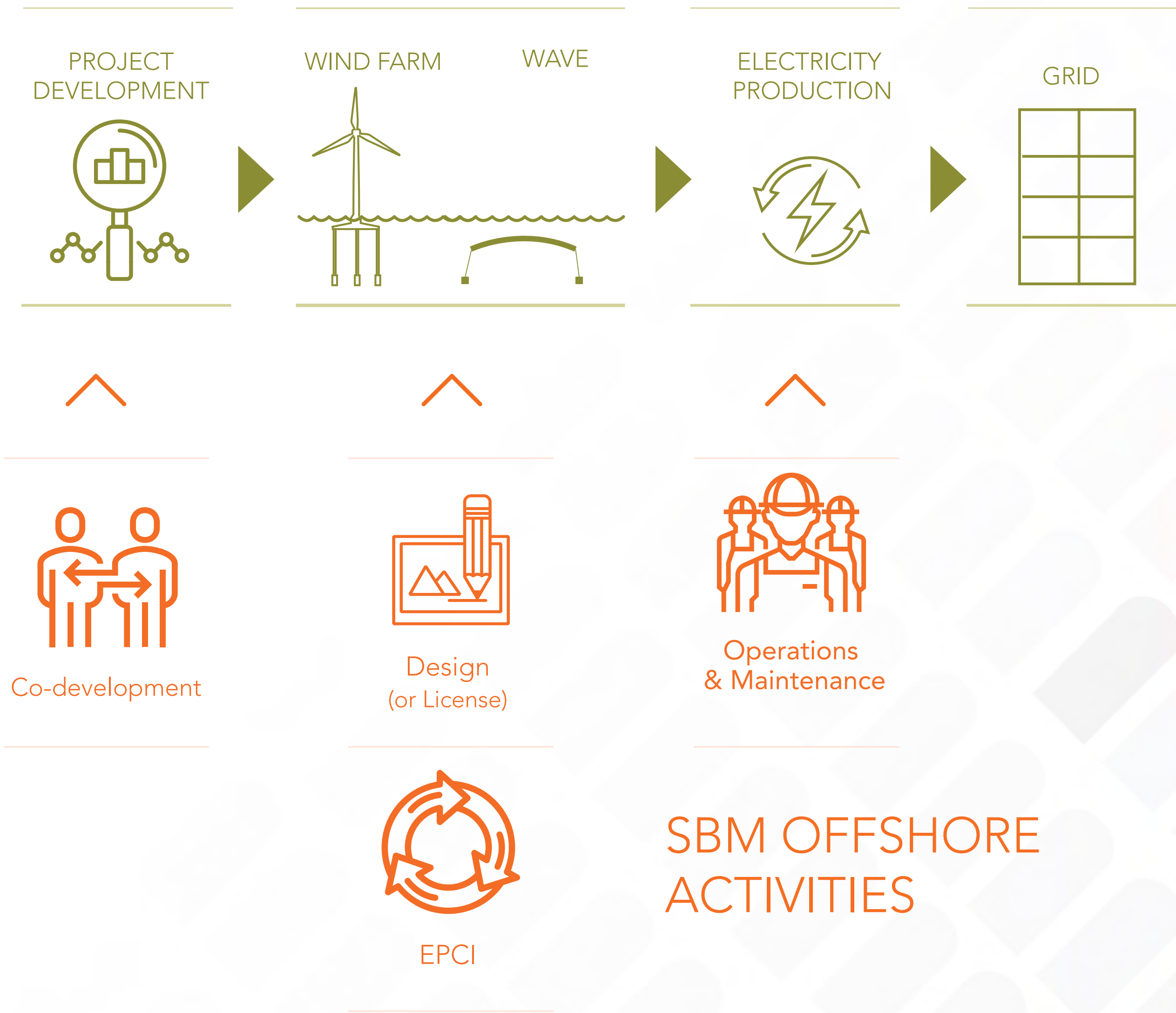
SBM Offshore regularly reviews its projects in order to be able to apply lessons learned and to ensure the application of health, safety and environmental standards during the full lifecycle of the Company's products. SBM Offshore has liaised with key stakeholders on this specific subject during the year and will continue this engagement going forward.

RENEWABLE ENERGY VALUE CHAIN

Energy Transition

SBM Offshore's strategy is to position the Company in this growing market sector as the energy mix evolves, with a more dominant role for renewables. SBM Offshore is investing in technology development for renewable energy, especially in floating offshore wind and wave energy. The process includes assessment of both Technology and Business Readiness Levels, which aim to certify the maturity of the product prior to the commercial phase. An important step in this process is the development of prototypes and pilots; this can also be done as co-development projects with partners and/or clients.

RENEWABLE VALUE CHAIN



1.7 MATERIALITY AND VALUE CREATION

Sustainability of business is determined by the ability to create value for stakeholders over the long-term. SBM Offshore is dependent on continued and effective communication with stakeholders and understanding their needs in order to offer them the right value. Throughout the year, the Company has engaged with stakeholders to better understand risk and opportunities, driving a strategy that delivers stakeholder value – today and in the future.

SBM Offshore has identified financial and non-financial topics that have a material impact on the Company's ability to create value. Based on stakeholder engagement with different relevant groups of stakeholders, the Company maps topics of stakeholder interest with impact on the business and therefore the ability to sustain value over time. The results of this analysis are visualized in the Materiality Matrix hereafter.

MATERIAL TOPICS FOR 2019

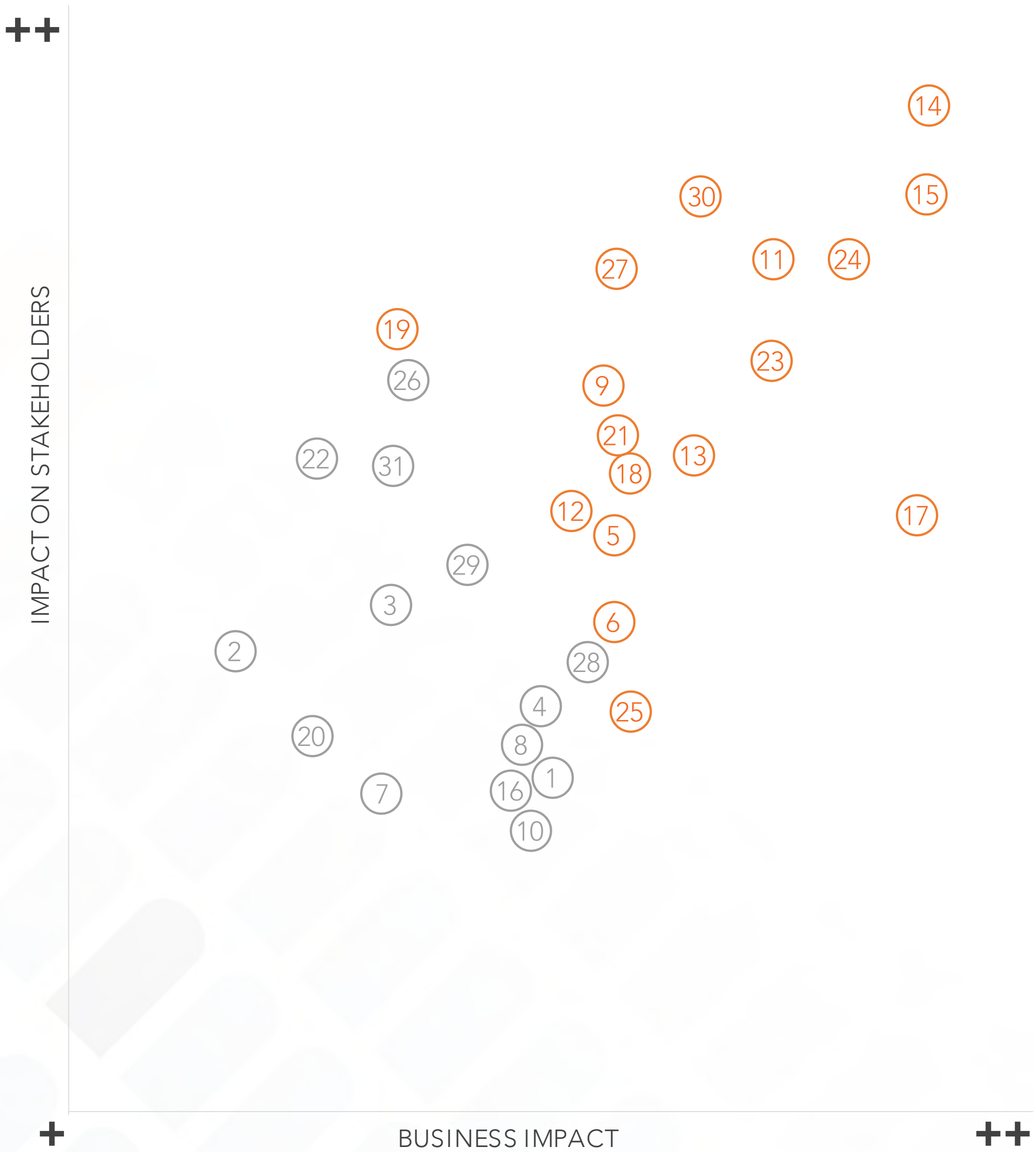
From this matrix, SBM Offshore's Management has determined the 17 most material topics for the Company. In 2019, SBM Offshore updated the previously established matrix by gathering additional feedback from two stakeholder groups: clients and vendors. Although this did not affect the list of topics considered material, the updates are reflected in the new matrix. These 17 material topics guide how the Company creates value for its stakeholders and reports on its annual performance. The Annual Report provides integral explanation on value delivered to our stakeholders. Section 5.4 provides for a mapping of material topics to the respective sections in the Annual Report.

Value Creation

Understanding stakeholder interests and needs enables the Company to better drive long-term stakeholder value (for more detail on our stakeholders, see section 5.1.3 Stakeholder Engagement). SBM Offshore handles 1% of total world oil production (onshore and offshore). This puts the Company in a position of responsibility. In addition, SBM Offshore is aligned with, and committed to, the energy transition. Supplying safe, sustainable and affordable energy from the oceans is the basis for long-term stakeholder value.

In order to achieve this, SBM Offshore assigns resources to activities along the project lifecycle, providing valuable outputs to its stakeholders. This is represented by the value creation model below; it connects the Company's activities with inputs and outputs and the overall impact the Company has on the external environment.

SBM OFFSHORE MATERIALITY MATRIX



The materiality matrix presents the 31 topics considered, with the material topics highlighted in orange

NUMBER	TOPIC
1	Climate Change
2	Community and Society
3	Corporate Governance and Investor Relation
4	Cost & Energy Efficiency
5	Cost of Ownership
6	Digitalization & Standardization
7	Disruptions
8	Diversity
9	Economic Performance
10	Emissions Reduction
11	Employee Health and Safety
12	Energy Transition
13	Environmental Impact
14	Ethics & Compliance
15	Fleet Management & Project Performance
16	Green Recycling of vessels
17	Human Capital Development & Retention
18	Human Rights
19	Innovation & Technology
20	Local Content and Support Local Communities
21	Operational Excellence / Quality
22	Partnerships and Mergers & Acquisitions
23	Pollution to Air & Sea
24	Process Safety
25	Renewable Energy
26	Risk Management
27	Security
28	Supply Chain
29	Training and Development
30	Transparency, Trust, and Reputation
31	Waste


MOET
MAM
MOET
MAM

VALUE CREATION MODEL

OUR VISION STATEMENT

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen.

Inputs: our main capitals

THE INPUTS ON WHICH WE FLOAT

HUMAN CAPITAL
- 5,530 diverse and highly skilled people

PRODUCED CAPITAL
- 15 Units
- 5 Fast4Ward® hulls EPC in construction

FINANCIAL CAPITAL
- 40% backlog increase
- US$1,140b funding for Liza Unity

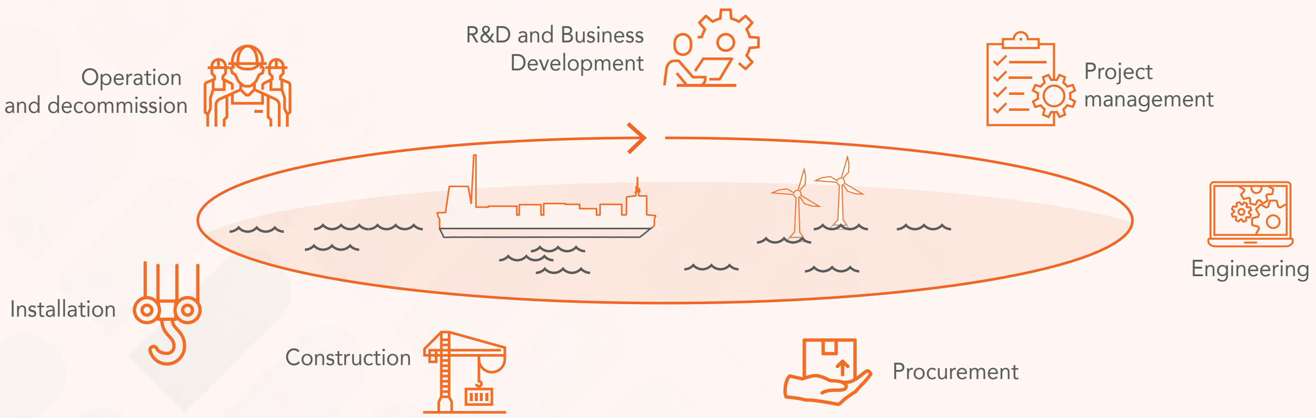
INTELLECTUAL CAPITAL
- 154 patent families
- 29% of R&D budget going to low-carbon technology

SOCIAL CAPITAL
- 985 qualified vendors
- 18 incorporated JVs

NATURAL CAPITAL
- 61,410,467 GJ of energy use

Our business model to create Value

SBM OFFSHORE LIFECYCLE



Outputs: our annual results

PERFORMANCE

SAFETY
- TRIFR: 0.13 (per 200,000 exposure hours)

UPTIME
- 99.4% uptime

SCHEDULE/ COST
- FPSO *Liza Destiny* project completed - first oil achieved

BUSINESS DEVELOPMENT
- First Wave Energy Converter pilot project

ENVIRONMENT
- GHG emissions: 5,668,961 tonnes of CO_2 equivalents

SOCIAL IMPACT
- 99.1% of qualified vendors have signed the supply chain charter

ECONOMICS
- Underlying directional EBITDA: US$832 million

Our ambition for stakeholder value creation

OUR STAKEHOLDERS

EMPLOYEES
Maintain high safety standard & develop future talent

CLIENTS
Sustain best-in-class performance, provide for Fast4Ward, Digitalization, Innovation

SHAREHOLDERS
Deliver strong cash flow, dividend & invest for growth

INVESTORS
Provide for projects with the right risk reward profile

PARTNERS
Foster strong partnerships for current and future energy production solutions

SUPPLIERS
Team for a sustainable supply chain where risk/ rewards are shared

Our impact

EXTERNAL IMPACT

We believe SBM Offshore has a role to play in providing safe, sustainable and affordable energy for generations to come. The Company creates value by leveraging our operating experience, highly skilled workforce, and natural and social capital to develop innovative floating energy solutions. Being part of an industry that comes with inherent safety and environmental challenges, the Company addresses these issues to the best of its ability. We recognize and act on the associated challenges, as well as those for the energy transition. Throughout the value creation process, we aim to minimize any negative impacts on our operations and to undertake our activities in the most sustainable way.

JANUARY

- The steel cutting ceremony for SBM Offshore's second Fast4Ward® hull took place at the Shanghai Waigaoqiao Shipbuilding and Offshore Co. Ltd. (SWS) yard in China.

- SBM Offshore ordered a third Fast4Ward hull, further demonstrating the Company's confidence in the program and market demand.
  The construction yard chosen was China Merchant Heavy Industry (CMHI).

FEBRUARY

- Shareholder returns significantly increased, underpinned by the continued track record of delivery from both business segments, Turnkey and Lease and Operate.

- Share Repurchase Program was announced, with EUR175 million (c. US$200 million) repurchased over the course of 2019.

- SBM Offshore launched its Vision for the future: 'We believe the oceans will provide the world with safe, sustainable and affordable energy for generations to come.'

APRIL

- Annual General Meeting (AGM). Philippe Barril and Erik Lagendijk were re-appointed MB members. Laurence Mulliez, Cheryl Richard and Sietze Hepkema, were re-appointed SB members.

MAY

- SBM Offshore was awarded contracts by ExxonMobil to construct, install and thereafter Lease and Operate for up to two years the FPSO *Liza Unity*. This followed completion of front-end engineering studies, receipt of requisite government approvals and the final investment decision on the project by ExxonMobil and block co-venturers. The FPSO *Liza Unity* design is based on SBM Offshore's Fast4Ward program.

- 2019 Share Repurchase Program was completed, with EUR175 million in shares repurchased, achieving the objective of reducing share capital and, in addition, to provide shares for regular management and employee share programs.

JUNE

- SBM Offshore was awarded a Letter of Intent by Petrobras for the 22.5 year Lease and Operate of FPSO *Sepetiba*, to be deployed at the Mero field, offshore Brazil. The FPSO design is based on the Company's Fast4Ward program.

- Work on the FPSO *Liza Unity* hull progressed - the hull left dry-dock and launched into the water at the SWS yard in China.

JULY

- SBM Offshore launched a new co-owned entity with Indian company, Nauvata, to create the SBM-Nauvata company and to provide SBM Offshore with additional engineering capability.

- After 20 months in construction, the FPSO *Liza Destiny* departed from Keppel yard in Singapore to offshore Guyana.

- Fabrication work on the Turret Mooring System for Equinor's Johann Castberg FPSO progressed, with completion of the first major milestone, the load-out of the Bogey Support Structure, which was delivered to hull site in Singapore.

AUGUST

- Order intake resulted in a 36% backlog increase. 2019 Directional Revenue guidance was increased to 'above US$2 billion' due to Turnkey growth. 2019 Directional EBITDA guidance increased to 'above US$750 million'.

SEPTEMBER

- SBM Offshore signed a long-term FPSO supply agreement with ExxonMobil. The non-exclusive agreement established the general legal framework and specific terms in relation to the engineering, procurement, construction and installation work regarding potential future contracts relating to leased FPSOs, which includes Build-Operate-Transfer projects.

- SBM Offshore confirmed its intention to bid for its partner's minority ownership in SBM Offshore operated companies, following the public sale notice by Serviços de Petróleo Constellation S.A. of its equity ownership in the lease and operating companies related to five Brazilian FPSOs.

OCTOBER

- SBM Offshore received notification that the Federal Court had formally closed the Improbity Lawsuit filed by the Brazilian Federal Prosecutors Office (MPF) in 2017. This approval made the Leniency Agreement between the MPF and SBM Offshore effective, which comprised a final settlement of BRL200 million to be paid to Petrobras.

- SBM Offshore completed US$1.14 billion financing of FPSO *Liza Unity*.

NOVEMBER

- SBM Offshore was awarded contracts for ExxonMobil's Third FPSO in Guyana based on its Fast4Ward Program to perform a Front End Engineering and Design (FEED) for an FPSO, to be named Prosperity, for the Payara development project located offshore Guyana.

- Following confirmation that the Company was the successful bidder in the public auction for the equity ownership, the Company completed the transaction regarding the sale to SBM Offshore of Constellation's equity ownership in the lease and operating companies related to five Brazilian FPSOs.

- Announcement of sea trial in 2022 offshore Monaco for SBM Offshore's S3® Wave Energy Converter.

DECEMBER

- SBM Offshore divested minority interest (35.5%) in the special purpose companies related to the lease and operation of FPSO *Sepetiba* to its business partners Mitsubishi Corporation (MC) and Nippon Yusen Kabushiki Kaisha (NYK).

- SBM Offshore signed contracts with Petrobras for the 22.5 years lease and operation of FPSO *Sepetiba*, following the signing of the LOI in June.

- Retirement of Chairman of the Supervisory Board Floris Deckers announced.

- *N'Goma* FPSO project loan was optimized.

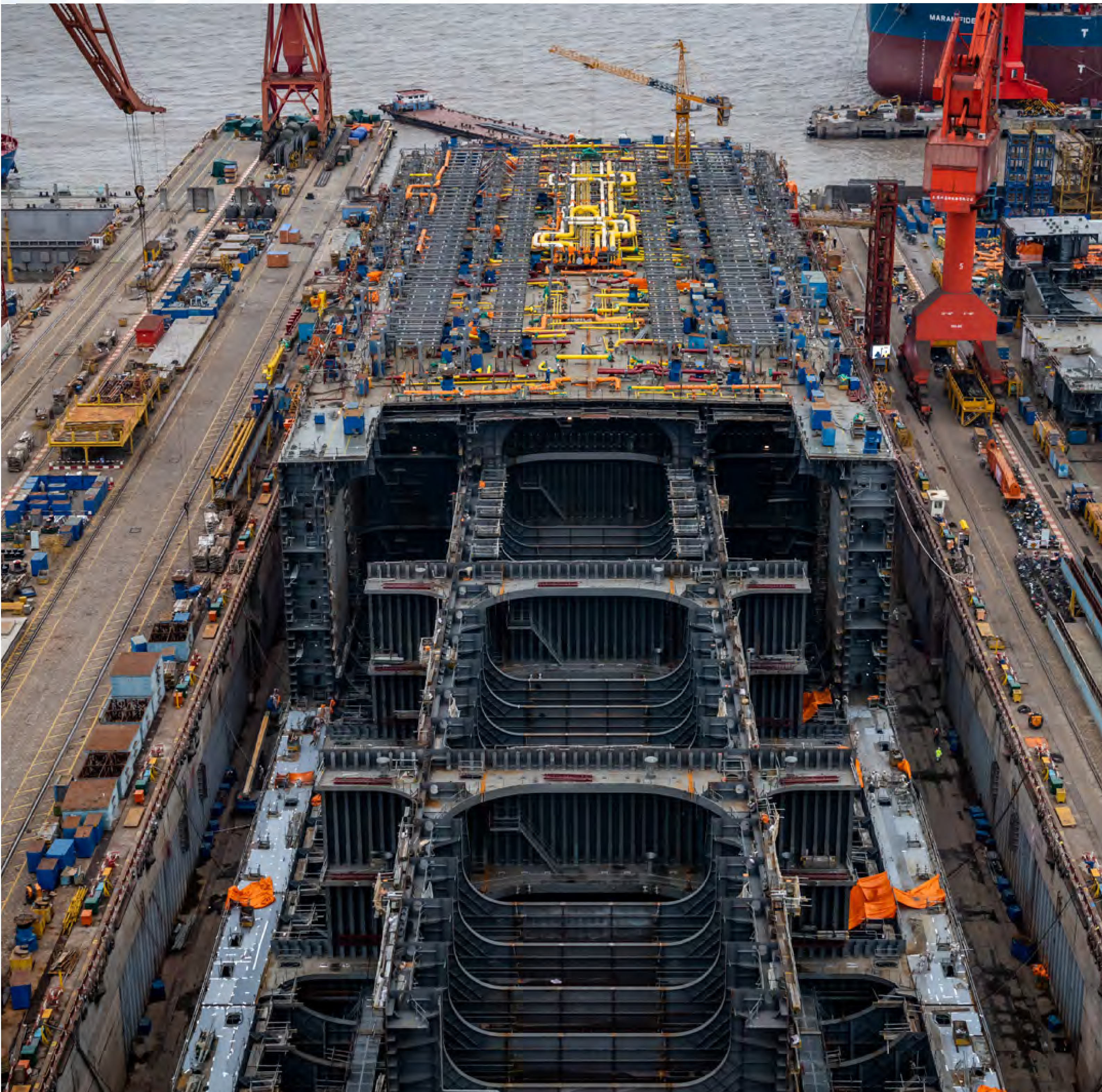
- Two Fast4Ward hulls were ordered, bringing the construction program to a total of five hulls.

- The second module, the Lower Turret, for Equinor's Johann Castberg TMS, was completed and shipped to the yard in Singapore, where the client's FPSO hull is located.

- FPSO *Liza Destiny* produced first oil offshore Guyana.

FAST4WARD® MULTI PURPOSE FLOATER
IN CONSTRUCTION

2.
STRATEGY AND PERFORMANCE



OUR STRATEGY

VISION

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen.

AMBITION 2030

GROW SIZE GROW VALUE

STRATEGY

OPTIMIZE – TRANSFORM – INNOVATE

KNOW HOW

FLOATING ENERGY SOLUTIONS

VALUES

INTEGRITY, CARE, ENTREPRENEURSHIP, OWNERSHIP

2.1 GROUP STRATEGY

MANAGEMENT APPROACH

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen. To be able to achieve this vision, the development of SBM Offshore's strategy is based on the analysis of energy supply and demand, feedback from stakeholders, trends in the market, the Company's capabilities to perform in its markets and the elements in the materiality matrix (see section 1.7).

SBM Offshore's ambition towards 2030 is to grow and create long-term value for its stakeholders. Targets and indicators have been set in three main areas: secure and grow free cash flow year-on-year, ensure a steady flow of new awards within SBM Offshore's core business (2+ FPSOs a year) and position the Company in the gas and renewables market (25% of the Company's revenue by 2030).

Key guiding principles in the strategy are:

- Time to market is essential. In order to achieve this, digitalization is key, taking lifecycle value to the next level.
- Following Fast4Ward® principles, as well as strategic partnering and collaboration, are fundamental to remain competitive and flexible in a volatile market.
- As the Company enters its next growth cycle, it must prioritize productivity increases, continuous improvements and sustainability, whilst maintaining focus and discipline for the cost base.

Based on those principles, SBM Offshore's strategy has been built on three strategic pillars:

- **Optimize** core business activities and be the Best-in-Class to deliver backlog.

This means ensuring targeted uptime, the highest safety, process safety and quality performance, delivering on time and on budget. These objectives can only be achieved by developing the Company's talents and relying on people to create value.

- **Transform** the industry by leveraging Fast4Ward and Digital Transformation in a Sustainable manner, unlocking value for our clients.

Transform the business by reducing cycle time to delivery, de-risking projects, and improving project economics, as well as quality, safety and reliability. This is what the Company refers to as Fast4Ward. The program will allow 'Better Performance, Delivered Faster', through its five principles: Client First, Standardization, Flawless Execution, Integrated Supply Chain and Enabling Digital Solutions (see section 2.2).

A Digital Transformation program has been established to support the new ways of working. It is based on four main focus areas: Data & Information, Operations, Project Execution and New Business models.

Sustainability is being embedded in all parts of the Company and aimed at creating value for all stakeholders across the full lifecycle of its projects. To provide context for its Sustainability targets and performance, the Company uses the United Nations (UN) SDGs as target guidelines (see section 2.3).

- **Innovate** as a way to maintain SBM Offshore's technology leadership position and to evolve its product portfolio in line with market needs and expectations, in particular for the energy transition to floating gas and renewable energy solutions.

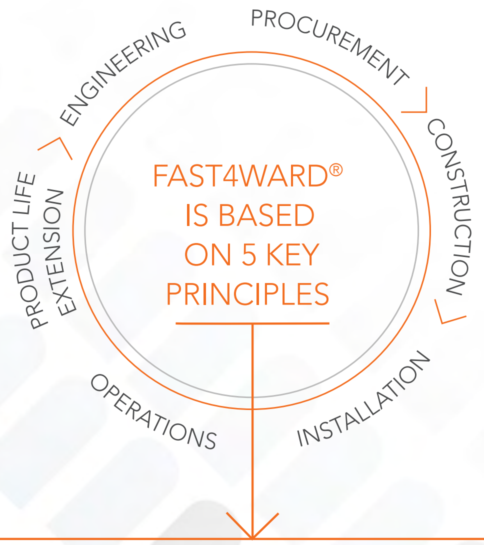
SBM Offshore manages performance of these strategic pillars through a balanced score card framework and performs scenario planning based on its own market research and recognized data intelligence agencies.

In order to ensure alignment among the key strategic functions, and build a strong bridge with the business, four areas report to the Chief Strategy Officer (CSO): Strategy, Sustainability, Technology and Business Development.

2.2 FAST4WARD®

FAST4WARD®
BETTER PERFORMANCE DELIVERED FASTER

Fast4Ward® is SBM Offshore's program to transform the business by reducing cycle time to energy delivery, de-risking projects and improving quality and safety.



CLIENT FIRST

STANDARDIZATION

FLAWLESS EXECUTION

INTEGRATED SUPPLY CHAIN

ENABLING DIGITAL SOLUTIONS

REDUCING CYCLE TIME

UP TO 12 MONTHS FASTER

DE-RISKING PROJECTS

STANDARDIZED HULL AND TOPSIDES

ENABLING LOWER BREAK-EVENS

LOWER CAPEX AND OPEX

2.3 SUSTAINABILITY

MANAGEMENT APPROACH

Sustainability is a key topic for SBM Offshore; it contributes to the Company's vision to provide *Safe, Sustainable and Affordable Energy*. Sustainability objectives are integrated in the core of the Company and aimed at creating value for SBM Offshore's stakeholders, as reflected in the Materiality and Value Creation section. Sustainability is an integral part of the Company's strategy, as reflected in section 2.1.

SBM Offshore is committed to alignment with the Guidelines for Multinational Enterprises (MNE) of the Organization for Economic Co-operation and Development (OECD). SBM Offshore also follows the Global Reporting Initiative (GRI) standards as the reporting standard on progress and non-financial performance. In doing so, the Company relates its most material topics and business impact to internationally agreed-to long-term goals on which the Company can transparently report. SBM Offshore aims to address sustainability issues that go beyond current rules and regulations.

The Company is committed to the energy transition through the development of sustainable solutions. SBM Offshore's ambition is to integrate sustainability in every step of the long lifecycle of our projects - from new technological development to the recycling phase. In addition to the sustainability department, the Company has Sustainability Ambassadors in various business and functional divisions to drive the implementation of the sustainability strategy and embed it within the ways of working. This program is founded on continuous engagement with employees.

Furthermore, to provide context for SBM Offshore's targets and performance, SBM Offshore leverages the UN SDGs framework. The Company identified seven SDGs that are most material to its business. In line with these SDGs, SBM Offshore has developed long-term roadmaps for development. These roadmaps are built with inputs and commitments from different business entities as part of business plans and budgets. Each SDG is implemented with one or several associated annual targets; in 2018, SBM Offshore defined annual targets in line with SDG 7, SDG 8 , and SDG 14. The Company is expanding this approach towards the future.

2019 PROGRESS

In 2019, the Company committed to achieving the targets set in 2018 - which were linked to the Company's Short Term Incentive (STI). These targets were linked to the first three of seven SDGs on which SBM Offshore chose to focus: SDG 7: 'Affordable and Clean Energy', SDG 8: 'Decent Work and Economic Growth' and SDG 14: 'Life Below Water'. The table below demonstrates how the Company has performed on these targets.

SUSTAINABLE DEVELOPMENT GOALS: TARGETS FOR 2019

SDG	2019 SBM OFFSHORE AMBITION	2019 Actual
7 AFFORDABLE AND CLEAN ENERGY	Reduce by **20%** the mass of gas flared under SBM Offshore account (target flaring rate: 3.13 tonnes per thousand tonnes of HC production)	**0.8%**
	Purchase **25%** of total energy in offices from green energy providers	**91%**
8 DECENT WORK AND ECONOMIC GROWTH	Ensure that **100%** of vendors that have gone through the revised qualification process signed the Supply Chain charter	**99.1%**
	Maintain Total Recordable Injury Frequency Rate below **0.29**	**0.13**
14 LIFE BELOW WATER	Reduce offshore plastic waste by **40%** (target: 129 tonnes)	**22%**
	Ensure that **100%** of our offices have a recycling program	**100%**
	Volume of oil spills: **0 m^3**	**0.039m^3**

100% or more   50% or more   Less than 50%

SDG 2019 Target results

The Company takes pride in reporting on SDG-linked targets and the results achieved during 2019. In investigating the reasons for over and under performance, the Company can take action and sets improved subsequent targets.

Of the seven targets set for this year, four have been met or overachieved; the amount of energy purchased from green providers, the number of qualified vendors having signed the Supply Chain Charter, the Total Recordable Injury Frequency Rate (for more detail, see section 2.6) and the number offices with a recycling program. One of these targets was significantly overachieved: the amount of energy in offices purchased from green providers was 91% by year-end, while the target set was 25%. As part of the committment SDG 8, SBM Offshore joined Building Responsibly – a group of leading engineering and construction companies working together to raise the bar in promoting the rights and welfare of workers across the industry. As part of this initiative, SBM Offshore:

- updated the Company Supply Chain Charter to include the ten Worker Welfare Principles from Building Responsibly, and
- contributed to the development of the ten Worker Welfare Principles Guidance Notes

The target on oil spills was set as 0m^3, demonstrating a strong ambition in line with SDG 14, 'Life Below Water'. The Company reported total oil spills of 0.0391 m^3 in 2019, being less than 40L, partly hydrolic oil from crane equipment. One of the targets on SDG 7 was to reduce the overall flaring on the SBM Offshore account by 20%; the actual flaring rate reduction by year-end was by 0.8%. This is mainly due to interventions on gas compression in Angola and inhibited gas injection. In Malaysia, gas flared on the SBM Offshore account increased due to reliability problems with Seawater Lift Pumps at the beginning of the year and process instability following modifications. SBM Offshore has taken action, which led to continuous performance improvement throughout the remainder of the year. As regards the ambitious target to reduce offshore plastic, although this has not been met, the Company did achieve reduction of 22%. With hindsight, the Company underestimated the engagement needed with its supply chain. SBM Offshore updated the waste management policy to include the waste management principles in the Supply Chain Charter.

SBM Offshore applied the lessons learned from performance on these targets for further improvement. The Company is setting SDG-linked targets for 2020 accordingly; in 2019, SBM Offshore is adding specific targets linked to three additional SDGs: SDG 3 'Good Health and Wellbeing', SDG 9 'Industry, Innovation & Infrastructure' and SDG 13 'Climate Action' (see hereafter). The Company takes pride in the continuous improvement of this approach and will continue to apply knowledge gained from these targets in future target setting.

Sustainability reporting and benchmarking

- SBM Offshore commits to reporting its sustainability performance against the GRI Standards in a transparent manner and reports on indicators for its sustainability policies, which reflect all the material topics.
- SBM Offshore is also reporting based on the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). These recommendations guide companies in identifying the risks and opportunities posed to their operations by climate change and in planning a more climate-resilient strategy for the future (see section 5.1.3).
- SBM Offshore was included in the Dow Jones Sustainability Index Europe in the category OIE Energy Equipment & Services in 2019. The Company improved its overall ranking to second in its industry, positioning itself in the 92nd percentile.
- The Company is also rated by other external institutes, such as the CDP, the Dutch transparency benchmark and *De Vereniging van Beleggers voor Duurzame Ontwikkeling* (VBDO), which provide useful feedback on its performance.
- In 2019, SBM Offshore also started engaging with additional Environmental, Social, and Governmental (ESG) rating companies to gain a more complete assessment of our sustainability performance, namely Sustainalytics and MSCI.

Ranking of SBM Offshore in Sustainability Benchmarks

	2019	2018[1]	Maximum Score	Ranking
CDP	C	B	A+	n/a
Dow Jones Sustainability Index (DJSI)	92[2]	85[2]	100	DJSI Europe
Sustainalytics	78	72	100	n/a
MSCI	A	A	AAA	n/a

1 Score available as of YE 2018
2 Percentile ranking

FUTURE

In 2020, SBM Offshore aims to continue building on this, and previous, years' performance, further embedding sustainability in the core of the Company. The Company acknowledges sustainability both as a prerequisite to operate and a differentiator towards SBM Offshore's key stakeholders, as described in section 1.7. Lifecycle value – from a financial and non-financial perspective – remains an important framework for the Company, as explained in previous sections. The Company will continue using the SDGs as guidance to set targets and drive performance, with an increased focus on Innovation, as demonstrated by specifying targets for SDG 9. These targets are flowing from long-term roadmaps and reflect commitment to the energy transition, as well as decarbonizing future FPSO projects, which is where SBM Offshore could have a material contribution to 'cleaner and environmentally friendly technologies and industrial processes', as formulated in SDG 9.

SBM Offshore recognizes the growing expectations on businesses to increase sustainability ambitions and performance, and will continue to report and perform in accordance with these expectations. The Company manages these expectations with the added challenge of being part of an industry with inherent safety and sustainability risks.

SBM OFFSHORE'S COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

SDG	SBM OFFSHORE AMBITION
SUSTAINABLE DEVELOPMENT GOALS: TARGETS FOR 2020 [1]	
3 GOOD HEALTH AND WELL-BEING	Introduce a Health Check Program in accordance with SBM Offshore best practice in offices in five key countries
7 AFFORDABLE AND CLEAN ENERGY	Reduce mass of gas flared under SBM Offshore account by **25%**
	60% of project offices to have a local sustainability certification
8 DECENT WORK AND ECONOMIC GROWTH	Total Recordable Injury Frequency Rate below **0.2**
	Include Human Rights screening in the Vendor Qualification Process; **90%** of Key Vendor sample responding
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**30%** of the 2020 R&D budget allocated to non-carbon technologies
	100% of FPSO EPC proposals contain recording carbon emissions planned over asset life
13 CLIMATE ACTION	Introduce measurement system of CO_2 related to air travel to enable setting of reduction target by end of Q3
14 LIFE BELOW WATER	Reduce plastic waste offshore by **10%**
	Zero hydrocarbon spills in accordance with industry reporting guidelines
POST 2020: ADDITIONAL SUSTAINABLE DEVELOPMENT GOALS	
4 QUALITY EDUCATION	People development

1 - The scope of our targets differs from the reporting scope. Environmental targets (on flaring, offshore plastic waste and oil spills) also include Serpentina. The office targets (Green energy use and recycling programs) are set on the shared services offices only, which includes project offices and excludes representative offices and shorebases

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 International Financial Reporting Standards (IFRS) guidelines, the Company'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 2019 Directional revenue was US$2,171 million, a solid increase of 27% compared with 2018. This increase is mainly the result of a ramp-up in Turnkey activity, leading to a Turnkey revenue of US$856 million, representing a growth of more than 100% compared with 2018. Directional Lease and Operate revenue totaled US$1,315 million in 2019, stable when compared with US$1,298 million in the year before, despite three vessels (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) leaving the fleet in 2018. Offsetting the decrease from this change is an overall improvement in performance of the fleet and the first contribution of FPSO *Liza Destiny*.

Excluding non-recurring items, 2019 Underlying Directional EBITDA increased to US$832 million compared with US$784 million in the prior year, driven by improvements in operational performance, both in the Turnkey and Lease and Operate segments. In the context of improving market conditions, Underlying full year 2019 Directional Turnkey EBITDA was US$53 million, a US$29 million increase versus 2018. The impact of a number of positive project close-out items in 2018 was more than offset by strong project execution in the context of increased activity year-on-year. Underlying Directional Lease and Operate EBITDA increased from US$824 million in 2018 to US$842 million. This reflects an overall improvement in performance of the fleet and the start of the FPSO *Liza Destiny* contribution during the last quarter of 2019. Underlying other non-allocated costs charged to EBITDA stood at US$(63) million, stable when compared with the year-ago period.

2019 Underlying Directional net income attributable to shareholders stood at US$171 million, an increase of US$58 million compared with the previous year, driven by the ramp-up in Turnkey activity and the solid contribution from the Lease and Operate segment.

The above Underlying figures exclude several non-recurring items described in section 4.1.3 Financial Review Directional. These items had a impact positive on the 2019 Directional EBITDA for an amount of US$90 million and on net profit attributable to shareholders of US$65 million. Including these items, total reported 2019 Directional EBITDA was US$921 million and net profit attributable to shareholders was US$235 million.

BACKLOG

The Directional backlog, which is presented on a pro-forma basis in note 4.1.3 Financial Review Directional, grew to a total of US$20.7 billion at December 31, 2019, compared with US$14.8 billion at year-end 2018.

This significant year-on-year growth is explained by the awarded Lease and Operate contracts for (i) FPSO *Liza Unity*, (ii) FPSO *Sepetiba*, (iii) the initial scope to begin FEED activities and build a Fast4Ward® hull for the FPSO *Prosperity* project and (iv) the acquisition of the minority share in the lease and operating entities related to five Brazilian FPSOs. Following the award of the above contracts, the backlog now provides cash flow visibility of more than 25 years, up to 2045.

STATEMENT OF FINANCIAL POSITION

The Company's financial position remains strong as a result of the cash flow generated by the fleet and the adaptation of the Turnkey segment to a recovering market.

Directional shareholders equity decreased from US$1,317 million to US$1,179 million, despite the US$235 million net profit attributable to shareholders generated in 2019. This was primarily due to the completion of the EUR175 million share repurchase program, the dividend distribution to the shareholders for an amount of US$75 million and a decrease of the hedging reserves by US$105 million caused by the decrease in market interest rates.

Directional 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 signficant investment for the future through capital expenditure in FPSOs *Liza Destiny*, *Liza Unity* and *Sepetiba* over the period. It should be noted that the investment in the FPSOs *Liza Destiny* and *Liza Unity* are expected to be recovered through the sale of these vessels to the client in a period of up to two years following the start of the operations of each unit. Other significant cash outflows over the period related to (i) the payment of the agreed part of the Yme insurance proceeds to Repsol, (ii) the return of funds to the shareholders through dividend and the share repurchase program, (iii) the acquisition of the minority shares in the lease and operating entities related to five Brazilian FPSOs, as well as (iv) the expected unwinding of a large portion of working capital in the

Turnkey segment (significant milestone payments were invoiced and received in 2018).

At December 31, 2019, all of the Company's debt (except for the lease liabilities and the project loans on FPSO *Liza Destiny* and FPSO *Liza Unity*), consists of non-recourse project financing held in special purpose vehicles.

CASH FLOW/LIQUIDITIES

Cash and undrawn committed credit facilities amount to US$2,422 million, of which US$132 million is considered as pledged to project debt servicing in the special purpose vehicles or otherwise restricted in its utilization, US$155 million is the remaining capacity of the project loan dedicated to FPSO *Liza Destiny* and US$809 million is the remaining capacity of the project loan dedicated to FPSO *Liza Unity*.

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

2.5 OPERATIONAL 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 2,500 offshore crew and onshore staff supporting the fleet ensures value creation through the safe, reliable and efficient operation of the Company's offshore fleet.

KEY FIGURES

- 5.9 billion barrels of production cumulated to date
- 8,722 oil offloads cumulated to date
- Over 330 cumulative contract years of operational experience

2019 represented a strong year for the Company's operations, with particularly good performance achieved in terms of occupational and process safety and the highest production uptime of the last six years. As a forward-looking operator, SBM Offshore works to leverage its unrivalled experience and industry-leading digital and technological solutions to deliver sustainable, ethical operations with highest standards of safety, reliability and efficiency.

In 2019, accelerated digital initiatives under the 'Smart Operations' program have realized the first steps of an ambitious transformation plan aimed at delivering safer, more reliable and more efficient operations.

In Guyana, operational readiness milestones were achieved well on schedule and organizational presence established ahead of the start up of the FPSO *Liza Destiny*. Initiatives are ongoing to further develop SBM Offshore's presence in-country and receive additional units in the coming years.

In 2019, the following changes occurred in the fleet operated by SBM Offshore:

- *FSO Yetagun*, which was decommissioned and sold to new owners in 2018, underwent recycling in-line with SBM Offshore policies and in accordance with the Hong Kong Convention.
- PFC (MOPU) *Deep Panuke*, which ceased gas production in 2018, continued to be decommissioned in close collaboration with the client, aiming for a scheduled completion during 2020.
- FPSO *Liza Destiny* arrived in Guyanese waters in August 2019 and, following receipt of its certificate acceptance from the client, joined SBM Offshore's fleet on November 1, 2019. First oil was achieved on December 20, 2019.

OPERATIONS FLEET

Initial Lease Period | Contractual Extension Option | Confirmed Extension | Conversion

Vessel Name	Client	Country	1st Oil/ Gas Date	2006 – 2016 – 2019 – 2026 – 2036
FPSO *Serpentina*(1)	MEGI	E.GUINEA	2003	04/2017 04/2022
FPSO *Capixaba*	PETROBRAS	BRAZIL	2006	05/2006 06/2008 04/2010 04/2022
FPSO *Kikeh*	PTTEP	MALAYSIA	2007	08/2007 01/2016 01/2022 01/2031
FPSO *Mondo*	EXXONMOBIL	ANGOLA	2008	01/2008 12/2022 12/2027
FPSO *Saxi Batuque*	EXXONMOBIL	ANGOLA	2008	07/2008 06/2023 06/2028
FPSO *Espirito Santo*	SHELL	BRAZIL	2009	01/2009 12/2023 12/2028
Thunder Hawk Semi-Sub	FIELDWOOD/ MURPHY	USA	2009	12/2009 09/2015 08/2025 08/2028
FPSO *Aseng*	NOBLE ENERGY	E.GUINEA	2011	11/2011 11/2026 11/2031
FPSO *Cidade de Anchieta*	PETROBRAS	BRAZIL	2012	06/2012 06/2030 06/2032
FPSO *Cidade de Paraty*	PETROBRAS	BRAZIL	2013	06/2013 06/2033
Deep Panuke PFC (2)	ENCANA	CANADA	2013	12/2013 11/2021
FPSO *Cidade de Ilhabela*	PETROBRAS	BRAZIL	2014	11/2014 11/2034
N'Goma FPSO	ENI	ANGOLA	2014	11/2014 11/2026 11/2029
FPSO *Cidade de Maricá*	PETROBRAS	BRAZIL	2016	02/2016 02/2036
FPSO *Cidade de Saquarema*	PETROBRAS	BRAZIL	2016	07/2016 07/2036
FPSO *Liza Destiny* (3)	EXXONMOBIL	GUYANA	2019	12/2019 12/2029 12/2039
FPSO *Liza Unity* (4)*	EXXONMOBIL	GUYANA	2022	2022 2024
FPSO *Sepetiba**	PETROBRAS	BRAZIL	2022	2022 2045

Vessel Name | Client | Country | 1st Oil/ Gas Date | 2006 2016 2019 2026 2036

(1) FPSO Serpentina is owned by the client and is operated by Gepsing – a subsidiary between SBM Offshore (60%) and GEPetrol (40%)

(2) Unit under decomissioning. The charter contract with client until November 2021 remains in place.

(3) Discussions with the client are ongoing regarding a potential accelerated transfer of ownership using the purchase option in the 10 year lease contract. The outcomes of these discussions are expected to lead to a transfer of the FPSO ownership and operation after a period of up to 2 years.

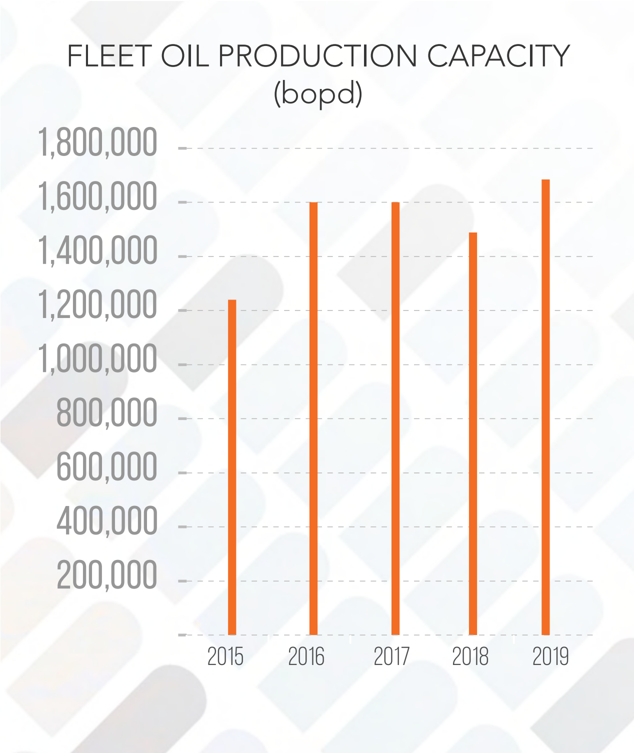
(4) Under these contracts, SBM Offshore will construct, install and thereafter lease and operate for up to two years the FPSO *Liza Unity*.

* Under construction.

FULL FLEET (AS OF DECEMBER 31ST, 2019[4])

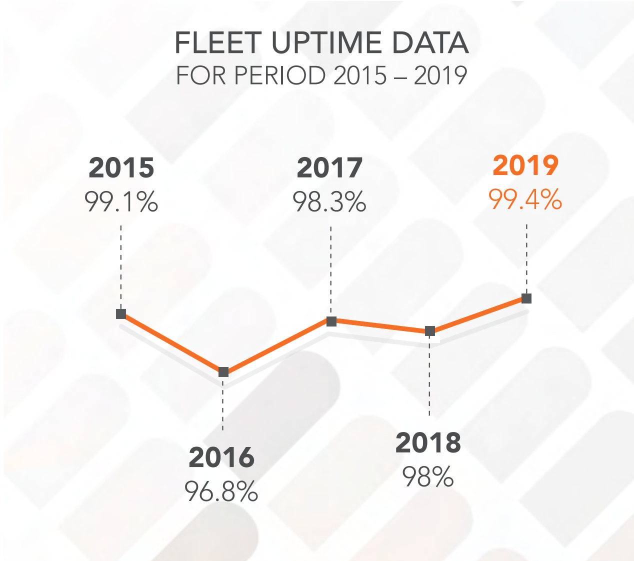
At the end of 2019, SBM Offshore was responsible for operating 16 units in the fleet across the globe, consisting of:

- 14 FPSOs
- 1 MOPU under decommissioning
- 1 Semi-submersible unit



OPERATIONAL PERFORMANCE

The main production performance indicator of the fleet is ‘Production Uptime’, which measures the percentage of time in which a unit is available to produce. In 2019 production uptime was at a six-year high of 99.4%. The improved availability compared to 2018 was essentially due to a strong recovery on FPSO *Capixaba* following planned maintenance and life-time extension activities in 2018. This was matched with a strong underlying performance across the remainder of the fleet, with our latest generation 'G3' fleet in Brazil's Santos basin, in particular continuing to deliver at or near nameplate.



Various initiatives were undertaken in 2019 to enhance the operational quality and efficiency through:

- Continued focus on leadership and competence strengthening, supported by a mature talent program providing improved positioning to meet future growth.
- Improved planning capability and tools fostering greater efficiency in daily offshore operations, shutdown management and project execution.
- Deployment of digital solutions improving offshore operations, asset monitoring and predictive capability.
- Partnership signed with digital provider to build machine learning and artificial intelligence tools.
- Enhanced local content and structure to support Guyana operations, with the wider ambition to combine positive social impact and performance in this new country of operations.

ASSET INTEGRITY, MAINTENANCE AND COST MANAGEMENT

SBM Offshore’s approach to asset integrity is to target asset preservation with optimal lifecycle costing. In 2019, progress was made on:

- Creation of a digital environment, data connection and management under the Operations monitoring center to support the development of predictive maintenance models for equipment to asset optimization.
- Process safety leadership and Process Safety Management capability, supported by behavioral rules to prevent the occurance of process safety events, resulting in progress in leading process safety KPIs and Loss of Primary Containment (LOPC) reporting.
- Introduction of technological solutions, such as offshore mobility devices, drone technology, virtual reality applications and tools supporting equipment integrity (Ex.) program for ignition risk management.

[4] Oil tanker GENE is engaged in oil transportation services.

2.5.2 TURNKEY

MANAGEMENT APPROACH

SBM Offshore continues to actively engage with clients, to transform its product offering by optimizing and standardizing its floating production system designs and leveraging its technology expertise to innovate new products. In line with a holistic approach, the Company is engaging with strategic partners to ensure all-encompassing solutions for clients, including due consideration to the energy transition going forward. Overall, the industry environment continues to improve, with project activity picking up steadily. SBM Offshore continues to adhere to a defined risk appetite framework as it pursues potential projects.

OPERATIONAL ACTIVITIES

SBM Offshore's consistent approach to integrating operational feedback into all phases of its projects is the foundation for optimization of its activities across the lifecycle. This also greatly contributes to the Company's capacity to continuously improve its designs and project execution processes.

Although the market has picked up as expected, the cost and schedule-conscious climate continues. SBM Offshore continues to believe in its solutions, with simplification and de-risking as the way forward for future projects. In concrete terms, this has translated into the Company applying its Fast4Ward® program, which encompasses standardization, across its entire product portfolio.

2019 PERFORMANCE

The Company's KPIs include securing new contracts and progress made on projects, in line with clients' plans. The following highlights provide visibility on performance in 2019.

FPSOs

Conversion FPSOs

- Commissioning work for FPSO *Liza Destiny* was completed and the FPSO achieved first oil on December 20th, 2019. It is formally on hire and is being operated by SBM Offshore.

New build Fast4Ward FPSOs

- The construction phase for the Company's first Fast4Ward FPSO hull was completed at Shanghai Waigaoqiao Shipbuilding and Offshore Co., Ltd. (SWS) yard in China, with sailaway at year-end to Keppel yard in Singapore, where integration of topsides will take place. This hull is for the FPSO *Liza Unity* for ExxonMobil and its co-venturers, offshore Guyana, for which the contract was awarded this year. SBM Offshore will construct, install and thereafter Lease and Operate the FPSO for up to two years offshore Guyana.
- Early in the year, SBM Offshore signed a contract with China Merchants Industry Holdings (CMIH) for a Fast4Ward hull. Later on, the construction phase began on the hull, which is now allocated to the FPSO *Sepetiba* (formerly known as Mero 2) offshore Brazil. In June, SBM Offshore signed the binding Letter of Intent (LOI) with Petrobras for this project. This was followed in December by a contract signature with Petrobras for the 22.5 years lease and operation of FPSO *Sepetiba*.
- In November, the Company was awarded contracts to perform a FEED for FPSO *Prosperity* for ExxonMobil's Payara development project offshore Guyana. The award was the first under the long-term FPSO supply agreement with ExxonMobil and secured SBM Offshore's third Fast4Ward hull under construction. The next phase of the FPSO *Prosperity* project remains subject to government approvals, project sanction and authorization.
- In December, SBM Offshore announced that it signed contracts with SWS and CMIH for the construction of the Company's fourth and fifth hulls under its purchase program for Fast4Ward hulls, making a total of five Multi-Purpose Floaters. The latest two hulls are earmarked for market opportunities, while the other three are already allocated to client projects.

Turret Mooring Systems

- Fabrication of the TMS for Equinor's *Johan Castberg* FPSO is entering the final phase with the Bogie Support Structure (BSS) loaded out in Q3 and the lower turret loaded out at year-end. The project is on schedule to meet the planned delivery date in early 2020.

Renewables

- SBM Offshore is progressing with engineering services for the EDF Renewables' Provence Grand Large (PGL) offshore floating wind pilot project, per the Early Works contract. The project, which consists of three floating offshore wind units, is pending final project sanction.

FUTURE

As part of its readiness strategy as the market gradually improves, the Company continues to invest and grow its capacity, in order to provide floating solutions by optimizing, transforming, innovating and proposing various business models, such as Turnkey sale, build-own-transfer (BOT) and Lease and Operate. The Company aims at early engagement with clients, to be the preferred contractor in providing optimized conceptual solutions and business models, to support the viability of projects and maximize returns.

2.6 HEALTH, SAFETY, SECURITY AND ENVIRONMENT

MANAGEMENT APPROACH

SBM Offshore is committed to safeguarding the Health, Safety and Security (HSS) of its employees, subcontractors and assets, as well as to minimizing the impact of the Company's activities on local ecosystems and proactively protecting the environment. SBM Offshore applies controls and safeguards based on a lifecycle hazard management process and an integrated management system, underpinned by the Company's Health, Safety, Security & Environment (HSSE) culture development program. In line with the Company's HSSE Policy statement, SBM Offshore defines its HSSE requirements in compliance with applicable legal requirements and ISO standards, as well as international oil and gas practices (International Association of Oil and Gas Producers – IOGP).

SBM Offshore:

- follows the guidance of ISO17776 for hazard management, identifies work-related hazards and assesses risks for routine and non-routine activities in a systematic manner through a range of different methodologies commensurate with the type of activity being assessed and adopts a progressive approach to risk reduction until no further risk-reducing measures are reasonable.
- investigates all incidents with an actual or a potential consequence for the Health, Safety and Security of personnel and/or impact on the Environment arising out of the Company's activities and records the information in a centralized incident management tool. The outcome of the investigation, the immediate and root causes identified and the agreed actions to prevent re-occurence includes wider Company improvement and communication where relevant.
- continues the journey to Target Excellence, with the objectives of No Harm, No Defects, No Leaks. For the No Harm goal, SBM Offshore sets the expectations for all employees and the companies to whom SBM Offshore outsources, to intervene on unsafe acts, unsafe situations and non-compliance with Life Saving Rules, to stop the work if they feel anything is unsafe and to report on interventions and any incidents. The LIFE365 program, as an integral part of the Target Excellence journey, frames the development of the HSSE leadership and culture development in the Company. For more information on Target Excellence, please refer to section 2.7.
- values pro-active consultation and open communication with employees through structured dialogue and joint committees, encourages participation in HSSE-related initiatives, campaigns and Life Day.
- implements a health control framework, which includes a fitness to work process, regular medical check-up and specific health surveillance, as well as medical emergency arrangements.
- provides HSSE training based on the role and the type of work to be performed, which covers the full range of Company activities. Training programs raise employees' awareness and bring them the skills to intervene on unsafe acts and situations, as well as to behave as inspiring safety leaders promoting and sharing Company's values and proactive culture (see section 5.2.1).

2019 PERFORMANCE

SBM Offshore assesses Company HSSE performance through a set of indicators, with a specific focus on the core following indicators:

- Number of work-related injuries and ill health, including number of security related incidents
- Volume of emissions into the air: flaring and related emissions
- Amount of energy consumed
- Volume of discharges into the sea

HSSE data are tracked daily, consolidated monthly, and disclosed on an annual basis. Results are recorded and reported in accordance with the Global Reporting Initiative (GRI) Standards and IOGP guidelines. The results are compared to previous years, as well as benchmarked against the IOGP averages.

Key targets

To pursue Company HSSE performance improvement, SBM Offshore set the following targets for 2019:

- To achieve a Total Recordable Injury Frequency Rate (TRIFR) target of 0.29 without any fatality.
- To reduce the quantity of gas flared under SBM Offshore control by 20% compared to 2018.
- To reduce the plastic wastes generated onboard offshore units by 40% compared to 2018.
- To achieve a better environmental performance than the 2017 IOGP industry average benchmark[5] for the following environmental aspects: greenhouse gas (GHG) emissions[6], gas flared[7], energy consumption[8], oil in produced water[9] and oil spills per production.[10]

[5] IOGP data series environmental performance indicators - 2017 data, report number 2017e, published in October 2018.
[6] Companies participating in the 2017 IOGP benchmark reported 151 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, Report 2017e, p.25
[7] Companies participating in the 2017 IOGP benchmark reported 12.1 tonnes of gas flared per thousand tonnes of hydrocarbon produced, Report 2017e, p.35
[8] Companies participating in the 2017 IOGP benchmark consumed 1.5 gigajoules of energy for every tonne of hydrocarbon produced, Report 2017e, p.33
[9] Companies participating in the 2017 IOGP benchmark reported 13.3 tonnes of oil discharged to sea per million tonnes of hydrocarbon produced, Report 2017e, p.41
[10] Companies participating in the 2017 IOGP benchmark reported 0.5 oil spills greater than one barrel per million tonnes of hydrocarbon produced, Report 2017e, p.48

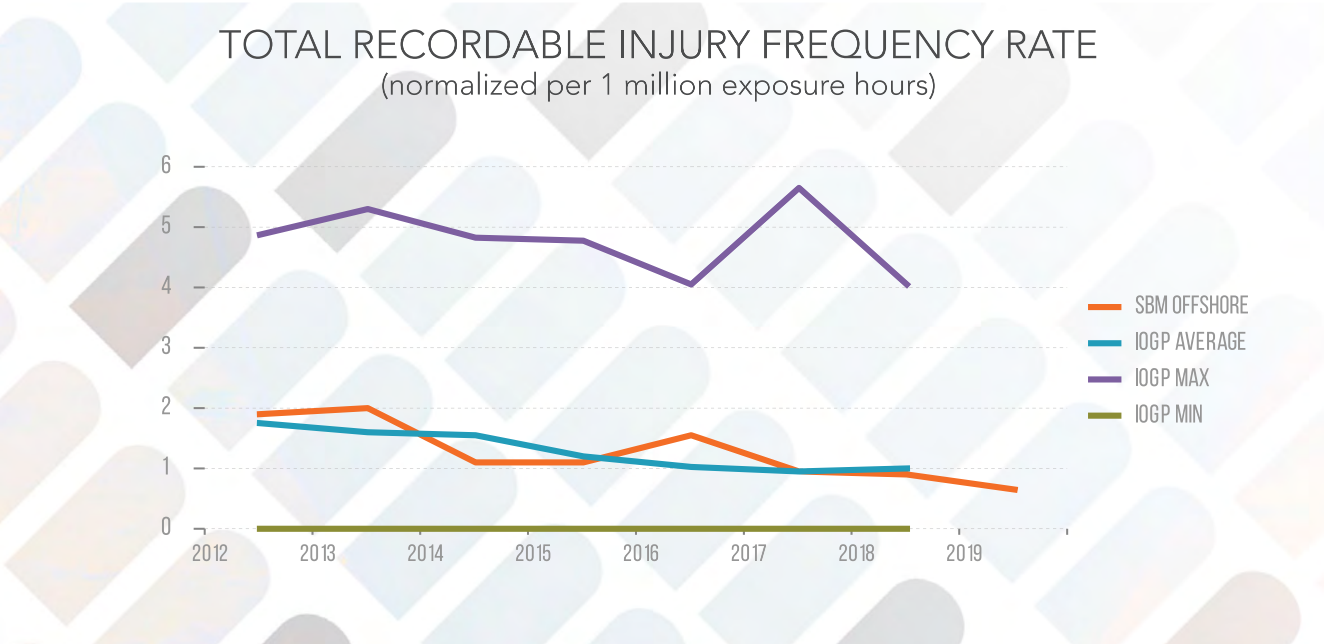
Key achievements

The Company continued to expand the HSSE initiatives in 2019 as follows:

- Maintained all International Safety Management (ISM) and International Ship and Port Facility Security (ISPS) certifications on offshore units and shorebases, as well as verification of compliance with ISO 14001 and OHSAS 18001 requirements for SBM Offshore Operations. This includes obtaining the ISO 14001 and OHSAS 18001 compliance verification on the most recent unit, FPSO *Liza Destiny* and corresponding shorebase.
- Engaged at project management level and at offshore unit level to strengthen the ownership of a safety culture among leaders and supervisors.
- Deployed the nine Life Saving Rules published in October 2018 by the IOGP, adopting the recently updated industry practices.
- Performed culture survey and further improvements of the key controls and lessons learned from incident investigations.
- Strengthened the controls in view of the changing security threats impacting on the business activities.
- Deployed the Company-wide Life Day and engagements with employees via multi-disciplinary monthly campaigns.
- Pursued efforts and actions supporting the objective to reduce the volume of gas flared under the control of the offshore units and to reduce the amount of plastic waste generated on offshore units.

The following graph shows that SBM Offshore's Total Recordable Injury Frequency Rate has remained around the IOGP average since 2012[11].

[11] For this graph normalized per 1 million exposure hours; includes IOGP Contributing Members (maximum, average, minimum)



Key results

Despite continued year-on-year improvement in the ability to prevent injuries during 2019, regrettably one contracted diver was fatally injured during installation activities of a pipeline section replacement project offshore Angola in December. The investigation has identified root causes for which a set of actions have been implemented and further preventive measures have been initiated. SBM Offshore achieved the following HSS performance in 2019:

- SBM Offshore performed better than its TRIFR target of 0.29 and achieved an overall TRIFR of 0.13 in 2019 better than 0.18 in 2018.
- The Occupational Illness Frequency Rate (OIFR) for employees improved to 0.01 in 2019 from 0.33 in 2018, recovering to a level to that of 2017 (0.02), with one occupational illness occurence.
- The frequency rate of incidents with high-consequence work-related injury remained at 0 in 2019, equal to the 2018 rate.
- 15 'work-related' security incidents (as opposed to safety incidents) were reported. None of these security incidents resulted in any actual injury or physical harm to SBM Offshore personnel.

The following environmental performance was recorded in 2019[12]:

- GHG emissions from energy generation and gas flared relative to the hydrocarbon production remained stable

[12] Detailed data are provided in the non-financial table, section 5.3.2

compared to 2018. A total of 5,668,961 tonnes of GHG were emitted in 2019, representing 105.54 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, almost equivalent to the 2018 result and 30% lower than the industry benchmark[13]. This result is mainly due to a similar amount of volume of gas flared compared to 2018 (see next bullet point).

- The total gas flared in 2019 remained equivalent to the 2018 level with 11.87 tonnes per thousand tonnes of hydrocarbon produced (of which 67% was requested by the client) compared to 11.45 in 2018 (see Data revisions section 5.2.2). The amount of gas flared under SBM Offshore control was 3.95 tonnes per thousand tonnes of hydrocarbon produced compared to 3.98 in 2018, which represents a reduction of 0.7%, therefore it did not meet the initial set target of 20% reduction. A plan to address the flaring challenges is in place on the 2019 significant contributors and status monitored regularly. The Company reports a total gas flared per production just below the IOGP industry benchmark[14] of 12.1.
- The amount of plastic waste generated onboard reduced by approximately 22% from 215,724 tonnes in 2018 to 168,482 tonnes in 2019 thanks to a number of actions implemented onboard offshore units. Whilst the ambitious stretched target of 40% reduction was not achieved, the initiative created momentum in the organization and highlighted specific difficulties in some regions.
- The volume of energy consumption used per hydrocarbon produced remained stable at 1.15 gigajoules of energy for every tonne of hydrocarbon produced compared to 2018 (see re-statement), which is 23% lower than the industry benchmark.[15]
- The quantity of oil discharged to sea per hydrocarbon production was 5.13 tonnes per million tonnes of hydrocarbon produced, compared to 5.33 in 2018 (see re-statement), while the IOGP average is 13.3. The Company continues to perform here much better than the industry.
- There was no hydrocarbon spill exceeding one barrel in volume (159L), while the industry benchmark[16] is 0.5.

[13] Companies participating in the 2017 IOGP benchmark reported 151 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, Report 2017e, p.25

[14] Companies participating in the 2017 IOGP benchmark reported12.1 tonnes of gas flared per thousand tonnes of hydrocarbon produced, Report 2017e, p.35

[15] Companies participating in the 2017 IOGP benchmark consumed 1.5 gigajoules of energy for every tonne of hydrocarbon produced, Report 2017e, p.33

[16] Companies participating in the 2017 IOGP benchmark reported 0.5 oil spills greater than one barrel per million tonnes of hydrocarbon produced, Report 2017e, p.48

FUTURE

SBM Offshore has defined its 2020 ambition with the following targets:

- To achieve a TRIFR better than 0.20.
- To reduce the overall quantity of gas flared under SBM Offshore control by 25% compared to 2019.
- All offshore units to achieve better environmental performance than the 2018 IOGP industry benchmark[17] for the following environmental aspects: GHG emissions[18], gas flared[19], energy consumption[20], oil in produced water[21] and oil spills per production.[22]
- To reduce by 10% the plastic wastes generated onboard offshore units.

SBM Offshore has set up the following key initiatives for 2020 to achieve the Company's ambition on the sustainability goals and support continuous improvement:

- Promote safe working environments, assure performance through building internal, and leveraging external, capacity.
- Standardize safe working practices and improve assurance on their implementation.
- Develop and embed leadership behavioral practices, continue the offshore leadership skills program deployment and project management team engagement, initiate the development of safety leadership in action program for project supervisor's and assess synergy opportunities with companies to which SBM Offshore outsources.
- Strengthen security resources worldwide and maintain security controls on activities and preparation of new country entry.
- Promote health and wellbeing through structured framework arising out of risk assessments and supported by robust reporting.
- Increase health and welfare awareness and health related controls on specific topics.
- Maintain compliance with all existing certification requirements on shorebases and offshore units.

[17] IOGP data series environmental performance indicators - 2018 data, report number 2018ee.

[18] Target of 149 tonnes of GHG Emissions per thousand tonnes of hydrocarbon produced as reported by companies participating in the 2018 IOGP benchmark, Report 2018ee, p.2

[19] Target of 10.5 tonnes of gas flared per thousand tonnes of hydrocarbon produced as reported by companies participating in the 2018 IOGP benchmark, Report 2018ee, p.2

[20] Target of 1.5 gigajoules of energy for every tonne of hydrocarbon produced as reported by companies participating in the 2018 IOGP benchmark, Report 2018ee, p.2

[21] Target of 12.3 tonnes of oil discharged to sea per million tonnes of hydrocarbon produced as reported by companies participating in the 2018 IOGP benchmark, Report 2018ee, p.3

[22] Target of 0.5 oil spills greater than one barrel per million tonnes of hydrocarbon produced as reported by companies participating in the 2018 IOGP benchmark, Report 2018ee, p.3

OUR JOURNEY TO TARGET EXCELLENCE

HEALTH SAFETY SECURITY AND ENVIRONMENT

NO HARM

9 LIFE SAVING RULES

- Bypassing Safety Controls
- Confined Space
- Driving
- Energy Isolation
- Hot Work
- Line of Fire
- Safe Mechanical Lifting
- Work Authorization
- Working at Height

QUALITY & REGULATORY

NO DEFECTS

12 QUALITY RULES

- Honest & Transparent
- Competent, Qualified & Authorized
- Plan & Execute
- Use Approved Documentation
- In-Process Verification
- Management of Change (MoC)
- Testing & Completions
- Weld Integrity
- Electrical Integrity
- Flange Integrity
- Piping Cleanliness
- Preservation

PROCESS SAFETY MANAGEMENT

NO LEAKS

10 PROCESS SAFETY FUNDAMENTALS

1. Drain & Vents
2. Safe Transfers
3. Safety Critical Equipment
4. Procedures
5. Walk the Line
6. Management of Change (MoC)
7. Flanges & Fittings
8. Isolation Integrity
9. Temporary Connections
10. Alarms

2.7 OPERATIONAL EXCELLENCE

MANAGEMENT APPROACH

Group Operational Excellence functions are organized to support operational and assurance functions, with the goal of achieving the most efficient and effective operation over the full lifecycle, through standardization and digitalization of processes in all areas of the Company's business, as part of its ambition to 'Target Excellence'.

This goal is pursued in one hand via the Fast4Ward® program (see section 2.2) and in the other hand via the maintenance of the Company's Global Enterprise Management System (GEMS) (see section 3.10.1), our Group Technical Standards (GTS) (see section 3.10.2) and Process Safety Management framework. Part of this framework is the continuous improvement cycle, achieved through lessons learned, as well as the adoption of best practices, including the application of the International Sustainability Rating System (ISRS) (see section 2.7.2).

For more information on Operational Governance, please refer to section 3.10.

2019 PERFORMANCE

The Company supported the journey to Target Excellence that is the guiding force to become "the best in everything we do" across our three-pillar strategy of 'Optimize, Transform, Innovate'. Efforts were made to streamline GEMS, learn from events and to progress other continuous improvement initiatives.

Key achievements

- Learning from events at Management level through investigation and follow-up of significant incidents.
- Adoption of a number of lessons learned initiatives with the purpose of analyzing, developing and implementing robust solutions to improve our operations.
- Deployment of our corporate Hazards and Effects Management Process, based on industry best practice for Advanced Barrier Management, as highlighted in section 2.7.1.
- Continued deployment of Process Safety Management and Investigation/Root Cause Analysis training programs.
- Ongoing integration of Operations Management System documentation into GEMS.

FUTURE

The following objectives have been set for 2020:

- Continue to optimize GEMS, including restructuring and simplification where required.
- Process Safety Management strategy and targets as highlighted in section 2.7.1.
- Continuation of the deployment of ISRS and Process Safety Management frameworks, including the development or improvement of associated tools, where required, and further strengthening hazard management processes.
- Maintain efforts on continuous improvement, including incident investigation and follow-up, and lessons learned initiatives.

2.7.1 PROCESS SAFETY MANAGEMENT

MANAGEMENT APPROACH

A Process Safety Management (PSM) framework and program based on an industry standard[23][24] is in place which, when applied throughout the product lifecycle, aims to reduce the risk of major accidents. This approach incorporates industry good practice in Inherently Safer Design[25] and Advanced Process Safety Barrier Management [26]and applies a hierarchy of hazard management that follows:

- Elimination – Avoid the hazard completely
- Substitution – Reduce the severity of the hazard by changing its nature
- Minimization – Reduce the hazard severity by minimizing its scale
- Moderation – Reduce the hazard severity by changing the impact of a potential hazardous event
- Segregation – Limit effects of a hazard by reducing its potential of causing harm
- Simplification – Reduce the likelihood of a hazardous event by inherent features of the design
- Engineering controls – Reduce the likelihood of the hazardous event or impact by adding controls to the design
- Administrative controls – Reduce the likelihood of the hazardous event or impact by adding administrative controls
- Personal Protective Equipment – Reduce the likelihood of impact to people by providing them with Personal Protective Equipment (PPE)

The PSM framework consists of a set of risk-based priority activities and practices that are being embedded in the Company's GEMS and the GTS, which have been aligned with the ISRS improvement activities.

All LOPC events occurring offshore are reported to the relevant parties within the organization and analyzed to identify appropriate treatment measures. SBM Offshore follows IOGP 456 and American Petroleum Institute (API) 754 standards for LOPC classification. The annual statistics

[23] 'Guidelines for Risk Based Process Safety' by the Centre for Chemical Process Safety (CCPS)
[24] PSFs are a set of 10 guidelines that reinforce best practices targetting causal factors related to PSE with the objective of reducing LOPC events.
[25] 'Guidance on applying inherent safety in design: Reducing process safety hazards whilst optimising CAPEX and OPEX' by the Energy Institute EI.
[26] 'Bowties in Risk Management. A Concept Book for Process Safety' by the CCPS and EI

are compared to previous years and benchmarked against IOGP averages.

2019 PERFORMANCE

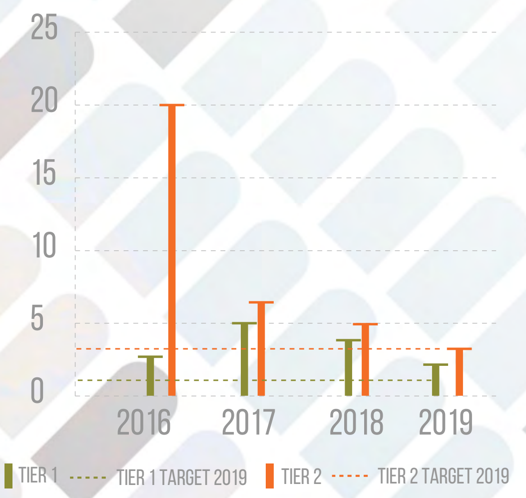
Key achievements

- Development and implementation of a revised Hazards and Effects Management Process, based on industry best practice.[27]
- Implementation of a digital permit to work platform on most of our operated assets.

Key results

- The Company did not meet its target for Tier 1 Process Safety Events (PSE) as there were two Tier 1 incidents in 2019, which is one higher than targeted.
- The number of Tier 2 PSE did met our target which was to be better than the IOGP average, based on number of offshore hours worked.
- A total of 348 process related LOPC events were recorded, of which 199 were of API 754 classified materials.

TIER 1 AND TIER 2 PERFORMANCE BY YEAR AGAINST 2019 TARGET



FUTURE

The following objectives have been set for 2020:

- As with 2019, for 2020 SBM Offshore have set their targets for Tier 1 and Tier 2 PSE to be better that the IOGP average for the amount of manhours worked. Based on last years manhours, this would relate to one Tier 1 and three Tier 2 events.
- Continue implementation of the PSM framework throughout our business processes.

[27] 'Bowties in Risk Management. A Concept Book for Process Safety' by the CCPS and EI

2.7.2 QUALITY AND REGULATORY MANAGEMENT

MANAGEMENT APPROACH

SBM Offshore is committed to performing its business in full compliance with all applicable laws and regulations and to delivering products and services meeting all related regulatory requirements, as well as any applicable specifications and requirements imposed by relevant stakeholders (including, but not limited to, clients).
SBM Offshore is equally committed to Continuous Improvement and is actively using DNV GL's ISRS system, adopted in 2014, as a tool to incorporate best practices into SBM Offshore's ways of working.

As part of the Group Operational Excellence functions, the combined Quality & Regulatory Management function is dedicated to ensuring that such objectives are consistently met in the Company's core business, notably through:

- Promoting a quality and compliance culture across its organization and ensuring appropriate behaviors.
- Ensuring compliance of GEMS with relevant international standards (including, but not limited to, ISO 9001) and, in turn, ensuring effective compliance of the organization with GEMS.
- Providing systematic identification of regulatory requirements applicable to its core business activities and ensuring their implementation within the organization.
- Ensuring that conformity, compliance and acceptance of the Company's products and services are effectively achieved and maintained throughout their lifecycle.
- Supporting continuous improvement, notably through the management of an ISRS Action Plan established to gradually reach an ambition level consistent with Company strategy.
- Increasing standardization and digitalization through the Fast4Ward® program.

PERFORMANCE

Key achievements in 2019

- Active promotion of quality and regulatory compliance through communication campaigns (combined with HSSE and Process Safety) and a global celebration of World Quality Day.
- Maintenance of SBM Offshore's ISO 9001:2015 certification.
- Quality improvement initiatives in the context of SBM Offshore's ambition to Target Excellence, focusing notably on 'Costs of Non-Quality'.
- Full deployment of SBM Offshore's 12 Quality Rules as a quality-focused complement to SBM Offshore's well-established Life-Saving Rules and Process Safety Fundamentals.

- Regulatory watch and research, as required to support the Company's Win, Execute and Operate activities and strengthen corresponding assurance coverage.
- Implementation of the ISRS Action Plan, including ISRS assessments of a selection of operating units and onshore locations.

Most importantly, all Company offshore facilities were duly approved by all relevant authorities and regulators, with all related permits, licenses, authorizations, notifications and certificates duly granted and maintained valid. Offshore facilities have also remained 'in class' at all times, as required from both statutory and insurance perspectives.

FUTURE

Key objectives for 2020

- Leading contribution to the Company's journey to Target Excellence, with specific focus on the 'No Defects' target and the 'right first time' principle.
- Renewal of SBM Offshore's ISO 9001:2015 certification, as required every three years.
- Reduction of Cost-of-Non-Quality (and Cost-of-Non-Compliance) through systematic tracking, investigations and pilot initiatives to both prevent and mitigate future occurrences across the Company's Corporate, Win, Execute and Operate activities.
- Smarter and leaner management system ('GEMS 2.0'), assurance activities and ways of working, building on ISRS best practices and the Fast4Ward principles.
- Development of an integrated product assurance approach as a way to close quality gaps and increase efficiency and predictability.
- Building competence in 'design thinking', 'lean' and 'agile' ways of working.
- Effective use of independent third parties (including, but not limited to, certification and classification bodies, as shown in section 5.5) for inspection, verification and assurance services related to Execute and Operate activities.
- Maintenance of an effective regulatory watch and interface with regulators, supporting ongoing business, innovation and new ventures.

As a permanent, overarching objective, all Company projects, facilities and sites are to be performed, delivered and maintained in full compliance with all applicable laws, regulations and requirements from relevant stakeholders.

2.8 OUR PEOPLE: OUR COMPETITIVE EDGE

MANAGEMENT APPROACH

SBM Offshore's employees are the main drivers of the Company's success. Their diverse skills represent an incomparable advantage for the Company. To serve its stakeholders, SBM Offshore wants to attract and work with the best talents. Competition for highly qualified management and technical personnel is intense in the Company's industry. Future success depends, in part, on SBM Offshore's ability to hire, assimilate and retain engineers, sales people and other qualified personnel.

To effectively meet ramp-up demands, SBM Offshore has set up a 'best in class' centralized recruitment function. Together with a resource planning cycle and an internal talent development, SBM Offshore is better able to identify the skills it has and compare them to the skills it needs. In taking this approach, the Company is now better able to overcome the challenges associated with the time taken to recruit scarce high-demand skilled workers and plan effective recruitment strategies in advance of the need.

2019 PERFORMANCE

During the past year, SBM Offshore recruitment aims focused on its ability to successfully deliver on its project commitments to clients. The plans focused on two main areas; the increase in headcount for six key locations, which support its Global Project Organization, along with the goal of reducing voluntary leavers. The locations of focus were; Bangalore, China, Houston, Kuala Lumpur, the Netherlands and Monaco. To ensure an effective introduction of these new joiners into the Company, its Culture, core Values and DNA, an investment was made to ensure a global Onboarding program was in place. This consists of a 90-day program, mentorship for new joiners and easily accessible introduction videos. This allows people across the world to experience the same SBM Offshore.

In 2019, SBM Offshore invested in Expert Management by creating a new Human Resources (HR) position dedicated to it. SBM Offshore now has a clear business governance setup and a 2020 roadmap, defined and validated, concerning Experts Management. In addition, the Company performed an Expert internal survey to collect feedback and perceptions about Expert Management from selected representatives of the technical community. The Company also performed an Expert Talent Review to enhance the dynamic between Technology/Technical/ Project/Operations, achieve a robust talent pipeline for the critical Expert roles (by order of priority) and agree on development opportunities for current incumbents in critical Expert roles and critical talents.

In 2019, SBM Offshore continued its focus on talent in the Company. The Company seeks to continuously improve its talent management approach and align it with its strategy. In 2019, SBM Offshore introduced a potential assessment questionnaire, built around three dimensions: knowledge, personal agility and leadership traits. Talent Pools to support 'out of the box' succession planning have been created. We keep attention on succession planning and indicate successors for chosen key succession roles.

In 2017, SBM Offshore launched its first Pulse Survey, a survey open to all employees, which aims to monitor employees' engagement and target specific areas of improvement, with the implementation of action plans in each of its entities. Throughout 2019, the action plans of the 2018 Pulse Survey were created, implemented and supported by HR, Management and Employees. The actions are tracked, updated on a quarterly basis, and available to all employees on the HR SharePoint of SBM Offshore. The Pulse Survey will be conducted every 18 months, with the next survey due to take place in April 2020.

Initiated in 2018, the LUCY project has continued in 2019 to implement the full suite of SAP Sucessfactors across the main SBM Offshore locations. In addition to Employee Central to manage complex HR Administrative process for joiners, leavers and transfers, the LUCY project has reached its ambition to cover all remaining HR processes, such as performance management, talent reviews, succession planning, compensation and benefits, and recruitment. Some new features and possibilities are now open for the HR community, while allowing employees and managers to access to all relevant information such as their own employee profile, company organization chart, vacation calendars and more …

FUTURE

Concerning talent acquisition, there is generally a shortage of engineers and people with technical expertise in the industry. To address this, the Company will be developing better initiatives to work closer with local governments, universities, colleges and schools where its production and operations facilities are located. SBM Offshore will be working together to encourage social mobility and attract young people into engineering and will capitalize on its own diverse talent to train, coach and mentor tomorrow's talent today.

In 2019, SBM Offshore continued its commitment to promote diversity and inclusion by developing close relationships in the countries in which the Company operates, developing opportunities for local people, communities and businesses alike. The Company strives to continue on this path and increase diversity throughout the

organization, especially in managerial positions.
SBM Offshore monitors the diversity balance within its workforce and its reward practices. In doing so, the Company seek to maximize its ability to attract, recruit and retain the best talent that varying cultures and communities have to offer. Diversity for SBM Offshore starts with its employees and the Company runs training courses and events to challenge perceptions and unconscious biases, which then filter into everyday working practices, helping to shape an inclusive culture.

For 2020 onwards, the Company will continue to focus on ensuring that the Talent approach is driving its growth capacity. SBM Offshore aims to do so via a focus on assessing potential with more predictability, using sophisticated assessment methods and via diversification of Career Paths and development opportunities in the Company.

In order to better equip managers and employees with the skills to embrace the challenges ahead, the Company will further develop its 70/20/10 strategy (the three distinct types of learning that will occur over an employee's career – 70% on-the job experience, 20% relationship building and coaching encounters, and 10% formal education and training) by encouraging its employees to seek on-the-job learning opportunities and developmental stretch assignments, in agreement with their manager and taking into account business constraints and project delivery schedules. For peer and social learning, SBM Offshore is aiming at expanding the internal mentoring program (successfully piloted in Amsterdam, Monaco and Schiedam) to more locations to create cross-entity and cross-project mentoring relationships to enhance people's ability to get different perspectives on their competencies and careers. To support managers and employees on specific development topics, SBM Offshore will deploy a more consistent approach to coaching through distance/virtual coaching programs. A new Leadership Framework will define the core traits, attributes and behaviors needed for our 2030 leaders, who will be developed through a new leadership development roadmap, based on blended learning and experiential development.

Along with the HR ambition to put more and more employees at the center of our Strategy, SBM Offshore invested in a fully-integrated Engagement platform, which will allow us to optimize our ways of managing employee engagement. With its integration to the LUCY platform, the solution will allow SBM Offshore to use employee data and trigger surveys on key employee lifecycle steps, such as Onboarding and Performance Assessment. The solution will also allow SBM Offshore to easily reach its offshore colleagues and propose and track action plans directly on the platform. The solution is planned to be launched in March 2020.

The LUCY project will continue in 2020 to increasingly strengthen the automation of the HR administrative tasks (e.g. reporting, calculation, data interfaces, documents generation) and optimize the HR processes in order to better answer to business expectations. Some new KPIs will be put in place to start measuring HR performance and better anticipating business strategic decisions with regard to the SBM Offshore workforce.

In 2019, SBM Offshore addressed the people side of change by establishing a Change Management Office (CMO) and dedicating change resources on strategic transformation projects. The CMO focuses on fostering a culture where employees are equipped to continuously learn, adapt, and thrive in an ever-changing environment. The Company is committed to building internal capabilities and developing this organizational competency through in-house Prosci® training programs, beginning in 2020.

In conclusion, SBM Offshore continues to invest in and develop its people and to evolve its talent management programs, in line with changes in the Company and a transforming industry. SBM Offshore continues to pursue its high standards in vital areas of consistency, equity and transparency across the Company. The Company believes that satisfied and engaged employees will lead to increased productivity, as well as the desired entrepreneurial and ownership behaviors and, ultimately, to the achievement of the Company's goals and delivery of the desired results for its clients.

OUR PEOPLE KEY FIGURES

4,439 DIRECT HIRES

17% NEW HIRES IN 2019

17 LOCATIONS

79 NATIONALITIES

ONSHORE

67%

3,721
EMPLOYEES

35
TRAINING HOURS PER EMPLOYEE

104,191
TOTAL TRAINING HOURS

OFFSHORE

33%

1,809
EMPLOYEES

51
TRAINING HOURS PER EMPLOYEE

75,590
TOTAL TRAINING HOURS

2.9 TECHNOLOGY

MANAGEMENT APPROACH

To develop its technology strategy, SBM Offshore first engages externally with its clients and internally with Product Line divisions to identify and analyze the key technical and business trends in the offshore industry. Armed with this market-based information and clients demands, the Company predicts future technology gaps and strives to find innovative, safe, sustainable, reliable and cost-effective solutions to meet these challenges.
SBM Offshore's technology team actively works towards this goal by transforming and innovating to ensure that the Company is well positioned for future projects as clients' needs evolve.

In 2019, the Company continued to meet the needs of an evolving energy mix by increasingly diversifying its efforts into emerging technologies associated with gas, power and renewable energies. There is also an increased focus on developing zero-emissions solutions.

The Company operates a robust technology development process, which ensures that investment in each new project or innovation is justified against a business case. Moreover, SBM Offshore develops its new technology through a structured stage-gate process to ensure that it is fully mature before being offered for sale or introduced into projects. This Technology Readiness Level (TRL) process includes full-scale prototype testing of new proprietary components and full FEED level definition of new systems as part of the qualification requirements.

The Business Readiness Level (BRL) system, which manages business maturity, measuring the readiness of functions such as construction and operations to adopt the new technology, acts as a complement to the TRL process and both processes endeavor to reach maturity at the same pace.

2019 PERFORMANCE

Competitive Advantage through Technology

SBM Offshore strives to deliver high performance solutions that meet or exceed clients' expectations and go beyond what is available in the market.
The major development projects undertaken in 2019 include:

- The design of the Floating Offshore Wind TLP concept has been further developed to suit an increased range of water depths and environmental conditions.
- The S3® WEC project continues towards pilot tests at sea.
- Development of renewable energy storage systems to complement Floating Offshore Wind and WEC developments.
- Development of floating renewable energy production solutions with a focus on hydrogen.
- Significant progress on the journey towards unmanned and autonomous FPSO operations.
- Further roll-out of digital solutions within the fleet to improve operational performance.
- Progress on the development of a Seawater Intake Riser system to capture cold water from 600m-1000m water depths to cool FPSO topsides equipment, augmenting the unit's energy efficiency and, subsequently, reducing GHG emissions.
- Launch of the Additive Manufacturing program, with the aim of printing a set of certified polymer spare parts to be supplied to the FPSO fleet, positively impacting the sustainability of the supply chain.
- First FPSO void tank visual inspection by drone, setting the basis for the unmanned inspection and maintenance technology roadmap.
- Continued development of floating gas solutions with conversion and new build options targeted at mid-scale capacities.
- Development of FLNG topsides concepts jointly with a LNG contractor.
- Continued development of enhanced performance swivels with designs of new state-of-the-art swivel test rigs completed and due for delivery in 2020.

Intellectual Property

The Company maintains a significant Intellectual Property (IP) portfolio, including patents, trademarks, and copyrights. The IP portfolio contains 154 patent families, each registered in many countries around the world, and covers a wide range of technologies, including FPSO mooring and turret systems, semi-submersible and tension leg FPUs, hydrocarbon transfer and processing systems (including LNG and gas processing), drilling and riser technologies, offshore installation and also covering digital and renewable technologies like wind floaters and wave energy systems. During 2019, the Company divested several non-core patents and filed 14 new patent families applications for new and innovative technologies, in particular renewables and digital.

Renewable energy

The Company supports the transition to renewable energies; 29% of the research and development spending in 2019 was on low-carbon technologies. SBM Offshore considers low-carbon technologies as those that have the potential to replace oil with less polluting alternatives, to capture/reuse CO_2, to reduce emissions in SBM Offshore normal/future fleet operation. They include investments in wind energy, wave energy and energy storage, as well as LNG investments and other energy recovery methods that may find application to SBM Offshore businesses. This year, the Company has continued development of its innovative S3® WEC, with a prototype planned to be deployed at sea.

In addition to wave energy, SBM Offshore continues to develop its floating offshore wind solution to suit an increased range of water depths and environmental conditions to cater for clients' future fields. The industrialization of the product is a key area of development and enables wind farm deployment with an optimized schedule and cost.

KEY TARGETS

Technology development continues to be guided by three principles:

1. To embed the Fast4Ward® principles in all Technology development programs.
2. To embrace Digital Transformation to differentiate technology solutions.
3. To embed the SDGs into the Company's technology solutions.

The success of SBM Offshore's Technology division is measured by the capacity to innovate and develop differentiated solutions ready for application within the Product Lines. The method of measurement applied is the quantity of TRL gates passed, which signify progress on the technology development program. In 2019, over 60 TRL stage gates were passed.

FUTURE

In order to achieve its goal to develop new low-carbon technological solutions, SBM Offshore has set a target that:

- 30% of Research & Development (R&D) investments should go towards low-carbon technologies, such as renewables, gas and emissions reduction.

2.10 SUPPLY CHAIN

MANAGEMENT APPROACH

The Supply Chain function remains focused on supporting the projects with the highest level of safety, performance and quality. In order to support the strategy launched last year, to have an integrated Group Supply Chain division under the Resources and Services Business Unit, the key resource centers have been reinforced and professionalized.

As a result of the ramp-up in projects, extra staff has been deployed and allocated to the key resource center. Vendor management, strategic sourcing, capability and project supply chain activities are under the same umbrella, allowing a fully integrated supply chain and a flawless execution. Throughout this year, particular attention and efforts on vendor qualification have been maintained in order to ensure that subcontractors' capabilities have been properly assessed before commercial engagement. Group Supply Chain has also confirmed the development of supply chain activities in China through the development of the local team and organization, and the expansion of the approved database with local Companies.

2019 PERFORMANCE

Key Achievements

- In order to efficiently pursue the vendor qualification efforts and to strengthen the support to the projects, the Vendor Qualification activities have been outsourced to a reputable and experienced large company with a worldwide footprint.
- Close collaboration between strategic sourcing and all company product lines has been enhanced to better understand the requirements and expectations and define objectives and priorities, to deliver the most appropriate procurement strategies. In addition to framework agreements, the category management team is continuously supporting the business by providing key strategic insights (vendor surveillance, market intelligence, etc.) and operational assistance (facilitate vendors' early engagement, dispute resolution, etc.).
- The partnerships with SBM Offshore strategic vendors has been further reinforced with the implementation of Key Account Management activities covering the full lifecycle. Executive and Operational Steering Committees and Global Vendor Day have again been organized this year.
- Highest focus has been maintained on the importance for the Company's vendors to adhere to the SBM Offshore Code of Conduct. In this respect, as part of the vendors qualification process, the Company asks vendors to sign its Supply Chain Charter. In line with Company commitments to reach its sustainable development aspirations, the Supply Chain Charter has been upgraded to reinforce human rights, eco-footprint and waste management aspects.
- In addition to other digital initiatives, Group Supply Chain is one of the main stakeholders involved in the design and implementation of SBM Offshore's global Enterprise, Resource, Planning (ERP), with the objective of streamlining the flow of information and processes all along project execution up to the operations activities. As such, Group Supply Chain is deeply contributing to the Company's Digital Transformation.

Performance measurements:

- 10 Frame Agreements signed in 2019
- Global Supply Chain Vendor Day in Amsterdam, the Netherlands
- Nine Steering committee meetings organized with strategic vendors
- 985 vendors qualified under revised qualification process since 2017, of which 99.1% signed Supply Chain Charter

FUTURE

Next year, Group Supply Chain will maintain the recruitment efforts to support company development in all Resource Centers with an agile and fully integrated organization.

Through its continuous improvement and global integration, Group Supply Chain has adopted a full lifecycle approach from early engagement at framing stage to Operations activities. Group Supply Chain ensures the strategy defined at Win phase is well implemented during the Execution.

The Fast4Ward® Transformation principles and objectives are fully implemented within Group Supply Chain strategy, based on two main pillars: Strategic Sourcing and Modules subcontracting.

2.11 HUMAN RIGHTS

MANAGEMENT APPROACH

Care, specifically care and respect for people, is one of SBM Offshore’s four Values. It also means upholding human rights within the Company and throughout the supply chain. The Company’s commitment is embedded in SBM Offshore’s Code of Conduct, which is applicable to all employees, subcontractors and third parties. SBM Offshore expects its suppliers to comply with the Company's Supply Chain Charter, which includes respect for human rights.
The Company’s approach towards human rights within our business activities is informed by the Universal Declaration of Human Rights, the core conventions of the International Labour Organization and the UN Guiding Principles on Business and Human Rights (UNGPs).

Program

This year, the Company focused on strengthening the governance around implementing the UNGPs, which started with the identification of our salient issues. These main priority areas were selected based on the results of internal consultations and external input. The consultation helped us identify, calibrate and prioritize the human rights risks for SBM Offshore. The Company then detailed the human rights road map, aligned with three main pillars of the UNGPs, to guide SBM Offshore in further implementing human rights standards within the Company and throughout its Supply Chain. SBM Offshore has continued work to detail long-term objectives and plans to support SDG 8: 'Decent Work and Economic Growth', one of the seven SDGs identified by SBM Offshore for focus (see 2.3 Sustainability).

Due Diligence

SBM Offshore's human rights due diligence process has matured over 2019 and will be further developed in 2020 based on a program of assessments of the Company's operations.

Grievance Mechanism

Grievance mechanisms and other reporting channels are available to SBM Offshore employees and third parties to identify and investigate potential and actual human rights impacts and take appropriate action. For further details on the reporting mechanism and Integrity line, please see section 3.8 Compliance.

Governance

To ensure proper governance on human rights, SBM Offshore identified the need for a Human Rights Steering Committee. The right level of attention, ownership and mandate is achieved through a Steering Committee comprised of Management Board and Executive Committee members. The Steering Committee oversees and provides guidance on the implementation of the human rights program at SBM Offshore. In addition, Human Rights Working Groups in SBM Offshore provide input on specific topics, such as risk identification and saliency analysis.

Awareness and collaborations

SBM Offshore actively promotes human rights awareness through monthly campaigns and dedicated learning sessions on specific human rights aspects.
SBM Offshore is an active member of Building Responsibly, a group of leading engineering and construction companies working together to raise the bar in promoting the rights and welfare of workers across the industry. As a member of Building Responsibility SBM Offshore has been working on the application of the ten worker welfare principles within SBM Offshore activities and through its supply chain.

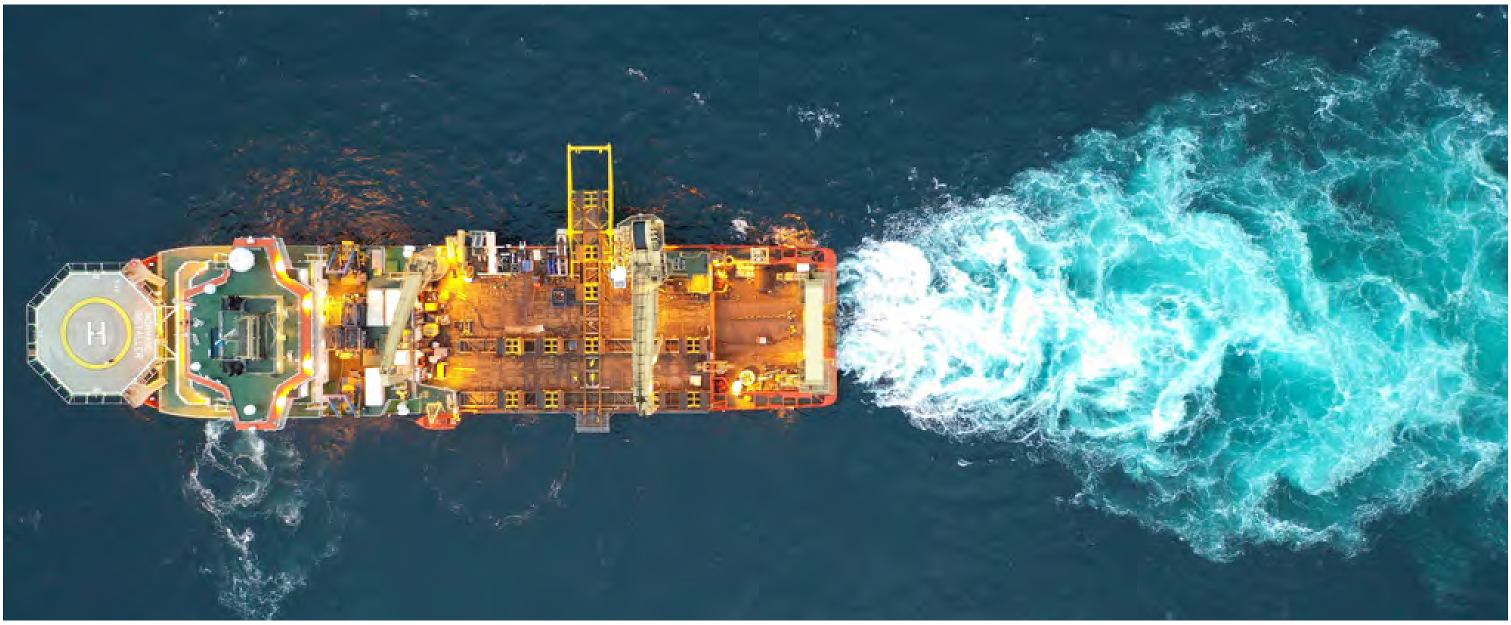
2019 PERFORMANCE

Key achievements

- Of the vendors qualified under revised qualification process since 2017, 99.1% have signed Supply Chain Charter (see 2.10 Supply Chain).
- Developed Human Rights Road Map.
- Issued a Workers Welfare campaign, which provided increased visibility, strengthened understanding and awareness on the topic of human rights across the Company.
- Continued to make progress on the pilot project implementing human rights with SBM Offshore contractors and subcontractors on a fabrication yard.
- Completed human rights assessments for two fabrication yards.
- Continued commitment to Building Responsibly:
  - Updated Supply Chain Charter to include the ten Worker Welfare Principles from Building Responsibly.
  - Contributed to the development of the ten Worker Welfare Principles Guidance Notes.

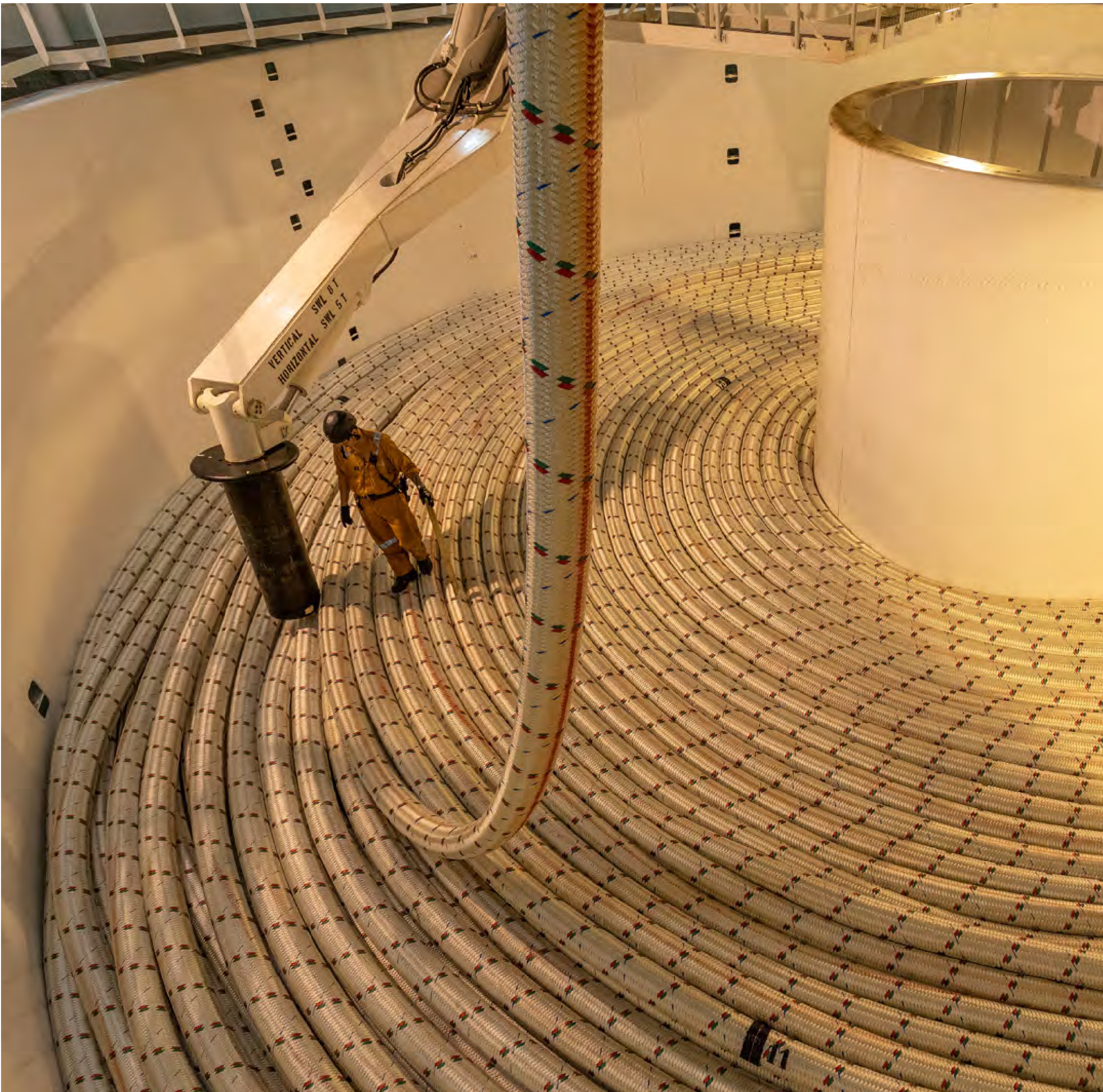
FUTURE

SBM Offshore is on a journey to further detail a human rights control framework in support of its commitments, building on existing human rights processes and procedures, and to further embed human rights into its ways of working. The Company plans to continue due diligence work in 2020 at a number of business activity locations.



SBM INSTALLER DURING LIZA DESTINY INSTALLATION

3. GOVERNANCE



3.1 MANAGEMENT BOARD

Bruno Chabas
Chief Executive Officer
(Swiss and French, 1964)

Bruno Chabas joined SBM Offshore as Chief Operating Officer and Member of the Management Board in May 2011 and became CEO in January 2012. Prior to joining, he worked for 18 years with Acergy S.A. (now Subsea 7 SA). From November 2002 until January 2011, he served as the Chief Operating Officer of Acergy S.A., responsible for all the day-to-day commercial and operational activity worldwide. From June 1999 through October 2002, he served as Chief Financial Officer. Between 1992 and 2002, Bruno Chabas held various management positions within preceding companies in the United Kingdom, France and the United States. He has been an Independent Non-Executive Director of FORACO International S.A. since August 2007 and holds an MBA from Babson College, Massachusetts. Since May 2018, Bruno Chabas has also been Non-Executive Director at GTT (Gaztransport & Technigaz). During an Extraordinary General Meeting of November 4, 2015, Bruno Chabas was re-appointed as Management Board member for a second term of four years until the 2020 Annual General Meeting. The Supervisory Board has designated him CEO for this term.

Philippe Barril
Chief Operating Officer
(French, 1964)

Philippe Barril joined the Company in March 2015 and was appointed member of the Management Board and Chief Operating Officer at the 2015 Annual General Meeting. He was re-appointed during the 2019 Annual General Meeting for a second term of four years, until the 2023 Annual General Meeting. He is a Graduate Engineer of the Ecole Centrale de Lyon (1988) and started his career with Bouygues Offshore as an engineer, moving into project management, as subsidiary manager in Angola, Business Unit Angola-Congo, Business Unit Manager Nigeria and Vice President Sub-Saharan Africa and Offshore. In 2002, he moved to Technip as CEO Africa and Mediterranean. He spent 2006 working for Single Buoy Moorings, a subsidiary of SBM Offshore N.V., as Gas Sales Manager; followed by an appointment as Managing Director of Entrepose Contracting from 2007 to 2009. In 2009, he returned to Technip, working in a number of senior executive positions and was appointed President and Chief Operating Officer in January 2014. He has been a non-executive director at McDermott International, Inc. since September 2017.

Erik Lagendijk
Chief Governance and Compliance Officer
(Dutch, 1960)

Erik Lagendijk joined the Company in January 2015 and was appointed a member of the Management Board and Chief Governance and Compliance Officer at the 2015 Annual General Meeting. He was re-appointed during the 2019 Annual General Meeting for a second term of four years, until the 2023 Annual General Meeting. He studied law at the University of Amsterdam (1988) and completed the Executive Development program at IMD Lausanne in 1999. He attended the Foundations of Finance program at the Amsterdam Institute of Finance in 2002 and a Non-Executive Development program at the IESE in Barcelona in 2013. He worked for ING Bank in both banking and legal roles. In 2000 he joined AEGON N.V. as the Group General Counsel.

Douglas Wood
Chief Financial Officer
(British, 1971)

Douglas Wood joined SBM Offshore as Group Financial Director in October 2016. During the Company's Extraordinary General Meeting of November 30, 2016 he was appointed as a member of the Management Board for a four-year term of office, expiring at the 2021 Annual General Meeting, and took over the role of CFO. Prior to joining SBM Offshore, he worked for Shell for 23 years in various financial management positions, most recently as CFO and Director of Showa Shell Sekiyu K.K. in Japan. His other roles included Head of Business Performance Reporting & Financial Planning (for Shell Exploration & Production) and Vice President Finance & Planning Exploration (Shell Upstream International). Douglas Wood has been a Fellow of the Chartered Institute of Management Accountants since 2006 and in 1993 obtained a degree in Classics at Oxford University.

3.2 SUPERVISORY BOARD

Mr. Floris Deckers (Chairman)

(Dutch, 1950)

Positions:
- First appointed in 2008, expiry current term in 2020
- Former CEO of Van Lanschot N.V.

Other Mandates:
- Chairman of the Supervisory Board of Deloitte Nederland B.V.; Member of the Supervisory Board of Deloitte North West Europe LLP; Member of the independent Non-Executive Advisory Committee to Deloitte Global Board
- Member of the Supervisory Board of Arklow Shipping (Ireland) and subsidiaries
- Senior Advisor to Apollo ('AICE')
- Member of the Supervisory Board of Vlerick Business School and Vlerick Research, Belgium; Member of the foundation board of the Stichting Administratiekantoor Professor Vlerick
- Member of the foundation board of the Stichting Amici Almae Matris (related to Leuven University)
- Chairman of the Supervisory Board of Springpaarden Fonds Nederland B.V.
- Board member of Athora Real Estate Investments B.V.

Mr. Thomas Ehret (Vice-Chairman)

(French, 1952)

Positions:
- First appointed in 2008, expiry current term in 2020
- Former President and CEO of Acergy S.A.

Other Mandates:
- Non-Executive Director of Comex S.A.
- Non-Executive Director of Green Holdings Corporation
- Non-Executive Director of ISMKomix Ltd.
- Member of the Supervisory Board of Ace Innovation Holding B.V.
- Chairman of Telford Offshore Holdings Ltd (Cayman)

Mr. Roeland Baan (Member)

(Dutch, 1957)

Positions:
- First appointed in 2018, expiry current term in 2022

Other Mandates:
- President and CEO of Outokumpu Oyi
- Board member and Vice-President of Eurofer
- Board member and Vice-Chairman at International Stainless Steel Forum
- Board member at World Steel Association
- Non-Executive Director of Norsk Hydro ASA

Mr. Bernard Bajolet (Member)

(French, 1949)

Positions:
- First appointed in 2018, expiry current term in 2022
- Former Chief of DGSE (direction générale de la sécurité extérieure), France and held various roles as a French Diplomat and civil servant

Mr. Francis Gugen (Member)

(British and Irish, 1949)

Positions:
- First appointed in 2010, expiry current term in 2020
- Former Chief Executive of Amerada Hess Corporation in Europe and former Finance Director of Amerada Hess

Other Mandates:
- Executive Chairman of Smart Matrix Limited
- Advisor to Chrysaor Limited
- Founder member of POWERful women

Mr. Sietze Hepkema (Member)

(Dutch, 1953)

Positions:
- First appointed in 2015, expiry current term in 2023
- Former senior partner at Allen & Overy and former member of the Management Board and Chief Governance and Compliance Officer of SBM Offshore N.V.

Other Mandates:
- Chairman of the Supervisory Board of Wavin N.V.
- Chairman of the Nationale Stichting de Nieuwe Kerk
- Member of the Dutch Monitoring Committee Corporate Governance Code
- Member of the Supervisory Board of Koninklijke VolkerWessels N.V.
- Member of the Board of Stichting Continuïteit Signify
- Senior Advisor Bain Capital Private Equity Europe
- Member of the Boards of Stichting Continuïteit Takeaway.com and Continuïteit Takeaway.com B.V.

Mrs. Laurence Mulliez (Member)

(French and English, 1966)

Positions:
- First appointed in 2015, expiry current term in 2023
- A former CEO of Eoxis (U.K.) and Castrol Industrial Lubricants & Services

Other Mandates:
- Chairperson of the Board of Voltalia
- Senior Independent Director of Morgan Advanced Materials PLC
- Non-Executive Director of Arcus Infrastructure Partners
- Chairperson of the Board of Globeleq

Mrs. Cheryl Richard (Member)

(American, 1956)

Positions:
- First appointed in 2015, expiry current term in 2023
- Former Vice President Human Resources for Chevron Philips Chemical Company and former Senior Vice President of Transocean

Other Mandates:
- Non-Executive Director of Gulf Fabrication Inc

3.3 REPORT OF THE SUPERVISORY BOARD

Message from the Chairman of the Supervisory Board

Dear reader,

In 2019 the Management Board, as well as the Supervisory Board, were able to fully focus on the future again. The Company will do so by providing a combination of a robust technology portfolio, project management, engineering and operations expertise capabilities to our customers and supporting them in the energy transition.

In 2019, the Company was awarded contracts for FPSO *Liza Unity* and FPSO *Prosperity* by ExxonMobil in Guyana. The next phase of the FPSO *Prosperity* project remains subject to government approvals, project sanction and authorization. Contracts were also signed with Petrobras for the 22.5 years lease and operation of FPSO *Sepetiba* (formerly known as Mero 2), which was followed by the divestment of a 35.5% interest in the special purpose companies related to the lease and operation of FPSO *Sepetiba* to long-standing business partners. We are glad that the ability to conduct new business with Petrobras has been restored. In addition, the Supervisory Board supports the Management Board's selective approach towards market opportunities and discipline in project execution.

In 2019, the Company announced an increased dividend and share buyback so that shareholders could also benefit from the increased ability of the Company to generate cash. The Company also optimized a project loan by aligning the loan maturity with the remaining charter contract duration. In addition, the Company completed the transaction regarding the sale to SBM Offshore of Constellation's equity ownership in the lease and operating companies related to five Brazilian FPSOs. These initiatives add to the creation of value to our shareholders.

After twelve years, I will retire from the Supervisory Board after the 2020 Annual General Meeting. Although the Company has experienced severe difficulties in this period, I look back with pleasure and find it extraordinary that both the Management Board and the Supervisory Board have continued to operate as a solid team in those circumstances.

For further details about the activities of the Supervisory Board and its committees, I refer to the next sections of this chapter.

Floris Deckers
Chairman of the Supervisory Board

THE SUPERVISORY BOARD

Composition

In 2019, Laurence Mulliez, Cheryl Richard and Sietze Hepkema were re-appointed as member of the Supervisory Board for a second term of four years, until the 2023 Annual General Meeting. Both Floris Deckers and Thomas Ehret will retire after the 2020 Annual General Meeting after twelve years of service. In accordance with best practice 2.2.2 of the Corporate Governance Code, for all (re-)appointments the profile and competency matrix, as well as the diversity policy for the Supervisory Board, was closely observed and their performance had been taken into consideration.

Independence

With the exception of Sietze Hepkema, who was a Management Board member of SBM Offshore until his appointment as Supervisory Board member in April 2015, all Supervisory Board members are independent from the Company within the meaning of best practice provisions 2.1.7 to 2.1.9 inclusive of the Dutch Corporate Governance Code. Sietze Hepkema will qualify as independent as of April 16, 2020. None of the Supervisory Board members serve on the Management Board of a Dutch listed company.

Meetings

In 2019 the Supervisory Board held seven scheduled meetings including a two-day session in December that focussed on the strategic direction of the Company. Despite the geographic diversity, the attendance percentage of the Supervisory Board for these meetings was 98.21%.

Members	SB meeting	Audit and Finance Committee	Technical and Commercial Committee	Appointment and Remuneration Committee
Floris Deckers (Chairman)	7/7	-	5/5	5/5
Thomas Ehret (Vice-Chairman)	7/7	-	5/5	-
Roeland Baan	6/7	-	5/5	5/5
Bernard Bajolet	7/7	-	5/5	-
Francis Gugen	7/7	5/5	-	-
Sietze Hepkema	7/7	5/5	-	-
Laurence Mulliez	7/7	5/5	5/5	-
Cheryl Richard	7/7	-	-	5/5

The Management Board prepared detailed supporting documents as preparation for all meetings. The physical meetings are spread over two days, starting on the first day with the meetings of the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and Commercial Committee. The Management Board and the Company Secretary (who is also the secretary of the Supervisory Board and its sub-committees) attended all meetings of the Supervisory Board. Prior to each of the physical Supervisory Board meetings, an informal pre-board dinner was held in the presence of the Management Board. At the end of Supervisory Board meetings, the members of the Supervisory Board discussed governance matters outside the presence of the Management Board members. Contacts between members of the Supervisory Board and Management Board take place on a regular basis, also outside the regular setting.

Standard items on the agenda of the Supervisory Board meetings were updates from each of the Management Board members on, amongst other topics, the Company's commercial activities/projects and the market environment, Health, Safety, Security and Environment, the operational performance, the financial performance, investor relations, governance, compliance, risk management and internal controls. In February 2019, the Supervisory Board approved the 2018 Annual Financial Statements and the proposal to the General Meeting of Shareholders of an all cash dividend distribution and an EUR 175 million share repurchase program. In the same meeting, the Operating Plan 2019 was approved in its final form. On various occasions during the year, the strategy, progress of implementation thereof, as well as the risks related to its realization, were discussed. In December 2019 the Long-Term Strategic Plan was approved. The Supervisory Board annually discusses the Company's Risk Appetite statement.

The Supervisory Board also discussed the succession planning of the Management Board, Supervisory Board and senior management of the Company at various occasions. The remuneration of the Management Board, Supervisory Board and senior management of the Company was discussed on a regular basis and took into consideration stakeholder feedback.

THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has three committees. These committees have advisory powers and provide the Supervisory Board with updates on their meetings and provide recommendations for decision by the Supervisory Board. The composition of each committee is detailed below.

			Appointment and Remuneration Committee	
Members	Audit and Finance Committee	Technical and Commercial Committee	Appointment matters	Remuneration matters
Floris Deckers (Chairman)		√	Chairman	√
Thomas Ehret (Vice- Chairman)		Chairman		
Roeland Baan		√	√	√
Bernard Bajolet		√		
Francis Gugen	Chairman			
Sietze Hepkema	√			
Laurence Mulliez	√	√		
Cheryl Richard			√	Chairman

There is an open invitation to join committee meetings for those Supervisory Board members who are not a member of a specific committee. This invitation is frequently made use of.

Audit and Finance Committee

The Audit and Finance Committee convened five times in 2019. The attendance percentage of the Audit and Finance Committee meetings was 100%. The Chairman of the Audit and Finance Committee reported to the Supervisory Board on the principal issues discussed, on actions arising and the follow-up of such actions and made recommendations on those matters requiring a decision.The Management Board, the Group Internal Audit Director, the Group Controller and the external auditor attended the meetings. After each Audit and Finance Committee meeting, meetings of the Audit and Finance Committee with the external auditor outside the presence of the Management Board were held. The Chairman of the Audit and Finance Committee regularly held meetings with the CFO, and separately with SBM Offshore's Group Internal Audit Director.

Besides the standard agenda topics, such as reports on financial performance, compliance, risk management and internal controls and Internal Audit activities, the following was discussed in 2019: funding and liquidity, dividend proposal and share repurchase proposal, share cancellation, review of payments to agents, the external auditor's audit plan and engagement letter, the external auditor's management letter and board report, functioning of and relationship with the external auditor, financing strategy, investor relations, the Group's tax structure, tax planning and transfer pricing policies, IT and Cyber Security.

Appointment and Remuneration Committee

The Appointment and Remuneration Committee had five scheduled meetings in 2019. The attendance rate of the Appointment and Remuneration Committee meetings was 100%. The Appointment and Remuneration Committee consists of two parts as prescribed by the Corporate Governance Code: a part for Selection and Appointment matters and a part for Remuneration matters. During the Supervisory Board meetings, the respective Chairmen reported on the selection and appointment matters and on the remuneration matters reviewed by the Committee, on actions arising and the follow-up of such actions. They made recommendations on those matters that require a decision from the Supervisory Board. The meetings were attended by the Management Board and the Group HR Director, except where the Appointment and Remuneration Committee chose to discuss matters in private. At various times, the members of the Appointment and Remuneration Committee met in preparation of the scheduled meetings.

The main subjects discussed by the Appointment and Remuneration Committee – besides the standard topics – were as mentioned below. On Management Board remuneration matters, the views of the Management Board members on their own remuneration have been noted.

Remuneration matters

The main remuneration items discussed in the meetings were:

- Determination of the relevant Short-Term Incentive target setting and realization, Long-Term Incentive realization and Value Creation Stake award in accordance with the applicable Remuneration Policy.
- Share based incentive.
- The implementation of the EU Shareholder's Rights Directive in the Netherlands.
- Further details on remuneration can be found in the remuneration report (section 3.4).

Selection and Appointment matters

- Succession planning
- Talent Management
- Management Board and Supervisory Board (re-)appointments
- The SBM Offshore organizational structure

Technical and Commercial Committee

The Technical and Commercial Committee held five scheduled meetings in 2019. The attendance rate of the Technical and Commercial Committee for these meetings was 100%. In addition, a number of calls were held to provide information on and to discuss, amongst other topics, commercial prospects. The Chairman of the Technical and Commercial Committee reported to the Supervisory Board on the principal issues discussed, on actions arising and the follow-up of such actions and made recommendations on those matters requiring a decision. The meetings were attended by the Management Board, and mostly by the Managing Director Floating Production Solutions, the Managing Director Operations and the Managing Director Global Resources & Services. Other senior managers gave presentations on specific topics within the remit of the Technical and Commercial Committee.

The main subjects discussed by the Technical and Commercial Committee were the following: Health, Safety, Security and Environment performance (including health and security management), operational performance and strategy, project resourcing and execution, sales-, marketing- and tender activities, client relationships, competitive environment, technology and innovation developments, and risk assessment.

INDUCTION, TRAINING AND PERFORMANCE ASSESSMENT

Following appointment to the Supervisory Board, new members receive a comprehensive induction tailored to their needs. This includes sessions with members of the Management Board and senior management on which they are informed on all relevant aspects of the Company.

In December 2019, the Supervisory Board visited the Monaco office in order to gain further familiarity with the

SBM Offshore organization and its activities on site. Furthermore, members of the Supervisory Board attended seminars organised for SBM Offshore senior management, including the annual mid-year Strategy Seminar. Both the Management Board and the Supervisory Board spent time on training on various relevant subjects.

To assess its effectiveness, the Supervisory Board carried out a performance evaluation with an external advisor of its committees and its individual members, as well as the performance of the Management Board and its individual members. In a separate meeting without the Management Board being present, the Supervisory Board discussed the results of the performance assessment. As a result of the assessment, the Supervisory Board and the Management Board have fruitfully engaged on how to continue to discuss structurally the strategy of the Company. Some practical suggestions on the organization of the Supervisory Board meeting were made and will be implemented. Overall, it was concluded that both the Supervisory Board and the Management Board function properly and effectively. The Chairman of the Supervisory Board frequently meets with the CEO and other Management Board members outside the meetings. There were regular contacts between the committee Chairmen and their respective counterparts in the Management Board on various topics. The Management Board has evaluated its own functioning as a whole and that of the individual Management Board members on various occasions.

CONCLUSION

The Financial Statements have been audited by the external auditor, PricewaterhouseCoopers Accountants N.V. Their findings have been discussed with the Audit and Finance Committee and the Supervisory Board in the presence of the Management Board. The External Auditor have expressed an unqualified opinion on the Financial Statements.

The members of the Supervisory Board have signed the 2019 Financial Statements pursuant to their statutory obligations under article 2:101 (2) of the Dutch Civil Code.

The members of the Management Board have signed the 2019 Financial Statements pursuant to their statutory obligations under article 2:101(2) of the Dutch Civil Code and article 5:25c (2) (c) of the Financial Market Supervision Act.

The Supervisory Board of SBM Offshore N.V. recommends that the Annual General Meeting of Shareholders adopts the Financial Statements for the year 2019.

Supervisory Board

Floris Deckers, Chairman
Thomas Ehret, Vice-Chairman
Roeland Baan
Bernard Bajolet
Francis Gugen
Sietze Hepkema
Laurence Mulliez
Cheryl Richard

Schiphol, the Netherlands
February 12, 2020

3.4 REMUNERATION REPORT

In this report, the Remuneration for the Management Board and Supervisory Board are described. The first part contains a letter from the Chairman of the Appointment and Remuneration Committee ('A&RC') dealing with remuneration matters, a description of the remuneration policy for the Management Board, how it was implemented for the Management Board members over 2019 and various other Management Board remuneration information. The second part describes the remuneration policy for the Supervisory Board and how it was implemented over 2019.

Letter from the Chairman of the Appointment and Remuneration Committee dealing with Remuneration Matters

Dear reader,

2019 was a successful year for SBM Offshore. The Company is pursuing growth opportunities through the Fast4ward® program. Also, the Company continues to offer conversion hulls.

The Company continues to invest in technology to support society's growing demand for renewable energy sources and a less carbon dependent world. SBM Offshore is developing concepts in floating wind and wave energy conversion as well as pursuing internal initiatives for sustainability. SBM Offshore aims to play an important role in transitioning energy towards cleaner sources such as gas and more renewable forms of energy.

The Company remains committed to protecting the environment and the safety of our people. Examples of 2019 environmental achievements include the purchasing of 91% of our energy in offices from green providers, having 99% of qualified vendors sign our Supply Chain Charter, reducing offshore waste by 22% and implementing a re-cycling program in all our offices. We protect our people through process safety as well as rigorous occupational safety programs. Sadly, in 2019 a contracted diver was fataly injured. We are pursuing lessons learned to prevent such an incident from occurring in the future. As a consequence of this fatal injury, we failed to meet an objective for personal safety.

The Company's financial results underline SBM Offshore's successful year. Undelying EBITDA increased by 6% to US$832 million compared to 2018. The Company awarded contracts for three Fast4ward hulls and committed to another two hulls. The Company won a 22.5 year Lease and Operate contract for the FPSO *Sepetiba* (formerly known as Mero 2), and the FEED for the Payara development. Additionally, the Company completed a EUR175 million share repurchase program followed by a cancellation of 7,000,000 shares.

The Company reached out to key stakeholders as part of its regular communication plan. Key stakeholders include employees, customers, suppliers, banks and shareholders. We recently visited our shareholders representing approximately 50% of our share base, in addition to other groups noted above to engage about the social acceptance of our programs. Generally, there appears to be broad understanding and acceptance. Some common themes or questions include the following topics.

- At the 2018 AGM, shareholders expressed dissatisfaction with the Supervisory Board granting a 10% uplift for Management Board members for Short Term Incentive achievements in 2018. Taking this feedback into consideration, the Supervisory Board decided not to increase future Short Term Incentive awards but may decrease awards.
- Shareholders also desire to understand the underpins, being the conditions under which the Value Creation Stake (VCS) may be reduced or not granted. The Supervisory Board clarifies that any event significantly impacting the financial or operational performance of the Company may serve as an underpin.
- Shareholders want to understand the relationship between the Value Creation Stake and Company performance. There is a strong correlation between share price and the Value Creation Stake. Thus, the Value Creation Stake serves to strongly align the Management Board with shareholders. Additional details and information can be found in section 3.4.1 of this report.
- Some stakeholders raised questions about the quantum of the Management Board's remuneration. The Supervisory Board regularly monitors the international competitive landscape within which we compete for talent. Our remuneration programs must be competitive with international oil service companies. The Supervisory Board intends to maintain SBM Offshore's competitive practices.

The overall quantum under RP 2018's STI and Value Creation Stake as a percentage of base pay is lower compared to the levels as paid out under RP 2015's STI and LTI.

The Company's remuneration policy aligns the interests of Management Board members with shareholders with Short Term Incentive performance measures and the significant alignment between share price movement and the Value Creation Stake. The Short Term Incentive performance measures – EBITDA, Growth, and HSSE are based on key success factors for the Company. The longer-term variable remuneration component Value Creation Stake must be held for five years or two years after separation from the Company and tightly aligns the Management Board with shareholders.

The Supervisory Board remains committed to relevant and clear remuneration in line with best international practices. We are providing additional information in this report to improve transparency. I look forward to discussing the remuneration policy, actual remuneration as well as any other questions arising from this report at the 2020 AGM.

Cheryl Richard

Chairman of the Appointment and Remuneration Committee dealing with Remuneration Matters

3.4.1 MANAGEMENT BOARD REMUNERATION POLICY

The current version of the remuneration policy ('RP 2018') was adopted at the 2018 AGM and became effective January 1, 2018. Full details and the principles and rationale for the RP 2018 are available on SBM Offshore's website in the Remuneration Policy section under Corporate Governance.

The Company remunerates members of the Management Board for long-term value creation. RP 2018 is based on competitive remuneration aligned with the long-term performance of SBM Offshore. It is built on six reward principles: simplicity, flexibility, predictability, competitiveness, alignment and, most importantly, driving the right results.

Shareholders' Rights Directive and proposal for amendment to RP 2018

In December 2019, new legislation entered into force, implementing the EU Shareholders' Rights Directive (SRD II) in the Netherlands. During the AGM 2020, we will present to shareholders changes to RP 2018 to bring the policy into accordance with the new legislation. The details of these changes will be included in the agenda of the AGM 2020.

Also in accordance with the implementation of SRD II, this Remuneration Report contains additional disclosures with regard to Management Board remuneration at SBM Offshore.

Explanation of RP 2018

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen. The remuneration policy encourages a culture of long-term value creation and a focus on the long-term sustainability of the Company through the Value Creation Stake balanced with pay for performance through the Short-Term Incentive (STI). Sustainability is an integral part of the STI performance areas (through Health, Safety, Security and Environment). SBM Offshore's values of Ownership and Entrepreneurship are embedded in the remuneration policy through alignment of interests of the Management Board with shareholders by means of the Value Creation Stake.

The Company's strategy revolves around the pillars of Optimize, Transform and Innovate. These pillars are reflected in the STI performance areas of Profitability, Growth and HSSE (which includes Sustainability). Through the STI performance areas, Management Board remuneration is directly linked to the success of the Company and the value delivered to shareholders.

Employment conditions and pay of the Company's employees within SBM Offshore are being taken into account when formulating the remuneration policy, for instance regarding the STI performance areas and payment dates. Employment conditions for Management Board members may differ from those applicable to employee, also because Management Board members have a service contract rather than an employment relationship. The principles of the remuneration policy are used as a guideline for employment conditions at SBM Offshore as a whole.

The four components of the remuneration package of Management Board members under RP 2018 are: (1) Base Salary, (2) STI, (3) Value Creation Stake and (4) Pension and Benefits.

REMUNERATION POLICY STRUCTURE MANAGEMENT BOARD

REMUNERATION POLICY 2018		DETAILS
Base Salary	Fixed component	Level set based on both internal and external relativities
STI	Percentage of Base Salary as short term cash incentive (100% at target for CEO and 75% for other Management Board members)	Identical targets for all Management Board members (based on profitability, growth and HSSE including sustainability)
Value Creation Stake	Award of locked-in shares: 175% of Base Salary	This award is conditional upon Supervisory Board approval - Immediate vesting plus 5-year holding requirement
Pension	Pension allowance equal to 25% of Base Salary	Management Board members are responsible for their own pension arrangements
Benefits	Benefits include car allowance and health/ life insurance	Other benefits depend on individual circumstances and may include a housing allowance

1. BASE SALARY
The Base Salary is set by the Supervisory Board and is a fixed component paid in cash. Depending on internal and external developments such as market movements, the Supervisory Board may adjust Base Salary levels.

2. SHORT-TERM INCENTIVE
The STI is designed to create a rigorous pay for performance relationship and is a conditional variable component. The STI key performance indicators focus on three performance areas: (i) Profitability, (ii) Growth and (iii) HSSE[28]. The Supervisory Board, upon the recommendation of the A&RC determines for each of the performance measures the specific performance targets and their relative weighting in the beginning of the financial year.

STI

PERFORMANCE MEASURES	WEIGHTING
PROFITABILITY	40 - 60%
GROWTH	20 - 40%
HSSE	15 - 25%
TOTAL	100%
DISCRETIONARY JUDGEMENT SUPERVISORY BOARD	- 10%

[28] Health, Safety, Security, Environment

The three performance areas are specified as follows:

- Underlying and directional EBITDA is used as an indicator of overall short-term profitability. This indicator is used and understood across SBM Offshore and the primary operational driver of performance.
- Order Intake and/or the number of FEEDs is used as an operational indicator of top line growth. Its relative weight for the STI payout is lower, as growth should never be at the detriment of profitability.
- HSSE performance combines key performance areas to ensure discipline in how SBM Offshore operates. These areas are composed by a combination of leading and lagging indicators, to be selected by the Supervisory Board each year depending on measurability and priorities.

If the Supervisory Board is of the opinion that another measure would be more qualified as an indicator for profitability, growth or HSSE, it will inform the shareholders in the remuneration report. Performance measures will never be adjusted retrospectively.

Performance ranges – threshold, targeted and maximum - are set for each of the key performance indicators. The STI is set at a target level of 100% of the base salary for the CEO and 75% of the base salary for any other member of the Management Board. The threshold pay-out is at 0.5 times target and maximum pay-out will not exceed 1.5 times target. A linear pay-out line applies between threshold and maximum. Below threshold, the pay-out is zero.

The Supervisory Board appreciates that transparency and accountability require a precise STI measurement. Therefore, the Supervisory Board will no longer apply discretion to increase the outcome of the STI. The Supervisory Board may still adjust the outcome of the STI down by up to 10%, which adjustment will be reported on in the remuneration report.

At the end of the performance year, the performance is reviewed by the Supervisory Board and the pay-out level is determined. The performance measures, target setting, and realization are published in this remuneration report. For reasons of commercial and/or market sensitivity, these details are not published at the start of the performance period. In general, details regarding order intake will not be shared. The STI is payable in cash after the publication of the Annual Report for the performance year.

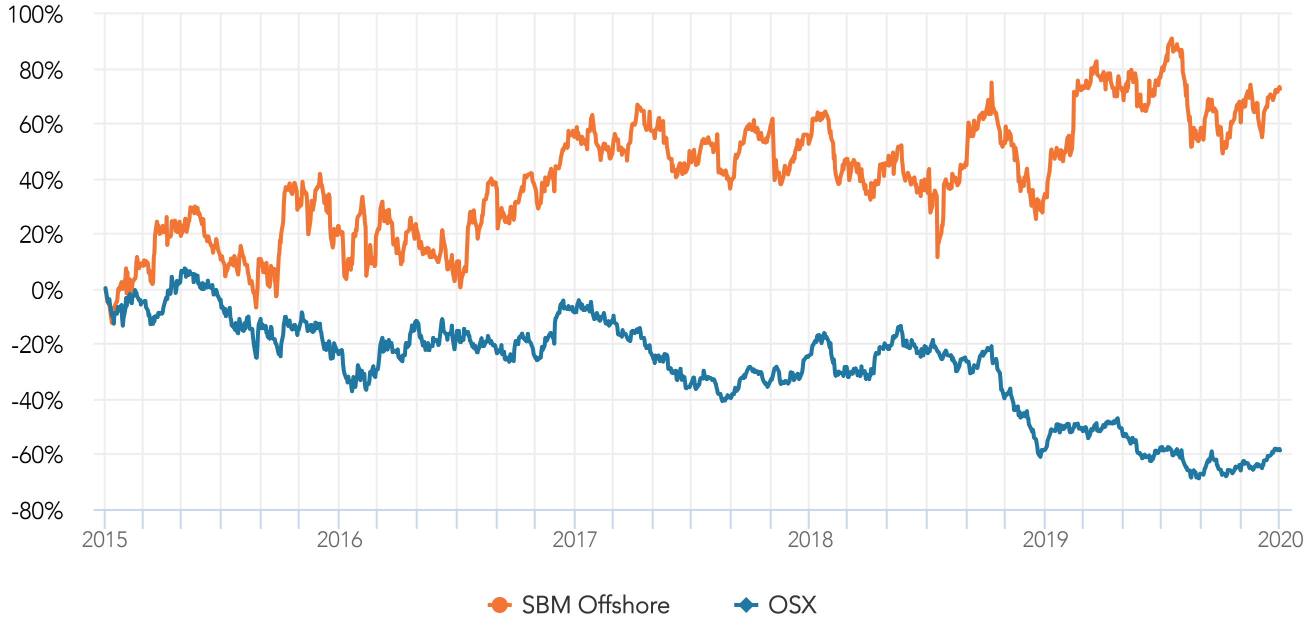
3. VALUE CREATION STAKE

The Value Creation Stake is an award of restricted shares to create direct alignment with long-term shareholder value. The awarded shares must be held for at least five years. After retirement or termination, the shares cannot be sold for the duration of two years. The gross annual grant value for each of the Management Board members is 1.75 times base salary. The number of shares is determined by a four-year average share price (volume-weighted). The Value Creation Stake has a variable element to the extent that the share price develops during the holding period. The Supervisory Board retains the discretion not to award the Value Creation Stake in exceptional market or business circumstances ('underpin').

The Supervisory Board determined to award restricted shares through the Value Creation Stake due to the difficulty in establishing meaningful relative long-term measures in the market SBM Offshore is active in. This difficulty arises from the nature of our primary business where the period leading to a contract / construction is approximately two to four years with Lease and Operate contracts typically lasting twenty years. Such long-term contracting processes and contracts often disconnect the Company's performance from other offshore services companies whose performance is more short-term. Additionally, the Company's two primary business lines – Lease and Operate and Turnkey – tend to be offset in terms of revenue generation, making it complicated to compare our performance to others in the industry.

The below graph illustrates disconnect of the share price performance of SBM Offshore compared to the Offshore Services Industry (OSX) over the past five years.

OSX versus SBM Offshore 2015-2019



For these reasons, establishing a set of realistic, robust and stretching long-term financial targets via a Long-Term Incentive (LTI) plan has proven to be very challenging. Since there is a strong connection between pay in the form of shares and performance in the form of shareholder value, the Value Creation Stake creates full alignment with shareholders, and rewards long-term Company performance. The Supervisory Board considers the Value Creation Stake as the most appropriate way to align the remuneration for management with the interests of shareholders.

All members of the Management Board are required to build up Company stock of at least 3.5 times their gross base salary. The value of the share ownership is determined at the date of grant.

4. PENSION AND BENEFITS

The Management Board members are responsible for their own pension arrangements and receive a pension allowance equal to 25% of their base salary for this purpose.

The Management Board members are entitled to additional benefits, such as a company car allowance, medical and life insurance and (dependent on the personal situation of the Management Board member) a housing allowance.

KEY ELEMENTS EMPLOYMENT AGREEMENTS

Each of the Management Board members has entered into a four-year service contract with the Company, the terms of which have been disclosed in the explanatory notice of the General Meeting of Shareholders at which the Management Board member was (re-)appointed.

Adjustment of remuneration and claw-back

The service contracts with the Management Board members contain an adjustment clause giving discretionary authority to the Supervisory Board to adjust upwards or downwards the payment of the STI and LTI (as granted under RP 2015), if a lack of adjustment would produce an unfair or unintended result as a consequence of extraordinary circumstances during the period in which the performance criteria have been, or should have been achieved. However, the Supervisory Board has determined that upward adjustments will not be considered as part of RP 2018 based on shareholder feedback.

A claw-back provision is included in the services contracts enabling the Company to recover the Value Creation Stake, STI and/or LTI (as granted under RP 2015) on account of incorrect financial data.

Severance Arrangements

The Supervisory Board will determine the appropriate severance payment for Management Board members in accordance with the relevant service contracts and Dutch Corporate Governance Code. The current Dutch Corporate Governance Code provides that the severance payment will not exceed a sum equivalent to one times annual base salary. This also applies in a situation of a change in control.

Loans

SBM Offshore does not grant loans, advance payments or guarantees to its Management Board members.

3.4.2 EXECUTION OF THE MANAGEMENT BOARD REMUNERATION POLICY IN 2019

The Supervisory Board is responsible for ensuring that the Remuneration Policy is appropriately applied and aligned with the Company's objectives. The remuneration level is determined by the Supervisory Board using a comparison with Dutch and international peer companies, as well as internal pay ratios across the Company.

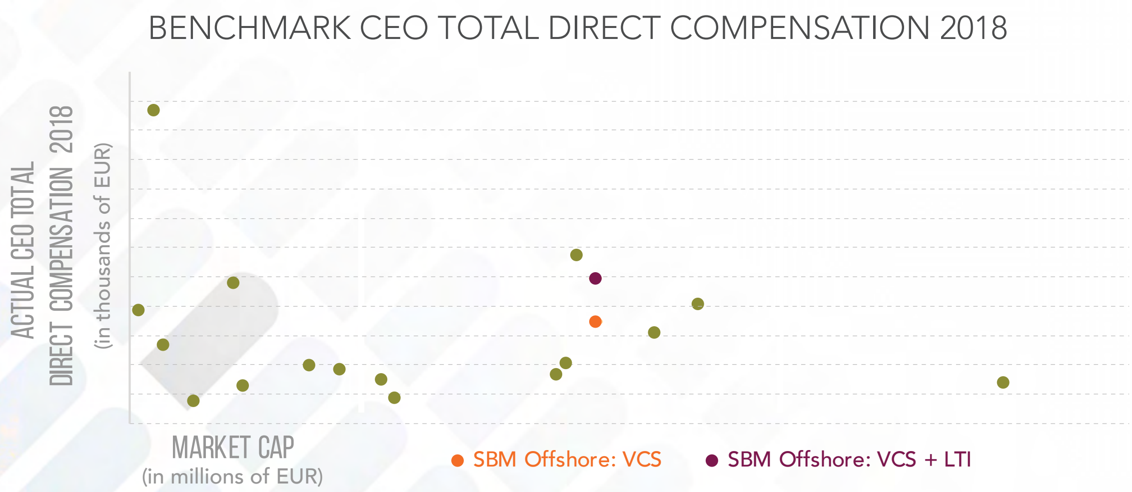
REFERENCE GROUP

In order to determine a competitive base salary level and to monitor total remuneration levels of the Management Board, a reference group of relevant companies in the industry (the 'Reference Group') has been defined. Pay levels of the Management Board members are benchmarked annually to the Reference Group. In the event a position cannot be benchmarked within the Reference Group, the Supervisory Board may benchmark a position to similar companies. In 2019, the Reference Group consisted of:[29]

[29] Due to changes such as mergers and delisting, Amec Foster Wheeler, Ensco, Rowan Companies, RPS Group and WS Atkinds are no longer part of the reference group. The reference group currently exists of 16 companies.

Arcadis	McDermott International	Transocean
Boskalis	Noble Corporation	Volker Wessels
Diamond Offshore Drilling	Oceaneering International	Vopak
Fugro	Petrofac	Wood Group
Helmerich & Payne	RPC Group	
IMI	Superior Energy Services	

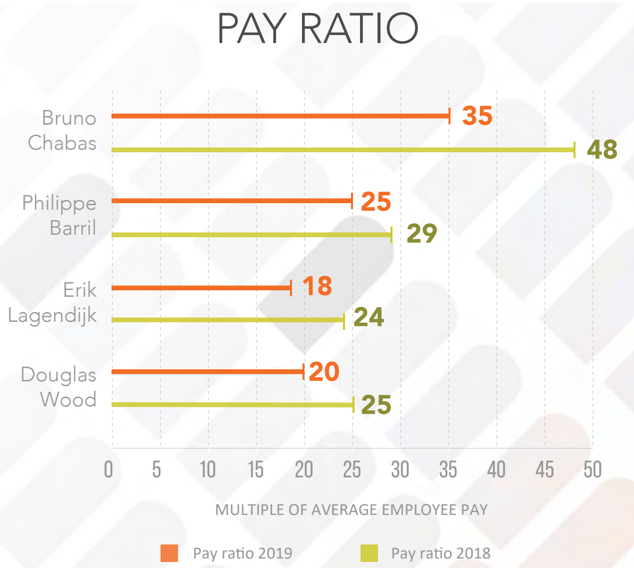
Also in 2019, the Supervisory Board assessed the Management Board's remuneration in relation to the Reference Group's pay levels, revenue and market capitalization. An example of the Supervisory Board's analysis as performed by an independent consultant are shown in the graph below. The graph compares the same variables at actual pay levels for the year 2018. This is one year only and actual remuneration can – and should – vary from year-to-year.



The final determination of pay levels for the Management Board also took into account various scenario analyses to assess the impact of different performance levels and share price developments on the total remuneration paid.

PAY RATIOS

The Supervisory Board also includes internal pay ratios when assessing Management Board pay levels.[30] In 2019, the average total employee expenses was EUR117 thousand. The pay-ratio's of each of the Management Board members over 2019 and 2018 are displayed in the following graph.



[30] The pay-ratio is calculated as the total accounting costs of remuneration for each of the Management Board members expressed as a multiple of the average overall employee benefit expenses as of December 31, 2019, using each employee grade level in countries where the Company has a material presence (as presented in note 4.3.6 to the consolidated financial statements).

TOTAL REMUNERATION OVERVIEW

The table below provides you with insight in the costs for SBM Offshore for Management Board reward in 2019. The table below presents an overview of the remuneration of the Management Board members who were in office in 2019. The proportional costs of the former Long-Term Incentive (LTI) 2017-2019 program (under RP 2015) are included in this table. It is important to note that the former LTI program has a delay in vesting. This means that Management Board members do not receive any shares in the first three years after award. With the adoption of RP 2018, the LTI was replaced by the Value Creation Stake which vests upon award. As a result, both the former LTI and the Value Creation Stake are reporting in this table.

	Bruno Chabas		Philippe Barril		Erik Lagendijk		Douglas Wood		Total	
in thousands of EUR[1]	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Base salary	800	800	634	551	450	450	484	450	2,368	2,251
STI	916	1,165	544	601	386	491	415	491	2,261	2,748
Value Creation Stake	1,372	1,508	1,134	1,038	772	848	845	848	4,122	4,244
Pensions	245	245	158	138	113	113	121	113	637	608
Other	165	165	147	146	39	38	41	39	392	389
Total Remuneration	**3,498**	**3,883**	**2,617**	**2,475**	**1,760**	**1,940**	**1,906**	**1,941**	**9,780**	**10,239**
LTI (RP 2015)[2]	630	1,470	325	740	325	712	419	836	1,699	3,758
Total Remuneration including LTI	**4,128**	**5,353**	**2,942**	**3,215**	**2,085**	**2,652**	**2,325**	**2,778**	**11,479**	**13,997**
in thousands of US$	4,621	6,321	3,293	3,796	2,334	3,132	2,603	3,281	12,851	16,530

1 Peter van Rossum retired as Management Board member during the extraordinary meeting of shareholders of November 30, 2016 and his contract ended at the Annual General Meeting of April 13, 2017. There is a minor adjustment to prior year LTI expenses related to Peter van Rossum in 2019.

2 LTI (RP 2015) expenses are inclusive of expenses related to sign-on RSUs.

1. BASE SALARY

As part of the re-appointment of Philippe Barril during the 2019 Annual General Meeting, it was resolved to increase his Base Salary from EUR551 thousand to EUR664 thousand effective from January 1, 2019. In August 2019, the A&RC performed a benchmark analysis for the reward level of the CFO. For this, the A&RC engaged an external reward firm, who produced a detailed report. The Supervisory Board resolved to increase Douglas Wood's Base Salary to EUR518 thousand effective from July 1, 2019. The 2019 and 2018 Base Salary levels are shown both in the table at the beginning of section: Management Board Remuneration in 2019 and in the table Remuneration of the Management Board by member in section 3.4.3.

2. SHORT-TERM INCENTIVE

For 2019, the Supervisory Board set the following performance measures and corresponding weighting, which led to the following performance realization. For full details regarding the performance under the STI, please refer to the Performance STI 2019 table in section 3.4.3.

PERFORMANCE REALIZATION*

	PERFORMANCE MEASURE	RELATIVE WEIGHTING	WEIGHTED PERFORMANCE
PROFITABILITY	EBITDA, underlying & directional	50%	75%
GROWTH	Order intake FPSO, TMS and #FEED	30%	28%
HSSE	HSSE=Fleet significant deviations, TRIFR and SDG target completion	20%	12%
TOTAL		100%	115%

*The weighted performance percentages in this graph relate to the CEO. For other Management Board members the performance is 75% thereof.

Underlying directional EBITDA resulted in US$832 million against target level of US$750 million. Order intake related to new projects (FPSO, Turret Mooring Systems and FEEDs). Two FPSO contracts were secured. For reasons of commercial sensitivity, no details about the further order intake achievements are disclosed. Regarding the HSSE targets and Process Safety, a leading indicator measured by Fleet Significant Deviations (50% Reduction vs. 2018 YE baseline), scored above maximum. As a result of the fatal injury in 2019, TRIFR contributes for 0%. A TRIFR score of 0.13 was achieved. Since flaring reduction and plastic waste reduction scored below the ambition level, the SDGs also did not contribute to the STI.

3. VALUE CREATION STAKE

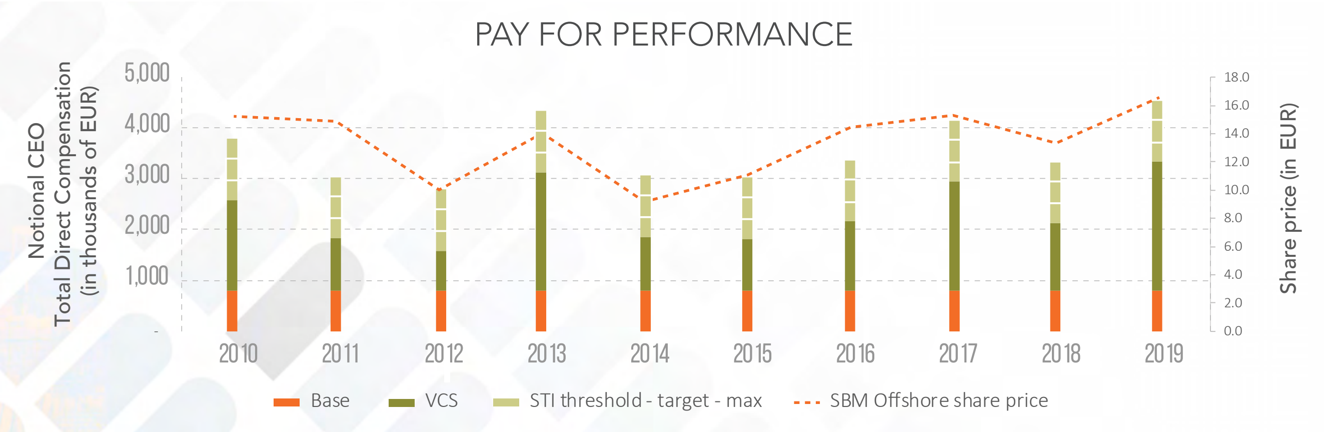
The Supervisory Board decided to grant the Value Creation Stake for 2019 to the Management Board members in accordance with RP 2018. The 2019 Value Creation Stake award for Philippe Barril and Douglas Wood respectively were adjusted due to their Base Salary increase per January 1, 2019 and July 1, 2019 respectively. As per RP 2018, the granted Value Creation Stake vests immediately. The gross annual value for each of the Management Board members is 175% of base salary. The number of shares was based on the four year average share price (volume weighted) at the date of the respective grant. The cost of the granted Value Creation Stake is included in the table at the beginning of this section 3.4.2. The number of shares vested under the Value Creation Stake can be found in section 3.4.3 of this Remuneration Report under Conditions of and information regarding share plans.

The actual shareholdings of the Management Board members per the end of 2019, in which only conditional shares are taken into account, can be found at the end of the Overview Share-Based Incentives (section 3.4.3). This overview also includes the number of conditionally granted and/or vested shares in the last few years.

Pay for Performance

In 2019, the Supervisory Board performed an analysis through an independent third-party consultant to evaluate the relationship between the Company's performance and the Management Board's remuneration package. The Supervisory Board chose a methodology that is based on mandatory UK disclosure requirements. To test the long-term relationship, the assumption was taken that RP 2018 had been effective since 2009. For each year, the components include: (i) Base salary as applied in 2019, (ii) STI percentages as applied in 2019 – minimum and maximum policy level, (iii) Value Creation Stake percentages as applied in 2019 – as this is an equity instrument, the value includes share price development over the previous five years (total lock-in period).

Since approximately half the remuneration package of Management Board members consists of share-based remuneration, the analysis shows a high degree of alignment with the share price.



From this analysis, the Supervisory Board concluded that remuneration practices under RP 2018 provides strong long-term alignment between the Management Board and shareholders.

4. LONG-TERM INCENTIVE UNDER REMUNERATION POLICY 2015 (RP 2015)

RP 2015 was applicable from 2015 until 2018 and included a LTI scheme. Further details on the LTI are available in the 2014 Annual General Meeting section on SBM Offshore's website and in the Remuneration Report 2017. The last LTI program (LTI 2017-2019) was granted in 2017 and ended in 2019.

LTI 2017-2019

The 2017-2019 LTI program that was granted in 2017 contained two Performance Indicators: Directional Underlying Earnings Per Share (relative weighting 60%) and Relative Total Shareholder Return (TSR) (relative weighting 40%).

The Supervisory Board, upon the recommendation of the A&RC, assessed the delivered results and concluded that the results for both the Underlying Earnings Per Share and the Relative TSR were realized at maximum. The costs for the Company regarding the LTI 2017- 2019 in 2019 can be found in the table at the beginning of this section 3.4.2.

The 2016 – 2018 LTI program under RP 2015 concluded on December 31, 2018. The value earned related to 2016-2018 only. However, the last portion of the LTI program 2016-2018 under RP 2015 vested in 2019. No additional LTI performance cycles or shares were initiated.

Shareholding requirement Management Board

The following table contains an overview of shares held in SBM Offshore N.V. by members of the Management Board per December 31, 2019.

	Shares subject to conditional holding requirement	Other shares	Total shares at 31 December 2019	Total shares at 31 December 2018
Bruno Chabas	368,448	607,462	975,910	793,588
Philippe Barril	278,428	-	278,428	165,047
Erik Lagendijk	143,984	-	143,984	69,351
Douglas Wood	115,614	-	115,614	33,924
	906,474	**607,462**	**1,513,936**	**1,061,910**

Except for Douglas Wood, all Management Board members met the share ownership requirement, which is set at an equivalent of 350% of base salary.

Section 3.4.3 contains more information about the (historical) share plans for the Management Board.

5. PENSIONS AND BENEFITS

Management Board members received a pension allowance equal to 25% of their base salary. In case these payments are not made to a qualifying pension fund, Management Board members are individually responsible for the contribution received and SBM Offshore withholds wage tax on these amounts. A pension arrangement (defined contribution) is in place for the CEO and its costs are included in the table at the beginning of this section 3.4.2.

The Management Board members received several allowances in 2019, including a car allowance and a housing allowance (Bruno Chabas and Philippe Barril). The value of these elements is included in the table at the beginning of this section 3.4.2 and in section 3.4.3.

3.4.3 OTHER REMUNERATION INFORMATION

In this section, various new tables are included, in compliance with the implementation of the EU Shareholders' Rights Directive into Dutch law. These tables are designed to increase transparency and accountability for the execution of the RP 2018 and aim to allow shareholders, potential investors and other stakeholders to better assess Management Board remuneration.

Overview share based incentives

The following table represents the movements during 2019 of all unvested shares (the total number of vested shares held by Management Board members are reported in section 3.4.2 under Shareholding requirement Management Board). Unvested Long-Term Incentive (LTI) shares in the columns Outstanding at the beginning and/or end of the year, are reported at the Target LTI numbers. The actual vesting hereof in the year are shown for the actual number as per the outcome of the performance criteria and as per the relevant Remuneration Policy. As at December 31, 2019 the following share-based incentives are outstanding:

	Outstanding at the beginning of 2019	Granted	Vested	Outstanding at the end of 2019	Status at the end of 2019	Vesting date	End of blocking period	Fair value of share at the grant date – €	Fair value of the TSR component – €
Bruno Chabas – CEO									
2016 LTI	84,678	-	163,632	-	vested	2019	2021	11.91	19.92
2017 LTI	80,817	-	-	80,817	conditional	2020	2022	14.31	19.62
	165,495	-	**163,632**	**80,817**					
Philippe Barril – COO									
2016 LTI	56,452	-	82,781	-	vested	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	110,330	-	**82,781**	**53,878**					
Erik Lagendijk – CGCO									
2016 LTI	56,452	-	82,781	-	vested	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	110,330	-	**82,781**	**53,878**					
Douglas Wood – CFO									
Restricted shares[1]	30,000	-	30,000	-	vested	2019	2021	12.71	
2016 LTI	42,339	-	62,086	-	vested	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	126,217	-	92,086	**53,878**					
Peter van Rossum – former CFO									
2016 LTI	56,452	-	35,257	-	vested	2019	2021	11.91	15.50
2017 LTI	5,238	-	-	5,238	conditional	2020	2022	14.31	15.54
	61,690	-	**35,257**	**5,238**					

1 These shares were awarded to Douglas Wood as compensation for the loss of variable remuneration entitlements and other benefits in his previous employment, and have been reported to the EGM on 30 November 2016 in Agenda item 1.

Conditions of and information regarding share plans

The following table includes further details regarding the various (historical) share plans, including the changes throughout 2019.

The main conditions of share award plans					Information regarding the reported financial year				
					Opening balance[1]	During the year		Closing balance[2]	
Specification of plan	Performance period[3]	Grant date	Vesting date(s)	End of retention period	Shares held at the beginning of the year	Shares granted (# / EUR x 1,000)	Shares vested (# / EUR x 1,000)	Shares subject to a performance condition[4]	Shares subject to a retention period
Bruno Chabas, CEO									
2014 LTI	2014-2016	06-02-2014	06-04-2017	06-04-2019	168,435	0 / 0	0 / 0	-	-
2015 LTI	2015-2017	27-03-2015	11-04-2018	11-04-2020	108,724	0 / 0	0 / 0	-	108,724
2016 LTI	2016-2018	10-03-2016	09-04-2019	09-04-2021	169,356	0 / 0	163,632/ 2,795	-	108,279
2017 LTI	2017-2019	09-02-2017	08-04-2020	08-04-2022	161,634	0 / 0	0 / 0	161,634	-
Value Creation Stake 2018	N/A	01-01-2018	01-01-2018	01-01-2023	77,402	0 / 0	0 / 0	-	77,402
Value Creation Stake 2019	N/A	01-01-2019	01-01-2019	01-01-2024	-	108,320/ 1,372	108,320/ 1,372	-	74,043
Philippe Barril, COO									
Restricted Shares	N/A	01-03-2015	01-03-2018	01-03-2020	46,604	0 / 0	0 / 0	-	46,604
2015 LTI	2015-2017	27-03-2015	11-04-2018	11-04-2020	65,151	0 / 0	0 / 0	-	65,151
2016 LTI	2016-2018	10-03-2016	09-04-2019	09-04-2021	84,678	0 / 0	82,781/ 1,414	-	54,778
2017 LTI	2017-2019	09-02-2017	08-04-2020	08-04-2022	80,817	0 / 0	0 / 0	80,817	-
Value Creation Stake 2018	N/A	01-01-2018	01-01-2018	01-01-2023	53,292	0 / 0	0 / 0	-	53,292
Value Creation Stake 2019	N/A	01-01-2019	01-01-2019	01-01-2024	-	74,578/ 945	74,578/ 945	-	50,978
Additional Value Creation Stake 2019	N/A	01-01-2019	01-01-2019	01-01-2024	-	11,218/ 189	11,218/ 189	-	7,625
Erik Lagendijk, CGCO									
2015 LTI	2015-2017	27-03-2015	11-04-2018	11-04-2020	35,427	0 / 0	0 / 0	-	35,427
2016 LTI	2016-2018	10-03-2016	09-04-2019	09-04-2021	84,678	0 / 0	82,781/ 1,414	-	42,122
2017 LTI	2017-2019	09-02-2017	08-04-2020	08-04-2022	80,817	0 / 0	0 / 0	80,817	-
Value Creation Stake 2018	N/A	01-01-2018	01-01-2018	01-01-2023	33,924	0 / 0	0 / 0	-	33,924
Value Creation Stake 2019	N/A	01-01-2019	01-01-2019	01-01-2024	-	60,930/ 772	60,930/ 772	-	32,511

1 Opening balance consists of both shares held and unvested grants for conditional plans at assumed maximum target.
2 Closing balance consists of the full grant and vesting of the relevant plan, including any sell-to-cover performed to compensate a wage tax impact.
3 Performance period always refers to a full year
4 All the shares subject to a performance condition are granted and unvested at year-end.

The main conditions of share award plans					Information regarding the reported financial year				
					Opening balance[1]	During the year		Closing balance[2]	
Specification of plan	Performance period[3]	Grant date	Vesting date(s)	End of retention period	Shares held at the beginning of the year	Shares granted (# / EUR x 1,000)	Shares vested (# / EUR x 1,000)	Shares subject to a performance condition[4]	Shares subject to a retention period
Douglas Wood, CFO									
Restricted Shares	N/A	01-10-2016	01-10-2019	01-10-2021	30,000	0 / 0	30,000/ 456	-	15,265
2016 LTI	2016-2018	10-03-2016	09-04-2019	09-04-2021	63,509	0 / 0	62,086/ 1,060	-	31,591
2017 LTI	2017-2019	09-02-2017	08-04-2020	08-04-2022	80,817	0 / 0	0 / 0	80,817	-
Value Creation Stake 2018	N/A	01-01-2018	01-01-2018	01-01-2023	33,924	0 / 0	0 / 0	-	33,924
Value Creation Stake 2019	N/A	01-01-2019	01-01-2019	01-01-2024	-	60,930/ 772	60,930/ 772	-	32,511
Additional Value Creation Stake 2019	N/A	01-07-2019	01-07-2019	01-07-2024	-	4,354/ 73	4,354/ 73	-	2,323
Peter van Rossum, former CFO									
2016 LTI	2016-2018	10-03-2016	09-04-2019	09-04-2021	84,678	0 / 0	35,527/ 607	-	31,580
2017 LTI	2017-2019	09-02-2017	08-04-2020	08-04-2022	7,857	0 / 0	0 / 0	7,857	-
					1,551,724	**320,330/ 4,122**	**777,137/ 11,868**	**411,942**	**938,054**

1 Opening balance consists of both shares held and unvested grants for conditional plans at assumed maximum target.
2 Closing balance consists of the full grant and vesting of the relevant plan, including any sell-to-cover performed to compensate a wage tax impact.
3 Performance period always refers to a full year
4 All the shares subject to a performance condition are granted and unvested at year-end.

Remuneration of the Management Board by member in thousands of EUR:
The purpose of this table is to show actual total remuneration of Management Board members during the reported financial year and shows the STI 2019 and the LTI 2016-2018 (which vested in 2019). The relative proportion of fixed and variable remuneration in the reported financial year is also presented, whereas for the purpose of this table, the Value Creation Stake is earmarked as variable remuneration. The total remuneration in 2019 is impacted by the vesting of both the 2016-2018 LTI cycle, granted in 2016, as well as the Value Creation Stake, granted in 2019. The total remuneration in 2018 is simultaneously impacted by the 2015-2017 LTI cycle, granted in 2015, and the Value Creation Stake, granted in 2018. The last LTI program (the 2017-2019 cycle) will vest in 2020.

This table is included to comply with Dutch law. It is in line with the current draft Guidelines on the Standardized Presentation of the remuneration report as regards the encouragement of long-term shareholder engagement. Since this table includes former LTI programs, the total remuneration is impacted by the vesting of two separate programs.

in thousands of EUR

		Fixed remuneration		Variable remuneration							
Name of Director, Position	Year	Base salary	Other benefits	STI[1]	STI Matching Shares	LTI	Value Creation Stake[2]	Extra-ordinary Items[3]	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
Bruno Chabas, CEO	2019	800	165	916	-	2,795	1,372	-	245	6,293	19% / 81%
	2018	800	165	1,165	481	1,673	1,508	-	245	6,037	20% / 80%
Philippe Barril, COO	2019	634	147	544	-	1,414	1,134	-	158	4,030	23% / 77%
	2018	551	146	601	-	929	1,038	696	138	4,100	20% / 80%
Erik Lagendijk, CGCO	2019	450	39	386	-	1,414	772	-	113	3,174	19% / 81%
	2018	450	38	491	-	929	848	-	113	2,869	21% / 79%
Douglas Wood, CFO	2019	484	41	415	-	1,060	845	456	121	3,422	19% / 81%
	2018	450	39	491	-	-	848	-	113	1,941	31% / 69%
Peter van Rossum, former CFO	2019	-	-	-	-	607	-	-	-	607	0% / 100%
	2018	-	-	-	170	709	-	-	-	878	0% / 100%

1 STI based on accrual accounting, taking into consideration that this reflects the STI to be paid over the performance of that year.
2 The Value Creation Stake does not meet the definition of either fixed or variable remuneration, but for the proportion is considered variable.
3 The extra-ordinary items consist of the sign-on RSUs granted to the Management Board member upon joining the Company.

Comparative table on the change of remuneration and company performance over the last five reported financial years

In the table below, information on the annual change of remuneration of each individual Management Board member is set out over the five most recent financial years. In addition, the performance of the Company (measured in Directional Underlying EBITDA and TRIFR) is displayed as well as the average remuneration on a full-time equivalent basis of employees of the Company (calculated in the same manner as the internal pay ratio in this section). Under RP 2015, LTI shares vested three years after award. Under RP 2018, the LTI was replaced by the Value Creation Stake, which vests immediately upon award. As a result, for the years 2018 and 2019, this table includes both the former LTI vesting and the Value Creation Stake.

in thousands of EUR

Annual Change	2014	2015	2016	2017	2018	2019
Bruno Chabas, CEO	2,833	29% / 3,994	1% / 4,039	30% / 5,749	5% / 6,037	4% / 6,293
Philippe Barril, COO		1,597	(34%) / 1,192	26% / 1,602	61% / 4,100	(2%) / 4,030
Erik Lagendijk, CGCO		1,102	(36%) / 812	27% / 1,118	61% / 2,869	10% / 3,174
Douglas Wood, CFO			218	82% / 1,233	36% / 1,941	43% / 3,422
Peter van Rossum, former CFO	1,601	26% / 2,162	9% / 2,368	(26%) / 1,877	(114%) / 878	(45%) / 607
Company´s performance						
Underlying Directional EBITDA in million US$	643	10% / 718	8% / 778	3% / 806	(3%) / 784	6% / 832
TRIFR	0.22	0% / 0.22	29% / 0.31	(63%) / 0.19	(6%) / 0.18	(38%) / 0.13
Average employee expenses on a full-time equivalent basis						
Average employee expenses of the Company[1]	117	7% / 125	(12%) / 112	6% / 119	(6%) / 113	3% / 117

1 The average employee expenses of the company are based on the IFRS expenses including share based payments. The average employee expenses are influenced by both the composition of the population both in function as well as geographical location and the related foreign currency impacts.

Performance STI 2019

For more information on the actual performance of the STI 2019, reference is made to 3.4.2 under 2. Short Term-Incentive.

Performance measure		Relative Weighting	Threshold	Target	Maximum	Actual performance	Actual in % of target
Profitability							
EBITDA*, underlying & directional			US$ 675M	US$ 750M	US$ 825M	US$ 832M	150%
Corresponding awards in €	**Bruno Chabas, CEO**	50%	€ 200,000	€ 400,000	€ 600,000	€ 600,000	150%
	Philippe Barril, COO		€ 118,809	€ 237,619	€ 356,428	€ 356,428	113%
	Erik Lagendijk, CGCO		€ 84,375	€ 168,750	€ 253,125	€ 253,125	113%
	Douglas Wood, CFO		€ 90,703	€ 181,406	€ 272,109	€ 272,109	113%
Growth							
Order Intake FPSO, TMS and #FEEDS			SBM Offshore does not disclose order intake details as this is considered market sensitive information				
Corresponding awards in €	**Bruno Chabas, CEO**	30%	€ 120,000	€ 240,000	€ 360,000	€ 220,000	92%
	Philippe Barril, COO		€ 71,286	€ 142,571	€ 213,857	€ 130,690	69%
	Erik Lagendijk, CGCO		€ 50,625	€ 101,250	€ 151,875	€ 92,813	69%
	Douglas Wood, CFO		€ 54,422	€ 108,844	€ 163,266	€ 99,773	69%
HSSE							
Process Safety Fleet 8%, Total Recordable Injury Frequency rate 8% and Sustainable Development Goals 4%			Target Fleet Significant Deviations = -25% Reduction vs. 2018 YE baseline; Target TRIFr = 0,29; Target SDG Completion #7, #8 and #14 at 100%[1]				
Corresponding awards in €	**Bruno Chabas, CEO**	20%	€ 80,000	€ 160,000	€ 240,000	€ 96,000	60%
	Philippe Barril, COO		€ 47,524	€ 95,048	€ 142,571	€ 57,028	45%
	Erik Lagendijk, CGCO		€ 33,750	€ 67,500	€ 101,250	€ 40,500	45%
	Douglas Wood, CFO		€ 36,281	€ 72,563	€ 108,844	€ 43,537	45%
Total pay out on STI	**Bruno Chabas, CEO**		€ 400,000	€ 800,000	€ 1,200,000	€ 916,000	115%
	Philippe Barril, COO		€ 237,619	€ 475,238	€ 712,856	€ 544,147	86%
	Erik Lagendijk, CGCO		€ 168,750	€ 337,500	€ 506,250	€ 386,438	86%
	Douglas Wood, CFO		€ 181,406	€ 362,813	€ 544,219	€ 415,420	86%

1 With reference to section 3.4.2 Short-term Incentive the weighted performance on the TRIFR and SDG targets came in at 0%.

3.4.4 SUPERVISORY BOARD REMUNERATION POLICY

The current remuneration of the Supervisory Board was set at the Extraordinary General Meeting of Shareholders of July 6, 2010 and the 2015 AGM and consists of a fixed annual fee, a fixed annual amount for expenses and a lump sum for intercontinental travel.

The remuneration policy of the Supervisory Board should enable the Company to retain and recruit Supervisory Board members whilst taking the Supervisory Board diversity policy and profile into consideration. The remuneration of the Supervisory Board intends to promote an adequate performance of their role. The time spend, as well as the responsibilities and roles of the Supervisory Board members, are taken into consideration when determining the appropriate levels of remuneration for the Supervisory Board. The remuneration of the Supervisory Board members is not dependent on the results of the Company. This allows unmitigated focus on long term value-creation for all stakeholders. The Supervisory Board is not awarded remuneration in the form of shares and/or rights to shares.

SHAREHOLDER RIGHTS DIRECTIVE AND PROPOSAL FOR REMUNERATION POLICY

Following the implementation of SRD II in the Netherlands, a proposal for the Supervisory Board remuneration policy will be presented to the 2020 AGM. The changes will not include an amendment of the fee level. The details will be included in the agenda of the 2020 AGM.

FEE LEVEL AND STRUCTURE

The fee level and structure for the Supervisory Board remuneration is currently as follows:

Position	Fee in EUR
Chairman Supervisory Board	120,000
Vice-Chairman Supervisory Board	80,000
Member Supervisory Board	75,000
Chairman Audit and Finance Committee	10,000
Member of the Audit and Finance Committee	8,000
Chairman of the Appointment and Remuneration Committee dealing with appointment matters	9,000
Chairman of the Appointment and Remuneration Committee dealing with remuneration matters	9,000
Member of the Appointment and Remuneration Committee	8,000
Chairman of the Technical and Commercial Committee	10,000
Member of the Technical and Commercial Committee	8,000

In addition, Supervisory Board members receive an annual amount of EUR500 for expenses, and a lump sum of EUR5,000 per meeting when intercontinental travel is involved.

PENSIONS

The Supervisory Board members do not receive a pension allowance.

ARRANGEMENTS WITH SUPERVISORY BOARD MEMBERS

Members of the Supervisory Board are appointed by the General Meeting of Shareholders for a maximum term of four years. Re-appointment can take place as per the law, Articles of Association and the Supervisory Board Rules of the Company. The term of the Supervisory Board members terminates at the end of their term, in case of resignation or dismissal by the General Meeting of Shareholders.

LOANS

SBM Offshore does not provide loans or advances to Supervisory Board members and there are no loans or advances outstanding. SBM Offshore does not issue guarantees (and/or sureties) to the benefit of Supervisory Board members.

3.4.5 SUPERVISORY BOARD REMUNERATION IN 2019

Remuneration of the Supervisory Board by member in thousands of EUR

In accordance with the Supervisory Board Remuneration Policy, the remuneration paid out to the Supervisory Board in 2019 is as follows:

Name of Supervisory Board Member, Position	Year	Fees	Committee fees	Other benefits[1]	Total remuneration	Proportion of fixed and variable remuneration
Floris Deckers, Chairman	2019	120	17	1	138	100% / 0%
	2018	107	17	1	125	100% / 0%
Thomas Ehret, Vice-Chairman	2019	80	10	1	91	100% / 0%
	2018	80	10	1	91	100% / 0%
Roeland Baan, Member	2019	75	16	1	92	100% / 0%
	2018[2]	54	12	0	66	100% / 0%
Bernard Bajolet, Member	2019	75	8	1	84	100% / 0%
	2018[2]	54	6	0	60	100% / 0%
Francis Gugen, Member	2019	75	10	1	86	100% / 0%
	2018	75	10	1	86	100% / 0%
Sietze Hepkema, Member	2019	75	8	1	84	100% / 0%
	2018	75	8	1	84	100% / 0%
Laurence Mulliez, Member	2019	75	16	1	92	100% / 0%
	2018	75	10	1	86	100% / 0%
Cheryl Richard, Member	2019	75	9	31	115	100% / 0%
	2018	75	9	16	100	100% / 0%

1 Other benefits items for the supervisory board consist mainly of the lump sum for intercontinental travel at EUR5,000 each and a yearly expense allowance of EUR500

2 Remuneration based on months after appointment at the AGM

None of the Supervisory Board members receives remuneration that is dependent on the financial performance of the Company, as per best practice 3.3.2 of the Dutch Corporate Governance Code.

With the exception of Sietze Hepkema, none of the Supervisory Board members have reported holding shares (or other financial instruments) in SBM Offshore N.V. His entire shareholding relates to the (share based) remuneration he has received as a Management Board member in the past.

SBM Offshore does not provide loans or advances to Supervisory Board members and there are no loans or advances outstanding.

3.5 CORPORATE GOVERNANCE

In this section, the broad outline of SBM Offshore's corporate governance structure is explained, partly by reference to the principles mentioned in the Dutch Corporate Governance Code. This chapter indicates to what extent SBM Offshore applies the principles and best practice provisions in the Dutch Corporate Governance Code. This chapter describes the role of the corporate bodies, the role of the external auditor and of the Stichting Continuïteit SBM Offshore.

3.5.1 CORPORATE GOVERNANCE STRUCTURE

SBM Offshore N.V. is a limited liability company ('Naamloze Vennootschap') incorporated under the laws of the Netherlands with its corporate seat in Amsterdam. The Company is listed on Euronext Amsterdam. The Company has a two-tier board consisting of a Supervisory Board and a Management Board. Each board has its specific roles and tasks regulated by laws, the articles of association, the Corporate Governance Code, the Supervisory Board rules and Management Board rules. Further to the implementation of the revised Corporate Governance Code, the Supervisory Board rules and Management Board rules were amended in August 2017. The Management Board rules and Supervisory Board rules were last amended in November 2019 by adding the Related Party Transaction Policy as an annex. Both sets of rules are published on the Company's website, together with the articles of association.

SBM Offshore complies with all applicable principles and best practice provisions of the Dutch Corporate Governance Code, the full text of which can be found on www.mccg.nl. The details on compliance with the Dutch Corporate Governance Code can be found on SBM Offshore's corporate website under 'Rules governing the Supervisory Board'.

3.5.2 MANAGEMENT BOARD

The Management Board currently consists of four members: the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Chief Governance and Compliance Officer. The members of the Management Board are appointed and can be suspended or dismissed at the General Meeting of Shareholders. Further information about the appointment and dismissal of Management Board members can be found in SBM Offshore's articles of association.

The Management Board manages the Company and is responsible for the continuity of the Company and its business. The Management Board establishes a position on the relevance of long-term value creation and strategy for the Company and its business and takes into account the relevant stakeholders' interests. In fulfilling its responsibilities, the Management Board is guided by the interests of the Company and its business.

Each year, the Management Board presents to the Supervisory Board the strategy of the Company, the Operational Plan and the financial objectives that allow quantification and progress measurement of the strategy implementation.

The Management Board is responsible for determining the Company's risk profile and policy, which are designed to realize the Company's objectives, to assess and manage the Company's risks and to ensure that sound internal risk management and control systems are in place. The Management Board monitors the operation of the internal risk management and control systems and carries out a systematic assessment of their design and effectiveness at least once a year. This monitoring covers all material control measures relating to strategic, operational, financial, compliance and reporting risks. Amongst other considerations, attention is given to observed weaknesses, instances of misconduct and irregularities and indications from whistle blowers. A regular risk report is provided to the Supervisory Board.

The Management Board adopted corporate core values for the Company that contribute to a culture focused on long-term value creation. These values are Integrity, Care, Entrepreneurship and Ownership and are regularly discussed with the Supervisory Board. The Management Board encourages behavior that is in keeping with the values and propagates these values through leading by example. The Management Board is responsible for the incorporation and maintenance of the values.

More information about the ways of working of the Management Board can be found in the Management Board rules, available on the Company's website.

3.5.3 SUPERVISORY BOARD AND COMMITTEES

The Supervisory Board supervises the policies, the management of the Company and its businesses, the effectiveness and the integrity of the internal control and risk management systems and procedures implemented by the Management Board, as well as the general conduct of affairs of the Company and its businesses. The Supervisory Board also supervises the activities of the Management Board for creating a culture aimed at long-term value creation for the Company and its businesses. Furthermore the Supervisory Board assists the Management Board with advice in accordance with the Dutch Corporate Governance Code, the articles of association and the Supervisory Board rules. In the performance of its duties, the Supervisory Board is guided by the interests of the Company's various groups of stakeholders. In addition, certain (material) decisions of the Management Board, as stipulated in the Dutch Civil Code, articles of association or the Supervisory Board and Management Board rules, require the Supervisory Board's prior approval.

The Supervisory Board currently consists of eight members. Members of the Supervisory Board are appointed at the General Meeting of Shareholders following nomination by the Supervisory Board. Further information about the appointment and dismissal of Supervisory Board members can be found in SBM Offshore's articles of association.

A Supervisory Board member is appointed for a period of four years and may then be re-appointed once for another four-year period. A Supervisory Board member may subsequently be re-appointed again for a third period of two years, which may be extended by at most two years.

The Supervisory Board has three subcommittees: the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and Commercial Committee. The Appointment and Remuneration Committee is a joint committee with two separate chairpersons and two separate tasks: the selection and appointment preparation of Management Board and Supervisory Board members and the preparation of decision-making regarding remuneration matters.
SBM Offshore has an internal audit department with direct reporting to the Supervisory Board through the Audit and Finance Committee. More information about the ways of working of the Supervisory Board and its committees can be found in the Supervisory Board and Committee rules, as available on the Company's website. The Supervisory Board has drawn up a retirement schedule for its members, which is also available on the Company's website.

3.5.4 SHARES AND THE GENERAL MEETING OF SHAREHOLDERS

The authorized share capital of the Company amounts to EUR 200 million and is divided into 400,000,000 ordinary shares with a nominal value of EUR 0.25 and 400,000,000 protective preference shares, also with a nominal value of EUR 0.25. The preference shares can be issued as a protective measure, as explained below in the section on the Stichting Continuïteit SBM Offshore.

With reference to the articles of association, all shareholders are entitled to attend the General Meeting of Shareholders, to address the General Meeting of Shareholders and to vote. At the General Meeting of Shareholders, each Ordinary Share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote. Each protective preference share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote, when issued. None of the protective preference shares have been issued to date. Unless otherwise required by law or the articles of association of the Company, all resolutions shall be adopted by an absolute majority of votes. The General Meeting of Shareholders may adopt a resolution to amend the articles of association of the Company by an absolute majority of votes cast, but solely upon the proposal of the Management Board, subject to the approval of the Supervisory Board. The articles of association are reviewed on a regular basis and were last amended in April 2016.

As per December 31, 2019, 198,671,305 (2018: 205,671,305) ordinary shares are issued. No preference shares have been issued.

Every year the Annual General Meeting is held within six months after the start of a new calendar year. The agenda for this meeting generally includes the following standard items:

- The report of the Management Board concerning the Company's affairs and the management as conducted during the previous financial year
- The report of the Supervisory Board and its committees
- The adoption of the Company's Financial Statements, the allocation of profits and the approval of the dividend
- the discharge of the Management Board and of the Supervisory Board
- Corporate Governance
- The delegation of authority to issue shares and to restrict or exclude pre-emptive rights
- The delegation of authority to purchase own shares
- The composition of the Supervisory Board and of the Management Board
- From 2020, the Remuneration Report for an advisory vote

In addition, certain specific topics may be added to the agenda by the Supervisory Board.

An Extraordinary General Meeting can be held whenever the Management Board and/or the Supervisory Board shall deem this necessary. The General Meetings of Shareholders can be held in Schiedam, Rotterdam, The Hague, Amsterdam, Hoofddorp, Amstelveen or Haarlemmermeer (Schiphol).

Proposals to the agenda of General Meetings of Shareholders can be made by persons who are entitled to attend General Meetings of Shareholders, solely or jointly representing shares amounting to at least 1% of the issued share capital. Proposals of persons who are entitled to attend the shareholders meetings will only be included in the agenda if such proposals are made in writing to the Management Board not later than sixty (60) days before that meeting.

The proxy voting system used at the General Meetings of SBM Offshore is provided through ABN Amro Bank N.V. and by IQ-EQ Financial Services B.V. as independent third parties. The articles of association do not provide for any limitation of the transferability of the ordinary shares and the voting rights of shareholders is not subject to any limitation.

At the 2019 Annual General Meeting, 137,634,990 ordinary shares participated in the voting, equal to 66.92% (2018: 63.83%) of the then total outstanding share capital of 205,671,305 ordinary shares. All the proposed resolutions were approved. The outcome of the voting of the meeting was posted on the Company's website on the day following the 2019 Annual General Meeting.

3.5.5 ISSUE, REPURCHASE AND CANCELLATION OF SHARES

The General Meeting of Shareholders or the Management Board, if authorized by the General Meeting of Shareholders and with the approval of the Supervisory Board, may resolve to issue shares.

The General Meeting of Shareholders or the Management Board, subject to the approval of the Supervisory Board, shall set the price and further conditions of issue, with due observance of the provisions contained in the articles of association. Shares shall never be issued below par, except in the case as referred to in article 2:80 (2) Dutch Civil Code. At the 2019 Annual General Meeting, the shareholders have delegated to the Management Board for a period of eighteen months and, subject to the approval of the Supervisory Board, the authority to issue ordinary shares up to 10% of the total outstanding shares at that time. In addition, authorization was granted to restrict or to exclude pre-emption rights, as provided for in article 6 of the Company's articles of association for a period of eighteen months and subject to the approval of the Supervisory Board.

The Management Board may, with the authorization of the General Meeting of Shareholders and the Supervisory Board and without prejudice to the provisions of article 2:98 Dutch Civil Code and the articles of association, cause the Company to acquire fully paid-up shares in its own capital for valuable consideration. The Management Board may resolve, subject to the approval of the Supervisory Board, to dispose of shares acquired by the Company in its own capital. No pre-emption right shall exist in respect of such disposal. At the 2019 Annual General Meeting, the shareholders have delegated the authority to the Management Board for a period of eighteen months, as from April 10, 2019 and subject to approval of the Supervisory Board, to acquire up to 10% of the total outstanding shares at that time. The authorization granted at last year's Annual General Meeting will continue to apply for the share repurchase program as announced on February 14, 2019.

On February 14, 2019 SBM Offshore initiated a EUR175 million share repurchase program, with the objective of share capital reduction and, in addition, to provide shares for regular management and employee share programs. The repurchase program was completed on May 20, 2019. The execution of the share repurchase program was done under the terms of an engagement letter with a third-party and performed in compliance with the safe harbor provisions for share repurchases. In accordance with the European Market Abuse Regulation, the Company informed the market through weekly press releases and updates on its website. In 2019, 7,000,000 shares in the capital of SBM Offshore were cancelled. The cancellation of shares is executed under the authorization of the 2018 and 2019 Annual General Meeting resolutions. More information can be found in section 4.3.12 of this Annual Report.

3.5.6 EXTERNAL AUDITOR

The external auditor of SBM Offshore is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board.
PricewaterhouseCoopers Accountants N.V. ('PricewaterhouseCoopers') was first appointed during the 2014 Annual General Meeting. During the 2018 Annual General Meeting, PricewaterhouseCoopers was re-appointed as external auditor for a period of three years (for the audit of the financial years 2018-2020).

The current lead auditor is Michael de Ridder of PricewaterhouseCoopers. The external auditor attends all meetings of the Audit and Finance Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. The external auditor receives the financial information and underlying reports of the quarterly figures and is given the opportunity to comment and respond to this information.

Based on auditor independence requirements, the lead auditor in charge of the SBM Offshore account is changed every five years. Pursuant to the Dutch Audit Profession Act

(Wet op het accountantsberoep), the audit firm of a so-called public interest entity (such as a listed company) will have to be replaced if the audit firm performed the statutory audits of the Company for a period of ten consecutive years, at the latest in 2024.

Pursuant to the Audit Profession Act, the auditors are prohibited from providing the Company with services in the Netherlands other than 'audit services aimed to provide reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board, as referred to in the reports mentioned'. During 2019, a small number of limited-scope non-audit services were provided by foreign member firms of the PricewaterhouseCoopers global network, taking into account the global independence rules and SBM Offshore's policy in this regard.

3.5.7 STICHTING CONTINUÏTEIT SBM OFFSHORE

In this paragraph, SBM Offshore's anti-takeover measures are described, as well as the circumstances under which it is expected that these measures may be used.

A Foundation 'Stichting Continuïteit SBM Offshore' (the Foundation), was established on March 15, 1988. In summary, the objectives of the Foundation are to represent the interests of SBM Offshore in such a way that the interests of the Company and of all parties involved in this are safeguarded, and that influences which could affect the independence, continuity and/or the identity of the Company in breach of those interests are deterred. The Foundation will perform its role, and take all actions required, at its sole discretion. In the exercise of its functions it will, however, be guided by the interests of the Company and the business enterprises connected with it, and all other stakeholders, including shareholders and employees.

The Foundation is managed by a Board, the composition of which is intended to ensure that an independent judgement may be made as to the interests of the Company. The Board consists of a number of experienced (former) senior executives of multinational companies. To be kept informed about the business and interests of the Company, the Chairman of the Supervisory Board, CEO and the CGCO are invited to attend the Foundation Board meetings.

The Board of the Foundation consists of: Mr. A.W. Veenman, Chairman, former CEO of the Nederlandse Spoorwegen, Mr. B. Vree, Vice-Chairman, former CEO of APM Terminals, Mr. R.H. Berkvens, CEO of Damen Shipyard, Mrs. H.F.M. Defesche, Company Secretary of Fugro N.V. and Mr. J.O. van Klinken, General Counsel and member of the Management Board at Aegon N.V.

The Management Board, with the approval of the Supervisory Board, has granted a call option to the Foundation to acquire a number of preference shares in the Company's share capital, carrying voting rights, equal to one half of the voting rights carried by the ordinary shares outstanding immediately prior to the exercise of the option, enabling it effectively to perform its functions, at its sole discretion and responsibility, as it deems useful or desirable.

The option agreement between SBM Offshore and the Foundation was lastly amended and restated in 2011, to reflect a waiver by the Company of its put option and the alignment of the nominal value of the protective preference shares with the nominal value of ordinary shares by reducing the nominal value of EUR 1 to EUR 0.25 and the related increase in the number of protective preference shares, as per the amended articles of association of the Company. The Foundation is independent, as stipulated in article 5:71 (1) (c) Financial Market Supervision Act.

3.5.8 OTHER REGULATORY MATTERS

CONFLICTS OF INTEREST

The members of the Management Board have a services contract with SBM Offshore N.V. These contracts stipulate that members of the Management Board may not compete with the Company. A change of control clause is included in the service agreement between the Company and each of the members of the Management Board.

The Management Board Rules and the Code of Conduct of the Company regulate matters of conflict of interest. The Supervisory Board Rules also contain a regulation based on the Dutch Corporate Governance Code that deals with reporting of conflict of interest of the Chairman and members of the Supervisory Board. In 2019, there were no conflicts of interest in relation to the members of the Management Board and Supervisory Board reported, which means that the Company is compliant with best practice 2.7.3 to 2.7.4 of the Dutch Corporate Governance Code.

The Company's Code of Conduct does not permit employees and directors to accept gifts of value for themselves or their relatives, to provide advantages to third-parties to the detriment of the Company or to take advantage of business opportunities to which SBM Offshore is entitled.

In 2019, no loans or guarantees have been provided to members of the Management Board.

In 2019, SBM Offshore did not enter into transactions with persons who held at least ten percent of the shares in the Company. The Company is compliant with best practice 2.7.5 of the Dutch Corporate Governance Code.

REGULATIONS CONCERNING OWNERSHIP OF AND TRANSACTIONS IN SHARES

In addition to the Company's Insider Trading Rules, the Supervisory Board and Management Board rules contain a provision with regard to the ownership of and transactions in shares in the Company and in shares of Dutch listed companies other than SBM Offshore N.V. This provision stipulates that Supervisory Board and Management Board members will not trade in Company shares or other shares issued by entities other than the Company on the basis of share price sensitive information if this information has been obtained in the course of managing the Company's business.

For information about the shares (or other financial instruments) held in SBM Offshore N.V. by members of the Management Board, reference is made to note 4.3.23 to the consolidated financial statements.

MANDATES WITH THIRD-PARTIES

Reference is made to the overview of the Management Board and Supervisory Board members in section 3.1 and 3.2 of this report, in which their material mandates outside SBM Offshore are listed. Management Board and Supervisory Board members shall inform the Supervisory Board before accepting positions outside the Company. Positions may not be accepted without the Supervisory Boards' prior approval. The position cannot be in conflict with the Company's interest. Mandates are discussed annually in the Supervisory Board meeting. The Company is compliant with best practice 2.4.2 of the Dutch Corporate Governance Code. Members of the Management Board may also be appointed to the statutory board of the Company's operational entities.

CODE OF CONDUCT AND REPORTING OF ALLEGED IRREGULARITIES

The Company has a Code of Conduct, which was updated in April 2018 and can be found on the Company's website. The Company also has a procedure allowing employees to report alleged irregularities with respect to the Code of Conduct without jeopardizing their employment position. A free-phone and web-based reporting facility (the SBM Offshore Integrity Line) is in place, which employees can use – anonymously if they wish – in their own language. The facility is operated by an external provider, People Intouch. For more details on SBM Offshore's compliance program reference is made to section 3.8.

DIVERSITY

The Company's diversity policy for the Supervisory Board and the Management Board is published on the Company website. This diversity policy addresses the aspects that have been identified as relevant for the Company when composing the Supervisory Board and the Management Board and selecting persons for (re-)appointment. These aspects are nationality/cultural background, age, gender and (work) experience. The objective is to have nationality, age and gender diversity in the Management Board and the Supervisory Board. On gender diversity the target is to have a minimum of 30% women and a minimum of 30% men on each of the Management Board and Supervisory Board.

The members of the Supervisory Board have a diverse mix of knowledge, skills and expertise, in line with the required profile (see also Schedule 2 of the Supervisory Board Rules). Currently, 25% of the Supervisory Board members are female and 100% of the Management Board is male. Following the appointment of a female member in June 2019, the Executive Committee now consists of three female members out of the six members that complete the Executive Committee. The nationality/cultural background is diverse, as the members of the Management Board cover four and the eight members of the Supervisory Board cover five nationalities. Two additional nationalities are represented in the Executive Committee.

Diversity also applies to our employee base. We therefore continue to pay attention to diversity at the recruitment of staff, talent management, appointment to roles, retention of employees, succession planning, training and development in general. In succession planning, including re-appointments, of both the Management Board and the Supervisory Board, the set diversity aspects, objectives and targets are considered; ultimately the most qualified candidate will be nominated for appointment.

EXECUTIVE COMMITTEE

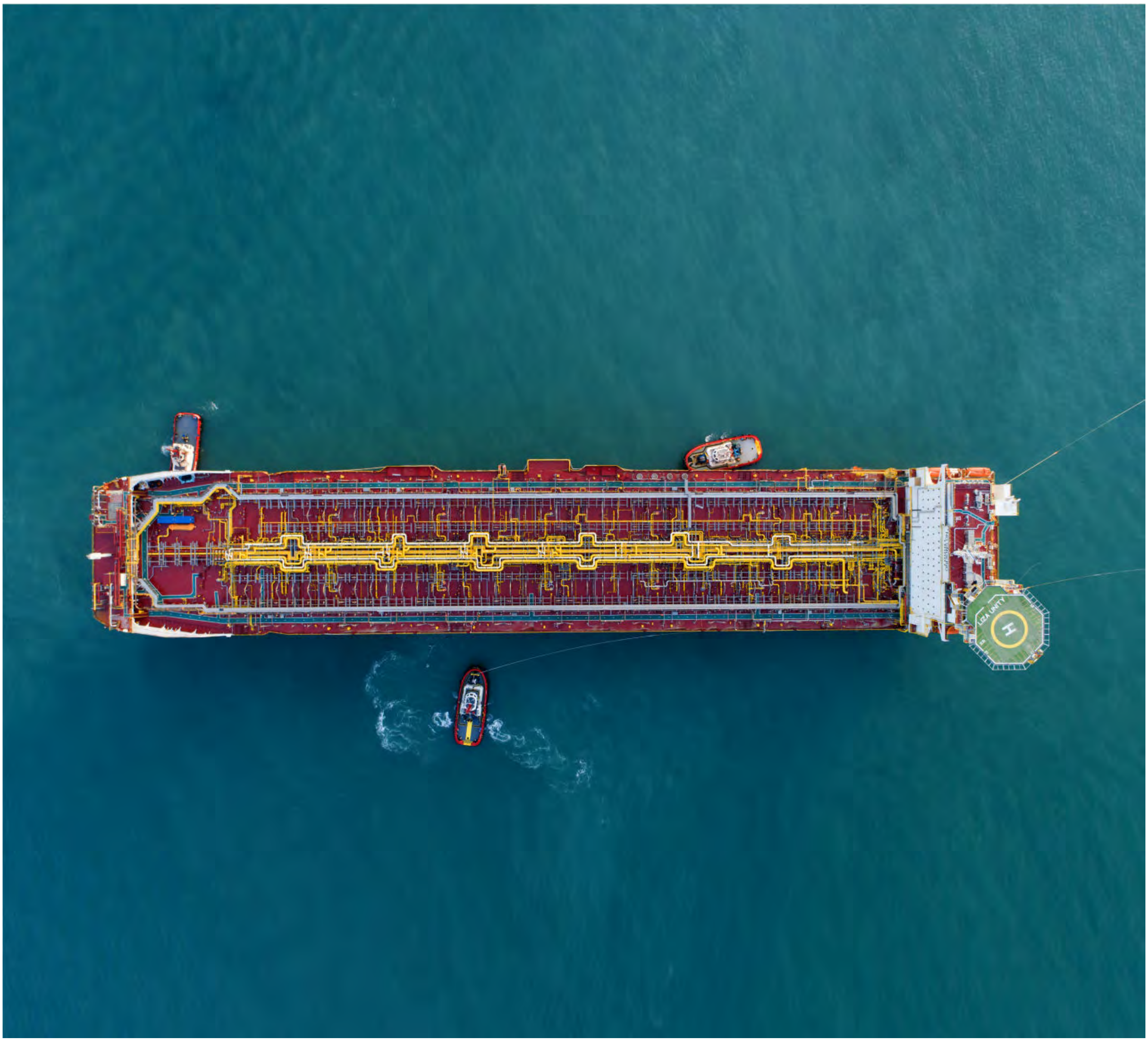
Since the end of 2012, an Executive Committee has been in place. The Executive Committee facilitates decision-making without detracting from the exercise of statutory responsibilities by the members of the Management Board and the internal company authority matrix. Currently, the Executive Committee is comprised of the Management Board members, the Managing Directors of Floating Production Solutions, Global Resources & Services, Operations and Strategic Growth, as well as the Group HR Director and the Chief Strategy Officer. The Executive Committee meets on a monthly basis. In the meetings both strategic and operational topics are discussed.

MISCELLANEOUS

SBM Offshore N.V. has a revolving credit facility agreement under which the agreement of the participating banks must be obtained in the event of a change in control of the Company after a public take-over bid has been made. Certain vessel charter contracts contain clauses to the effect that the prior consent of the client is required in case of a change of control or merger or where the company resulting from such change of control or merger would have a lower financial rating or where such change of control or merger would affect the proper execution of the contract. In addition, local bidding rules and regulations (e.g. in Brazil for Petrobras) may require client approval for changes in control.

FURTHER INFORMATION

The Investor Relations and the Corporate Governance sections of the Company website provide extensive information including the articles of association, the Company Code of Conduct, the Supervisory Board and Committee rules and the Management Board rules. The website also contains the contact details of the Investor Relations department.



3.6 SHAREHOLDER INFORMATION

LISTING

SBM Offshore has been listed on Euronext Amsterdam since 1965. The market capitalization as at year-end 2019 was US$3.7 billion. The majority of the Company's shareholders are institutional long-term investors.

FINANCIAL DISCLOSURES

SBM Offshore publishes audited full-year earnings results and unaudited half-year earnings results, which include financials, within sixty days after the close of the reporting period. For the first and third quarters, SBM Offshore publishes a trading update, which includes important Company news and financial highlights. The Company conducts a conference call and webcast for all earnings releases and a conference call only for all trading updates during which the Management team presents the results and answers questions. All earnings-related information, including press releases, presentations and conference call details are available on the SBM Offshore website. Please see the Financial Calendar of 2020 at the end of this section for details of the timing of publication of financial disclosures for the remainder of 2020.

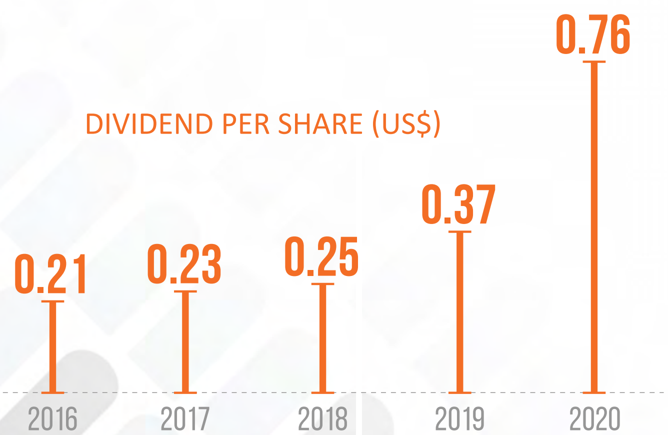
In 2018, the Company expanded its 'Directional' reporting. In addition to the Directional income statement, reported since 2013, a Directional balance sheet and cash flow statement are also disclosed in section 4.3.2 of the Consolidated Financial Statements. Expanding Directional reporting aims to increase transparency in relation to SBM Offshore's cash flow generating capacity and to facilitate investor and analyst review and financial modeling. Furthermore, it also reflects how Management monitors and assesses financial performance of the Company. Directional reporting is included in the audited Consolidated Financial Statements in section 4.3.2.

DIVIDEND POLICY & CAPITAL ALLOCATION

The Company's policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares, depending on residual financial capacity and cash flow outlook.

SHAREHOLDER RETURNS[1]

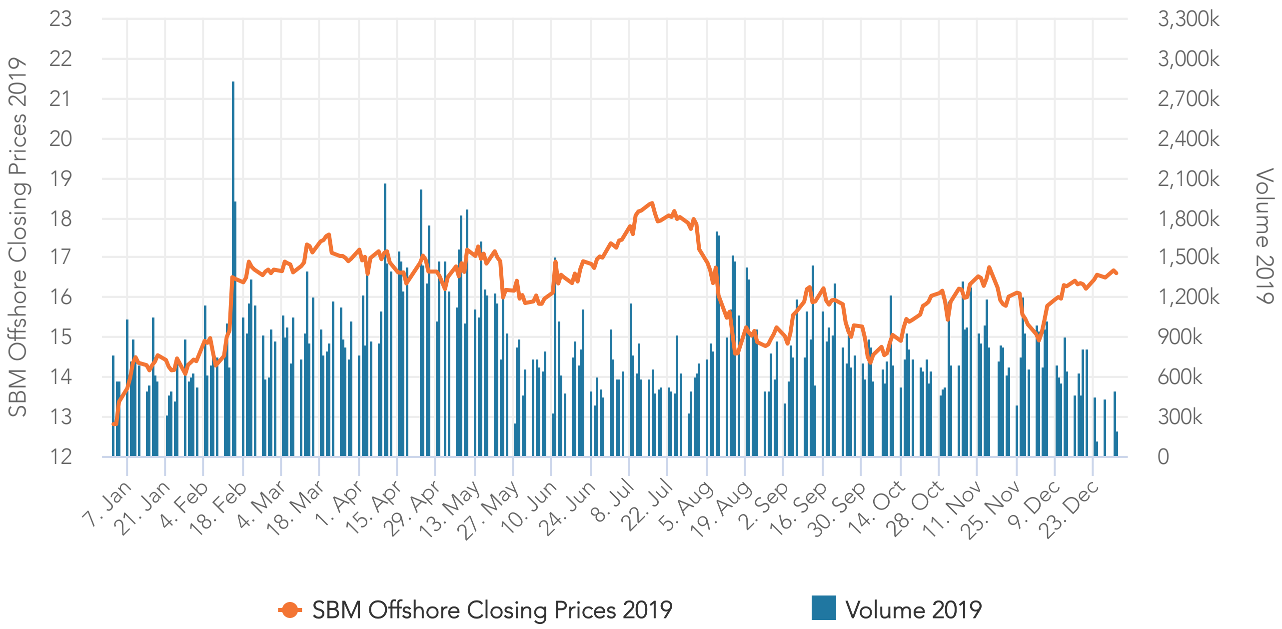


	2016	2017	2018	2019	2020
Total dividend (US$ millions)	45	47	51	75	150
Share repurchase (US$ millions)	166			196	165

1 - Presents dividends and share repurchase program amounts per year of payout

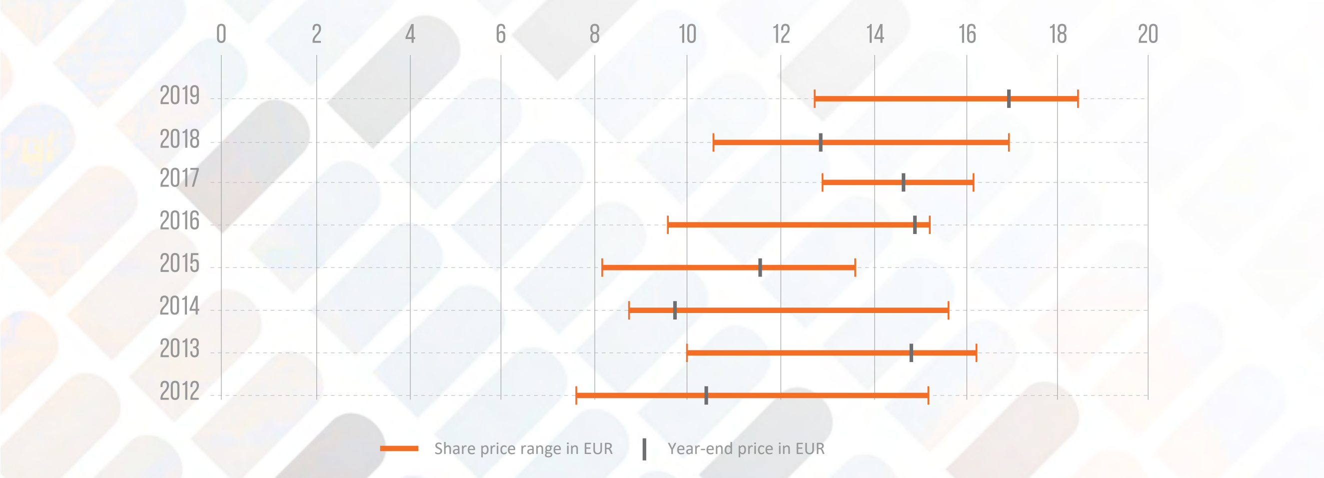
SHARE PRICE DEVELOPMENT

Share price development in 2019



Year-end price	EUR 16.59	December 31, 2019
Highest closing price	EUR 18.35	July 16, 2019
Lowest closing price	EUR 12.80	January 2, 2019

SHARE PRICE DEVELOPMENT 2012 - 2019 (MAX, MIN, YEAR-END PRICE)



For 2019 the press releases covering the key news items are listed below:

Date	Subject Press Release
14-02-19	2018 Full-Year Earnings
14-02-19	Announcement Share Repurchase
14-02-19	Proposal Re-Appointments Management Board and Supervisory Board
27-02-19	Annual General Meeting of Shareholders Announcement
29-03-19	Challenge of AFM fine related to timing of disclosures between 2012 and 2014
10-04-19	Annual General Meeting of Shareholders – 2019 Resolutions
10-05-19	Awarded Contracts for ExxonMobil FPSO *Liza Unity*
16-05-19	2019 First Quarter Trading Update
20-05-19	Completion 2019 Share Repurchase Program
11-06-19	Awarded Letter of Intent for FPSO Mero 2 Lease and Operate Contracts by Petrobras
08-08-19	2019 Half-Year Earnings
06-09-19	Signing of Long-Term FPSO supply agreement with ExxonMobil
30-09-19	Confirming Participation in Auction for Partner's Minority Ownership in SBM Offshore Operated Companies
09-10-19	Confirming Formal Closure of Brazil Legacy Case
16-10-19	Completion US$1.14 billion Financing of *Liza Unity*
18-10-19	Successful Bidder for Partner's Minority Ownership in SBM Offshore Operated FPSO Companies
07-11-19	Awarded Contracts for Exxonmobil's Third FPSO in Guyana Based on its Fast4Ward® Program
14-11-19	2019 Third Quarter Trading Update
22-11-19	Completion Transaction Regarding Minority Ownership in SBM Offshore operated FPSO Companies
05-12-19	Ordering Two Additional Fast4Ward® Hulls, Bringing the Construction Program to a Total of Five Hulls
09-12-19	Optimizing FPSO N'Goma Project Loan
11-12-19	Floris Deckers to Retire as Chairman of the Supervisory Board
11-12-19	Signing FPSO *Sepetiba* Contracts
13-12-19	Divesting Minority Interesy in FPSO *Sepetiba* Projects
23-12-19	FPSO *Liza Destiny* Producing and on Hire

MAJOR SHAREHOLDERS

As at December 31, 2019, the following investors holding ordinary shares had notified an interest of 3% or more of the Company’s issued share capital to the Autoriteit Financiële Markten (AFM) (only notifications after July 1, 2013 are included):

Date	Investor	% of share capital
26 September 2019	Invesco Limited	3.06%
20 August 2019	Janus Henderson Group plc	5.02%
27 Maart 2019	FIL Limited	4.94%
9 November 2015	Dimensional Fund	3.18%
18 November 2014	HAL Trust	15.01%

INVESTOR RELATIONS

The Company maintains open and active engagement with its shareholders and aims to provide information to the market which is consistent, accurate and timely. Information is provided among other means through press releases, presentations, conference calls, investor conferences, meetings with investors and research analysts and the Company website. The website provides a constantly updated source of information about our core activities and latest developments. Press releases and presentations and information on shareholder communication can be found there under the Investor Relations Center section.

FINANCIAL CALENDAR

Event	Day	Year
Full-Year 2019 Earnings – Press Release	13 February	2020
Annual General Meeting of Shareholders	8 April	2020
Trading Update 1Q 2020 – Press Release	14 May	2020
Half-Year 2020 Earnings – Press Release	6 August	2020
Trading Update 3Q 2020 – Press Release	12 November	2020

3.7 RISK MANAGEMENT

3.7.1 COMPANY APPETITE FOR RISKS

Based on the Company's activities and strategic pillars: Optimize, Transform and Innovate, the Company has identified the main risks associated with its activities and strategy. The Risk Appetite Statement 2019 sets the boundaries within which SBM Offshore is willing to take risks in pursuit of its strategic objectives. The Management Board reviews the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities. The measurement of the underlying metrics is done every quarter and presented to the Supervisory Board. The Company has two explicit 'zero tolerance' criteria:

1. In relation to HSSE and Process Safety Management:
SBM Offshore has zero tolerance for harm to people or for damage to its assets or the environment in the execution of its activities.

2. In relation to Compliance:
SBM Offshore has zero tolerance for non-compliance with the SBM Offshore Code of Conduct, its anti-corruption policy and any related applicable laws and regulations. The Company will not work with business partners, contractors, vendors and clients:

- That are sanctioned from business by the World Bank and/or
- Whose decision makers/company executive leaders do not share the same fundamental business principles as SBM Offshore and/or
- Which do not have an effective compliance governance and compliance program proportioned to its size/activities and in accordance with the Foreign Corrupt Practices Act (FCPA) guide.

The significant parts of SBM Offshore risk appetite statement, distinguished between 'no appetite'- and 'limited appetite' activities, are displayed below. In addition, SBM Offshore does have an appetite to pursue initiatives, including corporate investments and technology developments in Renewables & Gas. For more details, see section 2.3 Sustainability.

SBM Offshore has no- or well defined limited appetite for …
FPSO-related contractual structures exposing the Company to reservoir risk
Projects or operational activities that do not anticipate environmentally-sound scrapping or recycling
Balance sheet risk as a result of commercial opportunities for which the bankability cannot be reasonably confirmed
Issuing Parent Company Guarantees (PCGs) on post-completion debt for our FPSO business
Corporate acquisitions/investments which could materialize into process safety risks
Commercial risk taking in Turnkey or in its Lease and Operate business
Financial exposure caused by i) negative working capital ii) credibility of customers or iii) liability towards the yards we engage with
Engagement with vendors which rate unsatisfactory as a result of our vendor qualification process
Cost of Non Quality for projects prior to and after warranty commencement
To engage in projects without the appropriate resourcing of key positions
Disruption due to application of unproven technologies
Corporate acquisitions other than to gain access to new skills, technology, or competitive advantage

3.7.2 DESIGN AND EFFECTIVENESS OF THE INTERNAL RISK MANAGEMENT AND CONTROL SYSTEM

MANAGEMENT APPROACH

Risk Management is a management responsibility and is carried out with dedicated focus across the Company. The Group Risk & Compliance function brings the skills to support the business in identifying and managing risks, thereby ensuring the risks are managed within the Risk Appetite in order for the Company to achieve its strategic goals and objectives. The Risk Assurance Committee (RAC), chaired by the Group Risk & Compliance Director (GRCD) reviews the significant risks faced by the Company and the relevant control measures. The RAC guards an integrated risk management approach by bringing together the key heads of functions across the second and third line of defense, including the results of the annual Internal Control Over Financial Reporting (ICOFR) campaign. At least once every year, the Risk framework's effectiveness is assessed and discussed with the Supervisory Board.

2019 PERFORMANCE

RISK MANAGEMENT MATURITY ASSESSMENT

The Management Board has assessed its Risk Management framework against a basic maturity model (from 'implemented' to 'optimized') across five interrelated components. The components are derived from COSO's framework 'Enterprise Risk Management - Integrating with Strategy and Performance'. The table below table displays the Risk Management activities in their maturity level of robustness, as per end of 2019. Overall, the Risk Management framework is deemed to be at a 'Managed' level, with the exception of 'Information, Communication & Reporting', which is assessed to be at a 'Defined' level. The items in grey are the actions envisioned to be focused on in 2020.

The table below table displays the highlights of the assessment as per end of 2019.

MATURITY	RISK MANAGEMENT COMPONENT: Governance & Culture	Strategy & Objective-setting	Performance	Review & Revision	Information, Communication & Reporting
OPTIMIZED	Continue to strengthen the risk resilience of the Company by increasing risk ownership and associated behavior	Continue to improve alignment of focus between Strategy, including Sustainability, with Risk Management	Continue to improve the quality of risk identification and assessments methodologies for dedicated risks and opportunities	Continue to improve ERM enablers such as Risk Breakdown Structure. Further improve assurance activities in the business	Outlook 2021: Develop and implement risk indicators to facilitate real-time scenario tracking
MANAGED	Risk-based decision making is part of the corporate culture. Cross-functional team work is in place. Tone at the top sets clear guidance, based on our corporate values	Strategic risks assessments, as aligned with strategy (e.g. on Fast4Ward®, Digital Transformation, China country risk, Fraud risk, and Climate Change impact) are conducted	Continuous improvement takes place on quality of risk assessments on special topics and the tracking of action plans	Risk enablers (GEMS procedures, risk tooling, Risk Appetite statements) are regularly reviewed and improved by the RAC	Continue to improve the quality, alignment and impact of risk reporting
DEFINED	The RAC meets regularly and includes Group Directors of assurance functions, such as: HSSE, Operational Excellence, Finance, ICOFR, Risk & Compliance, and Internal Audit	Key business priorities of business pillars are the foundation of the quarterly risk report Risk Appetite Statements are updated based on Company Strategy and applied to business goals	Risk Management and ICOFR activities are scheduled on a frequent basis and aligned with the Company's strategy cycle	RAC ensures an integrated risk management approach across the assurance functions. With the Group Risk & Compliance function it periodically assesses the effectiveness of risk management, control framework	Reports can be derived real-time and with cross-functional insights from an online platform, which is maintained and updated across the organization
REPEATABLE	Identification, assessment and management of (financial) risks are Management's responsibility and are carried out with the support of dedicated Internal Control and Risk resources	Company's Risk Appetite Statement is set in agreement with the Management Board and is supported by the Supervisory Board	Strategy is leading in process of risk identification and risk assessment. ICOFR matrices are improved with further specifications on where control activity takes places	Improved digital functionalities and methodologies are in place in risk management for the documentation and assessment of risks, as well as for the facilitation of risk workshops	Reports are built on information from ICOFR and risk registers maintained by the business pillars, workshops and interviews with key stakeholders and information from the Company's Integrity Line
IMPLEMENTED	Management Board meets senior business members on performance, realization of objectives and responses to emerging issues	Risk bearing financial processes are identified and the associated risks and controls are listed in the ICOFR Risk and Control matrices	A periodic review of the ICOFR matrices is performed to assess the effectiveness of the risk coverage over different locations including review by the Finance function and a review by Internal Audit	Letter of Representation process, whereby senior business members confirm on a quarterly basis that for their responsible area, the financial reports fairly present the position and results of the Company	Every quarter a risk report is drawn up that contains information on the Risk Appetite measurement, the significant risks and its mitigating measures

3.7.3 SIGNIFICANT RISKS TO THE BUSINESS

The Offshore Energy industry and the execution of the Company's strategy expose SBM Offshore to a number of inherent business risks. The table below summarizes identified significant risks and the Company's response to them.

STRATEGIC RISKS	
Crude oil price dependency	=
Climate change	↑
Technological developments	↑
Different industry business models	↓
Portfolio risks	↓

OPERATIONAL RISKS	
Incidents involving strategic assets	=
Project execution	=
Management of Change	↑
Social license to operate	↑
Cyber Security and data protection	↑
Human capital	=

FINANCIAL RISKS	
Access to funding	↑
Covenants	=

COMPLIANCE RISKS	
Changes in applicable laws and regulations	=
Governance, transparency and integrity	=
Change in tax laws	=

RISK TREND *

↑	↓	=
RISK IS DETERIORATING	RISK IS IMPROVING	RISK IS STABLE

** Management assessment of how the inherent risk (i.e. excluding our mitigating measures) is expected to develop in the coming 3 years, compared with the previous year*

RISK	DEFINITION	RESPONSE MEASURES
Strategic Risks		
Crude oil price dependency	Whilst the oil price has begun to stabilize since 2017 onwards and signals in the industry are positive, dependency on the oil price remains an inherent Company risk. The Company continues to be mindful of this dependency over the long-term, where a negative development with delays or cancellations of planned investments could lead to a severe effect on SBM Offshore's new order intake.	Our focus towards cost optimization and de-risking remains a priority for the Company. Whilst diversifying our product portfolio we maintain offering highly competitive solutions to our clients. To drive better performance faster, the Company is undertaking multiple initiatives in relation to digitalization and standardization, which are the basis for the Company's Fast4Ward® principle-based approach. For further details, see section 2.2 Fast4Ward®
Climate change	SBM Offshore could face the impact of an accelerated energy transition driven by, amongst other things, climate change. The Company may lose its competitiveness if it does not succeed in (i) development of concrete and competitive technologies to enhance its product portfolio and (ii) enhance the energy efficiency of its existing offerings.	SBM Offshore regularly updates its strategy in light of the evolution of the energy landscape. It is diversifying its product portfolio through investments in new technology and products for Gas & Renewables markets. In addition, SBM Offshore is reducing the emissions of our existing units and has the ambition to design zero-emissions products for the future. For further details, see section 2.1 Group Strategy

RISK	DEFINITION	RESPONSE MEASURES
Technological developments	SBM Offshore is committed to pioneering new technologies, including digitalization, and maintaining a high level of technical expertise. Main risks include the possibility of employing immature new technologies and the risk of implementing proven technologies incorrectly, causing potential damage to Company's business results and reputation.	SBM Offshore employs a rigorous TRL assessment of new technologies, which are verified and controlled at several stages of their development phase by senior technical experts, before being adopted within projects. Furthermore, a strong technical assurance function ensures compliance with internal and external technical standards, regulations and guidelines. For further details, see section 2.9 Technology
Different industry business models	Clients are exploring different business models that could influence the long-term validity of the operations business model, as pursued by the Company today. This presents opportunities (different pricing models), as well as risks.	SBM Offshore is pro-actively engaging with its clients to develop value propositions for the traditional, as well as newer, business models and carefully monitors market trends. For further details, see section 1.6 Position within the Value Chain
Portfolio risks	The Company's backlog has a limited geographical distribution. There is a particular concentration of business activities in Brazil and, to a much lesser extent, Angola and Guyana. SBM Offshore thus has portfolio risks that may increase the impact of changes in local legislative and business environments, potentially affecting the Company's business results. The Company also recognizes its dependence on a limited number of current and potential clients, as well as project execution challenges in new markets.	SBM Offshore aims to reach a more balanced regional portfolio, achievable by diversifying into new markets, such as in Guyana, and different products, such as in Renewables and Gas. The Company conducts thorough risk assessments for new country entries. The Company actively engages with its clients to monitor and mitigate the respective country-related regulatory, commercial and technical risks. For further details, see section 1.2 SBM Offshore and its Global Presence
Operational Risks		
Risks related to incidents involving strategic assets	SBM Offshore operates a large fleet of FPSOs worldwide for many clients. Given the long duration of Lease and Operate contracts, several factors, such as HSSE incidents or accidents, may have immediate and/or long-term negative effects on the people affected and the operation of the assets and their capability to perform according to the design criteria.	The Company devotes considerable resources to ensure the fleet is performing safely and to high quality standards. Control and maintenance of all equipment are vital to daily activities on board, particularly for safety critical elements. Fleet performance is continuously monitored and feedback to the technology team helps to mitigate risk and ensure inherent safety at the design stage. Ongoing advances are incorporated into upgrades onboard, further enhancing safety. Specialist teams are in place in the event of any process safety incidents. For further details, see section 2.6 Health, Safety, Security and Environment
Project execution	Inherent project execution risks exist due to a combination of geopolitical country(s) risk, challenging/immature regulatory environment, technical risks (such as those related to technical specifications and harsh environments), asset integrity risks and third-party management risks, leading to potential negative impact on people, reputation, cost, schedule and environment.	Managing project execution risk is part of SBM Offshore's DNA and embedded in SBM Offshore's core business processes and ways of working. Proper business case analysis, country (entry) risk assessments, suitable project management capabilities and capacities, combined with SBM Offshore's professional ways of working, processes and procedures mitigate project execution risk. Additional risk mitigating measures are in place related to knowledge and understanding of the countries of project execution and delivery. Technology and Business Readiness Level (TRL/BRL) mitigate specific technical development-related execution risks. For further details, see section 2.7 Operational Excellence

RISK	DEFINITION	RESPONSE MEASURES
Management of Change	SBM Offshore pursues benefit realization of our Fast4Ward model and Digital Transformation program. Failure to achieve its anticipated benefits could damage our competitiveness, reputation and credibility towards our stakeholders. The ability to optimize our business follows a parallel journey, with the capability to embrace new ways of working and incorporating lessons learned along the way.	The Fast4Ward and Digital Transformation programs are of utmost importance to SBM Offshore. Management of Change is identified as a key success factor of these programs. Senior management is fully committed to making them a success. This materializes in sufficient investments, continuous attention and communication to all employees. Change Management ambassadors are appointed and working closely with the business in our journey towards the new ways of working . For further details, see section 2.2 Fast4Ward®
Social License to Operate	Pressure on the oil and gas industry could harm our reputation. This could damage our brand, impact our social license to operate and limit our ability to finance our projects and recruit staff. Other factors, including the effects of other risks mentioned or impacts as a result of Human Rights, could negatively impact our reputation and could have a material adverse effect as well.	It is SBM Offshore Vision that the oceans will provide the world with safe, sustainable and affordable energy for generations to come. As a result thereof, we have an strategy which is aimed at this vision. During our engagements with stakeholders, we aim for a joint roadmap in line with our vision. This is substantiated by pursuit of credible, ambitious sustainability initiatives and disciplined governance thereof. For further details, see section 2.3 Sustainability and 2.6 Health, Safety, Security and Environment
Cyber Security and data protection	To carry out its activities, SBM Offshore relies on information and data, much of which is confidential or proprietary, that is stored and processed in electronic format. Potential intrusion into the Company's data systems hosted on servers and offshore equipment may affect onshore and offshore activities. Secondary risks include theft of cash, proprietary and/or confidential information, with potential loss of competitiveness and business interruption.	Given the evolving nature of cyber security threats, this topic requires continuous focus. There is a dedicated ongoing improvement campaign, sponsored by a senior steering committee, to reduce the risk profile through investments in hardware, software and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognized standards is periodically subject to independent testing and audits.
Human capital	The Company aims to source and maintain the human resources in terms of capacity, as well as capability, to support its anticipated increased project activity levels, as well as the ongoing operational fleet. Failure to attract and retain the right level of competences could ultimately have an adverse impact on the Company's operations and contractual relationships with clients.	The Company's recruitment activities have significantly increased in 2019. Furthermore, a talent-development program is in place to specifically engage and retain key personnel. The Company fosters a culture of ownership at all levels of the organization. For further details, see section 2.8 Our People: Our Competitive Edge
Financial Risks		
Access to funding	Access to multiple sources of debt and equity funding is essential to facilitate the growth of SBM Offshore's FPSO fleet and other Product Lines. Failure to obtain such funding could hamper growth for the Company and ultimately prevent it from taking on new projects that could adversely affect the Company's business results and financial condition.	The Company maintains an adequate capital structure and cash at hand. The Company has access to a Revolving Credit Facility (RCF) and both cash at hand and the RCF can be used to finance investments in projects. From a long-term perspective, adequate access to debt and equity funding can be secured through use of SBM Offshore's existing liquidity, selling equity to third-parties and use of long-term project financing to fund the construction of a FPSO. Debt funding is sourced from multiple markets, such as international project finance banks, US Private Placement Investors (USPP) and Export Credit Agencies.

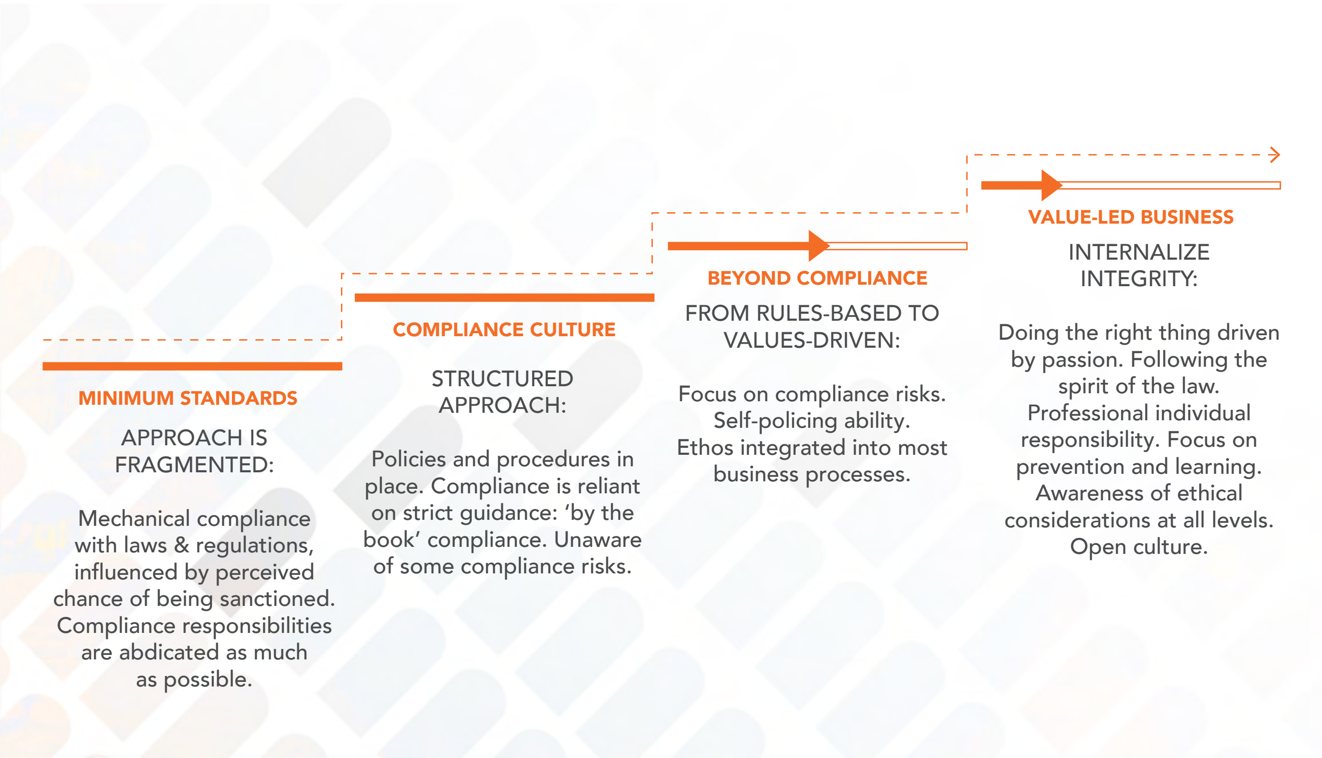
RISK	DEFINITION	RESPONSE MEASURES
Covenants	Financial covenants need to be met with the Company's RCF lenders. Failure to maintain financial covenants may adversely affect the Company's ability to finance its ongoing activities.	The RCF contains a set of financial covenants. The Company aims to have sufficient headroom in relation to the financial ratios. The covenants are monitored continuously, with a short-term and a long-term horizon.
Compliance Risks		
Changes in applicable Laws and Regulations	Changes in, and to, regulatory frameworks, including changes in enforcement strategies by local regulators if not properly identified and implemented may expose the Company to fines, sanctions or penalties. Moreover, changes to the applicable 'local content' requirements may expose the Company to additional costs or delays and affect the proposed execution methods for projects.	SBM Offshore intends to carry out its activities in compliance with laws and regulations valid in the relevant territory, including international protocols or conventions, which apply to the specific segment of operation. Continuous monitoring of applicable laws and regulations is constantly carried out by relevant functions within SBM Offshore and substantive changes are brought to the attention of Management. Furthermore, downside risk of changes in laws and regulations is mitigated as much as possible within our contracts.
Governance, transparency and integrity	Fraud, bribery or corruption could severely harm the Company's reputation, finances and business results. It is of utmost importance that such events shall be prevented. Previous failures to live up to the values have led to financial penalties being imposed on the Company in the past by authoirities in the Netherlands, the USA and Brazil.	The Company's Compliance Program provides policy, training, guidance and risk-based oversight and control on compliance risk, that [seek to] ensure ethical decision-making. Implementation of digital tools supports the continuous development of the Company's Compliance Program. The Company's Core Values and Code of Conduct guide employees and business partners on compliant behaviors in line with the Company's principles. For further details, see section 3.8 Compliance.
Change in tax laws	Tax Regulations applicable in jurisdictions of operation may change, resulting in an increase in the effective tax burden, which could adversely affect the Company's business, results and financial condition. Additionally, public perception of the ways that corporations manage their tax affairs continues to evolve with potential adverse impacts on the Company's reputation.	With the exception of some short-term contracts, all contracts entered into by the Company include some provisions to protect the Company against an increase in tax burden resulting from changes in tax regulations, or the interpretation thereof. The Company aims at achieving a stable tax burden over the life of contracts and cooperates closely with clients' tax teams to this end. SBM Offshore values public perception, good relationships with tax authorities and is committed to act as a good corporate citizen, to ensure that Company's tax policy is in line with the expectations of society. For further details, see section 3.9 Company Tax Policy

3.8 COMPLIANCE

MANAGEMENT APPROACH

SBM Offshore's reputation and license to operate depend on responsible business conduct. SBM Offshore is committed to complying with all applicable laws and regulations. SBM Offshore does not tolerate bribery, corruption, fraud, violations of trade sanctions, anti-money laundering or anti-competition laws, or any other illegal or unethical conduct in any form by anyone working for or on behalf of the Company. All employees and those working for or on behalf of SBM Offshore must embrace and act in accordance with the core values of the Company (see section 1.3), the Code of Conduct and the Company's internal policies and procedures. SBM Offshore fosters a culture of trust and fairness, where dilemmas are openly addressed, enabling employees to make the right decisions, with commitment to integrity at all levels. This commitment is one of the foundations of the Company's license to operate and license to grow, in support of SBM Offshore's Vision.

The Management Board has assessed its Compliance program against a basic maturity model (from 'minimum standards' to 'value led business'). The table below displays the Compliance program maturity level as per end of 2019. Overall, the Compliance program is deemed to be transitioning from 'Compliance culture' to the 'Beyond Compliance' level, although certain elements of the Compliance program, notably the focus on responsible leadership behavior, fall within the 'value-led business' maturity level. Through evolving Compliance Program enhancements, the Company strives for continuous improvement in embedding compliance as an integral part of its business processes.



Governance

The Management Board is ultimately responsible for ensuring that the entire SBM Offshore organization operates within its clearly defined Compliance Program. The Group Risk & Compliance Function (GRCF) has a leadership role in proactively advising the Management Board and Management on acting in a compliant manner, both from a strategic and an operational perspective. An important part of its role includes the focus on the prevention of misconduct.

Governance Management

The Company's Management Board has overall accountability and the Chief Governance and Compliance Officer (CGCO) has the overall responsibility for compliance, risk and legal matters. Reporting to the CGCO, the Group Risk and Compliance Director (GRCD) leads the Compliance Program, drives its execution and regularly reports on its operating effectiveness to the Management Board and the Audit and Finance Committee of the Supervisory Board, while also reporting on the Company's key compliance risks and incidents. The GRCD is chair of the Company's Validation Committee, for the review and approval of third-parties before engaging in a business relationship. Furthermore, the GRCD chairs the Company's Risk Assurance Committee, ensuring an integrated approach to risk management.

The integrated Group Risk & Compliance Function comprises a global diverse team of fifteen experienced Risk and/or Compliance professionals, reporting to the GRCD either directly or through Compliance managers located within the Company's most prominent locations worldwide and at corporate headquarters. Business leadership has accountability and responsibility to manage compliance and integrity risks within their fields of management control.

STRATEGY

SBM Offshore's Compliance Program aims to guide the Company's Management and employees in applying their moral compass, as well as strengthening the management control system. SBM Offshore has integrated the Compliance Program into its organizational structure and is promoting a culture of integrity and compliance in the day-to-day way of working of all employees, increasingly focusing on targeted training initiatives, digitalization of processes and data analysis. SBM Offshore maintains an effective compliance risk management and control system, which includes monitoring and reporting, and upholds the Company's zero-tolerance for bribery, corruption, fraud or any other form of misconduct. The Company maintains a global management control framework, while the Company's Management is responsible for embedding compliance in day-to-day business practice.

The Compliance Program is built on three pillars:

- Compliance governance and organization
- Hard and soft controls[31]
- Organizational culture and employee behavior

[31] Hard controls are the explicit, tangible controls that guide employee behavior through defined policies and procedures while on the other hand, soft controls are intangible factors that influence the behavior of employees and ensure compliance with procedures such as openness, discussability and enforcement. Soft controls can be strengthened by for instance, training, improving the speak-up culture and facilitating the discussion of ethical dilemmas.

Key elements of the Compliance Program

- Commitment of the Management Board and the Supervisory Board .
- Responsibility and accountability for compliance implementation and management residing in line management and, ultimately, with the Management Board.
- Oversight and autonomy of the GRCD and adequate, qualified resources in the department.
- Company Code of Conduct and Compliance policies and procedures .
- Regular communication, training and continued guidance and advice.
- Regular monitoring of compliance risks, mitigating measures and risk-based controls, as well as incident and action reporting.
- A thorough third-party management process, including an internal Validation Committee, which reviews the due diligence outcome on high-risk third-parties prior to engagement.
- Independent verification (e.g. compliance audits).
- Compliance-related internal financial controls, following ICOFR principles.
- Confidential reporting procedures, including an Integrity Line and internal investigations.
- Annual compliance statements from employees in middle and senior management positions.

NOTABLE DEVELOPMENTS AND ACHIEVEMENTS IN 2019

Implementation of the digital SBM Offshore Compliance Platform: Systematic deployment of the third-party management process (due diligence and continuous monitoring), the annual compliance certification process, e-Learning dissemination to designated staff and completion monitoring	**Two-day Compliance Leadership Program**: Extension of the two-day Compliance Leadership Program (first introduced in 2018) titled 'Leading Responsibly', aimed at newly-hired business leaders and the next level of top leaders, with the objective to strengthen abilities to manage compliance risks today and tomorrow	**Deployment of new face-to-face training program for employees:** In support of the Code of Conduct, deployment of new face-to-face training program aimed at Conflicts of Interest, Fraud, Confidential Information and speaking up on compliance-related matters.
Completion of two-year e-Learning campaign: e-Learning program on the Code of Conduct for all employees onshore and offshore leadership completed	**Enhanced Compliance Microsite:** Update of the Compliance Intranet site with relevant content and links to the SBM Offshore Compliance Platform	**Strengthening staffing of Group Risk & Compliance Function:** Expansion of the GRCF, with a compliance officer in Brazil and a data analyst in Amsterdam, to progress to data driven compliance
Compliance risk assessments: Country risk assessments on high risk and new entry countries performed (including the risks associated to compliance). Continuous assessment of compliance risks in Brazil. Dedicated fraud risk assessment to identify opportunities for risk control enhancements.	**GDPR deployment:** Continuous improvement efforts undertaken to enhance maturity of the implementation of GDPR. A deputy Corporate Privacy Officer has been appointed.	**Third-Party Relationships:** Dedicated compliance engagement with strategic vendors and contractors to facilitate continuous dialogue, by example the China Compliance Day in October and the sponsorship of, and contribution to, the ICC International Integrity & Anti-Corruption Conference in The Hague in December
Enhanced compliance third-party monitoring Execution of the 2019 third- party monitoring and audit plan; digitalization of third-party management to optimize the due diligence process (including potential M&A targets) and enable continuous monitoring; review of joint venture payment controls.	**Introduction and revision of policies:** Investigations Protocol developed; Third-Party Management procedures enhanced (including M&A process); Anti-Bribery and Corruption Policy updated; enhanced pre-employment screening process developed and deployed.	**Closure of Legacy Issues.** For information on the Company's Legacy issues, see section 4.3.1 Financial Highlights.

How SBM Offshore measures performance

- As part of performance management processes, the Company sets, monitors and reports on compliance KPIs for its Business Pillars, Product Lines and Operations
- Compliance training hours and completion ratios by employee target group
- Employee feedback surveys after each face-to-face training
- Annual Code of Conduct certification by staff in leadership positions
- Automated continuous monitoring of third-parties within the SBM Offshore Compliance Platform
- Use of a Company-wide tool to approve, register and monitor giving and receiving of gifts, hospitality and entertainment
- Use of a Company-wide tool for continuous risk identification, assessment, registration and reporting
- Registration, review and monitoring of integrity reports through a Company-wide Compliance Case Management System
- Integrated quarterly Group Risk and Compliance reports to the Management Board and the Audit and Finance Committee of the Supervisory Board

Metrics

The number of Ethics and Compliance training hours for direct hires has increased substantially in 2019 (6668 hours in 2019 versus 6275 hours in 2018). The Company has increased training effectiveness by further deploying its risk-based targeted approach, for example through cultural awareness training as a response to workplace related reports received through the Integrity Line, and through further extending its training program to third-parties, notably contracted yards, strategic vendors and co-owned entities staff around the globe.

Annual Compliance Statements of designated staff	Designated Staff[1]
Number of employees in Designated Staff per year-end	1,088
Onshore Completion ratio	98%
Offshore Completion ratio	73%

1 Designated Staff reflects all employees in Hay grade 11 or above

Trained on the Code of Conduct[1]	Designated Staff[2]
Number of employees in Designated Staff per year-end	3,687
Onshore Completion ratio	96%
Offshore Completion ratio	62%

1 Trained by face-to-face training in 2019 and/or by having completed mandatory Code of Conduct e-Learning

2 Designated staff reflects all Onshore Staff and Offshore Leadership (<5%)

Overall number of Compliance Trainings conducted in 2019 worldwide	Trainings	Training hours
Face-to-face trainings[1]	2,234	4,822
e-Learnings[2]	2,643	1,846
Total	**4,877**	**6,668**

1 An employee can have attended multiple face-to-face trainings

2 An employee can have completed multiple Compliance e-Learning courses

Face-to-face training categories	Trainings	Training hours
Compliance Leadership Program[1]	35	420
Annual Code of Conduct training	1,257	2,408
Targeted Compliance topic training[2]	842	1,573
Training of third parties[3]	100	421
Total	**2,234**	**4,822**

1 Continuation of 2018 program. Now extended to newly hired and next level senior management

2 Selection of Compliance topics for specific target audiences

3 Mainly strategic vendors and contracted yards

Integrity Reports	Total
Reports received under the Company's Integrity Reporting Policy[1]	53

The Company is promoting a Speak Up culture.

The nature of the Reports over 2019 was predominantly workplace related.

1 Reports received through the Integrity Line and by the Risk and Compliance Function

The objectives for 2020 are to continuously strengthen compliance management and control, focusing on the importance of the right behavior and enhancing efficiencies in the management process through increased digitalization and continuous improvement of data analysis.

3.9 COMPANY TAX POLICY

SBM Offshore's tax policy is summarized as follows:

- The Company aims to be a good corporate citizen in the countries where it operates by complying with the law and by contributing to the countries' progress and prosperity through employment, training and development, local spending, and through payment of the various taxes it is subject to, including wage tax, personal income tax, withholding tax, sales tax and other state and national taxes as appropriate.
- The Company aims to be tax efficient in order to be cost competitive, whilst fully complying with local and international tax laws.

The Company operates in a global context, with competitors, clients, suppliers and a workforce based around the world. A typical FPSO project sees a hull conversion in Asia, topsides construction in Asia, Africa or South America, engineering in Europe, Asia or the USA and large scale procurement from dozens of companies in many countries across the globe. In each of these countries, the Company complies with local regulations and pays direct and indirect taxes on local value added, labor and profits and in some cases pays a revenue based tax. To coordinate the international nature of its operations and its value flows and to consolidate its global activities, in 1969 the Company created Single Buoy Moorings Inc, which continues to perform this function today from its offices in Marly, Switzerland.

The Company:

- Complies with the OECD transfer pricing guidelines.
- Supports the OECD's commitment to enhance tax transparency and is committed to be in full compliance with applicable laws in countries where it operates. Consistent with this approach, the Company supports the initiatives on base erosion and profit shifting, including but not limited to the recent European Union Anti-Avoidance directives or European Union directives enhancing transparency, such as DAC 6. The Company is required to file detailed reports and transfer pricing documentation in accordance with Base Erosion and Profit Shifting's (BEPS) action 13 as is now implemented in Dutch tax law. The disclosures contained in the country-by-country reporting ('CbCR') have been prepared to meet the OECD requirements and have been filed with the Dutch tax authorities for the year 2018.
- Makes use of the availability of international tax treaties to avoid double taxation.
- Does not use intellectual property as a means to shift profits, nor does it use digital sales. Furthermore, the Company does not apply aggressive intra-company financing structures such as hybrids. In 2019, the Company reported a current corporate income tax charge of US$39.9 million under IFRS (compared to US$19.9 million in 2018). Due to the large losses incurred on the legacy projects and the current industry downturn, some tax loss carry forward positions exist at the global contracting company, which are limiting the current tax payments in Switzerland and in jurisdictions of the Company's locations.

3.10 OPERATIONAL GOVERNANCE

Operational Governance of the Company is supported by an independent and dedicated team under Group Operational Excellence, which encompasses key operational and assurance functions involved in SBM Offshore's core business activities.

Such functions have a key role in ensuring a coordinated, consistent and controlled approach to core business over the full lifecycle i.e. Win, Execute and Operate phases, and across the Company's locations, Fleet Operations and Product Lines. Notably through:

- Functional leadership within the corresponding communities (distributed across entities) and vis-à-vis other functions
- Ownership and governance of processes and systems, developed in response to known and anticipated risks in line with the strategic direction of the Company
- Maintenance of GEMS, as introduced in section 3.10.1
- Implementation of continuous improvement initiatives, as introduced in section 2.7, led by a dedicated team
- Improvement of reporting systems and setting key indicators to ensure effective oversight and performance monitoring
- Coordination and harmonization of the Company's ways of working
- Specific focus on the product lifecycle, notably based on a cross-functional gate process and internal arbitration if necessary
- Coordinated assurance activities focusing on risk management, compliance, effectiveness and business performance
- Coordinated assurance activities focusing on product conformity vis-à-vis applicable international and local regulations, rules, technical standards and other applicable requirements as introduced in section 3.10.2
- Involvement of independent third-parties as certification, verification or classification bodies

A detailed certification and classification table is provided in section 5.5, mapping compliance with international certification standards and classification rules.

3.10.1 GLOBAL ENTERPRISE MANAGEMENT SYSTEMS (GEMS)

SBM Offshore operates under a Global Enterprise Management System (GEMS), which is structured around three main process domains known as executive processes, core processes and support processes, with the core processes further modelled into the Win, Execute and Operate phases and is represented as shown in the illustration.

Group values (section 1.3) and policies are embedded to support the correct governance of SBM Offshore's organization and business activities. These form the foundation of GEMS and its processes, which are consistently applied throughout all offices and fleet operations (in-country offices and vessels).

GEMS allow an integrated end-to-end approach to all the business activities of SBM Offshore and of the co-owned operating entities, with clear and formal ownership of key processes and clear identification of key controls. It provides a cohesive framework for quality and regulatory compliance, health and safety, security of personnel and assets, protection of the environment, as well as risk and opportunity management throughout the product lifecycle, ensuring the Company's sustainability.

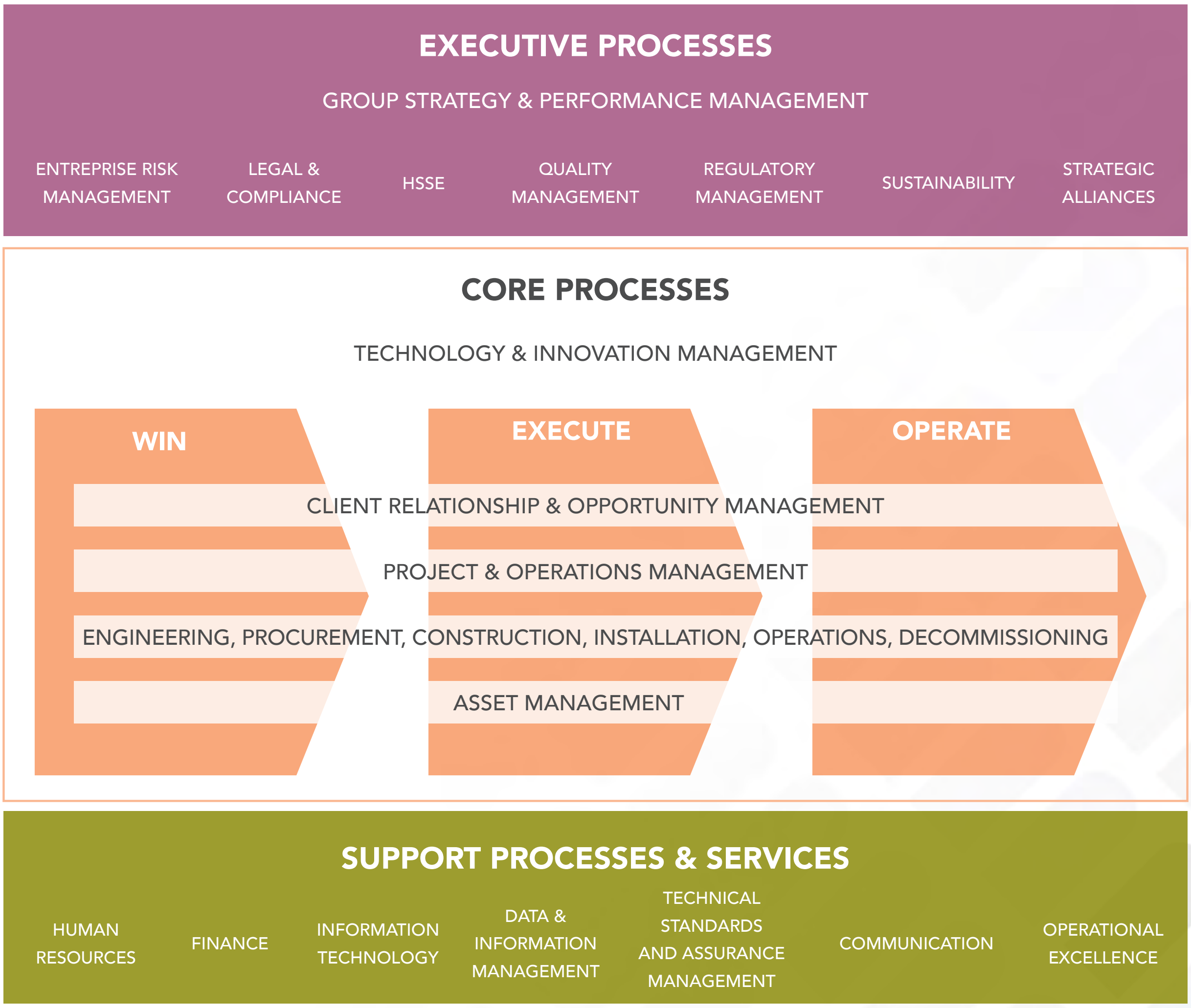
GEMS can be accessed in its entirety via SBM Offshore's online intranet portal, which ensures easy access to all employees. In order to support the identity and scope of our co-owned operating entities, dedicated web portals have also been set up with access to applicable information from the central GEMS database.

3.10.2 GROUP TECHNICAL STANDARDS (GTS)

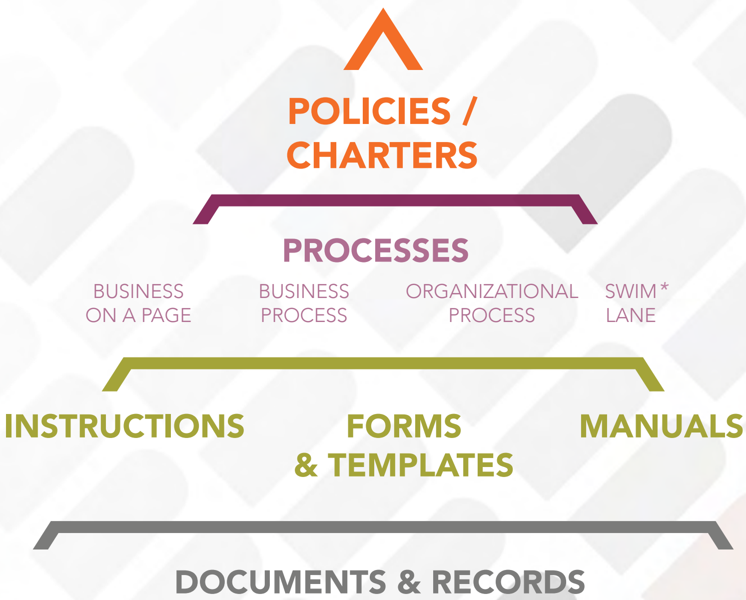
A key driver for the cost of new projects is the technical standards to be applied in addition to the local regulatory requirements. Typically, these standards can fall into three categories – client standards, contractor standards or a hybrid set of customized standards. In the current climate of severe cost pressure, there is a logical push in the industry towards wider acceptance of contractor standards. By leveraging its expertise, SBM Offshore can minimize project customization and efficiently deliver more standard products with significant cost and schedule savings.

The Company achieves this through its GTS, by integrating key elements of its accumulated project and fleet operational experience. To date, the Company has executed over 20 major projects using its GTS as the basis since they were established in 2003. The Company aims to continuously improve and develop the GTS.

GEMS ON A PAGE



MANAGEMENT SYSTEM HIERARCHY



**A swimlane, also referred to as a Process Diagram, is a cross-functional diagram that displays all the steps included in an Organizational Process*

3.11 IN CONTROL STATEMENT

INTRODUCTION

The Management Board is responsible for establishing and maintaining adequate internal risk management and control systems. The implementation of the internal risk management and control framework at SBM Offshore focuses on managing both financial risks and operational risks, as described in section 3.7 Risk Management of the Management report. As a key part of its scope, the Risk Management function is responsible for the design, monitoring and reporting on the internal control framework.

During 2019, various aspects of risk management were discussed by the Management Board, including the consolidated quarterly Risk Report and the result of the yearly testing Internal Control Over Financial Reporting (ICOFR) campaign. The responsibilities concerning risk management, as well as the lines of defense, were also discussed with Senior Management of the Company. In addition, the result of the yearly testing campaign of controls covering financial reporting risks has been reviewed with the Audit and Finance Committee and Supervisory Board. This testing campaign did not highlight any major control deficiency and concluded to a stable level of conformity rate around the organization.

In line with the adoption of the Dutch Corporate Governance Code, SBM Offshore prepared the *In Control Statement* 2019 in accordance with the best practice provision 1.4.3. of the Dutch Corporate Governance Code. With due consideration to the above, the Company believes that its internal risk management and control systems provide reasonable assurance that the financial reporting does not contain any errors of material importance and that the internal risk management and control systems relating to financial reporting risks worked properly in 2019. Based on the current state of affairs, the Management Board states that it is justified that the financial reporting is prepared on a going concern basis and those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report have been included in the Management Report.

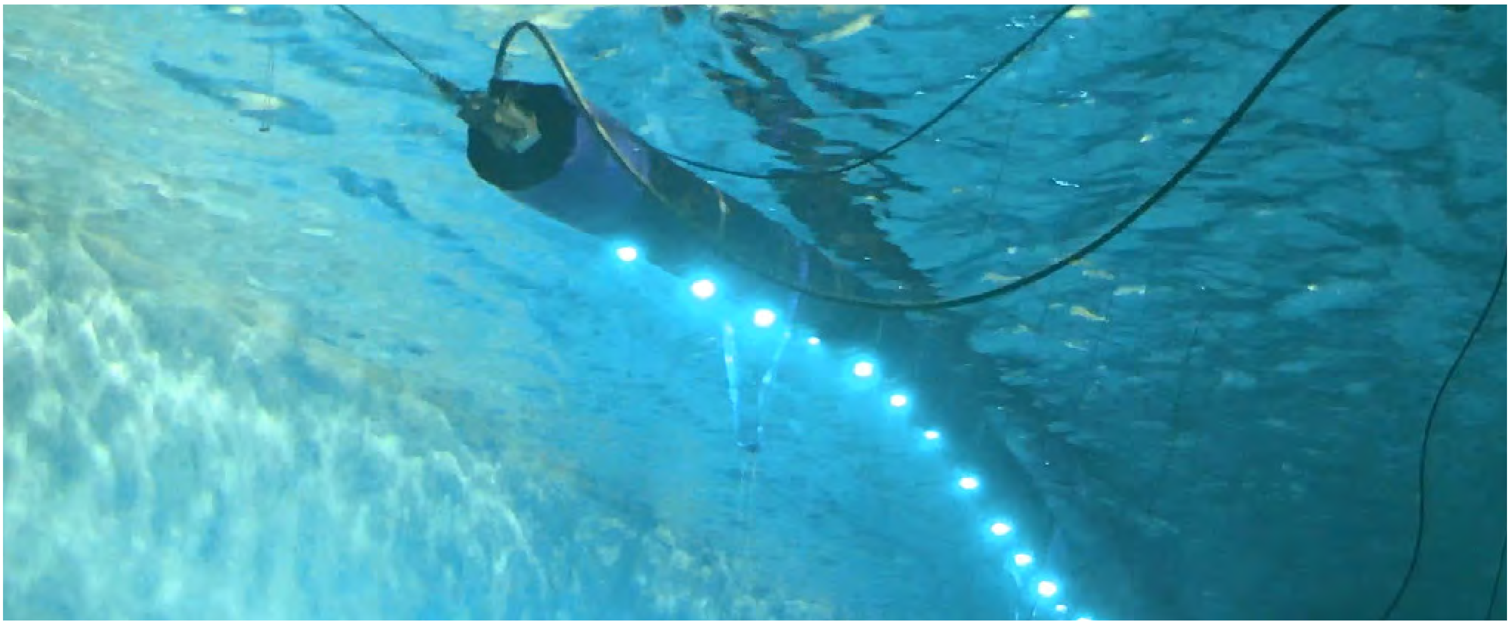
However, the Company cannot provide certainty that its business and financial strategic objectives will be realized or that its approach to internal control over financial reporting can prevent or detect all misstatements, errors, fraud or violation of law or regulations. Financial reporting over 2019 was based upon the best operational information available throughout the year and the Company makes a conscious effort at all times to weigh the potential impact of risk and the cost of control in a balanced manner.

With reference to section 5.25c paragraph 2, sub c of the Financial Markets Supervision Act *(Wet op het financieel toezicht)*, the Management Board states that, to the best of its knowledge:

- The financial statements for 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of SBM Offshore and its consolidated companies.
- The Management Report gives a true and fair view of the position as per December 31, 2019 and that SBM Offshore's development during 2019 and that of its affiliated companies is included in the financial statements, together with a description of the principal risks facing SBM Offshore.

Schiphol, the Netherlands
February 12, 2020

Management Board
Bruno Chabas, CEO
Philippe Barril, COO
Erik Lagendijk, CGCO
Douglas Wood, CFO



SBM OFFSHORE'S RENEWABLE ENERGY SOLUTIONS

4. FINANCIAL STATEMENTS 2019

4 FINANCIAL STATEMENTS 2019

4 FINANCIAL STATEMENTS 2019

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

	Directional		IFRS	
in US$ million	FY 2019	FY 2018	FY 2019	FY 2018
Revenue	**2,171**	**1,703**	**3,391**	**2,240**
Lease and Operate	1,315	1,298	1,327	1,302
Turnkey	856	406	2,064	938
EBITDA[1]	**921**	**995**	**1,010**	**838**
Lease and Operate	842	824	783	761
Turnkey	53	278	290	184
Other	26	(107)	(63)	(107)
Underlying EBITDA	**832**	**784**	**1,010**	**844**
Lease and Operate	842	824	783	761
Turnkey	53	24	290	147
Other	(63)	(64)	(63)	(64)
Profit/(loss) attributable to shareholders	**235**	**301**	**366**	**212**
Underlying profit attributable to shareholders	**171**	**113**	**391**	**247**

1 EBITDA, earnings (profit attributable to shareholders) excluding net financing costs, income tax expense, depreciation, amortization and impairment as well as share of profit/(loss) of equity-accounted investees

General

The Company's primary business segments are 'Lease and Operate' and 'Turnkey' plus 'Other' non-allocated corporate income and expense items. Revenue and EBITDA are analyzed by segment, but it should be recognized that business activities are closely related.

During recent years the Company's awarded lease contracts were systematically classified under IFRS as finance leases for accounting purposes, whereby the fair value of the leased asset is recorded as a Turnkey 'sale' during construction. For the Turnkey segment, this accounting treatment results in the acceleration of recognition of lease revenues and profits into the construction phase of the asset, whereas the asset generates the cash mainly only after construction and commissioning activities have been completed, as that is the moment the Company is entitled to start receiving the lease payments. In the case of an operating lease, lease revenues and profits are recognized during the lease period, in effect more closely tracking cash receipts. Following the implementation of accounting standards IFRS 10 and 11 starting January 1, 2014, it has also become challenging to extract the Company's proportionate share of results. To address these accounting issues, the Company discloses Directional reporting in addition to its IFRS reporting. Directional reporting treats all lease contracts as operating leases and consolidates all co-owned investees related to lease contracts on a proportional basis. Under Directional, the accounting results more closely track cash flow generation and this is the basis used by the Management Board of the Company to monitor performance and for business planning. Reference is made to 4.3.2 Operating Segments and Directional Reporting for further detail on the main principles of Directional reporting.

As the Management Board, as chief operating decision maker, monitors the operating results of its operating segments primarily based on Directional reporting, the financial information in this section 4.1 Financial Review is presented both under Directional and IFRS while the financial information presented in note 4.3.2 Operating Segments and Directional Reporting is presented under Directional with a reconciliation to IFRS. For clarity, the remainder of the financial statements are presented solely under IFRS, except where expressly stated.

4.1.2 FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights (please refer to note 4.3.1 Financial Highlights for further detail).

ExxonMobil awards Liza Unity contracts to SBM Offshore

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

On October 16, 2019 the Company announced that it completed the project financing of FPSO *Liza Unity* for a total of US$1.14 billion.

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.

ExxonMobil awards contracts to SBM Offshore for 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 built under the Company's Fast4Ward® program.

Prior to the necessary government approvals and final project sanction, the award of contracts initiated a limited release of funds to the Company to begin FEED activities and secure a Fast4Ward® hull.

SBM Offshore and Constellation complete transaction regarding minority ownership in SBM Offshore operated FPSO companies
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 operating entities related to five Brazilian FPSOs (with Constellation's 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 the total cash consideration of US$149 million.

The shares acquired by the Company are subject to potential repurchase by the Company's partners in the lease and operating entities related to the five FPSOs, to the extent of their 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.

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

in US$ million	Directional 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**

in US$ billion	Directional 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:

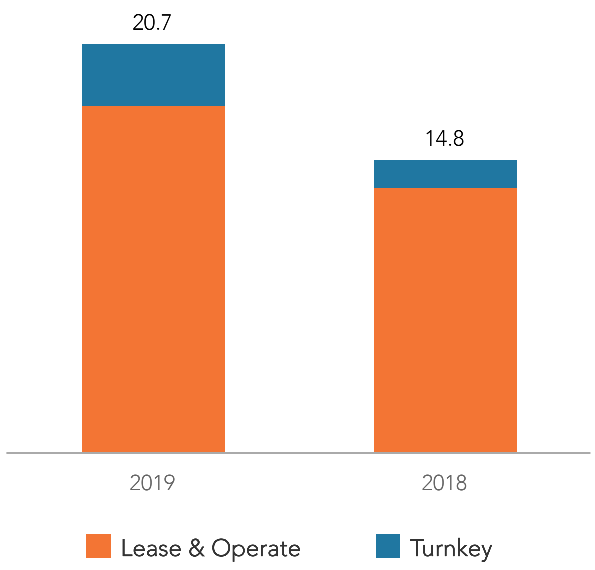
- The *Liza Destiny* contract covers 10 years of lease and operate but based on discussions with the client, it is expected that the client will purchase the unit after a period of up to two years of operations. As a result, the pro-forma backlog has been adjusted to reflect a shortened lease and operate 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$)

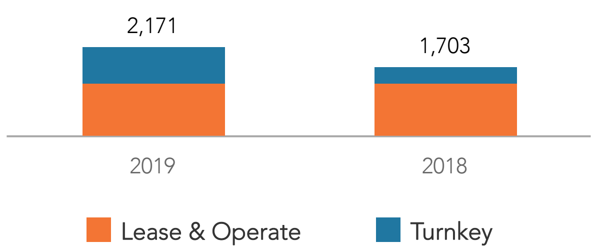


PROFITABILITY

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$)



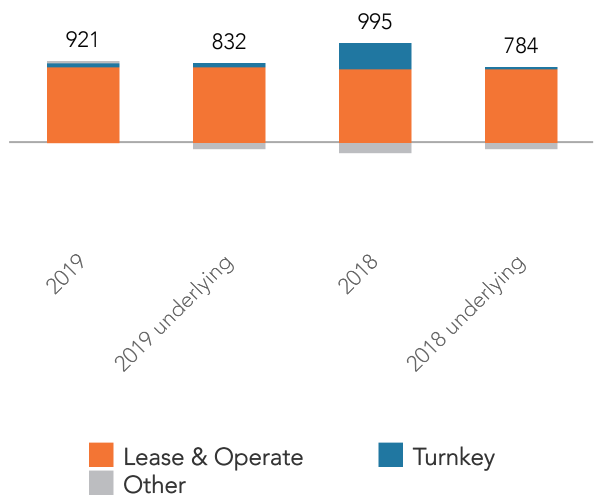
Directional Turnkey revenue increased to US$856 million, representing 39% of total 2019 revenue. This compares with US$406 million, or 24% of total revenue, in 2018. The increase was mostly attributable to the progress made on the Johan Castberg Turret Mooring System EPC project, in addition to a general 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:

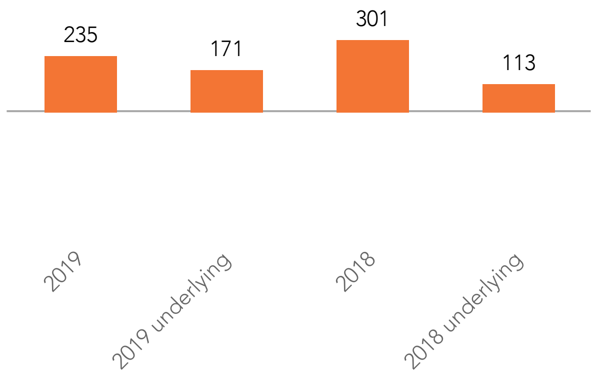
- Underlying Directional Lease and Operate EBITDA increased to US$842 million versus US$824 million in the year-ago period. The impact of units leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) was more than offset by a reduction in planned maintenance, an overall improvement 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:

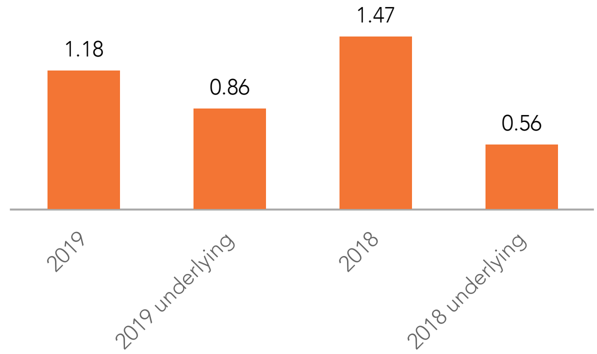
- The Company does not recognize any revenue and margin during the Turnkey phase of the project unless defined invoicing (if any) to the client occurred during the construction phase to cover specific construction work and/or services performed before the commencement of lease. These upfront payments 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.

4.1.4 FINANCIAL REVIEW IFRS

	IFRS	
in US$ million	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.

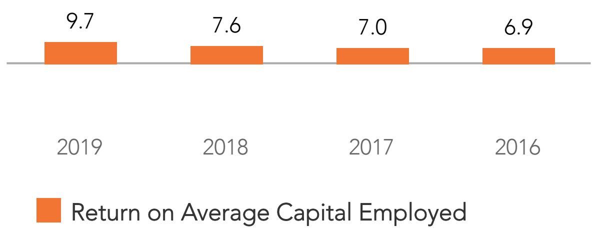
IFRS net debt stood at US$4,416 million at year-end 2019 compared with US$3,818 million in 2018. With the Lease and Operate segment generating strong operating cash flow in line with expectation, the increase of the net debt mainly reflected significant investments over the period in FPSO *Liza Destiny*, 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

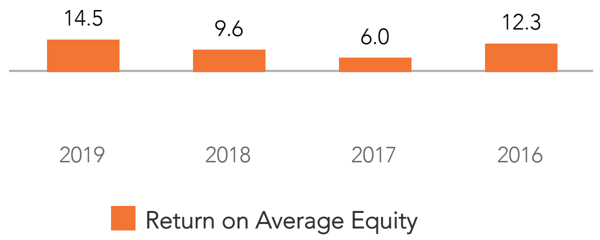
Return on average capital employed (ROACE) is a measure of the return generated on capital invested in the Company. The measure provides a guide for long-term value creation by the Company. ROACE is calculated as Underlying EBIT divided by the annual average of: i) total equity, ii) total borrowings 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.

4.2 CONSOLIDATED FINANCIAL STATEMENTS

4.2.1 CONSOLIDATED INCOME STATEMENT

in millions of US$	Notes	2019	2018
Revenue from contracts with customers		2,915	1,744
Interest revenue from finance lease calculated using the effective interest method		476	496
Total revenue	4.3.2 / 4.3.3	**3,391**	**2,240**
Cost of sales	4.3.5	(2,457)	(1,437)
Gross margin		**934**	**802**
Other operating income/(expense)	4.3.4 / 4.3.5	5	(30)
Selling and marketing expenses	4.3.5	(48)	(36)
General and administrative expenses	4.3.5	(128)	(122)
Research and development expenses	4.3.5 / 4.3.7	(24)	(23)
Net impairment gains/(losses) on financial and contract assets	4.3.5 / 4.3.8	3	13
Operating profit/(loss) (EBIT)		**742**	**603**
Financial income	4.3.9	31	46
Financial expenses	4.3.9	(274)	(279)
Net financing costs		**(243)**	**(233)**
Share of profit/(loss) of equity-accounted investees	4.3.31	43	13
Profit/(loss) before income tax		**542**	**384**
Income tax expense	4.3.10	(31)	(40)
Profit/(loss)		**511**	**344**
Attributable to shareholders of the parent company		366	212
Attributable to non-controlling interests	4.3.32	145	132
Profit/(loss)		**511**	**344**

Earnings/(loss) per share

	Notes	2019	2018
Weighted average number of shares outstanding	4.3.11	198,574,975	204,270,610
Basic earnings/(loss) per share	4.3.11	US$1.84	US$1.04
Fully diluted earnings/(loss) per share	4.3.11	US$1.84	US$1.04

4.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of US$	2019	2018
Profit/(loss) for the period	**511**	**344**
Cash flow hedges	(142)	4
Deferred tax on cash flow hedges	-	-
Foreign currency variations	(23)	(15)
Items that are or may be reclassified to profit or loss	**(165)**	**(11)**
Remeasurements of defined benefit liabilities	1	(4)
Deferred tax on remeasurement of defined benefit liabilities	-	-
Items that will never be reclassified to profit or loss	**1**	**(4)**
Other comprehensive income/(expense) for the period, net of tax	**(164)**	**(15)**
Total comprehensive income/(expense) for the period, net of tax	**347**	**329**
Of which		
- on controlled entities	308	312
- on equity-accounted entities	39	16
Attributable to shareholders of the parent company	248	164
Attributable to non-controlling interests	98	165
Total comprehensive income/(expense) for the period, net of tax	**347**	**329**

4.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in millions of US$	Notes	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	4.3.13	1,005	1,198
Intangible assets	4.3.14	23	19
Investment in associates and joint ventures	4.3.31	325	421
Finance lease receivables	4.3.15	6,407	5,753
Other financial assets	4.3.16	104	211
Deferred tax assets	4.3.17	22	26
Derivative financial instruments	4.3.21	5	12
Total non-current assets		**7,891**	**7,641**
Inventories	4.3.18	8	101
Finance lease receivables	4.3.15	287	195
Trade and other receivables	4.3.19	573	596
Income tax receivables		11	11
Construction work-in-progress	4.3.20	973	695
Derivative financial instruments	4.3.21	37	34
Cash and cash equivalents	4.3.22	506	718
Assets held for sale		1	2
Total current assets		**2,396**	**2,351**
TOTAL ASSETS		**10,287**	**9,992**
EQUITY AND LIABILITIES			
Issued share capital		56	59
Share premium reserve		1,034	1,163
Treasury shares		(46)	(14)
Retained earnings		1,942	1,533
Other reserves	4.3.23	(238)	(108)
Equity attributable to shareholders of the parent company		**2,748**	**2,634**
Non-controlling interests	4.3.32	865	978
Total Equity		**3,613**	**3,612**
Borrowings and lease liabilities	4.3.24	4,309	4,017
Provisions	4.3.26	165	150
Deferred income	4.3.25	150	200
Deferred tax liabilities	4.3.17	23	36
Derivative financial instruments	4.3.21	156	41
Other non-current liabilities	4.3.27	123	100
Total non-current liabilities		**4,926**	**4,545**
Borrowings and lease liabilities	4.3.24	612	519
Provisions	4.3.26	118	317
Trade and other payables	4.3.27	896	899
Income tax payables		37	25
Derivative financial instruments	4.3.21	85	75
Total current liabilities		**1,748**	**1,835**
TOTAL EQUITY AND LIABILITIES		**10,287**	**9,992**

4.2.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of US$, except shares	Outstanding number of shares	Issued share capital	Share premium reserve	Treasury shares	Retained earnings	Other reserves	Attributable to shareholders	Non-controlling interests	Total Equity
At 1 January 2019	**205,671,305**	**59**	**1,163**	**(14)**	**1,533**	**(108)**	**2,634**	**978**	**3,612**
Profit/(loss) for the period		-	-	-	366	-	**366**	145	**511**
Foreign currency translation		(1)	-	0	-	(22)	**(23)**	0	**(23)**
Remeasurements of defined benefit provisions		-	-	-	-	1	**1**	-	**1**
Cash flow hedges		-	-	-	-	(96)	**(96)**	(47)	**(142)**
Total comprehensive income for the period		(1)	-	0	366	(117)	**249**	98	**347**
IFRS 2 vesting cost of share based payments		-	-	-	-	17	**17**	-	**17**
Re-issuance treasury shares on the share based scheme		0	-	32	(4)	(21)	**7**	-	**7**
Purchase of treasury shares		-	-	(196)	-	-	**(196)**	-	**(196)**
Share cancellation[1]	(7,000,000)	(2)	(130)	132	-	-	**-**	-	**-**
Cash dividend		-	-	-	(75)	-	**(75)**	(25)	**(100)**
Equity repayment		-	-	-	-	-	**-**	(13)	**(13)**
Transaction with non-controlling interests		-	-	-	120[2]	(10)[3]	**111**	(174)[4]	**(63)**
At 31 December 2019	**198,671,305**	56	1,034	(46)	1,942	(238)	**2,747**	865	**3,613**

1 Following the completion of the share repurchase program in 2019, the Company has cancelled 7 million shares.

2 Includes: (i) US$279 million of acquired non-controlling interest (excl. acquired other reserves for IRS) from Constellation, which is recognized against the purchase price of US$149 million, offset by (ii) the Company's US$11 million purchase option of non-controlling interest in one of its other subsidiaries.

3 Includes US$10 million of aquired hedging reserve of the entities purchased from Constellation.

4 Includes: (i) US$269 million acquisition of non-controlling interest from Constellation, which is offset by (ii) US$95 million equity contribution by partners on entities related to FPSO Sepetiba.

in millions of US$, except shares	Outstanding number of shares	Issued share capital	Share premium reserve	Treasury shares	Retained earnings	Other reserves	Attributable to shareholders	Non-controlling interests	Total Equity
At 31 December 2017	**205,671,305**	62	1,163	(35)	1,376	(65)	**2,501**	1,058	**3,559**
Change in accounting policy - IFRS 9		-	-	-	(4)	-	**(4)**	(1)	**(5)**
At 1 January 2018[1]	**205,671,305**	62	1,163	(35)	1,372	(65)	**2,497**	1,057	**3,554**
Profit/(loss) for the period		-	-	-	212	-	**212**	132	**344**
Foreign currency translation		(3)	-	1	-	(17)	**(19)**	3	**(15)**
Remeasurements of defined benefit provisions		-	-	-	-	(4)	**(4)**	-	**(4)**
Cash flow hedges		-	-	-	-	(26)	**(26)**	30	**4**
Total comprehensive income for the period		(3)	-	1	212	(46)	**164**	165	**329**
IFRS 2 vesting cost of share based payments		-	-	-	-	17	**17**	-	**17**
Re-issuance treasury shares on the share based scheme		-	-	20	(4)	(14)	**2**	-	**2**
Cash dividend		-	-	-	(51)	-	**(51)**	(73)	**(124)**
Equity repayment[2]		-	-	-	-	-	**-**	(165)	**(165)**
Transaction with non-controlling interests		-	-	-	1	-	**1**	(6)	**(5)**
Other		-	-	-	3	-	**3**	-	**3**
At 31 December 2018	**205,671,305**	59	1,163	(14)	1,533	(108)	**2,634**	978	**3,612**

1 Restated.

2 Equity repayment from SBM Stones S.à r.l., Alfa Lula Alto S.à r.l, Beta Lula Central S.à r.l. and Guara Norte S.à.r.l. following shareholders resolution.

4.2.5 CONSOLIDATED CASH FLOW STATEMENT

in millions of US$	Notes	2019	2018
Cash flow from operating activities			
Profit/(loss) before income tax		**542**	**384**
Adjustments to reconcile profit before taxation to net cash flows:			
Depreciation and amortization		243	237
Impairment		27	(2)
Net financing costs		254	233
Share net income of associates and joint ventures		(43)	(13)
Share based compensation		17	17
(Increase)/Decrease in working capital:			
- (Increase)/Decrease Trade and other receivables		(39)	178
- (Increase)/Decrease Construction work in progress		(1,176)	(315)
- (Increase)/Decrease Inventories		(3)	(90)
- Increase/(Decrease) Trade and other payables		(46)	104
Increase/(Decrease) Other provisions		(165)[1]	(307)[2]
Reimbursement finance lease assets		197	1,252[3]
Income taxes paid		(29)	(30)
Net cash flows from (used in) operating activities		**(220)**	**1,647**
Cash flow from investing activities			
Investment in property, plant and equipment		(30)	(42)
Investment in intangible assets		(9)	(6)
Additions to funding loans	*4.3.16*	(0)	(181)
Redemption of funding loans	*4.3.16*	175	71
Interest received		8	42
Dividends received from equity-accounted investees		139	59
Proceeds from disposal of financial assets and other assets		(0)	(4)
Net cash flows from (used in) investing activities		**282**	**(61)**
Cash flow from financing activities			
Equity repayment to partners		82	(165)
Additions to borrowings and loans	*4.3.24*	1,389	1
Repayments of borrowings and lease liabilities	*4.3.24*	(1,039)	(1,269)[4]
Dividends paid to shareholders and non-controlling interests		(108)	(103)
Payments to non-controlling interests for change in ownership		(149)[5]	(5)
Share repurchase program		(196)	-
Interest paid		(244)	(257)
Net cash flows from (used in) financing activities		**(264)**	**(1,797)**
Net increase/(decrease) in cash and cash equivalents		**(202)**	**(211)**
Net cash and cash equivalents as at 1 January		718	957
Net increase/(decrease) in net cash and cash equivalents		(202)	(211)
Foreign currency variations		(9)	(28)
Net cash and cash equivalents as at 31 December		**506**	**718**

1 Includes US$181 million payment of Yme proceeds shared with Repsol

2 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.

3 Includes US$987 million purchase price acquisition of Turritella (FPSO) by Shell.

4 Includes US$(723) million redemption of Turritella (FPSO) project financing loan.

5 Relates to US$149 million payment for the purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

The reconciliation of the net cash and cash equivalents as at 31 December with the corresponding amounts in the statement of financial position is as follows:

Reconciliation of net cash and cash equivalents as at 31 December

in millions of US$	31 December 2019	31 December 2018
Cash and cash equivalents	506	718
Net cash and cash equivalents	**506**	**718**

4.2.6 GENERAL INFORMATION

SBM Offshore N.V. has its registered office in Amsterdam, the Netherlands and is located at Evert van de Beekstraat 1-77, 1118 CL in Schiphol, the Netherlands. SBM Offshore N.V. is the holding company of a group of international marine technology-oriented companies. The Company globally serves the offshore oil and gas industry by supplying engineered products, vessels and systems, as well as offshore oil and gas production services.

The Company is registered at the Dutch Chamber of Commerce under number 24233482 and is listed on the Euronext Amsterdam stock exchange.

The consolidated financial statements for the year ended December 31, 2019 comprise the financial statements of SBM Offshore N.V., its subsidiaries and interests in associates and joint ventures (together referred to as 'the Company'). They are presented in millions of US dollars, except when otherwise indicated. Figures may not add up due to rounding.

The consolidated financial statements were authorized for issue by the Supervisory Board on February 12, 2020.

4.2.7 ACCOUNTING PRINCIPLES

A. ACCOUNTING FRAMEWORK

The consolidated financial statements of the Company have been prepared in accordance with, and comply with, IFRS and interpretations adopted by the EU, where effective, for financial years beginning January 1, 2019 and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

The Company financial statements included in section 4.4 are part of the 2019 financial statements of SBM Offshore N.V.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AS OF JANUARY 1, 2019

The Company has adopted the following new standards as of January 1, 2019:

- IFRIC 23 - 'Uncertainty over Income Tax Treatments';
- Amendments to IFRS 9 - 'Prepayment Features with Negative Compensation';
- Amendments to IAS 19 - 'Plan Amendment, Curtailment or Settlement'; and
- Annual Improvements to 2015-2017 Cycle.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 provides a framework to consider, recognize and measure the accounting impact of tax uncertainties. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty.

An entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.

The adoption of this interpretation has no significant effect on the financial statements for earlier periods and the year-end financial statements for the period ended December 31, 2019.

IFRS 9 – Prepayment Features with negative Compensation

The International Accounting Standards Board (IASB) has issued a narrow-scope amendment to IFRS 9. The amendment covers two issues:

■ What financial assets may be measured at amortized cost. The amendment permits more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets.
■ How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.

The adoption of this amendment has no significant effect on the financial statements for earlier periods and the year-end financial statements for the period ended December 31, 2019.

IAS 19 – Plan Amendment, Curtailment or Settlement

The IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for plan amendments, curtailments and settlements. The amendments require an entity:
■ To use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
■ To recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.
The surplus is the present value of the defined benefit obligation less the fair value of plan assets (if any).

The adoption of this amendment has no significant effect on the financial statements for earlier periods and year-end financial statements for the period ended December 31, 2019.

Annual Improvements 2015-2017 Cycle

Annual Improvements 2015-2017 Cycle consisted of clarifications regarding following topics: (i) IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, (ii) Income tax consequences under IAS 12 of payments on financial instruments classified as equity and (iii) IAS 23 Borrowing Costs.

The IFRS amendments included in the annual improvements 2015-2017 cycle have a negligible impact on the Company's consolidated 2019 financial statements.

STANDARDS AND INTERPRETATIONS NOT MANDATORILY APPLICABLE TO THE COMPANY AS OF JANUARY 1, 2019

The following standards and amendments published by the IASB and endorsed by the European Commission are not mandatorily applicable as of January 1, 2019:

- Amendments to IAS 1 and IAS 8 - 'Definition of material';
- Amendment to References to the Conceptual Framework in IFRS Standards; and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

Other new standards and amendments have been published by the IASB but have not been endorsed yet by the European Commission. Early adoption is not possible until European Commission endorsement. Those which may be relevant to the Company are set out below:

- Amendments to IFRS 3 - 'Business Combinations'.

The Company does not expect a significant effect on the financial statements due to adoption of these amendments. Other standards and amendments are not relevant to the Company.

CHANGES IN THE PRESENTATION

Consolidated Cash Flow Statement

Until 2018, The Company reported the IFRS cash flow statement using direct method. From 2019 onwards, the Company reports the IFRS cash flow statement under the indirect method as this is the method used by the Management Board of the Company to monitor performance and as a basis for managerial decisions. Note that the cash flow statement presented in note 4.3.2 Operating Segments and Directional Reporting, based on Directional reporting, is also prepared using the indirect method.

The voluntary change to report the Company's cash flow statement using the indirect method has the purpose to increase (i) consistency in the financial report (the Company will apply the same method for both IFRS reporting and segment reporting prepared based on Directional reporting); (ii) comparability between the Company and other peer companies since based on performed benchmark studies, the indirect cash flow method is the method used by most of the competitors as well as other Dutch listed companies; and (iii) efficiency of the internal processes by reducing the efforts of preparation of cash flow statement based on both methods.

B. CRITICAL ACCOUNTING POLICIES

Critical accounting policies involving a high degree of judgement or complexity, or areas where assumptions and estimates are material, are disclosed in the paragraphs below.

(a) Use of estimates and judgement

When preparing the financial statements, it is necessary for the Management of the Company to make estimates and certain assumptions that can influence the valuation of the assets and liabilities and the outcome of the income statement. The actual outcome may differ from these estimates and assumptions, due to changes in facts and circumstances. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Estimates:

Significant areas of estimation and uncertainty in applying accounting policies that have the most significant impact on amounts recognized in the financial statements are:

The measurement and recognition of revenues on construction contracts based on the input method:

Revenue of the Company is measured and recognized based on the input method (i.e. costs incurred). Costs and revenue at completion are reviewed periodically throughout the life of the contract. This requires a large number of estimates, especially of the total expected costs at completion, due to the complex nature of the Company's construction contracts. Judgement is also required for the accounting of contract modifications and claims from clients where negotiations or discussions are at a sufficiently advanced stage. Costs and revenue (and the resulting gross margin) at completion reflect, at each reporting period, the Management's current best estimate of the probable future benefits and obligations associated with the contract. The policy for measurement of transaction price including variable considerations (i.e. claims, performance based incentives) is included below in the point (d) Revenue.

In case a contract meets the definition of an onerous contract as per IAS 37, provisions for anticipated losses are made in full in the period in which they become known.

Impairments:

Assumptions and estimates used in the discounted cash flow model and the adjusted present value model to determine the value in use of assets or group of assets (e.g. discount rates, residual values and business plans) are subject to uncertainty. There is a possibility that changes in circumstances or in market conditions could impact the recoverable amount of the asset or group of assets.

The anticipated useful life of the leased facilities:

Management uses its experience to estimate the remaining useful life of an asset. The actual useful life of an asset may be impacted by an unexpected event that may result in an adjustment to the carrying amount of the asset.

The Company's taxation:

The Company is subject to income taxes in multiple jurisdictions. Significant judgement is required in determining the Company's overall income tax liability. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company takes into account the following considerations when determining the liabilities related to uncertain income tax:

- When necessary the Company engages with local tax advisers which provide advice on the expected view of tax authorities on the treatment of judgemental areas of income tax;
- The Company considers any changes in tax legislation and knowledge built based on prior cases to make an estimate/judgement on whether or not to provide for any tax payable; and
- The Company takes into account any dispute resolutions, case law and discussions between peer companies and the tax authorities on similar cases over an uncertain tax treatment.

The Company consistently monitors each issue around uncertain tax treatments across the group in order to ensure that the Company applies sufficient judgement to the resolution of tax disputes that might arise from examination by relevant tax authorities of the Company's tax position.

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The income tax liabilities include any penalties and interest that could be associated with a tax audit issue. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will influence the income tax and deferred tax provisions in the period in which such determination is made.

The Company's exposure to litigation with third parties and non-compliance:
The Company identifies and provides analysis on a regular basis of current litigation and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligations, taking into account information available and different possible outcomes at the reporting period.

The warranty provision:
A warranty provision is accrued during the construction phase of projects, based on historical warranty expenditure per product type. At the completion of a project, a warranty provision (depending on the nature of the project) is therefore provided for and reported as provision in the statement of financial position. Following the acceptance of a project the warranty provision is released over the warranty period. For some specific claims formally notified by the customer and which can be reliably estimated, an amount is provided in full and without discounting. An overall review of the warranty provision is performed by Management at each reporting date. Nevertheless, considering the specificity of each asset, actual warranty expenditures could vary significantly from one project to another and therefore differ materially from initial statistical warranty provision provided at the completion of a said project.

The timing and estimated cost of demobilization:
The estimated future costs of demobilization are reviewed on a regular basis and adjusted when appropriate. Nevertheless, considering the long-term expiry date of the obligations, these costs are subject to uncertainty. Cost estimates can vary in response to many factors, including for example new demobilization techniques, the Company's own experience on demobilization operations, future changes in laws and regulations, and timing of demobilization operation.

Estimates and assumptions made in determining these obligations, can therefore lead to significant adjustments to the future financial results. Nevertheless, the cost of demobilization obligations at the reporting date represent Management's best estimate of the present value of the future costs required.

Judgements:
In addition to the above estimates, the Management exercises the following judgements:

Lease classification as Lessor:
When the Company enters into a new lease arrangement, the terms and conditions of the contract are analyzed in order to assess whether or not the Company retains the significant risks and rewards of ownership of the asset subject of the lease contract. To identify whether risks and rewards are retained, the Company systematically considers, amongst others, all the examples and indicators listed by IFRS 16.63 on a contract-by-contract basis. By performing such analysis, the Company makes significant judgement to determine whether the arrangement results in a finance lease or an operating lease. This judgement can have a significant effect on the amounts recognized in the consolidated financial statements and its recognition of profits in the future. The most important judgement areas assessed by the Company are (i) determination of the fair value, (ii) determination of the useful life of the asset and (iii) the probability of the client exercising the purchase or termination option (if relevant).

(b) Leases: accounting by lessor
A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Under an operating lease, the asset is included in the statement of financial position as property, plant and equipment. Lease income is recognized over the term of the lease on a straight-line basis. This implies the recognition of deferred income when the contractual day rates are not constant during the initial term of the lease contract.

When assets are leased under a finance lease, the present value of the lease payments is recognized as a finance lease receivable. Under a finance lease, the difference between the gross receivable and the present value of the receivable is recognized as revenue during the lease phase. Lease income is, as of the commencement date of the lease contract, recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. During the construction phase of the facility, the contract is accounted for as a construction contract.

(c) Impairment of non-financial assets

Under certain circumstances, impairment tests must be performed. Assets that are subject to amortization or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount is the higher of an asset's Cash Generating Unit's ('CGU') fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. An impairment loss is recognized for the amount by which the assets or CGU's carrying amount exceeds its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and risks specific to the asset. The Company bases its future cash flows on detailed budgets and forecasts.

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each statement of financial position date.

(d) Revenue

The Company provides design, supply, installation, operation, life extension and demobilization of Floating Production, Storage and Offloading (FPSO) vessels. The vessels are either owned and operated by SBM Offshore and leased to its clients (Lease and Operate arrangements) or supplied on a Turnkey sale basis (construction contracts). Even in the latter case, the vessels can be operated by the Company, under a separate operating and maintenance agreement, after transfer to the clients.

Other products of the Company include: semi-submersibles, Tension Leg Platforms (TLP), Liquefied Natural Gas FPSOs, Turret Mooring Systems (TMS), Floating Offshore Wind (FOW), brownfield and offshore (off)loading terminals. These products are mostly delivered as construction, lease or service type agreements.

Some contracts include multiple deliverables (such as Front-End Engineering Design ('FEED'), engineering, construction, procurement, installation, maintenance, operating services, demobilization). The Company assesses the level of integration between different deliverables and ability of the deliverable to be performed by another party. Based on this assessment the Company concludes whether the multiple deliverables are one, or separate, performance obligation(s).

The Company determines the transaction price for its performance obligations based on contractually agreed prices. The Company has various arrangements with its customers in terms of pricing, but in principle i) the construction contracts have agreed fixed pricing terms, including fixed lump sums and reimbursable type of contracts, ii) the majority of the Company's lease arrangements have fixed lease rates and iii) the operating and service type of contracts can be based on fixed lump sums or reimbursable type of contracts. The Lease and Operate contracts generally include a variable component for which the treatment is described below under 'Lease and Operate contracts'. In rare cases when the transaction prices are not directly observable from the contract, they are estimated based on expected cost plus margin (e.g. operating lease component in lease arrangement).

The Company assesses for each performance obligation whether the revenue should be recognized over time or at a point in time, this is explained more in detail under the below sections 'Construction contracts' and 'Lease and Operate contracts'.

The Company can agree on various payment arrangements which generally reflect the progress of delivered performance obligations. However, if the Company's delivered performance obligation exceeds instalments invoiced to the client, a 'Construction work-in-progress' (contract asset) is recognized (see note 4.3.20 Construction Work-In-Progress). If the instalments invoiced to the client exceed the work performed, a contract liability is recognized (see note 4.3.27 Trade and Other Payables).

Revenue policies related to specific arrangements with customers are described below.

Construction contracts:
The Company under its construction contracts usually provides Engineering, Procurement, Construction and Installation ('EPCI') of vessels. The Company assesses the contracts on an individual basis as per the policy described above. Based on the analysis performed for existing contracts:

- The construction contracts generally include one performance obligation due to significant integration of the activities involved; and
- Revenue is recognized over time as the Company has an enforceable right to payment for performance completed to date and the assets created have no direct alternative use.

Based on these requirements, the Company concludes that, in principle, construction contracts meet the criteria of revenue to be recognized over time. Revenue is recognized at each period based upon the advancement of the work, using the input methods. The input method is based on the ratio of costs incurred to date to total estimated costs. Up to the moment that the Company can reasonably measure the outcome of the performance obligation, revenue is recognized to the extent of cost incurred.

Complex projects that present a high risk profile due to technical novelty, complexity or pricing arrangements agreed with the client are subject to independent project reviews at advanced degrees of completion in engineering. An independent project review is an internal but independent review of the status of a project based upon an assessment of a range of project management and company factors. Until this point, and when other significant uncertainties related to the cost at completion are mitigated, revenue is recognized to the extent of cost incurred.

Due to the nature of the services performed,variation orders and claims are commonly billed to clients in the normal course of business. The variation orders and claims are modifications of contracts that are usually not distinct and are therefore normally considered as part of the existing performance obligation. When the contract modification (including claims) is initially approved by oral agreement or implied by customary business practise, the Company recognizes revenue only to the extent of contract costs incurred. Once contract modifications and claims are approved the revenue is no longer capped at the level of costs and is recognized based on the input method.

Generally, the payments related to the construction contracts are corresponding to the work completed to date, therefore the Company does not adjust any of the transaction prices for the time value of money. However the time value of money is assessed on a contract by contract basis and in case the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, the financing component is separated from other performance obligations.

Lease and Operate contracts:
The Company provides to its customers possibilities to lease the units under charter contracts. The charter contracts are multi-year contracts and some of them contain options to extend the term of the lease or terminate the lease earlier. Some of the contracts also contain purchase options that are exercisable throughout the lease term.

Charter rates
Charter rates received on long-term operating lease contracts are reported on a straight-line basis over the period of the contract once the facility has been brought into service. The difference between straight-line revenue and the contractual day-rates, which may not be constant throughout the charter, is accounted for as deferred income.

Revenue from finance lease contracts is, as of the commencement date of the lease contract, recognized over the term of the lease using the amortized cost method, which reflects a constant periodic rate of return.

Operating fees
Operating fees are received by the Company for facilitating receipt, processing and storage of petroleum services on board of the facilities which occur continuously through the term of the contract. As such they are a series of services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time based on input methods by reference to the stage of completion of the service rendered either on a straight-line basis for lump sum contracts or in line with cost incurred on reimbursable contracts.

Bonuses/penalties
On some contracts the Company is entitled to receive bonuses (incentives) and incurs penalties depending on the level of interruption of production or processing of oil. Bonuses are recognized as revenue once it is highly probable that no significant reversal of revenue recognized will occur, which is generally the case only once the performance bonus is earned. Penalties are recognized as a deduction of revenue when they become probable. For estimation of bonuses and penalties the Company applies the 'most likely' method, where the Company assesses which single amount is the most likely in a range of possible outcomes.

Contract costs
The incremental costs of obtaining a contract with a customer (for example sales commissions) are recognized as an asset. The Company uses a practical expedient that permits to expense the costs to obtain a contract as incurred when the expected amortization period is one year or less. Costs of obtaining a contract that are not incremental are expensed as incurred unless those costs are explicitly chargeable to the customer. Bid, proposal, and selling and marketing costs, as well as legal costs incurred in connection with the pursuit of the contract, are not incremental, as the Company would have incurred those costs even if it did not obtain the contract.

If the costs incurred in fulfilling a contract with a customer are not within the scope of another IFRS standard (e.g. IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Company recognizes an asset for the costs incurred to fulfill a contract only if those costs meet all of the following criteria:
- The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
- The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- The costs are expected to be recovered.

An asset recognized for contract costs is amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

(e) Operating segment information
As per IFRS 8, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose segmental operating results are regularly reviewed by the entity's chief operating decision maker, and for which distinct financial information is available.

The Management Board, as chief operating decision maker, monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, gross margin, EBIT and EBITDA, and prepared in accordance with Directional reporting. The Company has two reportable segments:
- The Lease and Operate segment includes all earned day-rates on operating lease and operate contracts.
- The Turnkey segment includes revenues from Turnkey supply contracts and after-sales services, which consist mainly of large production systems, large mooring systems, deep water export systems, fluid transfer systems, tanker loading and discharge terminals, design services and supply of special components and proprietary designs and equipment.

No operating segments have been aggregated to form the above reportable operating segments.

The Company's corporate overhead functions do not constitute an operating segment as defined by IFRS 8 'Operating segments' and are reported under the 'Other' section in note 4.3.2 Operating Segments and Directional Reporting.

Operating segment information is prepared and evaluated based on Directional reporting for which the main principles are explained in note 4.3.2 Operating Segments and Directional Reporting.

(f) Construction work-in-progress
Construction work-in-progress represents the Company's contract assets as defined in IFRS 15. Construction work-in-progress is the Company's right to consideration in exchange for goods and services that the Company has transferred to the customer. The Company's construction work-in-progress is measured as revenue recognizable to date, less any losses

from onerous contracts and less invoiced instalments. The impairment of construction work-in-progress is measured, presented and disclosed on the same basis as financial assets that are within the scope of IFRS 9. The Company applies the simplified approach in measuring expected credit losses for construction work-in-progress. In case of construction work-in-progress balances relating to the finance lease contracts, the Company applies the low credit risk simplification of IFRS 9 for the computation of the expected credit loss. The simplification is applied as the credit risk profile of these balances has been assessed as low.

Where instalments received from the customers exceed the value of the performance obligation delivered to the customer, the excess is included in 'Trade and other payables' as 'Contract liability'.

(g) Demobilization obligations

The demobilization obligations of the Company are either stated in the lease contract or derived from the international conventions and the specific legislation applied in the countries where the Company operates assets. Demobilization costs will be incurred by the Company at the end of the operating life of the Company's facilities.

For operating leases, the net present value of the future obligations is included in property, plant and equipment with a corresponding amount included in the provision for demobilization. As the remaining duration of each lease reduces, and the discounting effect on the provision unwinds, accrued interest is recognized as part of financial expenses and added to the provision. The subsequent updates of the measurement of the demobilization costs are recognized both impacting the provision and the asset.

In some cases, when the contract includes a demobilization bareboat fee that the Company invoices to the client during the demobilization phase, a receivable is recognized at the beginning of the lease phase for the discounted value of the fee. These receivables are subject to expected credit loss impairment which are analyzed together with the finance lease receivable using the same methodology.

For finance leases, demobilization obligations are analyzed as a component of the sale recognized under IFRS 15. It is determined whether the demobilization obligation should be defined as a separate performance obligation. In that case, because the demobilization operation is performed at a later stage, the related revenue is deferred until the demobilization operations occur. Subsequent updates of the measurement of the demobilization costs are recognized immediately through deferred revenue, for the present value of the change.

C. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

(a) Distinction between current and non-current assets and liabilities

The Company classifies its assets as current when it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle. Inventory and construction work-in-progress are classified as current while the time when these assets are sold or consumed might be longer than twelve months. Financial assets are classified as current when they are realized within twelve months. Liabilities are classified as current when they are expected to be settled within less than twelve months and the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. All other assets and liabilities are classified as non-current.

(b) Consolidation

The Company's consolidated financial statements include the financial statements of all controlled subsidiaries.

In determining under IFRS 10 whether the Company controls an investee, the Company assesses whether it has i) power over the investee, ii) exposure or rights to variable returns from its involvement, and iii) the ability to use power over investees to affect the amount of return. To determine whether the Company has power over the investee, multiple contractual elements are analyzed, amongst which i) voting rights of the Company at the General Meeting, ii) voting rights of the Company at Board level and iii) the power of the Company to appoint, reassign or remove other key management personnel.

For investees whereby such contractual elements are not conclusive because all decisions about the relevant activities are taken on a mutual consent basis, the main deciding feature resides then in the deadlock clause existing in shareholders' agreements. In case a deadlock situation arises at the Board of Directors of an entity, whereby the Board is unable to conclude on a decision, the deadlock clause of the shareholders' agreements generally stipulates whether a substantive right is granted to the Company or to all the partners in the entity to buy its shares through a compensation mechanism that is fair enough for the Company or one of the partners to acquire these shares. In case such a substantive right resides with the Company, the entity will be defined under IFRS 10 as controlled by the Company. In case no such substantive right is held by any of the shareholders through the deadlock clause, the entity will be defined as a joint arrangement.

Subsidiaries:
Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated using the full consolidation method.

All reciprocal transactions between two controlled subsidiaries, with no profit or loss impact at consolidation level, are fully eliminated for the preparation of the consolidated financial statements.

Interests in joint ventures:
The Company has applied IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11 investment in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. In determining under IFRS 11 the classification of a joint arrangement, the Company assessed that all joint arrangements were structured through private limited liability companies incorporated in various jurisdictions. As a result, assets and liabilities held in these separate vehicles were those of the separate vehicles and not those of the shareholders of these limited liability companies. Shareholders had therefore no direct rights to the assets, nor primary obligations for liabilities of these vehicles. The Company has considered the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Investments in associates:
Associates are all entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control over those policies. Investments in associates are accounted for using the equity method.

When losses of an equity-accounted entity are greater than the value of the Company's net investment in that entity, these losses are not recognized unless the Company has a constructive obligation to fund the entity. The share of the negative net equity of these is first accounted for against the loans held by the owner towards the equity-accounted company that forms part of the net investment. Any excess is accounted for under provisions.

Reciprocal transactions carried out between a subsidiary and an equity-accounted entity, are not eliminated for the preparation of the consolidated financial statements. Only transactions leading to an internal profit (e.g. for dividends or internal margin on asset sale) are eliminated applying the percentage owned in the equity-accounted entity.

The financial statements of the subsidiaries, associates and joint ventures are prepared for the same reporting period as the Company and the accounting policies are in line with those of the Company.

(c) Non-derivative financial assets
The Company's financial assets consist of finance lease receivables, loans to joint ventures and associates and trade and other receivables. The accounting policy on trade and other receivables is described separately.

Finance lease receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market.

Loans to joint ventures and associates relate primarily to interest-bearing loans to joint ventures. These financial assets are initially measured at fair value plus transaction costs (if any) and subsequently measured at amortized cost.

The Company classifies its financial assets at amortized cost only if both of the following criteria are met:
- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(d) Borrowings (bank and other loans) and lease liabilities

Borrowings are recognized on settlement date, being the date on which cash is paid or received. They are initially recognized at fair value, net of transaction costs incurred (transaction price), subsequently measured at amortized cost and classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized into the cost of the asset in the period in which they are incurred. Otherwise, borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowings are derecognized when the Company either discharges the borrowing by paying the creditor, or is legally released from primary responsibility for the borrowing either by process of law or by the creditor.

Lease liabilities, arising from lease contracts in which the Company is the lessee, are initially measured at the net present value of the following:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Each lease payment is allocated between the lease liability and finance cost. Finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(e) Foreign currency transactions and derivative financial instruments

Foreign currency transactions are translated into the functional currency, the US dollar, at the exchange rate applicable on the transaction date. At the closing date, monetary assets and liabilities stated in foreign currencies are translated into the functional currency at the exchange rate prevailing on that date. Resulting exchange gains or losses are directly recorded in the income statement. At the closing date, non-monetary assets and liabilities stated in foreign currency remain translated into the functional currency using the exchange rate at the date of the transaction.

Translation of foreign currency income statements of subsidiaries (except for foreign operations in hyperinflationary economies) into US dollars is converted at the average exchange rate prevailing during the year. Statements of financial position are translated at the exchange rate at the closing date. Differences arising in the translation of financial statements of foreign subsidiaries are recorded in other comprehensive income as foreign currency translation reserve. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and borrowings of such investments, are taken to Company equity.

Derivative financial instruments held by the Company are aimed at hedging risks associated with market risk fluctuations. The Company uses primarily forward currency contracts and interest rate swaps to hedge foreign currency risk and interest rate risk. Further information about the financial risk management objectives and policies is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

A derivative instrument (cash flow hedge) qualifies for hedge accounting when all relevant criteria are met. A cash flow hedge aims at reducing risks incurred by variations in the value of future cash flows that may impact net income. In order for a derivative to be eligible for hedge accounting, the following criteria must be met:

- There is an economic relationship between the hedging instrument and the hedged item.
- The effect of credit risk does not dominate the value changes resulting from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that used for risk management purposes.

All derivative instruments are recorded and disclosed in the statement of financial position at fair value. Purchases and sales of derivatives are accounted for at trade date. Where a portion of a financial derivative is expected to be realized within twelve months of the reporting date, that portion is presented as current; the remainder of the financial derivative as non-current.

Changes in fair value of derivatives designated as cash flow hedge relationships are recognized as follows:
- The effective portion of the gain or loss of the hedging instrument is recorded directly in other comprehensive income, and the ineffective portion of the gain or loss on the hedging instrument is recorded in the income statement. The gain or loss which is deferred in equity, is reclassified to the net income in the period(s) in which the specified hedged transaction affects the income statement.
- The changes in fair value of derivative financial instruments that do not qualify as hedging in accounting standards are directly recorded in the income statement.

The sources of hedge ineffectiveness are:
- The non-occurrence of the hedged item;
- The change in the principal terms of the hedged item;
- The severe deterioration of the credit risk of the Company and, or the derivative counterparty.

When measuring the fair value of a financial instrument, the Company uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. Further information about the fair value measurement of financial derivatives is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

(f) Provisions

Provisions are recognized if and only if the following criteria are simultaneously met:
- The Company has an ongoing obligation (legal or constructive) as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- The amount of the obligation can be reliably estimated; provisions are measured according to the risk assessment or the exposed charge, based upon best-known facts.

Demobilization provisions relate to estimated costs for demobilization of leased facilities at the end of the respective lease period or operating life.

Warranty provisions relate to the Company's obligations to replace or repair defective items that become apparent within an agreed period starting from final acceptance of the delivered system. Such warranties are provided to customers on most Turnkey sales. These provisions are estimated on a statistical basis regarding the Company's past experience or on an individual basis in the case of any warranty claim already identified. These provisions are classified as current by nature as it coincides with the production cycle of the Company.

Other provisions include provisions like commercial claims, regulatory fines related to operations and local content penalty. In relation to local content penalty, Brazilian oil and gas contracts typically include local content requirements. These requirements are issued by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP) to the winning concessionaire/consortia of auctioned Brazilian exploratory blocks or areas at the end of the bidding round, with the intention to strengthen the domestic Brazilian market and expand local employment. The owning concessionaire/consortia normally contractually passes such requirements on to, amongst other suppliers, the company delivering the FPSO. For the Company's Brazilian contracts, the Company assesses the execution strategy and may decide that execution of the project in locations other than Brazil is more beneficial. Such a decision takes into account factors such as optimization of overall cost of delivery, quality and timeliness. As a result, following the chosen execution strategy, the Company may expect to not meet entirely the agreed local content requirements. In such circumstances, the expected penalty to be paid, as a result of not meeting the local content requirements, is determined based on management's best estimate and recognized as provision during the construction period. The corresponding cost is expensed over the construction period of the asset.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of such items. The capital value of a facility to be leased and operated for a client is the sum of external costs (such as shipyards, subcontractors and suppliers), internal costs (design, engineering, construction supervision, etc.), third party financial costs including interest paid during construction and attributable overhead.

Subsequent costs are included in an assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The costs of assets include the initial estimate of costs of demobilization of the asset net of reimbursement expected to be received by the client. Costs related to major overhaul which meet the criteria for capitalization are included in the assets carrying amount. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate line items of property, plant and equipment. The depreciation charge is calculated based on future anticipated economic benefits, e.g. based on the unit of production method or on a straight-line basis as follows:
- Converted tankers 10-20 years (included in vessels and floating equipment);
- Floating equipment 3-15 years (included in vessels and floating equipment);
- Buildings 30-50 years;
- Other assets 2-20 years;
- Land is not depreciated.

Useful lives and methods of depreciation are reviewed at least annually, and adjusted if appropriate.

The assets' residual values are reviewed and adjusted, if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains and losses arising on disposals or retirement of assets are determined by comparing any sales proceeds and the carrying amount of the asset. These are reflected in the income statement in the period that the asset is disposed of or retired.

Right-of-use assets related to the Company's lease contracts in which the Company is a lessee are included in Property, plant and equipment. Right-of-use assets and corresponding liabilities are recognized when the leased asset is available for use by the Company. Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date;
- Any initial direct costs; and
- Restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(h) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition, less accumulated impairment.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of the annual impairment testing.

Patents are recognized at historical cost and patents acquired in a business combination are recognized at fair value at the acquisition date when intangible assets criteria are met and amortized on a straight-line basis over their useful life, generally over fifteen years.

Research costs are expensed when incurred. In compliance with IAS 38, development costs are capitalized if all of the following criteria are met:

- The projects are clearly defined.
- The Company is able to reliably measure expenditures incurred by each project during its development.
- The Company is able to demonstrate the technical feasibility of the project.
- The Company has the financial and technical resources available to achieve the project.
- The Company can demonstrate its intention to complete, to use or to commercialize products resulting from the project.
- The Company is able to demonstrate the existence of a market for the output of the intangible asset, or, if it is used internally, the usefulness of the intangible asset.

When capitalized, development costs are carried at cost less any accumulated amortization. Amortization begins when the project is complete and available for use. It is amortized over the period of expected future benefit, which is generally between three and five years.

(i) Assets (or disposal groups) held for sale

The Company classifies assets or disposal groups as being held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

(j) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Inventories comprise semi-finished, finished products and the Company's Fast4Ward® Multi Purpose Floater ('MPF') valued at cost including attributable overheads and spare parts stated at the lower of purchase price or market value. MPFs under construction are accounted for as inventories until they are allocated to awarded projects.

(k) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within a maximum of 90 days and are therefore all classified as current. Trade receivables are recognized initially at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. The Company applies the simplified approach in measuring expected credit losses for trade receivables.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest rate method. Interest income, together with gains and losses when the receivables are derecognized or impaired, is recognized in the income statement.

(l) Impairment of finance lease receivables

For finance lease receivables the Company assumes that the credit risk has not increased significantly since the initial recognition if the finance lease receivable is determined to have a low credit risk at the reporting date (i.e. the Company applies the low credit risk simplification). As a result, if the finance lease receivable is determined to have a low credit risk at the reporting date, the Company recognizes a 12-month expected credit loss.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash in bank and in hand fulfilling the following criteria: a maturity of usually less than three months, highly liquid, a fixed exchange value and an extremely low risk of loss of value.

(n) Share capital

Ordinary shares and protective preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(o) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the associated tax is also recognized in other comprehensive income or directly in equity.

Income tax expenses comprise corporate income tax due in countries of incorporation of the Company's main subsidiaries and levied on actual profits. Income tax expense also includes the corporate income taxes which are levied on a deemed profit basis and revenue basis (withholding taxes in the scope of IAS 12). This presentation adequately reflects the Company's global tax burden.

(p) Deferred income tax

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

Pension obligations: the Company operates various pension schemes that are generally funded through payments determined by periodic actuarial calculations to insurance companies or are defined as multi-employer plans. The Company has both defined benefit and defined contribution plans:

- A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation
- A defined contribution plan is a pension plan under which the Company pays fixed contributions to public or private pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions to defined contribution plans and multi-employer plans are recognized as an expense in the income statement as incurred.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

The expense recognized within the EBIT comprises the current service cost and the effects of any change, reduction or winding up of the plan. The accretion impact on actuarial debt and interest income on plan assets are recognized under the net financing cost.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in comprehensive income.

Share-based payments: within the Company there are four types of share based payment plans that qualify as equity settled:

- Restricted share unit (RSU);
- Long-term and Short-term Incentive Programs;
- Value Creation Stake (VCS); and
- Matching bonus shares.

The estimated total amount to be expensed over the vesting period related to share based payments is determined by (i) reference to the fair value of the instruments determined at the grant date, and (ii) non-market vesting conditions included in assumptions about the number of shares that the employee will ultimately receive. Main assumptions for estimates are revised at statement of financial position date. Total cost for the period is charged or credited to the income statement, with a corresponding adjustment to equity.

When equity instruments vest, the Company issues new shares, unless the Company has Treasury shares in stock.

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.

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 additional 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

In 2019, the Turnkey segment was not impacted by any non-recurring material item and benefited from 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 the 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.

The Lease and Operate segment was impacted by a total impairment of US$(25) million in 2019 relating to two, individually not material, impairments of property, plant and equipment (please refer to note 4.3.13 Property, Plant and Equipment. Safe from any impact of impairment, Directional Lease and Operate revenue and EBITDA increased versus the year ago period. The impact of units leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) was indeed 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.

The non-recurring gain of US$90 million on the purchase of additional shares in the five Brazilian vessels is presented in 'Other'. Refer to note 4.3.1 Financial Highlights for the full details on the treatment of this transaction under Directional reporting.

2019 operating segments (Directional)

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	**1,315**	**856**	**2,171**	-	**2,171**
Cost of sales	(921)	(726)	(1,647)	-	(1,647)
Gross margin	**394**	**130**	**524**	-	**524**
Other operating income/expense	1	6	6	88[1]	**94**
Selling and marketing expenses	(1)	(47)	(48)	(0)	**(48)**
General and administrative expenses	(19)	(45)	(64)	(64)	**(128)**
Research and development expenses	(3)	(22)	(24)	(0)	**(24)**
Net impairment gains/(losses) on financial and contract assets	(3)	3	0	(0)	**(0)**
Operating profit/(loss) (EBIT)	**369**	**25**	**395**	**23**	**418**
Net financing costs					(142)
Share of profit of equity-accounted investees					1
Income tax expense					(42)
Profit/(Loss)					**235**
Operating profit/(loss) (EBIT)	369	25	395	23	**418**
Depreciation, amortization and impairment[2]	473	28	500	3	**503**
EBITDA	**842**	**53**	**895**	**26**	**921**
Other segment information :					
Impairment charge/(reversal)	25	-	25	(0)	**25**

1 Mainly includes a gain of US$90 million on the purchase of additional shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

2 Includes net impairment losses on financial and contract assets.

Reconciliation of 2019 operating segments (Directional to IFRS)

	Reported segments under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
Revenue				
Lease and Operate	1,315	(261)	273	1,327
Turnkey	856	1,202	6	2,064
Total revenue	**2,171**	941	279	**3,391**
Gross margin				
Lease and Operate	394	(4)	177	567
Turnkey	130	240	(3)	367
Total gross margin	**524**	236	174	**934**
EBITDA				
Lease and Operate	842	(257)	197	783
Turnkey	53	238	(1)	290
Other	26	-	(90)[1]	(63)
Total EBITDA	**921**	(18)	107	**1,010**
EBIT				
Lease and Operate	369	4	176	549
Turnkey	25	236	(2)	259
Other	23	-	(90)	(66)
Total EBIT	**418**	240	84	**742**
Net financing costs	(142)	(31)	(70)	(243)
Share of profit of equity-accounted investees	1	-	42	43
Income tax expense	(42)	6	5	(31)
Profit/(loss)	**235**	216	60	511
Impairment charge/(reversal)	25	2	1	28

1 Includes the removal of a gain of US$90 million on purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

The reconciliation from Directional reporting to IFRS comprises two main steps:

- In the first step, those lease contracts that are classified and accounted for as finance lease contracts under IFRS are restated from an operating lease accounting treatment to a finance lease accounting treatment.
- In the second step, the consolidation method is changed i) from proportional consolidation to full consolidation for those Lease and Operate related subsidiaries over which the Company has control and ii) from proportional consolidation to the equity method for those Lease and Operate related investees that are classified as joint ventures in accordance with IFRS 11.

Impact of lease accounting treatment

For the Lease and Operate segment, the restatement from an operating to a finance lease accounting treatment has the main following impacts for the 2019 period:

- Revenue is reduced by US$261 million. During the lease period, under IFRS, the revenue from finance leases is limited to that portion of charter rates that is recognized as interest using the interest effective method. Under Directional reporting, in accordance with the operating lease treatment, the full charter rate is recognized as revenue, on a straight-line basis. Lease and Operate EBITDA is similarly impacted (reduction of US$257 million) for the same reasons.
- Gross margin decreased by US$4 million and EBIT increased by US$4 million. As the current Company's finance lease fleet is still relatively young, the amount of the (declining) interest recognized under IFRS is still in line with the linear gross margin recognized under Directional for the related vessels. Under IFRS, gross margin and EBIT from finance leases equal the recognized revenue, therefore following the declining profile of the interest recognized using the interest effective method. On the other side, under the operating lease treatment applied under Directional, the gross margin and the EBIT

correspond to the revenue and depreciation of the recognized PP&E, both accounted for on a straight-line basis over the lease period.

For the Turnkey segment, the restatement from operating to finance lease accounting treatment had the following impacts over the 2019 period:

- Revenue and gross margin increased by US$1,202 million and US$240 million respectively, mainly due to the accounting treatment of FPSO *Liza Destiny*, *Liza Unity* and *Sepetiba* as a finance lease under IFRS: under IFRS, a finance lease is considered as a virtual sale of the asset leading to recognition of revenue during the construction of the asset corresponding to the present value of the future lease payments. This (non-cash) revenue is recognized within the Turnkey segment.
- The basic impact on Turnkey EBIT and EBITDA is largely in line with the impact on gross margin.

As a result, the restatement from operating to finance lease accounting treatment results in an increase of net profit of US$216 million under IFRS when compared with Directional reporting.

Impact of consolidation methods

The impact of consolidation methods in the above table describes the net impact from:

- Proportional consolidation to full consolidation for those Lease and Operate related subsidiaries over which the Company has control, resulting in an increase of revenue, gross margin, EBIT and EBITDA;
- Proportionate consolidation to the equity accounting method for those Lease and Operate related investees that are classified as joint ventures in accordance with IFRS 11, resulting in a decrease of revenue, gross margin, EBIT and EBITDA.

The impact of the changes in consolidation methods results in a net increase of revenue, gross margin, EBIT, EBITDA and net profit under IFRS when compared Directional reporting. This reflects the fact that the majority of the Company's FPSOs, that are leased under finance lease contracts, are owned by subsidiaries over which the Company has control and which are consolidated using the full consolidation method under IFRS.

2018 operating segments (Directional)

	Lease and Operate	Turnkey	**Reported segments**	Other	**Total Directional reporting**
Third party revenue	**1,298**	**406**	**1,703**	**-**	**1,703**
Cost of sales	(884)	(313)	(1,197)	-	(1,197)
Gross margin	**413**	**93**	**506**	**-**	**506**
Other operating income/expense	(0)	234[1]	234	(45)[2]	**189**
Selling and marketing expenses	(0)	(36)	(36)	0	**(36)**
General and administrative expenses	(17)	(43)	(60)	(62)	**(122)**
Research and development expenses	(1)	(19)	(21)	(2)	**(23)**
Net impairment gains/(losses) on financial and contract assets	23	(3)	19	0	**19**
Operating profit/(loss) (EBIT)	**418**	**225**	**642**	**(109)**	**533**
Net financing costs					(166)
Share of profit of equity-accounted investees					(26)
Income tax expense					(40)
Profit/(Loss)					**301**
Operating profit/(loss) (EBIT)	418	225	642	(109)	**533**
Depreciation, amortization and impairment	406	54	460	2	463
EBITDA	**824**	**278**	**1,102**	**(107)**	**995**
Other segment information :					
Impairment charge/(reversal)	(34)	28	(6)	(0)	**(6)**

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$217 million and net impact of additional settlement reached with insurers on Yme project claim for US$37 million.

2 Mainly relates to the additional provision of US$43 million (200 million Brazilian Reais) for settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') approved by the Fifth Chamber of the MPF.

Reconciliation of 2018 operating segments (Directional to IFRS)

	Reported segments under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
Revenue				
Lease and Operate	1,298	(238)	242	1,302
Turnkey	406	528	4	938
Total revenue	**1,703**	290	246	**2,240**
Gross margin				
Lease and Operate	413	7	159	579
Turnkey	93	133	(3)	223
Total gross margin	**506**	140	156	**801**
EBITDA				
Lease and Operate	824	(248)	185	761
Turnkey	278	(86)[1]	(8)	184
Other	(107)	-	(0)	(107)
Total EBITDA	995	(335)	178	**838**
EBIT				
Lease and Operate	418	3	158	579
Turnkey	225	(85)[1]	(6)	134
Other	(109)	-	(0)	(109)
Total EBIT	**533**	(82)	152	**603**
Net financing costs	(166)	(0)	(67)	(233)
Share of profit of equity-accounted investees	(26)	-	40	13
Income tax expense	(40)	(8)	8	(40)
Profit/(loss)	301	(90)	132	344
Impairment charge/(reversal)	(6)	4	(0)	(2)

1 Includes the removal of a gain on disposal of Turritella (FPSO) for US$217 million.

Reconciliation of 2019 statement of financial position (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
ASSETS				
Property, plant and equipment and Intangible assets[1]	5,849[2]	(4,896)	76	1,028
Investment in associates and joint ventures	14	-	312	325
Finance lease receivables	(0)	5,214	1,481	6,694
Other financial assets	290	(180)	23	134
Construction work-in-progress	125	803	44	973
Trade receivables and other assets	633	(0)	(50)	583
Derivative financial instruments	43	-	(0)	43
Cash and cash equivalents	458	-	48	506
Assets held for sale	1	-	-	1
Total Assets	**7,414**	940	1,933	**10,287**
EQUITY AND LIABILITIES				
Equity attributable to parent company	1,179	1,532	36	2,748
Non-controlling interests	0	0	864	865
Equity	**1,179**	1,532	901	**3,613**
Borrowings and lease liabilities	3,918[3]	-	1,004	4,922
Provisions	428	(150)	5	283
Trade payable and other liabilities	1,213	(68)	(123)	1,022
Deferred income	486	(374)	95	207
Derivative financial instruments	190	-	51	241
Total Equity and Liabilities	**7,414**	940	1,933	**10,287**

1 Under Directional, the cost related to the Brazilian local content penalty is capitalized in line with construction progress of related assets and presented in the statement of financial position under 'Property, plant and equipment and Intangible assets'.

2 Includes US$1,537 million related to (i) FPSO Liza Destiny (ii) units under construction (i.e. FPSO Liza Unity, Prosperity and Sepetiba) and (iii) Gene tanker.

3 Includes US$2,851 million non-recourse debt and US$173 million lease liability

Consistent with the reconciliation of the key income statement line items, the above table details:

- The restatement from the operating lease accounting treatment to the finance lease accounting treatment for those lease contracts that are classified and accounted for as finance lease contracts under IFRS; and
- The change from proportional consolidation to either full consolidation or equity accounting for investees related to Lease and Operate contracts.

Impact of lease accounting treatment

For the statement of financial position, the main adjustments from Directional reporting to IFRS as of December 31, 2019 are:

- For those lease contracts that are classified and accounted for as finance lease contracts under IFRS, de-recognition of property, plant and equipment recognized under Directional reporting (US$4,896 million) and subsequent recognition of (i) finance lease receivables (US$5,214 million) and (ii) construction work-in-progress (US$803 million) for those assets still under construction.
- For operating lease contracts with non-linear bareboat day rates, a deferred income provision is recognized to show linear revenues under Directional reporting. This balance (US$374 million) is derecognized for the contracts that are classified and accounted for as finance lease contracts under IFRS.
- Restatement of the provisions for demobilization and associated non-current receivable assets, mainly impacting other financial assets (US$180 million) and provisions (US$150 million).

As a result, the restatement from operating to finance lease accounting treatment gives rise to an increase of equity of US$1,532 million under IFRS compared with Directional reporting. This primarily reflects the earlier margin recognition on finance lease contracts under IFRS compared to Directional reporting.

Impact of consolidation methods

The above table also describes the net impact of moving from proportionate consolidation to either full consolidation, for those lease related investees in which the Company has control, or equity accounting, for those investees that are classified as joint ventures under IFRS 11. The two main impacts are:

- Full consolidation of asset specific entities that mainly comprise finance lease receivables (representing the net present value of the future lease payments to be received) and non-recourse project debts.
- Derecognition of the individual line items from the statement of financial positions for those entities that are equity accounted under IFRS, rolling up in the line item 'Investment in associates and joint ventures'.

Reconciliation of 2019 cash flow statement (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
EBITDA	**921**	(18)	107	**1,010**
Adjustments for non-cash and investing items	(71)[1]	21	87	37
Changes in operating assets and liabilities	(414)	(901)	(121)	(1,435)
Reimbursement finance lease assets	(0)	196	2	197
Income taxes paid	(35)	-	7	(29)
Net cash flows from (used in) operating activities	**401**	(703)	81	**(220)**
Capital expenditures	(764)	725	(0)	(39)
Acquisition of shares in co-owned entities	(125)[2]	-	125	(0)
Other investing activities	93	(0)	228	321
Net cash flows from (used in) investing activities	**(796)**	725	353	**282**
Equity payment from/(repayment to) partners	-	-	82	82
Additions and repayments of borrowings and lease liabilities	627	-	(276)	351
Dividends paid to shareholders and non-controlling interests	(74)	-	(34)	(108)
Interest paid	(150)	(23)	(71)	(244)
Share repurchase program	(196)	-	-	(196)
Payments to non-controlling interests for change in ownership	(0)	-	(149)	(149)[3]
Net cash flows from (used in) financing activities	**207**	(23)	(448)	**(264)**
Net cash and cash equivalents as at 1 January	657	-	62	718
Net increase/(decrease) in net cash and cash equivalents	(189)	0	(13)	(202)
Foreign currency variations	(10)	(0)	1	(9)
Net cash and cash equivalents as at 31 December	**458**	-	48	**506**

1 Includes a gain of US$90 million on the purchase of additional shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

2 Includes US$149 million for the purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba net of aquired cash.

3 Includes US$149 million for the purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

Impact of lease accounting treatment

At net cash level, the difference in lease accounting treatment is neutral. The impact of the different lease accounting treatment under Directional reporting versus IFRS is limited to reclassifications between cash flow activities.

Capital expenditures (US$725 million) are reclassified from investing activities under Directional, to net cash flows from operating activity under IFRS, where finance lease contracts are accounted for as construction contracts. Furthermore the interest expense which is capitalized under Directional as part of asset under construction (and therefore presented in investing activities) is reclassified to financing activities under IFRS.

The impact of the change of lease accounting treatment at EBITDA level is described in further detail in the earlier reconciliation of the Company's income statement.

Impact of consolidation methods

The impact of the consolidation method on the cash flow statement is in line with the impact described for the statement of financial position. The full consolidation of asset specific entities, mainly comprising finance lease receivables and the related non-recourse project debts, results in increased repayments of borrowings under IFRS versus Directional.

Reconciliation of 2018 statement of financial position (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
ASSETS				
Property, plant and equipment and Intangible assets	4,799	(3,699)	117	1,217
Investment in associates and joint ventures	10	(0)	411	421
Finance lease receivables	0	3,993	1,954	5,947
Other financial assets	356	(146)	102	312
Construction work-in-progress	43	652	(0)	695
Trade receivables and other assets	626	(0)	7	633
Derivative financial instruments	44	-	2	46
Cash and cash equivalents	657	-	62	718
Assets held for sale	2	(0)	-	2
Total Assets	**6,535**	800	2,656	**9,992**
EQUITY AND LIABILITIES				
Equity attributable to parent company	1,317	1,334	(17)	2,634
Non-controlling interests	0	(0)	978	978
Equity	**1,317**	1,334	961	**3,612**
Loans and borrowings	3,010[1]	-	1,527	4,536
Provisions	601	(145)	11	467
Trade payable and other liabilities	935	45	18	998
Deferred income	575	(433)	121	263
Derivative financial instruments	98	-	18	116
Total Equity and Liabilities	**6,535**	800	2,656	**9,992**

1 Including US$2,821 million non-recourse debt and US$189 million lease liabilities.

Reconciliation of 2018 cash flow statement (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
EBITDA	**995**	(335)	178	**838**
Adjustments for non-cash and investing items	(126)[1]	218	10	102
Changes in operating assets and liabilities	(209)[2]	(408)	102	(515)
Reimbursement finance lease assets	(0)	777[3]	475	1,252[4]
Income taxes paid	(35)	(0)	6	(30)
Net cash flows from (used in) operating activities	**625**	252	770	**1,647**
Capital expenditures	(332)	290	(6)	(48)
Other investing activities	524[5]	(542)	5	(13)
Net cash flows from (used in) investing activities	**192**	(252)	(1)	**(61)**
Equity payment from/repayment to partners	-	-	(165)	(165)
Additions and repayments of borrowings and loans	(783)[6]	-	(485)	(1,268)
Dividends paid to shareholders non-controlling interests	(51)	-	(52)	(103)
Interest paid	(176)	-	(81)	(257)
Payments to non-controlling interests for change in ownership	0	-	(5)	(5)
Net cash flows from (used in) financing activities	**(1,010)**	-	(787)	**(1,797)**
Net cash and cash equivalents as at 1 January	878	-	79	957
Net increase/(decrease) in net cash and cash equivalents	(193)	-	(18)	(211)
Foreign currency variations	(29)	-	1	(28)
Net cash and cash equivalents as at 31 December	**657**	-	62	**718**

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$(217) million.
2 Includes US$(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.
3 Includes the Company 55% share in purchase price acquisition of Turritella (FPSO) by Shell for US$543 million reclassified from investing activities.
4 Includes US$987 million purchase price acquisition of Turritella (FPSO) by Shell.
5 Mainly includes the Company 55% share in the proceeds from the sale of Turritella (FPSO) for US$544 million.
6 Includes the Company 55% share in the redemption of Turritella (FPSO) project financing loan for US$(398) million.

Deferred income (Directional)

	31 December 2019	31 December 2018
Within one year	98	100
Between 1 and 2 years	93	94
Between 2 and 5 years	188	241
More than 5 years	108	140
Balance at 31 December	**486**	**575**

The deferred income is mainly related to the revenue of those lease contracts which include a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IFRS 16 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral will be released through the income statement over the remaining duration of the relevant lease contracts.

GEOGRAPHICAL INFORMATION

The classification by country is determined by the final destination of the product for both revenues and non-current assets.

The revenue by country is analyzed as follows:

2019 geographical information (revenue by country and segment)

	Directional			IFRS		
	Lease and Operate	Turnkey	**Reported segments**	Lease and Operate	Turnkey	**Reported segments**
Brazil	759	42	801	1,050	117	1,167
Guyana	8	293	300	5	1,417	1,422
Norway	-	246	246	-	246	246
Angola	178	8	186	0	13	13
Canada	135	1	136	135	1	136
The United States of America	41	71	112	41	71	112
Malaysia	85	18	103	0	22	22
China	-	95	95	-	95	95
Equatorial Guinea	88	1	89	74	0	75
Virgin Islands	-	13	13	-	13	13
Nigeria	-	23	23	-	23	23
Other	22	46	67	22	46	67
Total revenue	**1,315**	**856**	**2,171**	**1,327**	**2,064**	**3,391**

2018 geographical information (revenue by country and segment)

	Directional			IFRS		
	Lease and Operate	Turnkey	**Reported segments**	Lease and Operate	Turnkey	**Reported segments**
Brazil	716	7	723	1,019	(0)	1,019
Angola	200	11	211	1	17	18
Canada	127	8	135	127	8	135
The United States of America	61	31	92	63	31	94
Norway	-	88	88	-	88	88
Guyana	-	88	88	-	616	616
Equatorial Guinea	87	0	87	76	-	76
Malaysia	77	8	86	1	14	15
Great Britain	-	32	32	-	32	32
China	-	31	31	-	31	31
Nigeria	-	24	24	-	24	24
Congo	15	3	18	-	3	3
Australia	-	12	12	-	12	12
Myanmar	11	0	11	12	0	12
Other	3	62	65	3	61	64
Total revenue	**1,298**	**406**	**1,703**	**1,302**	**938**	**2,240**

The non-current assets by country are analyzed as follows:

Geographical information (non-current assets by country)

	31 December 2019		31 December 2018	
	IFRS	DIR	IFRS	DIR
Brazil	6,050	3,656	6,343	3,311
Angola	242	323	412	435
Canada	182	182	245	245
The United States of America	87	65	130	109
Malaysia	93	61	128	84
Equatorial Guinea	106	160	121	181
Guyana	873	1,432	-	530
Monaco	66	67	78	78
Switzerland	49	50	-	-
Other	142	170	184	174
Total	**7,891**	**6,166**	**7,641**	**5,148**

RELIANCE ON MAJOR CUSTOMERS

Under Directional, three customers each represent more than 10% of the consolidated revenue. Total revenue from these three major customers amounts to US$1,339 million (US$703 million, US$385 million and US$250 million, respectively). In 2018 the revenue related to the two major customers was US$673 million (US$454 million and US$219 million, respectively). In 2019 and 2018, the revenue of these major customers was predominantly related to the Lease and Operate segment.

Under IFRS, two customers each represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US$2,393 million (US$1,450 million and US$943 million respectively). In 2018 three customers accounted for more than 10% of the consolidated revenue (US$1,254 million), respectively for US$615 million, US$334 million and US$305 million.

4.3.3 REVENUE

The Company's revenue mainly originates from construction contracts and lease and operate contracts. Revenue originating from construction contracts is presented in the Turnkey segment while revenue from lease and operate contracts is presented in the Lease and Operate segment. Around 60% of the Company's 2019 lease and operate revenue is made of charter rates related to lease contracts while the remaining amount originates from operating contracts.

The Company's policy regarding revenue recognition is described in further detail in note 4.2.7 B. Critical Accounting Policies – (e) Revenue. For the disaggregation of total revenue by country and by segment, please refer to Geographical Information under note 4.3.2 Operating Segments and Directional Reporting.

The Company recognizes most of its revenue (more than 95%) over time. The Company's construction contracts can last for multiple years depending on the type of product, scope and complexity of the project while the Company's Lease and Operate contracts are generally multiple-year contracts. As a result, the Company has (partially) outstanding performance obligations to its clients (unsatisfied performance obligations) at December 31, 2019. These unsatisfied performance obligations relate to:

- Ongoing construction contracts, including the construction of vessels under finance lease that still need to be completed;
- Ongoing multiple-year operating contracts. Note that for the specific disclosure on unsatisfied performance obligations, the lease component of the Lease and Operate contracts is excluded (this component being described in further detail in notes 4.3.13 Property, Plant and Equipment and 4.3.15 Finance Lease Receivables).

The following table presents the unsatisfied performance obligations as at December 31, 2019 (in billions of US$):

Unsatisfied performance obligations related to:	2019	2018
- constructions contracts including finance leases	3.1	1.1
- operating contracts	7.4	5.7
Total	10.5	6.8

The unsatisfied performance obligations for the committed construction contracts relate mostly to four major construction contracts (three FPSO's and one TMS). Revenue related to these construction contracts is expected to be recognized over the coming three years in line with the construction progress on these projects.

The unsatisfied performance obligations for the operating contracts relate to i) the Company's vessels leased to clients where the Company is the operator (both operating and finance lease contracts) and ii) one operating contract for operating services on a vessel that is owned by the client. The operating contracts end between 2021 and 2036. The Company will recognize the unsatisfied performance obligation over this period in line with the work performed.

The Company can agree on various payment arrangements which generally reflect the progress of delivered performance obligations. However, if the Company's delivered performance obligation exceeds instalments invoiced to the client, a 'Construction work-in-progress' (contract asset) is recognized (see note 4.3.20 Construction Work-In-Progress). If the instalments invoiced to the client exceed the work performed, a contract liability is recognized (see note 4.3.27 Trade and Other Payables).

As a result of various commercial discussions with clients, the Company recognized revenue amounting to US$16 million in 2019 (2018: US$23 million) originating from performance obligations satisfied in previous periods.

Lease revenue recognized for leases where the Company is the lessor, for both operating and finance leases, relates to fixed and variable lease payments. Most of the Company's revenue from lease contracts is based on fixed day rates. However, some of the contracts consist of performance-based payments. These are variable lease payments that do not depend on an index or a rate, and are excluded from the measurement of the lease payments receivable. The amount of performance-related lease payments for 2019 was US$24 million (2018: US$47 million).

4.3.4 OTHER OPERATING INCOME AND EXPENSE

	2019	2018
Insurance claim income	5	37
Other operating income	2	3
Total other operating income	**7**	**40**
Settlement expenses	(2)	(45)
Impairment of goodwill	-	(25)
Restructuring expenses	(0)	(1)
Total other operating expense	**(2)**	**(70)**
Total	**5**	**(30)**

In 2019, the Company did not generate or incur any significant other operating income or expenses.

The previous year's insurance claim income corresponded to the Company's share of the Yme insurance claim settlement, net of the claim-related costs.

2018 other operating expenses related mainly to the full impairment of the goodwill which was recognized upon the acquisition of Houston-based subsidiaries and the additional provision of US$43 million (BRL200 million) for settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF').

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2019 and 2018:

	Note	2019	2018
Expenses on construction contracts		(1,319)	(469)
Employee benefit expenses	4.3.6	(575)	(519)
Vessels operating costs		(312)	(289)
Depreciation, amortization and impairment		(268)	(235)
Selling expenses		(30)	(22)
Other costs		(153)	(142)
Total expenses		**(2,657)**	**(1,676)**

Year-on-year, expenses on construction contracts increased mainly as a result of higher activity on Turnkey projects. The main projects responsible for the increase of expenses are: 2019 awards of FPSO *Liza Unity* and FPSO *Sepetiba* and the initial limited scope awarded for the FPSO *Prosperity* project.

In 2019, depreciation, amortization and impairment was impacted by a US$16 million impairment of semi-submersible production facility Thunder Hawk and a US$9 million impairment of Deep Panuke MOPU.

Expenses related to short-term leases and leases of low value assets amounted to US$6 million in 2019 (2018: US$4 million).

4.3.6 EMPLOYEE BENEFIT EXPENSES

Information with respect to employee benefits expenses are detailed as follows:

	Note	2019	2018
Wages and salaries		(329)	(308)
Social security costs		(54)	(51)
Contributions to defined contribution plans		(33)	(31)
Contributions to defined benefit plans		(3)	(1)
Share-based payment cost		(17)	(17)
Contractors costs		(88)	(64)
Other employee benefits		(51)	(47)
Total employee benefits	4.3.5	**(575)**	**(519)**

Contractors costs include expenses related to contractor staff not on the Company's payroll. Other employee benefits mainly include commuting, training, expatriate and other non-wage compensation costs.

DEFINED CONTRIBUTION PLAN

The contributions to defined contribution plans includes the Company participation in the Merchant Navy Officers Pension Fund (MNOPF). The MNOPF is a defined benefit multi-employer plan which is closed to new members. The fund is managed by a corporate Trustee, MNOPF Trustees Limited, and provides defined benefits for nearly 25,688 Merchant Navy Officers and their dependents out of which approximately 90 are SBM Offshore former employees.

The Trustee apportions its funding deficit between Participating Employers, based on the portions of the Fund's liabilities which were originally accrued by members in service with each employer. When the Trustee determines that contributions are unlikely to be recovered from a Participating Employer, it can re-apportion the deficit contributions to other Participating Employers.

Entities participating in the MNOPF are exposed to the actuarial risk associated with the current and former employees of other entities through exposure to their share of the deficit those other entities default. As there is only a notional allocation of assets and liabilities to any employer, the Company is accounting for the MNOPF in its financial statements as if it was a defined contribution scheme. There are no contributions to the plan agreed at present.

DEFINED BENEFIT PLANS AND OTHER LONG-TERM BENEFITS

The employee benefits provisions recognized in accordance with accounting principles, relate to:

	Note	2019	2018
Pension plan		6	5
Lump sums on retirement		7	6
Defined benefit plans		**13**	**11**
Long-service awards		14	13
Other long-term benefits		**14**	**13**
Employee benefits provisions	*4.3.26*	**28**	**24**

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2019			31 December 2018		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	38	7	45	38	6	**44**
Fair value of plan assets	(32)	-	(32)	(32)	-	**(32)**
Benefit (asset)/liability	**6**	**7**	**13**	**5**	**6**	**11**

The main assumptions used in determining employee benefit obligations for the Company's plans are shown below:

Main assumptions used in determining employee benefit obligations

in %	2019	2018
Discount rate	0.25 - 2.00	0.75 - 2.00
Inflation rate	1.00 - 1.75	1.00 - 1.75
Discount rate of return on plan assets during financial year	0.50	0.50
Future salary increases	1.00 - 3.00	1.00 - 3.00
Future pension increases	-	-

The overall expected rate of return on assets is determined on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

The remuneration of key management personnel of the Company paid during the year, including pension costs and performance related Short-Term Incentives (STI), amounted to US$19 million (2018: US$23 million).

The performance-related part of the remuneration, comprising LTI, Value Creation Stake and STI components, was 60% (2018: 66%). The remuneration (including the Management Board's remuneration which is euro denominated) decreased in 2019 versus 2018, explained by the yearly portion of two LTI schemes being expensed in 2018 (as part of the RP 2015) versus only one yearly portion (i.e. the last one under RP 2015) being expensed in 2019.

The total remuneration and associated costs of the Management Board and other key management personnel (members of the Executive Committee) is specified as follows:

Remuneration key management personnel

in thousands of US$	Base salary	STI[1]	Sharebased compensation[2]	Other[3]	Pensions[4]	Total remuneration
Management Board Members[5]						
2019	2,651	2,532	6,513	440	712	12,848
2018	2,657	3,245	9,472	460	719	16,553
Other key personnel[6]						
2019	2,254	1,028	1,170	1,358	130	5,940
2018	2,482	1,478	808	1,353	151	6,272
Total 2019	**4,905**	**3,560**	**7,683**	**1,798**	**842**	**18,788**
Total 2018	**5,139**	**4,723**	**10,280**	**1,813**	**870**	**22,826**

1 For the Management Board this represents the actual STI approved by the Supervisory Board, which has been accrued over the calendar year, payment of which will be made in the following year.

2 This amount represents the period allocation to the calendar year of vesting costs of all unvested share-based incentives (notably Long Term Incentive shares (performance shares and Value Creation Stake under Remuneration Policy 2018), matching 'STI' shares, and RSUs COO and CFO), in accordance with IFRS2 rules. The shares of the Value Creation Stake vest immediately.

3 Consisting of social charges, lease car expenses, and other allowances, a.o. in connection with the headquarter move, such as housing allowance, settling-in allowance.

4 This represents company contributions to pensions; in the absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.

5 For sharebased compensation, this includes the former CFO.

6 The definition of 'Other key personnel' has been amended to align with the Executive Committee, as disclosed on the Company's website.

The table above represents the total remuneration in US dollar, being the reporting currency of the Company.

The following table represents the movements during 2019 of all unvested shares (the total number of vested shares held by (former) Management Board members are reported in note 4.3.23 Equity Attributable to Shareholders). Unvested LTI shares in the columns Outstanding at the beginning and/or end of the year, are reported at the Target LTI numbers. The actual vesting hereof in the year is shown for the actual number as per the outcome of the performance criteria as per the Remuneration Policy. As at December 31, 2019 the following share-based incentives are outstanding:

Shared-based incentives	Outstanding at the beginning of 2019	Granted	Vested	Outstanding at the end of 2019
Total 2019	**574,062**	**-**	**326,373**	**247,689**

SHORT-TERM INCENTIVE PROGRAM OF THE MANAGEMENT BOARD

The Short-Term Incentive Program is based upon the short-term operational performance, which includes three sets of Performance Indicators as noted below:

- Profitability;
- Growth;
- Health, Safety, Social and Environment (HSSE).

The Supervisory Board may adjust the outcome of the STI down by 10% (2018: 10% up as well as down). Any such adjustment will be explained in the Remuneration Report.

For 2019 (equal to 2018), the Supervisory Board concluded that the Company’s performance indicators had outcomes ranging from below threshold to maximum. For the year 2019 a total of seven performance indicators were established (2018: seven). The Company's performance resulted in performance of 115% (2018: 146%) of salary for the CEO and 86% (2018: 106%) for the other Management Board members.

VALUE CREATION STAKE AND LONG-TERM INCENTIVE SHARES OF THE MANAGEMENT BOARD

Under the Remuneration Policy 2018, the members of the Management Board are entitled to a Value Creation Stake, being a number of shares determined by a four-year average share price (volume weighted). These shares vest immediately upon the award date, and must be retained for five years from the vesting date, or – in the event of retirement or termination – two years after such event.

Number of issued shares	2019	2018
Total 2019	**320,330**	319,198

The number of shares granted is based upon 175% of the individual's base salary and determined by the 4-year average volume-weighed share price (VWAP) over the years 2015 through 2018 (2018: 2014 through 2017), being EUR12.92 (2018: EUR12.34). The fair value of these shares upon issue was EUR12.67 (2018: EU13.295) , being the opening share price of January 2, 2019 (2018: January 2, 2018). During 2019 a board member was awarded an additional Value Creation Stake based on the increase in the individual's base salary. As the increase in base salary was awarded on July 1, 2019 the VWAP over the period July 1, 2015 through June 30, 2019 was EUR13.57. The fair value of these shares upon issue was EUR16.85, being the opening share price of August 9, 2019, the day of the additional vesting.

Under the Remuneration Policy 2015, the Management Board was entitled to an LTI, built up of EPS and relative TSR performance. For the LTI performance period 2017-2019, both the EPS performance indicator (weighting of 60%) and the relative TSR performance indicator (weighting of 40%) came in at the Maximum (2018: Maximum). The total vesting of the LTI grant 2017 will result in 200% (2018: 193%) for the CEO, and 150% (2018: 150%) for each of the other Management Board members.

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the RSU plan in 2019 was 601,200 (2018: 649,092), with the three year employment period starting on January 1, 2019 (2018: January 1, 2018).

The annual RSU award is based on individual performance. The RSU plans themselves have no performance condition, only a service condition, and will vest at the end of three years continuing service. The fair value is determined based on the share price at the grant dates, with an adjustment for the present value of the expected dividends during the vesting period.

	2019	2018
Regular, relocation and skills retention RSU (share price as at January 2, 2019)	€ 11.80	€ 14.72

RSU are valued at a share price at grant date, applying the Black & Scholes model. For regular, relocation and skills retention RSU, an average annual forfeiture percentage (including expectations on for example the number of employees leaving the Company before the vesting date of their respective RSU plan) of 2.5% is assumed.

MATCHING SHARES

Under the STI plans for the management and staff of the Company, 20% of the STI is or can be paid in shares. Subject to a vesting period of three years, an identical number of shares (matching shares) will be issued to participants. Assumed probability of vesting amounts to 95% for senior staff. The fair value is determined based on the share price at the grant dates, with an adjustment for the present value of the expected dividends during the vesting period.

The assumptions included in the calculation for the matching shares are:

2019 awards – Fair values

	2019	2018
STI matching shares	€ 15.67	€ 13.46

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in operating profit for all share-based payment transactions are summarized by taking into account both the provisional awards for the current year and the additional awards related to prior years. Total share-based compensation was almost stable versus 2018.

2019	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	13,211	2,050	**15,262**
Performance conditions	1,795	0	**1,795**
Total expenses 2019	**15,007**	**2,050**	**17,057**

2018	Performance shares and RSU/Value Creation Stake	Matching shares	Total
Instruments granted	11,575	1,442	**13,017**
Performance conditions	4,281	0	**4,281**
Total expenses 2018	**15,856**	**1,442**	**17,298**

Rules of conduct with regard to inside information are in place to ensure compliance with the act on financial supervision. For example these rules forbid the exercise of options or other financial instruments during certain periods, more specifically when an employee is in possession of price sensitive information.

The movement in the outstanding number of shares which could potentially vest at a point in time under the Company share-based payment plans is illustrated in the following table.

in number of shares	2019	2018
Outstanding at 1 January	**2,406,331**	**2,593,759**
Granted	1,581,616	1,316,644
Vested	(1,935,761)	(1,309,005)
True-up at vesting	(11,755)	(100,477)
Cancelled	(48,955)	(94,589)
Total movements	**(414,855)**	**(187,428)**
Outstanding at 31 December	**1,991,476**	**2,406,331**

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR778,000 (2018: EUR761,000) and can be specified as follows:

	2019			2018		
in thousands of EUR	Basic remuneration	Committees	Total	Basic remuneration	Committees	Total
Total	**684**	**94**	**778**	**669**	**92**	**761**

There are no share-based incentives granted to the members of the Supervisory Board. Nor are there any loans outstanding to the members of the Supervisory Board or guarantees given on behalf of members of the Supervisory Board.

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

	2019		2018	
By operating segment:	Average	Year-end	Average	Year-end
Lease and Operate	1,596	1,656	1,524	1,535
Turnkey	1,620	1,783	1,443	1,456
Other	409	475	323	343
Total excluding employees working for JVs and associates	**3,624**	**3,914**	**3,289**	**3,334**
Employees working for JVs and associates	635	525	814	745
Total	**4,259**	**4,439**	**4,103**	**4,079**

Number of employees (by geographical area)

	2019		2018	
By geographical area:	Average	Year-end	Average	Year-end
the Netherlands	414	453	342	374
Worldwide	3,211	3,461	2,948	2,960
Total excluding employees working for JVs and associates	**3,624**	**3,914**	**3,289**	**3,334**
Employees working for JVs and associates	635	525	814	745
Total	**4,259**	**4,439**	**4,103**	**4,079**

The figures exclude fleet personnel hired through crewing agencies as well as other agency and freelance staff for whom expenses are included within other employee benefits. The increase year-on-year reflects the increased activity on Turnkey projects.

4.3.7 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to US$24 million (2018: US$23 million) and mainly relate to the internal project 'Digital FPSO', Renewables and FPSO Product Line development costs and investments in laboratory facilities.

The amortization of development costs recognized in the statement of financial position is allocated to cost of sales when the developed technology is used through one or several projects. Otherwise, it is allocated to research and development expenses.

4.3.8 NET IMPAIRMENT GAINS/(LOSSES) ON FINANCIAL AND CONTRACT ASSETS

Impairments of financial assets and contract assets which relate to credit risk as per IFRS 9 requirements are recognized in a dedicated line of the income statement: 'Net impairment losses on financial and contract assets'. Impairments resulting from commercial disputes and other business decisions are not included in this dedicated line of the income statement.

During the year, the following gains/(losses) related to credit risks were recognized:

	2019	2018
Impairment losses		
- Movement in loss allowance for trade receivables	3	(3)
- Movement in loss allowance for construction work-in-progress	0	-
- Movement in loss allowance for finance lease receivables	0	-
- Movement in loss allowance for other assets	(1)	15
Net impairment gains/(losses) on financial and contract assets	**3**	**13**

During the year 2019, the Company recognized US$ 3 million net impairment gain on financial and contract assets. In 2018, the Company recognized a partial impairment reversal of funding loan provided to an Angolan joint venture. This impairment reversal of US$15 million was recognized based on an updated cash flow forecast which included additional cash available at the level of the joint venture.

The limited amount of loss allowance recognized by the Company over 2019 reflects the creditworthiness of the Company's client portfolio.

4.3.9 NET FINANCING COSTS

	2019	2018
Interest income on loans & receivables	10	10
Interest income on investments	10	19
Net foreign exchange gain	10	17
Other financial income	1	0
Financial income	**31**	**46**
Interest expenses on financial liabilities at amortized cost	(247)	(223)
Interest expenses on hedging derivatives	(17)	(36)
Interest expenses on lease liabilities	(6)	(7)
Interest addition to provisions	(2)	(14)
Net loss on financial instruments at fair value through profit and loss	(0)	(0)
Net cash flow hedges ineffectiveness	(3)	-
Net foreign exchange loss	0	(0)
Financial expenses	**(274)**	**(279)**
Net financing costs	**(243)**	**(233)**

The increase in net financing costs is mainly due to the net foreign exchange gain compared to 2018. The 2018 gain resulted from an index-linked term deposit protecting the Company against Kwanza devaluation for its cash held in Angola.

The decrease in interest income on investments comes mainly from the lower amounts of cash available in 2019 at corporate level.

In 2019 the settlement with the Brazilian authorities and Petrobras is now recognized as a financial liability and impacts interest expenses on financial liabilities amortized at costs whereas it was a provision impacting interest addition to provisions in 2018. Its unwinding effect is lower in 2019.

4.3.10 INCOME TAX EXPENSE

The relationship between the Company's income tax expense and profit before income tax (referred to as 'effective tax rate') can vary significantly from period to period considering, among other factors: (i) changes in the blend of income that is taxed based on revenues versus profit; (ii) the different statutory tax rates in the location of the Company's operations and (iii) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available.

Some of the taxes are withholding taxes (paid on revenues). The assessment of whether the withholding tax is in scope of IAS 12 is judgemental; the Company performed this assessment in the past and some of the withholding taxes that the Company pays in certain countries qualify as income taxes as it creates an income tax credit or it is considered as deemed profit taxation.

Consequently, income tax expense does not change proportionally with profit before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the effective tax rate is impacted by the unrecognized tax loss.

The components of the Company's income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	2019	2018
Corporation tax on profits for the year		(38)	(20)
Adjustments in respect of prior years		(2)	1
Total current income tax		**(40)**	**(20)**
Deferred tax	*4.3.17*	9	(20)
Total		**(31)**	**(40)**

The Company's operational activities are subject to taxation at rates which range up to 35% (2018: 35%).

For the year ended December 31, 2019, the respective tax rates, the change in the blend of income tax based on revenues versus income tax based on net profit, the unrecognized deferred tax asset on certain tax losses, tax-exempt profits and non-deductible costs resulted in an effective tax on continuing operations of 6.2% (2018: 10.7%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2019		2018	
	%		%	
Profit/(Loss) before income tax		**542**		**384**
Share of profit of equity-accounted investees		43		13
Profit/(Loss) before income tax and share of profit of equity-accounted investees		**500**		**370**
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(125)	25%	(92)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other jurisdictions	(10%)	52	6%	(22)
Withholding taxes and taxes based on deemed profits	4%	(21)	3%	(11)
Non-deductible expenses	2%	(10)	5%	(17)
Non-taxable income	(18%)	88	(31%)	115
Adjustments related to prior years	0%	(2)	(0%)	1
Adjustments recognized in the current year in relation to deferred income tax of previous year	(1%)	3	(2%)	9
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	3%	(16)	6%	(24)
Movements in uncertain tax positions	(0%)	0	0%	-
Total tax effects	**(19%)**	**94**	**(14%)**	**51**
Total of tax charge on the Consolidated Income Statement	**6%**	**(31)**	**11%**	**(40)**

The 2019 effective tax rate of the Company was primarily impacted by updates to deferred tax liabilities during the period of construction for contracts in Guyana. Similar to last year, the effective tax was also impacted by unrecognized deferred tax assets concerning Brazil, Angola, USA, Luxembourg and the Netherlands.

With respect to the annual effective tax rate calculation for the year 2019, the most significant portion of the current income tax expense of the Company was generated in countries in which income taxes are imposed on net profits including Switzerland, United Kingdom, Equatorial Guinea and Canada.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes per country

Withholding Tax and Overseas Taxes (per location)	2019 Withholding tax	2018 Withholding tax
Angola	(1)	-
Equatorial Guinea	(0)	-
Brazil	(4)	(4)
Guyana	(15)	(5)
Other[1]	(2)	(2)
Total withholding and overseas taxes	**(21)**	**(11)**

1 Mainly includes Nigeria and India

TAX RETURNS AND TAX CONTINGENCIES

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company believes there is a sound basis for its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the ultimate liability to have a material effect on its consolidated statement of financial position or results of operations, although it could have a material adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the difference in alignment between the Company's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax increase of US$42 million in respect of ongoing tax audits and in respect of the Company's review of its uncertain tax positions. This amount is primarily in relation to uncertain tax positions concerning various taxes other than corporate income tax. However it is possible that the ultimate resolution of the tax exposures could result in tax charges that are materially higher or lower than the amount provided.

The Company conducts operations through its various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, the Company may identify changes to previously evaluated tax positions that could result in adjustments to its recorded assets and liabilities. Although the Company is unable to predict the outcome of these changes, it does not expect the effect, if any, resulting from these adjustments to have a material effect on its consolidated statement of financial position, results of operations or cash flows.

4.3.11 EARNINGS/(LOSS) PER SHARE

The basic earnings per share for the year amounted to US$1.84 (2018: US$1.04); the fully diluted earnings per share amounted to US$1.84 (2018: US$1.04).

Basic earnings / (loss) per share amounts are calculated by dividing net profit / (loss) for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the net profit / loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

The following reflects the share data used in the basic and diluted earnings per share computations:

Earnings per share

	2019	2018
Earnings attributable to shareholders (in thousands of US$)	365,896	212,045
Number of shares outstanding at January 1 (excluding treasury shares)	204,725,425	203,417,031
Average number of treasury shares transferred to employee share programs	1,421,227	853,579
Average number of shares repurchased	(7,576,677)	-
Weighted average number of shares outstanding	**198,569,975**	**204,270,610**
Impact shares to be issued	5,000	-
Weighted average number of shares (for calculations basic earnings per share)	**198,574,975**	**204,270,610**
Potential dilutive shares from stock option scheme and other share-based payments	5,333	34,813
Weighted average number of shares (diluted)	**198,580,308**	**204,305,423**
Basic earnings per share	US$1.84	US$1.04
Fully diluted earnings per share	US$1.84	US$1.04

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, except for issuing of Value Creation Stake shares for the Management Board and matching shares for the Company's Senior Management (see note 4.3.6 Employee Benefit Expenses).

4.3.12 DIVIDENDS PAID AND PROPOSED AND SHARE REPURCHASE PROGRAM

The Company's dividend policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position. As part of the Company's regular planning process, following review of its cash flow position and forecast, the Company has concluded that the outlook for cash flow generation has improved given the increase in the quantum of the Lease and Operate backlog and its duration. Based on this, a dividend of US$150 million (which equals c. US$0.76 per share, based on the number of shares outstanding at December 31, 2019), to be paid out of retained earnings, will be proposed at the Annual General Meeting on April 8, 2020. This represents an increase of c. 100% compared to the dividend paid in 2019.

The Company has invested equity in projects, which are under construction or recently completed. Most of this equity investment will be returned to the Company following drawdown of non-recourse project finance facilities in the near future. After having reviewed the current liquidity position including the return of this investment, taking account of future growth requirements and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 13, 2020 the Company will commence a EUR150 million share repurchase program.

4.3.13 PROPERTY, PLANT AND EQUIPMENT

The line item 'Property, plant and equipment' consists of property, plant and equipment owned by the Company and right-of-use assets:

Property, plant and equipment (summary)

	31 December 2019	31 December 2018
Property, plant and equipment excluding leases	890	1,072
Right-of-use assets	115	126
Total	**1,005**	**1,198**

PROPERTY, PLANT AND EQUIPMENT OWNED BY THE COMPANY

The movement of the property, plant and equipment during the year 2019 is summarized as follows:

2019

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	58	3,266	75	11	**3,410**
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	**(2,337)**
Book value at 1 January	**34**	**1,004**	**23**	**11**	**1,072**
Additions	-	34	14	12	**59**
Depreciation	(5)	(203)	(7)	-	**(214)**
(Impairment)/impairment reversal	-	(25)	-	-	**(25)**
Foreign currency variations	(1)	-	(0)	(0)	**(1)**
Other movements	-	-	(0)	(1)	**(1)**
Total movements	**(5)**	**(194)**	**6**	**10**	**(183)**
Cost	56	3,299	82	22	**3,459**
Accumulated depreciation and impairment	(28)	(2,490)	(52)	-	**(2,570)**
Book value at 31 December	**29**	**809**	**30**	**22**	**890**

2018

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	61	3,255	68	19	**3,402**
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	**(2,160)**
Book value at 1 January	**41**	**1,170**	**13**	**19**	**1,243**
Additions	0	17	8	9	**34**
Depreciation	(5)	(203)	(5)	-	**(212)**
(Impairment)/impairment reversal	-	11	-	-	**11**
Foreign currency variations	(2)	-	(1)	(0)	**(3)**
Other movements	-	8	9	(17)	**0**
Total movements	**(7)**	**(166)**	**11**	**(8)**	**(170)**
Cost	58	3,266	75	11	**3,410**
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	**(2,337)**
Book value at 31 December	**34**	**1,004**	**23**	**11**	**1,072**

During the 2019 period the following main events occurred:

- Additions to property, plant and equipment include the capitalization of dry dock and other capital expenditures related to the IT infrastructure upgrade project.
- Impairment of Thunder Hawk semi-submersible production facility in the US Gulf of Mexico. Thunder Hawk is the only facility in the Company lease fleet portfolio for which revenues are linked to volumes produced. During the routine review in the first half of 2019, the Company received an update of the long term production profile from the current reserves. Based on this, the revised estimates of future deliverable volumes, and associated cash flows, will be insufficient to sustain the asset's current book value. During the period, an updated value-in-use calculation was prepared using the revised production profile and a discount rate of 6%. As a result, an impairment charge of US$16 million has been accounted for in the 2019 half year results. If the revenue, which is based on production, varies by +/- 5% the impairment would vary by +/- US$4 million respectively. If the discount rate varies by +/- 1% the impairment would vary by +/- US$2 million respectively.
- An impairment assessment of Deep Panuke MOPU was performed following a reassessment of the towing and scrapping costs. This resulted in adverse cash flows related to the unit and in consequence an impairment of US$9 million. The impairment assessment was performed assuming that the client will continue with the lease until the end of the contract. The impact of an early termination is disclosed below in the section 'Operating leases as a lessor'. If the discount rate used in the impairment test would vary by +/- 1%, the impairment would change by -/+ US$2 million.

- US$214 million of annual depreciation charges.

Property, plant and equipment at year-end comprises of:
- Three (2018: three) integrated floating production, storage and offloading systems (FPSOs) (namely FPSO *Espirito Santo*, FPSO *Capixaba* and FPSO *Cidade de Anchieta*) each consisting of a converted tanker, a processing plant and one mooring system. These three FPSOs are leased to third parties under an operating lease contract.
- One second-hand tanker (2018: one).
- One semi-submersible production platform, the *Thunder Hawk* (2018: one), leased to third parties under an operating lease contract.
- One MOPU facility, the *Deep Panuke* (2018: one), leased to a third party under an operating lease contract.

The depreciation charge for the semi-submersible production facility *Thunder Hawk* is calculated based on its future anticipated economic benefits, resulting in a depreciation plan based on the unit of production method. All other property, plant and equipment is depreciated on a straight-line basis.

Company-owned property, plant and equipment with a carrying amount of US$479 million (2018: US$569 million) has been pledged as security for liabilities, mainly for external financing.

No interest has been capitalized during the financial year as part of the additions to property, plant and equipment (2018: nil).

RIGHT-OF-USE ASSETS

The Company leases buildings, cars and an installation vessel. The most significant lease contract relates to the installation vessel SBM Installer. The charter contract is for a fixed period of twelve years with the option to acquire the vessel during the charter period. The other significant contracts relate to the lease of offices. The contract periods of the Company's office rentals vary between two to fourteen years and most of the contracts include extension options between three to fifteen years. The extension options are taken into account in the measurement of lease liabilities when the Company is reasonably certain to exercise these options. The lease agreements do not impose any covenants.

The movement of the right-of-use assets during the year 2019 is summarized as follows:

2019

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	**61**	**63**	**1**	**126**
Additions	13	-	1	**13**
Depreciation	(14)	(8)	(1)	**(23)**
Foreign currency variations	(1)	-	(0)	**(1)**
Total movements	**(2)**	**(8)**	**(0)**	**(11)**
Cost	84	71	3	**158**
Accumulated depreciation and impairment	(25)	(16)	(1)	**(43)**
Book value at 31 December	**59**	**55**	**1**	**115**

2018

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	**73**	**71**	**2**	**146**
Additions	3	-	0	**3**
Depreciation	(12)	(8)	(0)	**(20)**
Foreign currency variations	(3)	-	(0)	**(3)**
Total movements	**(12)**	**(8)**	**(1)**	**(21)**
Cost	73	71	2	**146**
Accumulated depreciation and impairment	(12)	(8)	(1)	**(20)**
Book value at 31 December	**61**	**63**	**1**	**126**

OPERATING LEASES AS A LESSOR

The category 'Vessels and floating equipment' mainly relates to facilities leased to third parties under various operating lease agreements which terminate between 2021 and 2030. Leased facilities included in the 'Vessels and floating equipment' amount to:

Leased facilities included in the vessels and floating equipment

	31 December 2019	31 December 2018
Cost	3,257	3,230
Accumulated depreciation and impairment	(2,481)	(2,256)
Book value at 31 December	**777**	**974**

The nominal values of the future expected bareboat receipts (undiscounted lease payments) in respect of those operating lease contracts are:

Nominal values of the future expected bareboat receipts

	31 December 2019	31 December 2018
Within 1 year	319	320
2 years	297	324
3 years	134	302
4 years	121	141
5 years	94	126
After 5 years	508	607
Total	**1,473**	**1,820**

A number of agreements have extension options, which have not been included in the above table.

Purchase and termination options in operating lease contracts

The operating lease contracts of FPSO *Espirito Santo* and MOPU *Deep Panuke*, where the Company is the lessor, include call options for the client to (i) purchase the underlying asset or (ii) terminate the contract early without obtaining the underlying asset. The operating lease contract of semi-submersible *Thunder Hawk* includes a call option for the client to purchase the underlying asset. The exercise of any of the purchase options would have resulted in a gain for the Company as of December 31, 2019. The exercise of the early termination option for FPSO *Espirito Santo* as of December 31, 2019 would have resulted in a gain for the Company, while exercising the early termination option for MOPU *Deep Panuke* as of December 31, 2019 would have resulted in a non-material loss.

4.3.14 INTANGIBLE ASSETS

2019

	Development costs	Goodwill	Software	Patents	Total
Cost	27	-	13	19	**60**
Accumulated amortization and impairment	(12)	-	(9)	(19)	**(41)**
Book value at 1 January	**15**	**-**	**4**	**0**	**19**
Additions	7	-	2	-	**9**
Amortization	(4)	-	(2)	-	**(6)**
Other movements	-	-	1	-	**1**
Total movements	**3**	**-**	**2**	**-**	**4**
Cost	34	-	16	19	**70**
Accumulated amortization and impairment	(16)	-	(11)	(19)	**(46)**
Book value at 31 December	**18**	**-**	**5**	**0**	**23**

2018

	Development costs	Goodwill	Software	Patents	Total
Cost	23	25	12	19	**79**
Accumulated amortization and impairment	(9)	-	(8)	(19)	**(36)**
Book value at 1 January	**14**	**25**	**3**	**-**	**42**
Additions	4	-	2	-	**6**
Amortization	(4)	-	(1)	-	**(5)**
(Impairment)/impairment reversal	-	(25)	-	-	**(25)**
Foreign currency variations	-	-	(0)	-	**(0)**
Other movements	-	-	(0)	-	**(0)**
Total movements	**1**	**(25)**	**0**	**-**	**(23)**
Cost	27	25	13	19	**84**
Accumulated amortization and impairment	(12)	(25)	(9)	(19)	**(65)**
Book value at 31 December	**15**	**-**	**4**	**0**	**19**

In 2019, the Company did not recognize any impairment related to intangible assets. In 2018, the Company has fully impaired its goodwill related to Houston based subsidiaries at amount of US$25 million.

Amortization of development costs is included in 'Research and development expenses' in the income statement in 2019 for US$ (4) million (2018: US$4 million).

4.3.15 FINANCE LEASE RECEIVABLES

The reconciliation between the total gross investment in the lease and the net investment in the lease at the statement of financial position date is as follows:

Finance lease receivables (reconciliation gross / net investment)

	31 December 2019	31 December 2018
Gross receivable	11,209	10,680
Less: unearned finance income	(4,516)	(4,732)
Total	**6,694**	**5,947**
Of which		
Current portion	287	195
Non-current portion	6,407	5,753

As of December 31, 2019, finance lease receivables relate to the finance lease of:

- FPSO *Liza Destiny*, which started production in December 2019 for a charter of 10 years with the expectation of a purchase option to be exercised by the client after a period of up to 2 years of operations;
- FPSO *Cidade de Marica*, which started production in February 2016 for a charter of 20 years;
- FPSO *Cidade de Saquarema*, which started production in July 2016 for a charter of 20 years;
- FPSO *Cidade de Ilhabela*, which started production in November 2014 for a charter of 20 years;
- FPSO *Cidade de Paraty*, which started production in June 2013 for a charter of 20 years;
- FPSO *Aseng*, which started production in November 2011 for a charter of 15 years.

The increase in finance lease receivable is driven by the recognition of the finance lease receivable of FPSO *Liza Destiny*, less the redemptions as per the payment plans.

Included in the gross receivable is an amount related to unguaranteed residual values (i.e. scrap value of units). The total amount of unguaranteed residual values at the end of the lease term amounts to US$69 million as of December 31, 2019. Credit losses related to finance lease receivables based on an expected credit loss model are less than US$1 million for 2019.

As per the contractual terms, gross receivables should be invoiced to the lessee within the following periods:

Finance lease receivables (gross receivables invoiced to the lessee within the following periods)

	31 December 2019	31 December 2018
Less than 1 year	790	669
Between 1 and 2 years	788	671
Between 2 and 5 years	2,367	2,007
More than 5 years	7,264	7,334
Total Gross receivable	**11,209**	**10,680**

It should be noted that the above table reflects the 10-years contractual term of the lease contract related to FPSO *Liza Destiny*. However, 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.

The following part of the net investment in the lease is included as part of the current assets within the statement of financial position:

Finance lease receivables (part of the net investment included as part of the current assets)

	31 December 2019	31 December 2018
Gross receivable	790	669
Less: unearned finance income	(503)	(474)
Current portion of finance lease receivable	**287**	**195**

The maximum exposure to credit risk at the reporting date is the carrying amount of the finance lease receivables taking into account the risk of recoverability. The Company performed an assessment which concluded that the credit risk for these receivables has not increased significantly since the initial recognition. The Company does not hold any collateral as security.

Purchase and termination options

The finance lease contracts of FPSO *Aseng* and FPSO *Liza Destiny*, where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. The exercise of the purchase option as of December 31, 2019 would have resulted in a gain or a near break-even result for the Company. The exercise of the early termination option, in which case the Company would retain the vessels, would have resulted in a gain for FPSO *Liza Destiny* and break even for FPSO *Aseng*.

The finance lease contract of FPSO *Liza Unity* (under construction as per December 31, 2019) also contains options for the client to purchase the underlying asset or terminate the contract early. These options are exercisable at any time starting from the delivery date of the vessel.

4.3.16 OTHER FINANCIAL ASSETS

The breakdown of the non-current portion of other financial assets is as follows:

	31 December 2019	31 December 2018
Non-current portion of other receivables	76	79
Sublease receivable	4	-
Non-current portion of loans to joint ventures and associates	25	133
Total	**104**	**211**

The decrease in the non-current portion of loans to joint ventures and associates is mainly explained by the repayment of loans from Sonasing Xikomba Ltd., the entity that owns the FPSO *N'Goma*, to the Company following optimization of the non-recourse project loan in 2019 (see note 4.3.1 Financial Highlights).

The maximum exposure to credit risk at the reporting date is the carrying amount of the interest-bearing loans taking into account the risk of recoverability (for expected credit losses refer to note 4.3.8 Net Impairment Gains/(Losses) on Financial and Contract Assets and note 4.3.29 Financial Instruments – Fair Values and Risk Management). The Company does not hold any collateral as security.

LOANS TO JOINT VENTURES AND ASSOCIATES

	Notes	31 December 2019	31 December 2018
Current portion of loans to joint ventures and associates	*4.3.19*	30	101
Non-current portion of loans to joint ventures and associates		25	133
Total	*4.3.33*	**55**	**234**

The decrease in the current portion of loans to joint ventures and associates is also linked to the repayment from joint ventures to the Company following their external refinancing.

The carrying amount of funding loans is reduced by an amount of US$168 million as of December 31, 2019 (December 31, 2018: US$168 million) due to cumulative losses in two joint ventures.

The maximum exposure to credit risk at the reporting date is the carrying amount of the loans to joint ventures and associates, taking into account the risk of recoverability. The Company does not hold any collateral as security.

4.3.17 DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax assets and liabilities and associated offsets are summarized as follows:

Deferred tax positions (summary)

	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	16	(16)	-	26	(26)
Tax losses	9	-	9	11	-	11
Other	12	7	6	15	10	5
Book value at 31 December	**22**	**23**	**(1)**	**26**	**36**	**(10)**

Movements in net deferred tax positions

		2019	2018
	Note	Net	Net
Deferred tax at 1 January		**(10)**	**11**
Deferred tax recognized in the income statement	*4.3.10*	9	(20)
Foreign currency variations		(0)	(1)
Total movements		**9**	**(21)**
Deferred tax at 31 December		**(1)**	**(10)**

Expected realization and settlement of deferred tax positions is within 9 years. The current portion of the net deferred tax position (liability) as of December 31, 2019 amounts to US$2 million. The deferred tax losses are expected to be recovered based on the anticipated profit in the applicable jurisdiction. The Company has US$16 million (2018: US$24 million) of deferred tax assets unrecognized in 2019 due to current tax losses not valued. The term in which these unrecognized deferred tax assets could be settled depends on the respective tax jurisdiction and ranges from seven years to an unlimited period of time.

The non-current portion of deferred tax assets amounts to US$8 million (2018: US$17 million). On a cumulative basis a total amount of US$197 million at the end of 2019 (2018: US$193 million) corresponds to deferred tax assets unrecognized on temporary differences, unused tax losses and tax credits.

Expiry date on deferred tax assets unrecognized on temporary differences, unused tax losses and tax credits:

	2019	2018
Within one year	1,657	9,837
More than a year but less than 5 years	18,527	7,768
More than 5 years but less than 10 years	8,555	19,033
More than 10 years but less than 20 years	92,181	91,259
Unlimited period of time	75,883	65,478
Total	**196,803**	**193,375**

Deferred tax assets per location are as follows:

Deferred tax positions per location

	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Canada	12	16	(4)	14	26	(12)
Guyana	-	7	(7)	-	10	(10)
Monaco	5	-	5	5	-	5
Switzerland	1	-	1	3	-	3
the Netherlands	3	-	3	3	-	3
Brazil	1	-	1	1	-	1
Other	0	-	0	-	-	-
Book value at 31 December	**22**	**23**	**(1)**	**26**	**36**	**(10)**

4.3.18 INVENTORIES

	31 December 2019	31 December 2018
Materials and consumables	6	3
Goods for resale	2	2
MPF under construction	0	96
Total	**8**	**101**

Multi-purpose hulls under construction relate to the ongoing EPC phase of Fast4Ward® new-build hulls. The Fast4Ward® hulls remain in inventory until they are allocated to a specific FPSO contract. The Company has five multi-purpose hulls as of December 31, 2019 out of which three have been transferred to construction work-in-progress upon the award of the lease and operate contracts for FPSO *Liza Unity* and FPSO *Sepetiba* and the awarded initial limited scope for the FPSO *Prosperity* project. Two multipurpose hulls have not yet been allocated to a project and are therefore accounted for under inventory at December 31, 2019. Following the award of the respective contracts in December 2019 (see note 4.3.1 Financial Highlights), progress on these two hulls has been limited up to December 31, 2019.

4.3.19 TRADE AND OTHER RECEIVABLES

Trade and other receivables (summary)

	Note	31 December 2019	31 December 2018
Trade debtors		128	175
Other accrued income		140	121
Prepayments		115	87
Accrued income in respect of delivered orders		51	13
Other receivables		73	81
Taxes and social security		37	18
Current portion of loan to joint ventures and associates	*4.3.16*	30	101
Total		**573**	**596**

The decrease in 'Trade debtors' of US$47 million is mainly thanks to improved cash collection and an offsetting agreement between the Company and some of the joint ventures signed in 2019.

The increase in 'Prepayments' of US$28 million is a result of advance payments in relation to the construction of a new multi-purpose floater hull which has been allocated to the FPSO *Sepetiba.*

The increase in accrued income in respect of delivered orders of US$38 million is a result of the completion of the FPSO *Liza Destiny* project during the current year.

The carrying amounts of the Company's trade debtors are distributed in the following countries:

Trade debtors (countries where Company's trade debtors are distributed)

	31 December 2019	31 December 2018
Angola	25	64
Brazil	16	31
Guyana	23	6
Equatorial Guinea	13	12
The United States of America	6	10
Malaysia	11	9
Australia	3	6
China	5	14
Other	28	22
Total	**128**	**175**

The trade debtors balance is the nominal value less an allowance for estimated impairment losses as follows:

Trade debtors (trade debtors balance)

	31 December 2019	31 December 2018
Nominal amount	130	188
Impairment allowance	(2)	(12)
Total	**128**	**175**

The allowance for impairment represents the Company's estimate of losses in respect of trade debtors. The allowance related to credit risk for significant trade debtors is built on specific expected loss components that relate to individual exposures. Furthermore, the Company uses historical credit loss experience as well as forward-looking information to determine a 1% expected credit loss rate on individually insignificant trade receivable balances. The creation and release for impaired trade debtors due to credit risk are reported in the line item 'Net impairment losses on financial and contract assets' of the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

The ageing of the nominal amounts of the trade debtors are:

Trade debtors (ageing of the nominal amounts of the trade debtors)

	31 December 2019		31 December 2018	
	Nominal	Impairment	Nominal	Impairment
Not past due	67	(1)	108	(1)
Past due 0-30 days	27	(0)	23	(2)
Past due 31-120 days	22	(0)	23	(1)
Past due 121- 365 days	6	(0)	21	(4)
More than one year	8	(1)	12	(4)
Total	**130**	**(2)**	**188**	**(12)**

Not past due are those receivables for which either the contractual or 'normal' payment date has not yet elapsed. Past due are those amounts for which either the contractual or the 'normal' payment date has passed. Amounts that are past due but not impaired relate to a number of Company joint ventures and independent customers for whom there is no recent history of default, or the receivable amount can be offset by amounts included in current liabilities.

For the closing balance and movements during the year of allowances on trade receivables, please refer to note 4.3.29 Financial Instruments – Fair Values and Risk Management.

4.3.20 CONSTRUCTION WORK-IN-PROGRESS

The details regarding construction work-in-progress are included in the following table:

	Note	31 December 2019	31 December 2018
Recognized revenue		1,508	1,733
Instalments invoiced		(577)	(1,181)
Reclassification to contract liability	4.3.27	42	143
Total construction work-in-progress		**973**	**695**

The significant portion of the outstanding balance of construction work-in-progress as of December 31, 2019 relates to the FPSO *Liza Unity and* FPSO *Sepetiba* finance lease projects since the Company will receive most of the payments for the construction only during the lease period through bareboat charter payments.

Costs to fulfill the contract of FPSO *Liza Unity*, recognized in 2018 as part of construction work-in-progress for US$13 million, were reclassified to project costs during 2019 after formally being awarded the FPSO *Liza Unity* contract in May 2019. The Company has not recognized any amortization or impairment related to this vessel in 2019 (2018: nil).

Contract liabilities of US$42 million comprises the amounts of those individual contracts for which the total instalments invoiced exceed the total revenue recognized. Contract liabilities are reclassified to other current liabilities (see note 4.3.27 Trade and Other Payables).

Regarding information about expected credit losses recognized for construction work-in-progress, refer to note 4.3.29 Financial Instruments – Fair Values and Risk Management.

4.3.21 DERIVATIVE FINANCIAL INSTRUMENTS

Further information about the financial risk management objectives and policies, the fair value measurement and hedge accounting of financial derivative instruments is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

In the ordinary course of business and in accordance with its hedging policies as of December 31, 2019, the Company held multiple forward exchange contracts designated as hedges of expected future transactions for which the Company has firm commitments or forecasts. Furthermore, the Company held several interest rate swap contracts designated as hedges of interest rate financing exposure. The most important floating rate is the US$ 3-month LIBOR. Details of interest percentages of the long-term debt are included in note 4.3.24 Borrowings and Lease Liabilities.

The fair value of the derivative financial instruments included in the statement of financial position is summarized as follows:

Derivative financial instruments

	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps cash flow hedge	8	166	(159)	6	42	(36)
Forward currency contracts cash flow hedge	14	48	(35)	18	41	(23)
Forward currency contracts fair value through profit and loss	22	27	(5)	22	32	(11)
Total	**43**	**241**	**(198)**	**46**	**116**	**(70)**
Non-current portion	5	156	(150)	12	41	(29)
Current portion	37	85	(48)	34	75	(41)

The ineffective portion recognized in the income statement (please refer to note 4.3.9 Net Financing Costs) arises from cash flow hedges which totaled less than a US$3 million loss in 2019 (2018: US$0 million loss). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

4.3.22 NET CASH AND CASH EQUIVALENT

	31 December 2019	31 December 2018
Cash and bank balances	82	81
Short-term investments	424	637
Cash and cash equivalent	**506**	**718**
Net cash and cash equivalent	**506**	**718**

The cash and cash equivalents dedicated to debt and interest payments (restricted) amounted to US$188 million as per December 31, 2019 (2018: US$188 million). Short-term investment deposits are made for varying periods of up to one year, usually less than three months, depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

The cash and cash equivalents held in countries with restrictions on currency outflow (Angola, Brazil, Equatorial Guinea, Ghana and Nigeria) amounts to US$42 million (2018: US$50 million). These restrictions do not limit the liquidity of the cash balances.

Further disclosure about the fair value measurement is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

4.3.23 EQUITY ATTRIBUTABLE TO SHAREHOLDERS

For a consolidated overview of changes in equity reference is made to the Consolidated Statement of Changes in Equity.

ISSUED SHARE CAPITAL

The authorized share capital of the Company is two hundred million euros (EUR200,000,000). This share capital is divided into four hundred million (400,000,000) ordinary shares with a nominal value of twenty-five eurocents (EUR0.25) each and four hundred million (400,000,000) protective preference shares, with a nominal value of twenty-five eurocents (EUR0.25) each. The protective preference shares can be issued as a protective measure as described in note 3.5 Corporate Governance.

During the financial year the movements in the outstanding number of ordinary shares are as follows:

number of shares	2019	2018
Outstanding at 1 January	**205,671,305**	**205,671,305**
Treasury shares cancelled	(7,000,000)	-
Outstanding 31 December	**198,671,305**	**205,671,305**

TREASURY SHARES

The Company completed its share repurchase program under authorization granted by the AGM of the Company held on April 11, 2018. In the period between February 14, 2019 and May 20, 2019 a total number of 10,422,259 shares totaling EUR175 million were repurchased. As a result, the Company decided to cancel 7,000,000 shares in 2019.

A total number of 2,444,192 treasury shares are still reported in the outstanding ordinary shares as at December 31, 2019 and held predominantly for employee share programs. During 2019, a total of 1,923,947 shares were transferred to employee share programs (including the balance of the treasury shares from the 2016 share repurchase).

Within equity, an amount of US$1,206 million (2018: US$1,116 million) should be treated as legal reserve (please refer to note 4.5.5 Shareholders' Equity).

ORDINARY SHARES

Of the ordinary shares, 1,513,936 shares were held by members of Management Board, in office as at December 31, 2019 (December 31, 2018: 1,061,910) as detailed below:

Ordinary shares held in the Company by the Management Board

	Shares subject to conditional holding requirement	Other shares	Total shares at 31 December 2019	Total shares at 31 December 2018
Bruno Chabas	368,448	607,462	975,910	793,588
Philippe Barril	278,428	-	278,428	165,047
Erik Lagendijk	143,984	-	143,984	69,351
Douglas Wood	115,614	-	115,614	33,924
Total	**906,474**	**607,462**	**1,513,936**	**1,061,910**

Of the Supervisory Board members, only Sietze Hepkema holds shares in the Company (256,333 shares as at December 31, 2019), resulting from his previous position as member of the Management Board.

OTHER RESERVES

The other reserves comprises the hedging reserve, actuarial gains/losses, the foreign currency translation reserve and IFRS 2 reserves. The movement and breakdown of the other reserves can be stated as follows (all amounts are expressed net of deferred taxes):

	Hedging reserve Forward currency contracts	Hedging reserve Interest rate swaps	Actuarial gain/(loss) on defined benefit provisions	Foreign currency translation reserve	IFRS 2 Reserves	Total other reserves
Balance at 1 January 2018	**51**	**(77)**	**6**	**(62)**	**18**	**(65)**
Cash flow hedges						
Change in fair value	(63)	39	-	-	-	(23)
Transfer to financial income and expenses	0	5	-	-	-	5
Transfer to construction contracts and property, plant and equipment	(14)	-	-	-	-	(14)
Transfer to operating profit and loss	7	-	-	-	-	7
IFRS 2 share based payments						
IFRS 2 vesting costs for the year	-	-	-	-	17	17
IFRS 2 vested share based payments	-	-	-	-	(14)	(14)
Actuarial gain/(loss) on defined benefit provision						
Change in defined benefit provision due to changes in actuarial assumptions	-	-	(4)	-	-	(4)
Foreign currency variations						
Foreign currency variations	-	-	-	(17)	-	(17)
Balance at 31 December 2018	**(19)**	**(33)**	**2**	**(79)**	**21**	**(108)**
Cash flow hedges						
Change in fair value	17	(79)	-	-	-	(62)
Transfer to financial income and expenses	3	3	-	-	-	6
Transfer to construction contracts and property, plant and equipment	(5)	-	-	-	-	(5)
Transfer to operating profit and loss	(34)	-	-	-	-	(34)
IFRS 2 share based payments						
IFRS 2 vesting costs for the year	-	-	-	-	17	17
IFRS 2 vested share based payments	-	-	-	-	(21)	(21)
Actuarial gain/(loss) on defined benefit provision						
Change in defined benefit provision due to changes in actuarial assumptions	-	-	1	-	-	1
Foreign currency variations						
Foreign currency variations	-	-	-	(22)	-	(22)
Mergers and acquisitions	-	(10)	-		-	(10)
Balance at 31 December 2019	**(38)**	**(119)**	**3**	**(101)**	**17**	**(238)**

The hedging reserve consists of the effective portion of cash flow hedging instruments related to hedged transactions that have not yet occurred, net of deferred taxes. The decreased marked-to-market value of interest rate swaps mainly arises from decreasing market interest rates whereas the increased marked-to-market value of forward currency contracts is mainly driven by the appreciation of the US$ exchange rate versus the hedged currencies.

Actuarial gain/(loss) on defined benefits provisions includes the impact of the remeasurement of defined benefit provisions.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

4.3.24 BORROWINGS AND LEASE LIABILITIES

The line item 'Borrowings and lease liabilities' in the consolidated statement of financial position is further detailed as follows:

Borrowings and lease liabilities (summary)

	31 December 2019	31 December 2018
Borrowings	4,168	3,856
Lease liabilities	141	161
Total Non-current portion of Borrowings and lease liabilities	**4,309**	**4,017**
Borrowings	580	492
Lease liabilities	32	27
Total Current portion of Borrowings and lease liabilities	**612**	**519**

BORROWINGS

The movement in borrowings is as follows:

	2019	2018
Non-current portion	3,856	4,347
Add: current portion	492	1,223
Remaining principal at 1 January	**4,348**	**5,571**
Additions	1,399	1
Redemptions	(1,011)	(1,241)
Transaction and amortized costs	13	17
Total movements	**401**	**(1,223)**
Remaining principal at 31 December	**4,749**	**4,348**
Less: Current portion	(580)	(492)
Non-current portion	**4,168**	**3,856**
Transaction and amortized costs	81	94
Remaining principal at 31 December (excluding transaction and amortized costs)	**4,830**	**4,442**
Less: Current portion	(596)	(508)
Non-current portion	**4,234**	**3,934**

The Company has no 'off-balance sheet' financing through special purpose entities. All long-term debt is included in the consolidated statement of financial position.

The additions of the total borrowings of US$1,399 million relates mainly to drawdowns on project finance facilities for FPSO *Liza Destiny* and FPSO *Liza Unity* and drawdowns made on the Company's RCF, the latter being fully redeemed as of December 31, 2019.

Further disclosures about the fair value measurement are included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

The borrowings, excluding transaction costs and amortized costs amounting to US$81 million (2018: US$94 million), have the following forecast repayment schedule:

	31 December 2019	31 December 2018
Within one year	596	508
Between 1 and 2 years	941	535
Between 2 and 5 years	1,599	1,567
More than 5 years	1,695	1,831
Balance at 31 December	**4,830**	**4,442**

The borrowings by entity are as follows:

Loans and borrowings per entity

					Net book value at 31 December 2019			Net book value at 31 December 2018		
Entity name	Project name or nature of loan	% Ownership	% Interest[1]	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:										
SBM Deep Panuke SA	MOPU Deep Panuke	100.00	3.50%	15-Dec-21	70	67	137	137	65	202
Tupi Nordeste Sarl	FPSO Cidade de Paraty	70.50	5.30%	15-Jun-23	311	110	421	421	103	524
Guara Norte Sarl	FPSO Cidade de Ilhabela	75.00	5.10%	15-Oct-24	555	122	677	677	115	792
SBM Baleia Azul Sarl	FPSO Cidade de Anchieta	100.00	5.50%	15-Sep-27	274	33	307	307	31	339
Alfa Lula Alto Sarl	FPSO Cidade de Marica	61.00	5.30%	15-Dec-29	1,016	103	1,119	1,119	97	1,216
Beta Lula Central Sarl	FPSO Cidade de Saquarema	61.00	4.10%	15-Jun-30	1,109	86	1,195	1,195	81	1,276
US$ Guaranteed project finance facilities drawn:										
Guyana Deep Water UK Limited	FPSO Liza Destiny	100.00	Libor + 1.65%	31-Oct-29	504	60	565	-	-	-
Guyana Deep Water II UK Limited	FPSO Liza Unity	100.00	3.50%	30-Dec-21	331	-	331	-	-	-
Revolving credit facility:										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	(2)	(1)	(3)	-	(1)	(1)
Other:										
Other		100.00			1	(0)	1	1	(0)	1
Net book value of loans and borrowings					**4,168**	**580**	**4,749**	**3,856**	**492**	**4,348**

1 % interest per annum on the remaining loan balance.

The 'Other debt' mainly includes loans received from partners in subsidiaries.

For the project finance facilities, the respective vessels are mortgaged to the banks or to note holders.

The Company has available borrowing facilities being the (i) undrawn revolving credit facility (RCF), (ii) the undrawn portions of FPSO *Liza Destiny* and FPSO *Liza Unity* project facilities and (iii) short-term credit lines.

The expiry date of the undrawn facilities and unused credit lines are:

Expiry date of the undrawn facilities and unused credit lines

	2019	2018
Expiring within one year	249	100
Expiring beyond one year	1,964	1,720
Total	**2,213**	**1,820**

The revolving credit facility (RCF) in place as of December 31, 2019 has a maturity date of February 13, 2024. The US$1 billion facility was secured with a selected group of 11 core relationship banks and has uncommitted option to increase the RCF by an additional US$500 million. The RCF allows the Company to finance EPC activities / working capital, bridge any long-term financing needs, and/or finance general corporate purposes, when needed, in the following proportions:

- EPC activities / working capital – 100% of the facility;
- General Corporate Purposes – up to 50% of the facility;
- Refinancing project debt – 100% of the facility but limited to a period of 18 months

The pricing of the RCF is based on LIBOR and a margin adjusted in accordance with the applicable leverage ratio ranging from a minimum level of 0.50% p.a. to a maximum of 1.50% p.a. The margin also includes a Sustainability Adjustment Mechanism whereby the margin may increase or decrease by 0.05% based on the absolute change in the Company performance as measured and reported by Sustainalytics[1]. The Company's performance in 2019 allows for a 0.05% decrease in margin for 2020.

On February 5, 2020, the Company has exercised a one-year extension option with regards to the RCF, refer to note 4.3.35 Events After End of Reporting Period for further details.

COVENANTS

The following key financial covenants apply to the RCF as agreed with the respective lenders on February 13, 2019, and unless stated otherwise, relate to the Company's consolidated financial statements:

- **Solvency**: Consolidated IFRS Tangible Net Worth divided by Consolidated IFRS Tangible Assets must be > 25%;
- **Interest Cover Ratio**: Consolidated Directional Underlying EBITDA divided by Consolidated Directional Net Interest Payable must be > 4.0.

The Lease Backlog Cover Ratio (LBCR) is used to determine the maximum funding availability under the RCF. The maximum funding availability is determined by calculating the net present value of the future contracted net cash after debt service of a defined portfolio of operational offshore units in the backlog. The maximum theoretical amount available under the RCF is then determined by dividing this net present value by 1.5. The actual availability under the RCF will be the lower of this amount and the then applicable Facility Amount. As at December 31, 2019 headroom on actual availability under the RCF exceeded US$0.5 billion.

For the purpose of covenants calculations, the following simplified definitions apply:

- **IFRS Tangible Net Worth:** Total equity (including non-controlling interests) of the Company in accordance with IFRS, excluding the marked-to-market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income, dividends declared, value of intangible assets and deferred taxes.
- **Consolidated IFRS Tangible Assets:** The Company total assets (excluding intangible assets) in accordance with the IFRS consolidated statement of financial position less the marked-to-market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income.
- **Consolidated Directional Underlying EBITDA:** Consolidated profit of the Company adjusted for net interest payable, tax and depreciation of assets and impairments, any exceptional or extraordinary items, and by adding back (i) the annualized production EBITDA for units which started operations during the financial year, and (ii) the acquisition annualized EBITDA for units acquired during the financial year.
- **Consolidated Directional Net Interest Payable:** All interest and other financing charges paid up, payable (other than capitalized interest during a construction period and interest paid or payable between wholly owned members of the Company) or incurred by the Company less all interest and other financing charges received or receivable by the Company, as per Directional reporting.

[1] Sustainalytics is a provider of Environmental, Social and Governance and Corporate Governance research and ratings.

Covenants

	2019	2018[1]
IFRS Tangible Net Worth	3,650	3,585
Consolidated IFRS Tangible Assets	10,221	9,927
Solvency ratio	35.7%	36.1%
Adjusted (Directional) Underlying EBITDA	1,055[2]	870[3]
Consolidated Directional Net Interest Payable	134	134
Interest cover ratio	7.9	6.5

1 Information based on RCF facility in place until February 13, 2019, ratios are determined based on the definitions as included in the Annual Report 2018

2 Exceptional items restated from 2019 Consolidated Directional Underlying EBITDA are mainly related to the US$90 million gain on the purchase of the minority shares in the entities related to FPSO's Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba. Consolidated Directional Underlying EBITDA includes the annualized production EBITDA for FPSO Liza Destiny and the acquisition annualized EBITDA for the acquired minority shares in the above mentioned FPSO's companies.

3 Exceptional items restated from 2018 Adjusted EBITDA are mainly related to the settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF'), the impact of IFRS 16 early adoption and the estimated insurance income related to the Yme insurance claim (net of claim related expenses incurred up to December 31, 2018) and restructuring costs.

None of the borrowings in the statement of financial position were in default as at the reporting date.

LEASE LIABILITIES

The lease liabilities mostly relate to the leasing of the SBM Installer installation vessel as well as the leasing of office buildings.

The movement in the lease liabilities is as follows:

	2019	2018
Principal recognized at 1 January	**189**	**217**
Additions	14	3
Redemptions	(28)	(28)
Foreign currency variations	(1)	(4)
Total movements	**(16)**	**(29)**
Remaining principal at 31 December	**173**	**189**
Of which		
Current portion	32	27
Non-current portion	141	161

Maturity of the lease liabilities is analyzed as follows:

	31 December 2019
Within one year	32
Between 1 and 2 years	30
Between 2 and 5 years	72
More than 5 years	39
Balance at 31 December	**173**

The total cash outflow for leases in 2019 was US$35 million, which includes redemptions of principal and interest payments.

4.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2019	31 December 2018
Deferred income on operating lease contracts	150	200
Total	**150**	**200**

The deferred income on operating lease contracts is mainly related to the revenue for one of the operating lease units, which reflects a decreasing day-rate schedule. As revenue is shown in the income statement on a straight-line basis with reference to IFRS 16 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral will be released through the income statement over the remaining duration of the relevant contracts.

4.3.26 PROVISIONS

The movement and type of provisions during the year 2019 are summarized as follows:

Provisions (movements)

	Demobilisation	Warranty	Employee benefits	Brazil investigation	Other	Total
Balance at 1 January 2019	**96**	**34**	**26**	**48**	**262**	**467**
Arising during the year	28	18	3	(2)	29	75
Unwinding of interest	1	-	0	1	-	2
Utilised	-	(2)	(1)	(0)	(182)	(185)
Released to profit	-	(1)	0	-	(26)	(27)
Other movement	-	(0)	(1)	(47)	(1)	(49)
Balance at 31 December 2019	124	49	28	-	82	283
of which :						
Non-current portion	124	-	28	-	13	165
Current portion	(0)	49	-	-	69	118

Demobilization
The provision for demobilization relates to the costs for demobilization of the vessels and floating equipment at the end of the respective operating lease periods. The obligations are valued at net present value, and a yearly basis interest is added to this provision. The recognized interest is included in the line item 'Financial expenses' of the consolidated income statement (please refer to note 4.3.9 Net Financing Costs).

Expected outflow within one year is nil and amounts to US$59 million between one and five years, and US$65 million after five years.

Warranty
For most Turnkey sales, the Company gives warranties to its clients. Under the terms of the contracts, the Company undertakes to make good, by repair or replacement, defective items that become apparent within an agreed period starting from the final acceptance by the client. The increase of the warranty provision consists of new provisions accrued on projects under construction over the period.

Brazilian Investigation
Provision regarding the Brazilian investigation decreased during the year due to the reclassification of the payment agreed with the Brazilian Federal Prosecutor's Office ('MPF'), from provision to liabilities (refer to note 4.3.27 Trade and Other Payables), upon notification that the Federal Court has formally closed the Improbity Lawsuit (refer to note 4.3.1 Financial Highlights).

Other

The decrease of 'Other' provisions during the period mainly relates to the insurance income shared with Repsol in relation to the Yme insurance claim. During the first half of the year 2019, the Company paid the full amount due to Repsol.

The remainder of 'Other' provisions mainly relate to commercial claims, regulatory fines related to operations and local content penalty.

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	**31 December 2019**	31 December 2018
Trade payables		143	140
Accruals on projects		288	256
Accruals regarding delivered orders		110	39
Other payables		68	69
Contract liability	*4.3.20*	42	143
Pension taxation		10	8
Taxation and social security costs		103	55
Current portion of deferred income		57	62
Other non-trade payables		75	127
Total	*4.3.29*	**896**	**899**

The total trade and other payables remained stable, despite the higher construction activities during 2019, due to the timing of payments made to suppliers.

Accruals regarding delivered orders increased in 2019 mainly due to the recognition of accruals related to the finalization of FPSO *Liza Destiny* following project completion in December 2019.

Decrease of the contract liability relates to progress of the work performed by the Company mainly in relation to Turret Mooring System EPC projects. The Company recognized revenue of US$125 million during the period, which was included in the contract liability as per December 31, 2018.

Payables related to taxation and social security costs increased mainly due to the Company's updated assessment of uncertain tax positions related mainly to various taxes other than corporate income tax.

Current portion of deferred income is mainly related to the revenue of one operating lease contract which includes a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IFRS 16 ‘Leases’, the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral is released through the income statement over the remaining duration of the relevant operating lease contract.

Other non-trade payables include mostly interest payable, dividends payable and the short-term portion of the outstanding payments related to the Leniency Agreement. The long-term portion of the liability for outstanding payments related to the Leniency Agreement and the settlement with Brazilian Federal Prosecutor’s Office (Ministério PúblicoFederal – 'MPF') is presented in the line item 'Other non-current liabilities' in the Company's statement of financial position.

The contractual maturity of the trade payables is as follows:

Trade and other payables (contractual maturity of the trade payables)

	31 December 2019	31 December 2018
Within 1 month	136	134
Between 1 and 3 months	6	6
Between 3 months and 1 year	0	0
More than one year	0	(0)
Total	**142**	**140**

4.3.28 COMMITMENTS AND CONTINGENCIES

PARENT COMPANY GUARANTEES

SBM Offshore N.V., as the parent company, is committed to fulfill various types of obligations arising from customer contracts, such as full performance and warranty obligations.

In the past, the parent company has issued guarantees for contractual obligations in respect of several Group companies, including equity-accounted joint ventures, with respect to long-term lease and operate contracts. The few remaining guarantees still active as of December 31, 2019 relate to the Deep Panuke MOPU unit, *Thunder Hawk* semi-submersible platform and FPSO *Saxi*, and have all been signed prior to 2010.

BANK GUARANTEES

As of December 31, 2019, the Company has provided bank guarantees to unrelated third parties for an amount of US$572 million (2018: US$358 million). No liability is expected to arise under these guarantees.

The Company holds in its favor US$481 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

As at December 31, 2019, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US$639 million (December 31, 2018: US$135 million). Investment commitments have increased principally due to the construction of the FPSO *Liza Unity*, FPSO *Sepetiba,* and the initial limited scope commenced for FPSO *Prosperity*, which is subject to necessary government approvals and project sanction.

CONTINGENT LIABILITY

The Company has no significant contingent liabilities or assets to be disclosed for the year ended December 31, 2019.

4.3.29 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

This note presents information about the Company's exposure to risk resulting from its use of financial instruments, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The Company uses the following fair value hierarchy for financial instruments that are measured at fair value in the statement of financial position, which require disclosure of fair value measurements by level:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Accounting classification and fair values

			31 December 2019		31 December 2018	
	Notes	Fair value level	Total book value	Total fair value	Total book value	Total fair value
Financial assets measured at amortized cost						
Finance lease receivables	*4.3.15*	3	6,694	7,137	5,947	5,712
Loans to joint ventures and associates	*4.3.16*	3	55	49	234	220
Total			**6,749**	**7,186**	**6,181**	**5,932**
Financial liabilities measured at amortized cost						
US$ project finance facilities drawn	*4.3.24*	2	4,829	4,861	4,348	4,351
Revolving credit facility/Bilateral credit facilities	*4.3.24*	2	(0)	(0)	(1)	(1)
Lease liabilities		3	173	173	189	184
Other debt	*4.3.24*	2	1	1	1	1
Total			**5,003**	**5,035**	**4,537**	**4,535**

Additional information

- In the above table, the Company has disclosed the fair value of each class of financial assets and financial liabilities for which the book value is different than fair value in a way that permits the information to be compared with the carrying amounts.
- There are financial assets and financial liabilities measured at fair value, namely the interest rate swaps and forward currency contracts which are classified at a Level 2 on the fair value hierarchy. Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The carrying amount for these financial assets and liabilities approximates the fair value as at December 31, 2019.
- The Company has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values as the impact of discounting is insignificant.
- Classes of financial instruments that are not used are not disclosed.
- No instruments were transferred between Level 1 and Level 2.
- No instruments were transferred between Level 2 and Level 3.
- None of the instruments of the Level 3 hierarchy are carried at fair value in the statement of financial position.
- No financial instruments were subject to offsetting as of December 31, 2019 and December 31, 2018.

The effects of the foreign currency related hedging instruments on the Company's financial position and performance including related information is included in the table below:

Effect of the foreign currency and interest swaps related hedging instruments

	2019	2018
Foreign currency forwards		
Carrying amount	(35)	(23)
Notional amount	(2,107)	(1,427)
Maturity date	11/18/2020	10/23/2019
Hedge ratio	100%	100%
Change in discounted spot value of outstanding hedging instruments since 1 January	(17)	(88)
Change in value hedged rate for the year (including forward points)	17	88
Interest rate swaps		
Carrying amount	(159)	(36)
Notional amount	5,481	4,063
Maturity date	5/28/2028	9/11/2026
Hedge ratio	96%	95%
Change in discounted spot value of outstanding hedging instruments since 1 January	(123)	73
Change in value hedged rate for the year (including forward points)	123	(73)

MEASUREMENT OF FAIR VALUES

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

	Level 2 and level 3 instruments	Level 3 instruments	
Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial instrument measured at fair value			
Interest rate swaps	Income approach – Present value technique	Not applicable	Not applicable
Forward currency contracts	Income approach – Present value technique	Not applicable	Not applicable
Financial instrument not measured at fair value			
Loans to joint ventures and associates	Income approach – Present value technique	▪ Forecast revenues ▪ Risk-adjusted discount rate (3%-7%)	The estimated fair value would increase (decrease) if: ▪ the revenue was higher (lower) ▪ the risk-adjusted discount rate was lower (higher)
Finance lease receivables	Income approach – Present value technique	▪ Forecast revenues ▪ Risk-adjusted discount rate (3%-8%)	The estimated fair value would increase (decrease) if: ▪ the revenue was higher (lower) ▪ the risk-adjusted discount rate was lower (higher)
Loans and borrowings	Income approach – Present value technique	Not applicable	Not applicable
Other long term debt	Income approach – Present value technique	Not applicable	Not applicable

DERIVATIVE ASSETS AND LIABILITIES DESIGNATED AS CASH FLOW HEDGES

The following table indicates the period in which the cash flows associated with the cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for interest rate swaps are estimated using the forward rates as at the reporting date.

Cash flows

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2019					
Interest rate swaps	(159)	(20)	(204)	54	(170)
Forward currency contracts	(35)	(28)	(34)	-	(62)
31 December 2018					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)

The following table indicates the period in which the cash flows hedges are expected to impact profit or loss and the carrying amounts of the related hedging instruments.

Expected profit or loss impact

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2019					
Interest rate swaps	(159)	(20)	(204)	54	(170)
Forward currency contracts	(35)	(28)	(34)	-	(62)
31 December 2018					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)

Interest rate swaps

Gains and losses recognized in the hedging reserve in equity on interest rate swap contracts will be continuously released to the income statement until the final repayment of the hedged items (please refer to note 4.3.23 Equity Attributable to Shareholders).

Forward currency contracts

Gains and losses recognized in the hedging reserve on forward currency contracts are recognized in the income statement in the period or periods during which the hedged transaction affects the income statement. This is mainly within twelve months from the statement of financial position date unless the gain or loss is included in the initial amount recognized in the carrying amount of fixed assets, in which case recognition is over the lifetime of the asset. If the gain or loss is included in the initial amount recognized in the carrying amount of the cost incurred on construction contracts then the recognition is over time.

LOSS ALLOWANCE ON FINANCIAL ASSETS AND CONSTRUCTION WORK-IN-PROGRESS

The movement of loss allowance during the year 2019 is summarized as follows:

	Finance lease receivable		Construction work-in-progress		Trade receivables		Other financial assets	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Closing disclosed 31 December 2017 under IAS 39	(0)	-	(0)	-	(7)	(1)	(99)	(114)
Amounts restated through opening retained earnings	(0)	(0)	(0)	(0)		(4)		(0)
Opening loss allowance as at 1 January	**(0)**	**(0)**	**(1)**	**(0)**	**(7)**	**(5)**	**(99)**	**(114)**
Increase in loss allowance recognized in profit or loss during the year	(0)	(0)	(0)	(0)	(1)	(2)	(0)	
Receivables written off during the year as uncollectible								
Unused amount reversed	0		1		4	-	-	15
At 31 December	**(0)**	**(0)**	**(0)**	**(0)**	**(4)**	**(7)**	**(99)**	**(99)**

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, market risks (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company buys and sells derivatives in the ordinary course of business and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set in the Company policy. Generally the Company seeks to apply hedge accounting in order to manage volatility in the income statement and statement of comprehensive income. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance. Derivatives are only used to hedge closely correlated underlying business transactions.

The Company's principal financial instruments, other than derivatives, comprise trade debtors and creditors, bank loans and overdrafts, cash and cash equivalents (including short-term deposits) and financial guarantees. The main purpose of these financial instruments is to finance the Company's operations. Trade debtors and creditors result directly from the business operations of the Company.

Financial risk management is carried out by a central treasury department under policies approved by the Management Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries and the Chief Financial Officer (CFO) during the quarterly Asset and Liability Committee. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. It is, and has been throughout the year under review, the Company's policy that no speculation in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from transactional currency exposures, primarily with respect to the euro, Singapore dollar, and Brazilian real. The exposure arises from sales or purchases in currencies other than the Company's functional currency. The Company uses forward currency contracts to eliminate the currency exposure once the Company has entered into a firm commitment of a project contract.

For foreign currency risk, the principle terms of the forward currency contract (notional and settlement date) and the future expense or revenue (notional and expected cash flow date) are identical. The Company has established a hedge ratio of 1:1 for all its hedging relationships.

The main Company's exposure to foreign currency risk is as follows based on notional amounts:

Foreign exchange risk (summary)

	31 December 2019			31 December 2018		
in millions of local currency	EUR	SGD	BRL	EUR	SGD	BRL
Fixed assets	83	-	516	81	-	388
Current assets	89	1	868	89	2	1,009
Long-term liabilities	(48)	-	(235)	(51)	-	-
Current liabilities	(105)	(20)	(1,169)	(93)	(12)	(1,415)
Gross balance sheet exposure	**18**	**(19)**	**(21)**	**26**	**(10)**	**(19)**
Estimated forecast sales	65	-	-	110	-	-
Estimated forecast purchases	(1,175)	(276)	(888)	(937)	(171)	(734)
Gross exposure	**(1,092)**	**(295)**	**(909)**	**(801)**	**(181)**	**(753)**
Forward exchange contracts	1,086	293	1,111	795	179	811
Net exposure	**(6)**	**(1)**	**202**	**(6)**	**(2)**	**58**

The increase of the BRL exposure during 2019 was mainly driven by the recapitalization of the Brazilian operations entities and the Company's new estimated forecast purchases increased compared to the year 2018.

The estimated forecast purchases relate to project expenditure and overhead expenses for up to three years. The main currency exposures of overhead expenses are hedged at 100% for the coming year, between 66% and 100% for the year after, and between 33% and 100% for the subsequent year depending on internal review of the foreign exchange market conditions.

Foreign exchange risk (exchange rates applied)

	2019	2018	2019	2018
	Average rate		Closing rate	
EUR 1	1.1195	1.1810	1.1234	1.1450
SGD 1	0.7330	0.7414	0.7434	0.7344
BRL 1	0.2540	0.2753	0.2488	0.2577

The sensitivity on equity and the income statement resulting from a change of ten percent of the US dollar's value against the following currencies at December 31 would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2018.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
	10 percent increase	10 percent decrease	10 percent increase	10 percent decrease
31 December 2019				
EUR	1	(1)	(125)	125
SGD	0	(0)	(21)	21
BRL	0	(0)	(27)	(27)
31 December 2018				
EUR	1	(1)	(95)	95
SGD	0	(0)	(13)	13
BRL	(0)	0	(20)	20

As set out above, by managing foreign currency risk the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long-term however, permanent changes in foreign currency rates would have an impact on consolidated earnings.

Interest rate risk

The Company's exposure to risk from changes in market interest rates relates primarily to the Company's long-term debt obligations with a floating interest rate. In respect of controlling interest rate risk, the floating interest rates of long-term loans are hedged by fixed rate swaps for the entire maturity period. The revolving credit facility is intended for the fluctuating needs of construction financing and bears interest at floating rates, which is also swapped for fixed rates when exposure is significant.

For interest rate risk, the principle terms of the interest rate swap (notional amortization, rate-set periods) and the financing (repayment schedule, rate-set periods) are identical. The Company has established a hedge ratio of 1:1, as the hedging layer component matches the nominal amount of the interest rate swap for all its hedging relationships.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments (excluding transaction costs) was:

Interest rate risk (summary)

	2019	2018
Fixed rate instruments		
Financial assets	6,770	6,026
Financial liabilities	(448)	(544)
Total	**6,322**	**5,482**
Variable rate instruments		
Financial assets	55	234
Financial liabilities	(4,382)	(3,898)
Financial liabilities (future)	(1,879)	(313)
Total	**(6,206)**	**(3,977)**

Interest rate risk (exposure)

	2019	2018
Variable rate instruments	(6,206)	(3,977)
Less: Reimbursable items	565	-
Less: IRS contracts	5,481	4,063
Exposure	**(160)**	**86**

At December 31, 2019, it is estimated that a general increase of 100 basis points in interest rates would decrease the Company's profit before tax for the year by approximately US$1 million (2018: increase of US$1 million) mainly related to residual exposure on un-hedged financial liabilities.

The sensitivity on equity and the income statement resulting from a change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2018.

Interest rate risk (sensitivity)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2019				
Variable rate instruments	(1)	1	-	-
Interest rate swap	0	(0)	240	(240)
Sensitivity (net)	**(1)**	**1**	**240**	**(240)**
31 December 2018				
Variable rate instruments	1	(1)	-	-
Interest rate swap	0	(0)	159	(171)
Sensitivity (net)	**1**	**(1)**	**159**	**(171)**

As set out above, the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long-term however, permanent changes in interest rates could have an impact on consolidated earnings.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's other financial assets, trade and other receivables (including committed transactions), derivative financial instruments and cash and cash equivalents.

Credit risk

	2019		2018	
Rating	Assets	Liabilities	Assets	Liabilities
AA	-	(4)	1	(1)
AA-	21	(89)	15	(34)
A+	20	(147)	29	(79)
A	-	(1)	2	(1)
BBB	1	-	-	-
Non-investment grade	1	-	-	-
Derivative financial instruments	**43**	**(241)**	**46**	**(116)**
AAA	120	-	246	-
AA	27	-	106	-
AA-	183	-	202	-
A+	131	-	104	-
A	11	-	11	-
A-	0	-	2	-
Non-investment grade	34	-	47	-
Cash and cash equivalents and bank overdrafts	**506**	**-**	**718**	**-**

The Company maintains and reviews its policy on cash investments and limits per individual counterparty are set to:

- BBB- to BBB+ rating: US$25 million or 10% of cash available.
- A- to A+ rating: US$75 million or 20% of cash available.
- AA- to AA+ rating: US$100 million or 20% of cash available.
- Above AA+ rating: no limit.

As per December 31, 2019, cash investments above AA+ rating do not exceed US$100 million per individual counterparty.

Cash held in banks rated below A- is mainly related to the Company's activities in Angola (US$24 million).

For trade debtors the credit quality of each customer is assessed, taking into account its financial position, past experience and other factors. Bank or parent company guarantees are negotiated with customers. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management Board. At the date of the financial statements, there are no customers that have an outstanding balance with a percentage over 10% of the total of trade and other receivables. Reference is made to note 4.3.19 Trade and Other Receivables for information on the distribution of the receivables by country and an analysis of the ageing of the receivables. Furthermore, limited recourse project financing removes a significant portion of the risk on long-term leases.

For other financial assets, the credit quality of each counterpart is assessed taking into account its credit agency rating.

Regarding loans to joint ventures and associates, the maximum exposure to credit risk is the carrying amount of these instruments. As the counterparties of these instruments are joint ventures, the Company has visibility over the expected cash flows and can monitor and manage credit risk that mainly arises from the joint venture's final client.

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.

Liquidity is monitored using rolling forecasts of the Company's liquidity reserves on the basis of expected cash flows. Flexibility is secured by maintaining availability under committed credit lines.

The table below analyses the Company's non-derivative financial liabilities, derivative financial liabilities and derivative financial assets into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for borrowings and derivative financial instruments are based on the LIBOR rates as at the reporting date.

Liquidity risk 2019

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2019					
Borrowings		766	3,043	1,944	5,753
Derivative financial liabilities		89	105	29	223
Derivative financial assets		(25)	(3)	-	(29)
Trade and other payables	4.3.27	911	-	-	911
Total		**1,740**	**3,144**	**1,973**	**6,858**

Liquidity risk 2018

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2018					
Borrowings		687	2,638	2,072	5,397
Derivative financial liabilities		88	34	7	128
Derivative financial assets		(38)	0	(0)	(38)
Trade and other payables	4.3.27	847	(0)	-	847
Total		**1,583**	**2,672**	**2,079**	**6,334**

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain a capital structure which optimizes the Company's cost of capital while at the same time, ensures diversification of sources of external funds.

SBM Offshore generally uses its corporate revolving credit facility (RCF, US$1 billion) to bridge financing requirements on projects under construction prior to putting a dedicated project finance facility in place. When a project finance facility is arranged and draw-downs have started, the RCF is repaid and a corporate guarantee from the Company is put in place for the construction period. When the project facility is drawn in full and the associated FPSO is producing, the corporate guarantee is relinquished and the project finance becomes non-recourse debt.

As per December 31, 2019, all the debt associated with operating FPSOs is non-recourse, with the exception of the FPSO *Liza Destiny*, where the Company is currently going through the process of releasing the corporate guarantee (the FPSO *Liza Destiny* is producing since late December 2019).

The Company has limited appetite to decrease the existing debt in its structure, as this would involve breakage cost, through winding down the hedges and it would decrease the Company's return on equity. From time to time, it may decide to increase leverage on existing facilities in case of sufficient tenor, charter income and relatively low remaining debt balances.

Given the non-recourse nature of its debt, SBM Offshore monitors its capital risk based on the Lease Backlog Cover Ratio, which is also used by the bank consortium supporting the Company's RCF. Generally, this ratio is calculated as the present value of the projected future net charter income, after deducting the project finance debt and interest payments, of a selected group of FPSO owning entities divided by the Company's corporate debt level (see note 4.3.24 Borrowings and Lease Liabilities).

The gearing ratios at December 31, 2019 and 2018 were as follows:

Capital risk management

	2019	2018
Total borrowings and lease liabilities	4,922	4,536
Less: net cash and cash equivalents	506	718
Net debt	**4,416**	**3,818**
Total equity	3,613	3,612
Total capital	**8,029**	**7,430**
Gearing ratio	55.0%	51.4%

Other risks

In respect of controlling political risk, the Company has a policy of thoroughly reviewing risks associated with contracts, whether Turnkey or long-term leases. Where political risk cover is deemed necessary and available in the market, insurance is obtained.

4.3.30 LIST OF GROUP COMPANIES

In accordance with legal requirements a list of the Company's entities that are included in the consolidated financial statements of SBM Offshore N.V. has been deposited at the Chamber of Commerce in Amsterdam.

4.3.31 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Company has several joint ventures and associates:

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2019 main reporting segment	Project name
Sonasing Xikomba Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & Operate	FPSO N'Goma
OPS-Serviços de Produção de Petróleos Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & Operate	Angola operations
OPS-Serviços de Produção de Petróleos Ltd. Branch	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Angola	Lease & Operate	Angola operations
Sonasing Sanha Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & Operate	FPSO Sanha
Sonasing Kuito Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & Operate	FPSO Kuito
Sonasing Mondo Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Vernon Angolan Services Limitada	Joint venture	50.00	Bermuda	Lease & Operate	FPSO Mondo
Sonasing Saxi Batuque Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Vernon Angolan Services Limitada	Joint venture	50.00	Bermuda	Lease & Operate	FPSO Saxi-Batuque
OPS Production Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & Operate	Angola operations
Anchor Storage Ltd.	Maersk group	Joint venture	49.00	Bermuda	Lease & Operate	Nkossa II FSO
Gas Management (Congo) Ltd.	Maersk group	Joint venture	49.00	Bahamas	Lease & Operate	Nkossa II FSO
Solgaz S.A.	Deepwater Enterprises A/S (an entity of Maersk group)	Joint venture	49.00	France	Lease & Operate	Nkossa II FSO
Malaysia Deepwater Floating Terminal (Kikeh) Ltd.	Malaysia International Shipping Corporation Behard	Joint venture	49.00	Malaysia	Lease & Operate	FPSO Kikeh
Malaysia Deepwater Production Contractors Sdn Bhd	Malaysia International Shipping Corporation Behard	Joint venture	49.00	Malaysia	Lease & Operate	FPSO Kikeh
SNV Offshore Ltd.	Naval Ventures Corp (an entity of Synergy group)	Joint venture	50.00	Bermuda	Turnkey	Brazilian yard
Estaleiro Brasa Ltda.	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard
Brasil Superlift Serviços de Içamento Ltda.	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard
Pelican Assets S.à.r.l.	SNV Offshore Limited (see information above)	Joint venture	50.00	Luxembourg	Turnkey	Brazilian yard

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2019 main reporting segment	Project name
Normand Installer S.A.	The Solstad group	Joint venture	49.90	Switzerland	Turnkey	Normand Installer
SBM Ship Yard Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Daewoo Shipbuilding & Marine Engineering Co. Ltd.	Associate	33.33	Bermuda	Turnkey	Angolan yard
PAENAL - Porto Amboim Estaleiros Navais Ltda.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; SBM Shipyard	Associate	30.00	Angola	Turnkey	Angolan yard
OS Installer Limited	Ocean Yield Malta Ltd	Associate	25.00	Malta	Turnkey	SBM Installer

The Company has no joint operation as per definition provided by IFRS 11 'Joint arrangements'.

The movements in investments in associates and joint ventures are as follows:

	2019	2018
Investments in associates and joint ventures at 1 January	**421**	**457**
Share of profit of equity-accounted investees	44	13
Dividends	(137)	(59)
Cash flow hedges	(1)	2
Capital increase/(decrease)	2	3
Foreign currency variations	(3)	1
Share in negative net equity reclassification to loans to joint ventures and associates	(1)	2
Other	-	3
Investments in associates and joint ventures at 31 December	**325**	**421**

Purchase and termination options in finance lease contracts - Joint ventures and associates

The finance lease contracts of FPSO *N'Goma*, FPSO *Saxi* and FPSO *Mondo*, where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. The finance lease contract of FPSO *Kikeh* also includes options for the client to purchase the underlying asset or to terminate the contract early, but it should be noted that the first option for the client to exercise the purchase option on FPSO *Kikeh* is early 2022.

The exercise of the purchase option on FPSOs *N'Goma*, *Saxi* and *Mondo* as per December 31, 2019 would have resulted in a gain for the Company or a near break-even result. The exercise of the option to terminate the contract early, in which case the Company retains ownership of the vessel, would result in a gain for FPSO *Kikeh*, break-even result for FPSOs *Saxi and Mondo*, while this would result in a loss for the Company on FPSO *N'Goma*. The Company considers the likelihood of the client exercising the option to terminate the contract on this specific contract as remote.

Hyperinflation Angola

Angola is no longer a hyperinflation country in 2019. In 2018 the Company applied hyperinflation accounting in line with the requirements of IAS 29 for its local branch in Angola (OPS-Serviçōs de Produção de Petróleos Ltd.).

The following tables present the figures at 100%.

Information on significant joint arrangements and associates - 2019

Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilites	Dividends paid	Revenue
FPSO N'Goma	Angola	987	795	55	445	445	128	170	81
Angola operations	Angola	120	2	9	25	-	105	-	132
FPSO Kikeh	Malaysia	204	103	5	-	5	17	91	82
Brazilian yard	Brazil	2	2	(0)	0	-	2	-	0
Angolan yard	Angola	80	(0)	45	485	485	32	-	3
Non material joint ventures/associates		216	198	11	242	166	82	15	5
Total at 100%		**1,610**	**1,099**	**126**	**1,197**	**1,101**	**367**	**275**	**304**

Information on significant joint arrangements and associates - 2018

Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilites	Dividends paid	Revenue
FPSO N'Goma	Angola	1,055	892	35	414	339	190	-	89
Angola operations	Angola	210	3	9	40	0	194	-	175
FPSO Kikeh	Malaysia	280	181	11	-	5	21	104	87
Brazilian yard	Brazil	13	7	1	(0)	-	9	-	12
Angolan yard	Angola	94	(0)	49	460	460	36	-	8
Non material joint ventures/associates		231	200	15	245	193	64	20	38
Total at 100%		**1,883**	**1,282**	**119**	**1,159**	**997**	**514**	**124**	**408**

The bank interest-bearing loans and other borrowings held by joint ventures and associates are as follows:

Information on loans and borrowings of joint ventures and associates

				Net book value at 31 December 2019			Net book value at 31 December 2018		
Entity name	% Ownership	% Interest	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:									
Sonasing Xikomba Ltd	50.00	5.10%	15-05-2026	386	59	445	166	90	256
Normand Installer SA	49.90	4.30%	23-02-2023	32	3	35	-	35	35
OS Installer Limited	25.00	Libor + 2.35%	17-09-2026	66	7	73	73	7	80
Loans from subsidiaries of SBM Offshore N.V.[1]				314	25	339	408	93	501
Loans from other shareholders of the joint ventures and associates				297	-	297	275	5	280
Loans from other joint ventures[2]				248	6	254	258	3	261
Net book value of loans and borrowings				**1,343**	**100**	**1,443**	**1,181**	**234**	**1,415**

1 Please refer to note 4.3.16 'Loans to joint-ventures and associates' for presentation of the carrying amount of these loans in the Company's Consolidated Statement of financial position.

2 Mainly loans from the joint ventures SBM Shipyard Ltd to the JV PAENAL - Porto Amboim Estaleiros Navais Ltda.

On December 9, 2019, the Company 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 15 May 2026.

Aggregated information on joint ventures and associates

	2019	2018
Net result at 100%	68	29

Reconciliation equity at 100 % with investment in associates and joint ventures

	2019	2018
Equity at 100%	142	372
Partner ownership	15	(120)
Share in negative net equity reclassification to loans to joint ventures and associates	168	168
Investments in associates and joint ventures	**325**	**421**

4.3.32 INFORMATION ON NON-CONTROLLING INTERESTS

The Company has several jointly owned subsidiaries:

Entity name	Partners	% of ownership	Country registration	2019 main reporting segment	Project name
Aseng Production Company Ltd.	GE Petrol	60.00	Cayman island	Lease & Operate	FPSO Aseng
Gepsing Ltd.	GE Petrol	60.00	Cayman island	Lease & Operate	FPSO Aseng / FPSO Serpentina
Gepsing Ltd - Equatorial Guinea Branch	GE Petrol	60.00	Equatorial Guinea	Lease & Operate	FPSO Aseng / FPSO Serpentina
Brazilian Deepwater Floating Terminals Ltd.	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & Operate	FPSO Espirito Santo
Brazilian Deepwater Production Ltd.	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & Operate	FPSO Espirito Santo
Brazilian Deepwater Production Contractors Ltd.	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & Operate	FPSO Espirito Santo
Operações Marítimas em Mar Profundo Brasileiro Ltda	owned by Brazilian Deepwater Production Contractors (see information above)	51.00	Brazil	Lease & Operate	FPSO Espirito Santo
Alfa Lula Alto S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	61.00	Luxembourg	Turnkey	FPSO Cidade de Marica
Alfa Lula Alto Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	61.00	Bermuda	Lease & Operate	FPSO Cidade de Marica
Alfa Lula Alto Operações Marítimas Ltda.	owned by Alfa Lula Alto Holding Ltd. (see information above)	61.00	Brazil	Lease & Operate	FPSO Cidade de Marica
Beta Lula Central S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	61.00	Luxembourg	Turnkey	FPSO Cidade de Saquarema
Beta Lula Central Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	61.00	Bermuda	Lease & Operate	FPSO Cidade de Saquarema
Beta Lula Central Operações Marítimas Ltda.	Owned by Betal Lula Central Holding Ltd. (see information above)	61.00	Brazil	Lease & Operate	FPSO Cidade de Saquarema
Tupi Nordeste S.à.r.l.	Nippon Yusen Kabushiki Kaisha; Itochu Corporation; Queiroz Galvao Oleo e Gas, S.A.	70.50	Luxembourg	Lease & Operate	FPSO Cidade de Paraty
Tupi Nordeste Operações Marítimas Ltda.	Owned by Tupi Nordeste Holding (see information below)	70.50	Brazil	Lease & Operate	FPSO Cidade de Paraty

Entity name	Partners	% of ownership	Country registration	2019 main reporting segment	Project name
Tupi Nordeste Holding Ltd.	Nippon Yusen Kabushiki Kaisha; Itochu Corporation; Queiroz Galvao Oleo e Gas, S.A.	70.50	Bermuda	Lease & Operate	FPSO Cidade de Paraty
Guara Norte S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	75.00	Luxembourg	Lease & Operate	FPSO Cidade de Ilhabela
Guara Norte Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	75.00	Bermuda	Lease & Operate	FPSO Cidade de Ilhabela
Guara Norte Operações Marítimas Ltda.	Owned by Guara Norte Holding Ltd. (see information above)	75.00	Brazil	Lease & Operate	FPSO Cidade de Ilhabela
FPSO Brasil Venture S.A.	MISC Berhad	51.00	Switzerland	Lease & Operate	FPSO Brazil
SBM Operações Ltda.	MISC Berhad	51.00	Brazil	Lease & Operate	FPSO Brazil
SBM Systems Inc.	MISC Berhad	51.00	Switzerland	Lease & Operate	FPSO Brazil
SBM Nauvata Private Limited	Nauvata Engineering Private Limited	51.00	India	Turnkey	Engineering services
South East Shipping Co. Ltd.	Mitsubishi Corporation	75.00	Bermuda	Lease & Operate	Yetagun
Mero 2 Operacoes Maritima Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	64.50	Brazil	Lease & Operate	FPSO Sepetiba
Mero 2 Operacoes Holding S.A.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	64.50	Switzerland	Lease & Operate	FPSO Sepetiba
Mero 2 Owning B.V.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	64.50	The Netherlands	Lease & Operate	FPSO Sepetiba
Mero 2 B.V.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	64.50	The Netherlands	Lease & Operate	FPSO Sepetiba

Note that the percentage of ownership of entities related to FPSO *Cidade de Marica*, FPSO *Cidade de Saquarema*, FPSO *Cidade de Paraty*, FPSO *Cidade de Ilhabela* presented above reflect the ownership of the Company at year-end 2019 after the purchase of shares from Constellation. FPSO *Capixaba* is excluded from the table above as it is now 100% owned by the Company as a result of the Constellation transaction. For more information refer to note 4.3.1 Financial Highlights.

Included in the consolidated financial statements are the following items that represent the Company's interest in the revenues, assets and loans of the partially owned subsidiaries.

Figures are presented at 100% before elimination of intercompany transactions.

Information on non-controlling interests (NCI) – 2019

Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities	Dividends to NCI	Revenue
FPSO Aseng / FPSO Serpentina	Equatorial Guinea	152	106	6	0	0	20	0	74
FPSO Espirito Santo	Brazil	231	181	19	-	150	94	12	107
FPSO Cidade de Marica	Brazil	1,684	1,540	61	1,119	1,069	158	2	200
FPSO Cidade de Saquarema	Brazil	1,651	1,532	37	1,195	1,155	123	8	202
FPSO Cidade de Paraty	Brazil	1,126	1,025	26	421	318	151	-	161
FPSO Cidade de Ilhabela	Brazil	1,503	1,336	87	677	562	168	-	197
FPSO Sepetiba	Brazil	415	-	3	-	13	136	-	121
Non material NCI		27	0	4	-	-	3	4	3
Total 100%		**6,790**	**5,721**	**243**	**3,411**	**3,267**	**854**	**25**	**1,065**

Information on non-controlling interests (NCI) – 2018

Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities	Dividends to NCI	Revenue
FPSO Aseng / FPSO Serpentina	Equatorial Guinea	163	121	5	0	0	22	23	77
FPSO Espirito Santo	Brazil	281	223	9	-	200	86	20	107
FPSO Cidade de Marica	Brazil	1,725	1,591	61	1,216	1,144	145	-	198
FPSO Cidade de Saquarema	Brazil	1,677	1,581	23	1,276	1,200	95	-	202
FPSO Cidade de Paraty	Brazil	1,167	1,077	31	524	427	150	-	151
FPSO Cidade de Ilhabela	Brazil	1,546	1,388	87	792	677	161	-	190
FPSO Capixaba	Brazil	191	176	8	83	113	79	-	51
Non material NCI[1]		39	0	9	-	-	7	23	31
Total 100%		**6,789**	**6,158**	**234**	**3,891**	**3,761**	**745**	**66**	**1,006**

1 Turritella (FPSO) was sold in January 2018. Turritella's numbers have been condensed into non-material NCI.

Reference is made to note 4.3.24 Borrowings and Lease Liabilities for a description of the bank interest-bearing loans and other borrowings per entity.

Included in the consolidated financial statements are the following items that represent the aggregate contribution of the partially owned subsidiaries to the Company consolidated financial statements:

Interest in non-controlling interest (summary)

	2019	2018
Net result	145	132
Accumulated amount of NCI	865	978

Reconciliation equity at 100 % with Non-controlling interests on partially owned subsidiaries

	2019	2018
Equity at 100%	2,670	2,284
Company ownership	(1,805)	(1,305)
Accumulated amount of NCI	**865**	**978**

4.3.33 RELATED PARTY TRANSACTIONS

During 2019, no major related party transactions requiring additional disclosure in the financial statements took place.

For relations with Supervisory Board members, Management Board members and other key personnel reference is made to note 4.3.6 Employee Benefit Expenses.

The Company has transactions with joint ventures and associates which are recognized as follows in the Company's consolidated financial statements:

Related party transactions

	Note	2019	2018
Revenue		19	27
Cost of sales		(13)	(18)
Loans to joint ventures and associates	4.3.16	55	234
Trade receivables		52	99
Trade payables		17	56
Lease liabilities[1]		97	109

1 DSCV SBM Installer charter lease contract.

The Company has provided loans to joint ventures and associates such as shareholder loans and funding loans at rates comparable to the commercial rates of interest.

During the period, the Company entered into trading transactions with joint ventures and associates on terms equivalent to those that prevail in arm's-length transactions.

Additional information regarding the joint ventures and associates is available in note 4.3.31 Investment in Associates and Joint Ventures.

4.3.34 INDEPENDENT AUDITOR'S FEES AND SERVICES

Fees included in other operating costs related to PwC, the 2019 and 2018 Company's external independent auditor, are summarized as follows:

in thousands of US$	2019	2018
Audit of financial statements	2,204	2,209
Out of which:		
- invoiced by PwC Accountants N.V.	1,488	1,133
- invoiced by PwC network firms	716	1,076
Tax advisory services by PwC network firms	59	79
Other assurance services	131	111
Total	**2,394**	**2,399**

In both 2019 and 2018, the other assurance services were mainly related to the review of the Company sustainability report.

4.3.35 EVENTS AFTER END OF REPORTING PERIOD

DIVIDEND AND SHARE REPURCHASE PROGRAM

The Company's dividend policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position. As part of the Company's regular planning process, following review of its cash flow position and forecast, the Company has concluded that the outlook for cash flow generation has improved given the increase in the quantum of the Lease and Operate backlog and its duration. Based on this, a dividend of US$150 million (which equals c. US$0.76 per share, based on the number of shares outstanding at December 31, 2019), to be paid out of retained earnings, will be proposed at the Annual General Meeting on April 8, 2020. This represents an increase of c. 100% compared to the dividend paid in 2019.

The Company has invested equity in projects, which are under construction or recently completed. Most of this equity investment will be returned to the Company following drawdown of non-recourse project finance facilities in the near future. After having reviewed the current liquidity position including the return of this investment, taking account of future growth requirements and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 13, 2020 the Company will commence a EUR150 million share repurchase program.

RCF EXTENSION OPTION EXERCISED BY THE COMPANY

On February 5, 2020, the lenders to the Company's US$1 billion Revolving Credit Facility (RCF) agreed to the Company's request to exercise the first one-year extension option. The final maturity date of the RCF is thereby extended from February 12, 2024 to February 12, 2025. The Company has one additional one-year extension option remaining which can be requested 60 days prior to the second anniversary of the RCF.

4.4 COMPANY FINANCIAL STATEMENTS

4.4.1 COMPANY BALANCE SHEET

Company balance sheet

Before appropriation of profit	Notes	31 December 2019	31 December 2018
ASSETS			
Investment in Group companies	4.5.1	2,745	2,657
Total financial fixed assets		**2,745**	**2,657**
Deferred tax asset	4.5.2	3	3
Total non-current assets		**2,748**	**2,660**
Other receivables	4.5.3	9	11
Cash and cash equivalents	4.5.4	1	0
Total current assets		**9**	**12**
TOTAL ASSETS		**2,758**	**2,672**
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Issued share capital		56	59
Share premium reserve		1,034	1,163
Treasury shares		(46)	(14)
Legal reserves	4.5.5	1,206	1,116
Retained earnings		132	99
Profit of the year		366	212
Shareholders' equity	4.5.5	**2,748**	**2,634**
Other current liabilities	4.5.6	10	38
Total current liabilities		**10**	**38**
TOTAL EQUITY AND LIABILITIES		**2,758**	**2,672**

4.4.2 COMPANY INCOME STATEMENT

Company income statement

For the years ended 31 December	Note	2019	2018
Revenue	4.5.7	6	7
General and administrative expenses	4.5.8	(28)	(34)
Operating profit/(loss) (EBIT)		**(22)**	**(27)**
Financial expenses	4.5.9	(1)	(0)
Net financing costs		**(1)**	**(0)**
Result of Group companies	4.5.1	389	239
Profit/(Loss) before income tax		**366**	**212**
Income tax (expense)/income		-	-
Profit/(Loss)		**366**	**212**

4.4.3 GENERAL

The Company financial statements are part of the 2019 financial statements of SBM Offshore N.V.

SBM Offshore N.V. costs mainly comprise of management activities and cost of the headquarters office at Schiphol of which part is recharged to Group companies.

PRINCIPLES FOR THE MEASUREMENT OF ASSETS AND LIABILITIES AND THE DETERMINATION OF THE RESULT

The stand-alone financial statements were prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements of the 'Raad voor de Jaarverslaggeving'. SBM Offshore N.V. uses the option provided in section 2:362 (8) of the Dutch Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of SBM Offshore N.V. are the same as those applied for the consolidated financial statements. The consolidated financial statements are prepared according to the standards set by the International Accounting Standards Board and adopted by the European Union (referred to as EU-IFRS). Reference is made to the notes to the consolidated financial statements (' 4.2.7 Accounting Principles ') for a description of these principles.

Investments in group companies, over which control is exercised, are stated on the basis of the net asset value.

Results on transactions, involving the transfer of assets and liabilities between SBM Offshore N.V. and its participating interests or between participating interests themselves, are not incorporated insofar as they are deemed to be unrealized.

4.5 NOTES TO THE COMPANY FINANCIAL STATEMENTS

4.5.1 INVESTMENT IN GROUP COMPANIES

The movements in the item Investment in Group companies are as follows:

Investment in Group companies

	2019	2018
Balance at 1 January	2,613	2,473
Reclassification to other receivables	44	46
Investments net value	**2,657**	**2,518**
Result of Group companies	389	239
Investments	-	1
Divestments and capital repayments	(11)	-
Dividends received	(247)	(61)
Other changes[1]	17	(25)
Foreign currency variations	(23)	(14)
Movements	**125**	**141**
Balance at 31 December	2,739	2,613
Reclassification to other receivables[2]	6	44
Investments net value at 31 December	**2,745**	**2,657**

1 Mainly relates to Cash flow hedges and transaction with non-controlling interests (please refer to note 4.2.4 'Company's Consolidated Statement of changes in equity).

2 This relates to negative equity booked against the companies stand-alone receivables on those investments.

An overview of the information on principal subsidiary undertakings required under articles 2: 379 of the Dutch Civil Code is given below. The subsidiaries of SBM Offshore N.V. are the following (all of which are 100% owned):

- SBM Offshore Holding B.V., Amsterdam, the Netherlands
- SBM Holding Inc. S.A., Marly, Switzerland
- SBM Holding Luxembourg S.à.r.l, Luxembourg, Luxembourg
- SBM Schiedam B.V., Rotterdam, the Netherlands
- Van der Giessen-de Noord N.V., Krimpen a/d IJssel, the Netherlands
- SBM Holland B.V., Rotterdam, the Netherlands
- FPSO Capixaba Holding B.V., 's-Gravenhage, the Netherlands
- XNK Industries B.V., Dongen, the Netherlands

4.5.2 DEFERRED TAX ASSET

SBM Offshore N.V. is head of a fiscal unity in which all Dutch entities are included, except for the entities that are held by SBM Holding Inc. S.A. and the joint venture entities. For more details refer to note 4.4.3 General.

A deferred tax asset is recognized for tax losses of the fiscal unity which can be carried forward and are expected to be recovered based on anticipated future taxable profits within the Dutch fiscal unity. The tax losses recognized for the years until 2018 can be carried forward for a period of nine years, while any tax losses recognized from 2019 onwards can be carried forward for a period of six years.

The deferred tax asset for tax losses brought forward from prior years amounts to US$3 million.

4.5.3 OTHER RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables	5	-
Amounts owed by Group companies	3	10
Other debtors	1	1
Total	**9**	**11**

Other receivables fall due in less than one year. The fair value of the receivables reasonably approximates the book value, due to their short-term character.

4.5.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are at SBM Offshore N.V.'s free disposal.

4.5.5 SHAREHOLDERS' EQUITY

For an explanation of the shareholders equity, reference is made to the Consolidated Statement of Changes in Equity and note 4.3.23 Equity Attributable to Shareholders.

Legal reserve

	31 December 2019	31 December 2018
Investees equity non-distributable	1,446	1,232
Capitalized development expenditure[1]	18	15
Translation reserve	(101)	(79)
Cash flow hedges	(157)	(52)
Total	**1,206**	**1,116**

1 Relates to the development expenditures of the Company's subsidiaries.

The 'Investees equity non-distributable' legal reserve relates mainly to non-distributable profits generated by the co-owned entities (refer to note 4.3.31 Investment in Associates and Joint Ventures and 4.3.32 Information on Non-controlling Interests). The agreed principle in the applicable shareholders' agreements is that the shareholders shall procure that any available reserves are distributable after paying any expenses due and taking into account co-owned entity and applicable legal requirements. However, as unanimous decision of shareholders agreements in most of the co-owned entities is required to distribute the profits generated, the equity of these entities is classified as a non-distributable reserve under Dutch guidelines for financial reporting. On a regular basis the Company ensures that dividends are approved by the partners and distributed accordingly to the shareholders.

PROPOSED APPROPRIATION OF RESULT

With the approval of the Supervisory Board, it is proposed that the result shown in SBM Offshore N.V. income statement be appropriated as follows (in US$):

Appropriation of result

	2019
Profit/(Loss) attributable to shareholders	366
In accordance with note 4.6.1 to be transferred to the 'Retained earnings'	366
At the disposal of the General Meeting of Shareholders	**-**

It is proposed that US$150 million of retained earnings is distributed among the shareholders.

4.5.6 OTHER CURRENT AND NON-CURRENT LIABILITIES

Current and non current liabilities

	31 December 2019	31 December 2018
Trade payables	4	1
Amounts owed to Group companies	1	31
Taxation and social security costs	0	0
Other creditors	5	6
Total current liabilities	**10**	**38**

The other current liabilities fall due in less than one year. The fair value of other current liabilities approximates the book value, due to their short-term character.

4.5.7 REVENUE

The revenue comprises management fees charged to 100% owned Group companies.

4.5.8 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Employee Benefits	(26)	(27)
Other costs	(2)	(7)
Total	**(28)**	**(34)**

The employee benefits include the Management Board remuneration, and recharge of other personnel costs at the headquarters, as well as share-based payments (IFRS 2 costs) for the entire Group. For further details on the Management Board remuneration, reference is made to note 4.3.6 Employee Benefit Expenses.

The other costs include audit fees, legal, compliance, corporate governance and investor relation costs. For the audit fees reference is made to note 4.3.34 Independent Auditor's Fees and Services.

4.5.9 FINANCIAL EXPENSES

The financial expenses relate mainly to foreign currency results and interest expenses charged by Group companies to SBM Offshore N.V.

4.5.10 COMMITMENTS AND CONTINGENCIES

COMPANY GUARANTEES

SBM Offshore N.V. has issued performance guarantees for contractual obligations to complete and deliver projects in respect of several Group companies, and fulfillment of obligations with respect to long-term lease/operate contracts. Furthermore, the Company has issued parent company guarantees in respect of several Group companies' financing arrangements.

FISCAL UNITY

SBM Offshore N.V. is head of a fiscal unity in which all Dutch entities are included, except for the entities that are held by SBM Holding Inc. S.A. and the joint venture entities. All tax liabilities and tax assets are transferred to the fiscal unity parent, however all members of the fiscal unity can be held liable for all tax liabilities concerning the fiscal unity.

Corporate income tax is levied at the head of the fiscal unity on the basis of the fiscal results allocated by the members to SBM Offshore N.V., taking into account an allocation of the benefits of the fiscal unity to the different members. The settlement amount, if any, is equal to the corporate income tax charge included in the Company income statement.

SBM Offshore Amsterdam B.V. is an exception to this rule, as the entity is not entitled to the allocation of the benefits of thefiscal unity, whereby the tax charge is included in its statutory income statement.

4.5.11 DIRECTORS REMUNERATION

For further details on the Directors remuneration, reference is made to note 4.3.6 Employee Benefit Expenses of the consolidated financial statements.

4.5.12 NUMBER OF EMPLOYEES

The members of the Management Board are the only employees of SBM Offshore N.V.

4.5.13 INDEPENDENT AUDIT FEES

For the audit fees relating to the procedures applied to SBM Offshore N.V. and its consolidated group entities by accounting firms and external independent auditors, reference is made to note 4.3.34 Independent Auditor's Fees and Services of the consolidated financial statements.

4.5.14 EVENTS AFTER END OF REPORTING PERIOD

DIVIDEND AND SHARE REPURCHASE PROGRAM

The Company's dividend policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position. As part of the Company's regular planning process, following review of its cash flow position and forecast, the Company has concluded that the outlook for cash flow generation has improved given the increase in the quantum of the backlog and its duration. Based on this, a dividend of US$150 million (which equals to US$0.76 per share, based on the number of shares outstanding at December 31, 2019), to be paid out of retained earnings, will be proposed at the Annual General Meeting on April 8, 2020. This represents an increase of 100% compared to the dividend paid in 2019.

The Company has invested equity cash flow in projects which are under construction or recently completed. Most of this equity investment will be returned to the Company following draw-down of project finance facilities in the near future. After having reviewed the current liquidity position including the return of this investment, taking account of future growth requirements and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 13, 2020 the Company will commence a EUR150 million share repurchase program.

RCF EXTENSION OPTION EXERCISED BY THE COMPANY

On February 5, 2020, the lenders to the Company's US$1 billion Revolving Credit Facility (RCF) agreed to the Company's request to exercise the first one-year extension option. The final maturity date of the RCF is thereby extended from February 12, 2024 to February 12, 2025. The Company has one additional one-year extension option remaining which can be requested 60 days prior to the second anniversary of the RCF.

Schiphol, the Netherlands
February 12, 2020

Management Board
Bruno Chabas, Chief Executive Officer
Phillippe Barril, Chief Operating Officer
Erik Lagendijk, Chief Governance and Compliance Officer
Douglas Wood, Chief Financial Officer

Supervisory Board
Floris Deckers, Chairman
Thomas Ehret, Vice-Chairman
Roeland Baan
Bernard Bajolet
Francis Gugen
Sietze Hepkema
Laurence Mulliez
Cheryl Richard

4.6 OTHER INFORMATION

4.6.1 APPROPRIATION OF RESULT

ARTICLES OF ASSOCIATION GOVERNING PROFIT APPROPRIATION

With regard to the appropriation of result, article 29 of the Articles of Association states:

1. When drawing up the annual accounts, the Management Board shall charge such sums for the depreciation of SBM Offshore N.V.'s fixed assets and make such provisions for taxes and other purposes as shall be deemed advisable.
2. Any distribution of profits pursuant to the provisions of this article shall be made after the adoption of the annual accounts from which it appears that the same is permitted. SBM Offshore N.V. may make distributions to the shareholders and to other persons entitled to distributable profits only to the extent that its shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law. A deficit may be offset against the statutory reserves only to the extent permitted by law.
3. a. The profit shall, if sufficient, be applied first in payment to the holders of protective preference shares of a percentage as specified in b. below of the compulsory amount due on these shares as at the commencement of the financial year for which the distribution is made.
   b. The percentage referred to above in subparagraph a. shall be equal to the average of the Euribor interest charged for loans with a term of twelve (12) months – weighted by the number of days for which this interest was applicable – during the financial year for which the distribution is made, increased by two hundred (200) basis points.
   c. If in the course of the financial year for which the distribution is made the compulsory amount to be paid on the protective preference shares has been decreased or, pursuant to a resolution for additional payments, increased, then the distribution shall be decreased or, if possible, increased by an amount equal to the aforementioned percentage of the amount of the decrease or increase as the case may be, calculated from the date of the decrease or from the day when the additional payment became compulsory, as the case may be.
   d. If in the course of any financial year protective preference shares have been issued, the dividend on protective preference shares for that financial year shall be decreased proportionately.
   e. If the profit for a financial year is being determined and if in that financial year one or more protective preference shares have been cancelled with repayment or full repayment has taken place on protective preference shares, the persons who according to the shareholders' register referred to in article 12 at the time of such cancellation or repayment were recorded as the holders of these protective preference shares, shall have an inalienable right to a distribution of profit as described hereinafter. The profit which, if sufficient, shall be distributed to such a person shall be equal to the amount of the distribution to which he would be entitled pursuant to the provisions of this paragraph if at the time of the determination of the profits he had still been the holder of the protective preference shares referred to above, calculated on a time-proportionate basis for the period during which he held protective preference shares in that financial year, with a part of a month to be regarded as a full month. In respect of an amendment of the provisions laid down in this paragraph, the reservation referred to in section 2: 122 of the Dutch Civil Code is hereby explicitly made.
   f. If in any one financial year the profit referred to above in subparagraph a. is not sufficient to make the distributions referred to in this article, then the provisions of this paragraph and those laid down hereinafter in this article shall in the subsequent financial years not apply until the deficit has been made good.
   g. Further payment out of the profits on the protective preference shares shall not take place.
4. The Management Board is authorized, subject to the approval of the Supervisory Board, to determine each year what part of the profits shall be transferred to the reserves, after the provisions of the preceding paragraph have been applied.
5. The residue of the profit shall be at the disposal of the General Meeting.
6. The General Meeting may only resolve to distribute any reserves upon the proposal of the Management Board, subject to the approval of the Supervisory Board.

4.6.2 INDEPENDENT AUDITOR'S REPORT

To: the general meeting and Supervisory Board of SBM Offshore N.V.

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of SBM Offshore N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2019 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of SBM Offshore N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of SBM Offshore N.V., Amsterdam, as included in sections 4.2 to 4.5. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flow; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2019;
- the company income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of SBM Offshore N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

SBM Offshore N.V. serves the offshore oil and gas industry by supplying engineered products, vessels and systems, as well as offshore oil and gas production services. This includes the construction and the leasing and operating of large and complex offshore floating production, storage and offloading vessels (FPSOs). The Group is comprised of several components and, therefore, we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

The Group has continued the construction of its large projects and has seen a further demand for its products and services during the year. As a result of this increase in demand, the Group was awarded two additional lease and operate contracts for FPSO in 2019, of which one already contributed to margin and both contributed to turnkey revenue in 2019. With the Group's growing turnkey activities significantly contributing to the Group's results of operations and increasing the Group's asset base, we continue to consider the estimates and judgements in construction contracts to be a key audit matter. The increase in results from the turnkey activities also led to a revision of the benchmark for materiality to profit before tax as described in the section 'Materiality'.

Due to the Group's large asset base, the valuation of the Group's assets remains an area of importance for the (consolidated) financial statements. Although the majority of the assets of the group are backed with long-term lease and operate contracts, conditions such as performance or a failure of equipment can affect the profitability and valuation of these assets. Given the significant estimation uncertainty and the related higher risks in revenue recognition and valuation of construction work-in-progress, as well as the valuation uncertainty in property, plant and equipment, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report.

Lastly, in 2019 the Group has received the notification that the Federal Court has formally closed the improbity lawsuit filed by the Brazilian Federal Prosecutors Office (MPF). This effectuated the leniency agreement between the Group and the MPF, and as a result a portion of the final settlement of BRL 200 million has been paid. As a result of the formal closure of the lawsuit in 2019, we no longer considered this matter to be a key audit matter.

Other transactions and accounting matters that were not considered as key audit matters have also characterized the current year for the Group. This year, the Group has increased its shareholdings in five FPSOs by purchasing the minority share from one of its partners through a public sale auction in Brazil. This transaction affected the Group's equity attributable to shareholders of the parent company under IFRS and the Group's results under its 'directional reporting', which is included in the segment reporting of the financial statements. Other accounting matters, that were not considered to be key audit matters, were the lease classification of awarded contracts, segment reporting disclosures, accounting for uncertain tax provisions and other provisions. There were also internal control matters identified relating to the IT environment that were not considered key audit matters.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made important judgements. For example, we considered significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In section 4.2.7 subsection 'Use of estimates and judgement' of the financial statements, the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences, that are needed for the audit of a company providing floating production solutions to the offshore energy industry over the full product life-cycle. We included members with relevant industry-expertise and specialists in the areas of IT and corporate income tax, as well as experts in the areas of valuation and employee benefits, in our audit team. We also discussed the settlement agreements reached in Brazil with forensics specialists.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: US$27 million.

Audit scope

- We conducted audit work in three locations on four components.
- Site visits were conducted to Monaco and China.
- Audit coverage: 100% of consolidated revenue, 99% of consolidated total assets and 98% of consolidated profit before tax.

Key audit matters

- Estimates and judgements in construction contracts
- Valuation of property, plant and equipment

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	US$27 million (2017: US$21.24 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of profit before income tax.
Rationale for benchmark applied	We used this benchmark and the rule of thumb (%), based on our analysis of the common information needs of users of the financial statements, including factors such as the headroom on covenants and the financial position of the Group. On this basis, we believe that profit before income tax is an important metric for the financial performance of the Group. The benchmark has changed from last year. In prior year we used net assets as a materiality benchmark. Profit before tax was not considered an appropriate benchmark due to the decreased turnkey activities of the Group. In the current year the Group has seen an increase in the profit contribution of the turnkey segment to the financial results and position of the Group. As a result, we consider the benchmark of profit before tax for the current year appropriate.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between US$11 million and US$20 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above US$10 million (2018: US$10 million) for balance sheet reclassifications and US$2 million for profit before tax impact (2018: US$2.1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons in general.

The scope of our group audit

SBM Offshore N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of SBM Offshore N.V.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the group engagement team and by each component auditor.

The group audit focused on two significant components in Monaco (Turnkey as well as Operations), the treasury shared service center in Marly, and one other component (Group Corporate Departments). The Turnkey as well as Operations components in Monaco were subject to audits of their complete financial information as those components are individually significant to the Group.

The processes and financial statement line-items managed by the treasury function shared service center in Marly, Switzerland, were subject to specified audit procedures. Additionally, Group Corporate Departments was selected for specified audit procedures to achieve appropriate coverage on financial statement line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	99%
Profit before tax	98%

For the remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the Group Corporate Departments component in Amsterdam, the group engagement team performed the audit work. For the components in Monaco and the treasury function shared service center in Marly, Switzerland, we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. These instructions included among others, our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year and upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, their reports, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

The group engagement team visits the component teams and local management on a rotational basis. In the current year, the group audit team visited the Turnkey as well as Operations components in Monaco given the importance of these components to the consolidated financial statements as a whole and the judgements involved in the estimates in construction contracts (refer to the respective key audit matter). In addition, the group audit team visited the SBM Offshore location in Shanghai, China, which is part of the Turnkey component. We have also visited a shipyard in Shanghai where multi-purpose hulls as used in the Company's 'Fast4ward' projects are being constructed. For the components in Monaco and the treasury function shared service center in Marly, Switzerland, we reviewed selected working papers of the respective component auditors.

In addition to the work on the Group Corporate Departments component, the group engagement team performed the audit work on the group consolidation, financial statement disclosures and a number of accounting matters at head office. These included impairment assessments, share-based payments, provisions for warranty obligations, taxes including deferred taxes and uncertain tax provisions and directional reporting as part of the segment reporting disclosures.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Company's financial information as a whole to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Management Board, with oversight by the Supervisory Board. We refer to chapter 3 of the Annual Report where the Management Board included its fraud risk assessment and where the Supervisory Board reflects on this assessment.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We, together with our forensics specialists, evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable for the Company. We identified provisions of those laws and regulations, generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as the financial reporting framework, tax and pension laws and regulations as well as environmental regulations.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matters 'Estimates and judgements in construction contracts' and 'Valuation of property, plant and equipment', that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

Our response to the risks identified

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing.
- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by SBM Offshore N.V., including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- Assessment of matters reported on the (Company's) whistleblowing and complaints procedures with the entity and results of management's investigation of such matters.

- With respect to the risk of fraud in revenue recognition we refer to the key audit matter 'Estimates and judgements in construction contracts'. Further, we have performed audit procedures over the various other revenue streams of the Company, such as the lease and operate revenues.
- With respect to the risk of bribery and corruption across various countries, we evaluated the Company's controls and procedures such as due diligence procedures on third parties. We considered the possibility of fraudulent or corrupt payments made through third parties including agents and conducted detailed testing on third-party vendors in high-risk jurisdictions.
- We incorporated elements of unpredictability in our audit.
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud. If so, we re-evaluated our assessment of fraud risk and its resulting impact on our audit procedures.
- We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.
- As to the other laws and regulations, we inquired of the Management Board and/or the Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

As a result of the magnitude of the current projects undertaken by the Group and inherent estimation uncertainty we continue to consider 'Estimates and judgements in construction contracts' a key audit matter. The key audit matter 'Valuation of property, plant and equipment' is similar in nature to the key audit matter 'Valuation of goodwill and non-current assets' we reported in 2018, the key audit matter changed since the identified risk is no longer related to goodwill and is instead focused on property, plant and equipment. The other key audit matter considered in the 2018 auditor's report ('Settlement agreements reached in Brazil'), in our opinion, does not longer warrant the classification of key audit matter in 2019, as the improbity lawsuit was formally closed during the year.

Key audit matter	*Our audit work and observations*
Estimates and judgements in construction contracts *Note 4.2.7, 4.3.3 and 4.3.20 to the consolidated financial statements*	
The accounting for contracts with customers under IFRS 15 'Revenue from contracts with customers' is complex and is dependent on the specific arrangements between the Group and its clients as agreed upon in the contracts. Given the unique nature of each separate project and contract, management performed a contract analysis on a case-by-case basis to determine the applicable accounting for revenues from construction contracts under IFRS 15. Significant management judgement is applied in identifying the performance obligations and determining whether they are distinct, the method of revenue recognition as either point in time or over time, contract modifications and variable consideration We determined, based on reading the contracts with the customers, that the most critical and judgemental inputs and estimates to determine satisfaction of the performance obligations over time is the estimate of the cost to complete and the measurement of progress towards complete satisfaction of the performance obligation, including the assessment of the remaining risks and contingencies that a project is or could be facing. Given the magnitude of the amounts involved (US$2,064 million of turnkey revenue and US$973 million of construction work-in-progress), the complex nature of the Group's construction contracts and the significant judgements and estimates, particularly these areas were subject to the risk of	We have read the relevant contracts. Based on our reading of the contracts, we considered whether the judgements made by management on the accounting treatment and the corresponding selection of the accounting treatment were appropriate. We concur with the estimates and judgements made by management and the corresponding accounting treatment in the consolidated financial statements. We performed look-back procedures in respect of our risk assessment procedures by comparing the estimates included in the current projects with past projects of similar nature as this provides insight in the ability of management to provide reliable estimates. We found no material deviations. We gained an understanding, evaluated and tested the controls the Group designed and implemented over its process to record costs and revenues relating to contracts. This includes project forecasting, measurement of the progress towards complete satisfaction of the performance obligation to determine the timing of revenue recognition and the Group's internal project reviews. We found the controls to be designed, implemented and operating effectively for the purpose of our audit. We examined project documentation and challenged the status, progress and forecasts of projects under construction and discussed those with management, Finance and technical staff of the Group. We evaluated and substantiated the outcome of these discussions by examining modifications

Key audit matter	*Our audit work and observations*
misstatement related to either error or fraud. We therefore considered this area to be a key audit matter.	of contracts such as claims and variation orders between the Group, subcontractors and clients and responses thereto, performing procedures such as a detailed evaluation of forecasts and ongoing assessment of management's judgement on issues, evaluation of budget variances and obtaining corroborating evidence, evaluation of project contingencies and milestones and recalculation of the progress towards complete satisfaction of the performance obligation. In addition, we evaluated management bias. Our audit procedures did not indicate material findings with respect to the estimates and judgements in construction contracts.
Valuation of property, plant and equipment *Notes* 4.2.7 *and* 4.3.13 *to the consolidated financial statements* Property, plant and equipment are subject to an impairment test when triggering events are identified. Impairments are recognized when the carrying value is higher than the recoverable amounts. The recoverable amounts of the cash-generating units ('CGUs') have been determined based on value-in-use calculations based on expected future cash flows from those CGUs. In particular, we focused our audit procedures on the identification of triggering events and instances where triggering events occurred. In those cases management prepared an updated value-in-use calculation, for instance related to the Thunder Hawk semi-submersible production unit, which led to an impairment charge of US$16 million in the current year following an update of the unit's production profile (Thunder Hawk is the only facility in the Group lease fleet portfolio for which revenues are linked to volumes produced). We also noted a triggering event for Deep Panuke, which resulted in an impairment of US$9 million. We determined the valuation of property, plant and equipment to be a key audit matter, due to the aggregate size of these assets and because in case of a triggering event, management's determination of the recoverable values includes a variety of significant assumptions, such as internal and external factors with respect to the future level and results of the business and the discount rates applied to the forecasted cash flows. Therefore, this area is particularly subject to the risk of misstatement either due to error or fraud.	We have discussed and reviewed the triggering event analysis of management. Based on this analysis, management did not identify any triggering events for impairment, other than the triggering event relating to the Thunder Hawk semi-submersible production unit and the Deep Panuke MOPU. We evaluated whether management's triggering event analysis identified all relevant CGU's and the completeness of factors included in the analysis. These included among others contractual arrangements, operational performance, financial performance and changes in discount rates. We challenged these aspects and with the assistance of our valuation experts, we independently calculated the discount rates. In calculating the discount rates, the key inputs used were independently sourced from market data and comparable companies. We compared the discount rates determined by management to our independently calculated rates. Based on the sensitivity analysis, we found the discount rates used by management to be within an acceptable range. We concur with management's conclusions on the triggering events for impairment. In relation to the determination of the recoverable value of the impaired assets, we considered the prior year forecast to determine whether this forecast included assumptions that, with hindsight, had been too optimistic. We performed audit procedures on management's inputs and assumptions such as prospective financial information based on the approved budget, externally sourced production profile forecasts, contractually agreed rates and operating costs. We reconciled the carrying amount of the CGU with the amounts as included in the (consolidated) financial statements. We have re-performed calculations and compared the impairment models with generally accepted valuation techniques. We further evaluated the adequacy of the disclosure of the key assumptions and sensitivities underlying the tests, as well as management bias. As a result of our audit procedures, we found the assumptions to be reasonable and supported by the available evidence. Our procedures did not identify material omissions in the disclosures in the financial statements.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- the director's report comprising of chapters ' 1 At a Glance ', ' 2 Strategy and Performance ', ' 3 Governance ' (with the exception of section 3.4 Remuneration Report), ' 4.1 Financial Review ', and ' 5.3 Non-Financial Indicators ' of the Annual Report;
- the other information pursuant to article 392.1 Part 9 of Book 2 of the Dutch Civil Code as included in section 4.6.1 of the Annual Report;
- the chapters ' 3.4 Remuneration Report ', ' 4.7 Key Figures ', ' 5 Non-Financial Data ' (with the exception of section 5.3 Non-Financial Indicators) and ' 6 Other Information ' of the Annual Report

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were nominated as auditors of SBM Offshore N.V. on 13 November 2013 by the Supervisory Board and appointed through the passing of a resolution by the shareholders at the annual meeting held on 17 April 2014. Our appointment has been renewed on 11 April 2018 for a period of three years by the shareholders. Our appointment represents a total period of uninterrupted engagement of six years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding the statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 4.3.34 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going-concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 12 February 2020
PricewaterhouseCoopers Accountants N.V.

M. de Ridder RA

Appendix to our auditor's report on the financial statements 2019 of SBM Offshore N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional skepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Concluding on the appropriateness of the Management Board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding the statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

4.7 KEY FIGURES

Key IFRS financial figures

	2019	2018	2017	2016	2015
Turnover	**3,391**	2,240	1,861	2,272	2,705
Results					
Net profit/(loss) (continuing operations)	**511**	344	(1)	247	110
Dividend	**150**	75	51	46	45
Operating profit (EBIT)	**742**	603	358	564	239
EBITDA	**1,010**	838	611	772	462
Underlying Operating profit (EBIT)	**767**	607	608	617	395
Underlying profit attributable to shareholders	**391**	247	151	308	186
Shareholders' equity at 31 December	**2,748**	2,634	2,501	2,516	2,496
Capital employed	**8,217**	7,617	8,430	8,997	8,806
Net debt	**4,416**	3,818	4,613	5,216	5,208
Capital expenditure	**68**	40	53	15	24
Depreciation, amortization and impairment	**268**	235	253	208	223
Number of employees (average)	**4,259**	4,103	4,150	5,237	7,300
Employee benefits	**575**	519	514	512	704
Ratios (%)					
Shareholders' equity : (total assets -/- current liabilities)	**32**	32	29	26	28
Current ratio	**137**	128	123	112	244
Return on average capital employed	**9.7**	7.6	7.0	6.9	
Return on average shareholders' equity	**14.5**	9.6	6.0	12.3	
Operating profit (EBIT) : net turnover	**21.9**	26.9	19.2	24.8	8.8
Net profit/(loss) : net turnover	**15.1**	15.3	0.0	10.9	4.1
Net debt : total equity	**122**	106	130	148	150
Enterprise value : EBITDA	**8.9**	9.4	15.2	12.4	19.3
Information per Share (US$)					
Net profit/(loss)[1]	**1.84**	1.04	-0.76	0.87	0.14
Dividend	**0.76**	0.37	0.25	0.23	0.21
Shareholders' equity at 31 December	**13.83**	12.81	12.16	11.79	11.79
Share price (€)					
- 31 December	**16.59**	12.93	14.67	14.92	11.66
- highest	**18.35**	17.12	16.12	15.20	13.80
- lowest	**12.80**	10.14	12.88	9.59	8.11
Price / earnings ratio	**10.1**	14.4	-23.3	18.4	93.4
Number of shares issued (x 1,000)	**198,671**	205,671	205,671	213,471	211,695
Market capitalization (US$ mln)	**3,703**	3,044	3,619	3,357	2,739
Turnover by volume (x 1,000)	**223,570**	269,134	295,385	379,108	478,943
New shares issued in the year (x 1,000)	**-**	-	-	1,776	2,000

1 Calculated based on weighted average shares outstanding

Key Directional financial figures

	2019	2018	2017	2016	2015
Turnover	**2,171**	1,703	1,676	2,013	2,618
Lease and Operate	**1,315**	1,298	1,501	1,310	1,105
Turnkey	**856**	406	175	702	1,512
EBIT	**418**	533	117	290	191
Lease and Operate	**369**	418	487	398	315
Turnkey	**25**	225	11	(22)	231
Other	**23**	(109)	(381)	(86)	(354)
EBITDA	**921**	995	596	725	561
Net Profit	**235**	301	(203)	(5)	24

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5. NON-FINANCIAL DATA

5 NON-FINANCIAL DATA

5.1 SCOPE OF NON-FINANCIAL INFORMATION

5.1.1 REPORTING ABOUT NON-FINANCIAL INFORMATION

This Annual Report has been prepared in accordance with the GRI standards: Core option. The Company has used the GRI Standards to determine material aspects for this year's Annual Report. For SBM Offshore, 'transparancy, trust and reputation' are material topics and therefore we have assurance on non-financial as well as financial information. To obtain assurance on the reliability of information presented to its stakeholders, SBM Offshore has asked our auditors PwC to provide limited assurance on our non-financial information.

5.1.2 MATERIALITY METHODOLOGY

SBM Offshore conducts materiality analysis according to the GRI Standards in order to include the topics in the Annual Report that can reasonably be considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders.

UPDATE MATERIAL TOPICS

SBM Offshore conducted the following steps to assess the material topics in order to ensure the Report contains the level of information required by stakeholders.

- Step 1: Update the list of potential material topics
- Step 2: Stakeholder engagement survey
- Step 3: Analysis of operating environment
- Step 4: Validation in Management Board meeting

In 2019, SBM Offshore reached out to specific stakeholder groups to assess the validity of the 2018 materiality assessment. The input provided by the stakeholder groups reaffirmed the 2018 assessment; there are no new material topics in 2019.

2019 MATERIAL TOPICS

The results of the materiality assessment can be found in the materiality matrix, which can be found in section 1.7 Materiality and Value Creation. SBM Offshore has a large number of material topics, however many are managed by the same department and in a similar way. Therefore, in order to avoid redundant information, the Company has merged the Disclosures on Management Approach (DMA's) for some topics. The material topics that were merged are: Economic Performance, Cost of Ownership and Fleet Management & Project Performance; Ethics & Compliance and Transparency, trust and reputation; Pollution to air and sea and Environmental Impact; Employee Health and Safety and Security; Innovation & Technology and Energy Transition and Renewable energy; Operational Excellence and Quality and Digitalization & Standardization. The remaining material topics did not overlap and therefore are not merged.

The merged topics are also covered by the same indicators, as the GRI requirements entail multiple reporting requirements. Details on how the matrix corresponds to GRI and reporting boundaries can be found in section 5.2 Reporting Boundaries. General standard disclosure and aspects of lower priority are included in the GRI Content Index.

5.1.3 STAKEHOLDER ENGAGEMENT

IDENTIFYING AND SELECTING OF STAKEHOLDERS

To shape stakeholder engagement, SBM Offshore identified key stakeholders by mapping the level of influence on and level of interest in the Company. The main stakeholders are the Company's employees, shareholders, the investor community, clients, business partners and suppliers. Other important stakeholders are lenders, export credit agencies, governments in operating areas, non-governmental organizations (NGOs), oil and gas industry associations, universities, researchers and potential investors. Throughout the year, board members, investor relations and the sustainability team engage with these stakeholders as part of regular operations to capture their feedback. Stakeholder feedback is utilized in developing significant processes and frameworks for the Company such as the determination of material topics and SDG target setting.

Internally, SBM Offshore organizes regular Town Hall meetings where senior management share business updates and establish a dialogue with staff, including participation in worldwide Company events such as Life Day. SBM Offshore also regularly shares information and updates on strategies, projects and people with its employees through the Company's intranet site and via its internal monthly newsletter.

The Company maintains open and active engagement with its external stakeholders through regular business interactions, including the annual shareholders meeting, analyst and investor road shows/meetings, a Capital Markets Day for financial analysts, analyst webcast presentations, press releases, website updates, surveys and desktop research.

The feedback obtained forms the backbone of the Company's stakeholder engagement program. The program is complemented by other interactions with stakeholders, in order to validate findings and the feedback received feeds into management's approach to Materiality and long-term value creation.

SBM OFFSHORE VALUES YOUR OPINION

SBM Offshore would like to know more about which economic, social and environmental issues are important to its stakeholders.

Would you like to participate in SBM Offshore's 2020 Stakeholder Engagement or provide feedback for the 2020 Stakeholder Engagement? Please write to us at sustainability@sbmoffshore.com.

5.1.4 TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)

GOVERNANCE

Mitigating the impacts of climate change and meeting the needs of the future are a key priority for SBM Offshore. Sustainability is managed by the Global Sustainability Manager and supervised by the Chief Strategy Officer, whom reports directly to the CEO. The integration of sustainability into the strategy department enables sustainability to be fully implemented in many aspects and levels of the Company's activities. Furthermore, the HSSE department at SBM Offshore has the responsibility to manage Health, Safety, Security & Environmental impact, therefore this department works closely with the sustainability team.

STRATEGY

As disclosed in section 2.1 Group Strategy, SBM Offshore is committed to preparing and contributing to a fast-paced Energy Transition. The Company routinely assess the risks it faces and adapts its strategy in response.

SBM Offshore's Group Strategy team analyses the macro trends and specific market sectors to identify new opportunities in the short-, medium-, and long-term[33]. This is done in close collaboration with Sustainability, Technology and Business Development departments, which are all part of the Chief Strategy Officer's portfolio. Once the opportunity has been initially assessed, a strategic plan is developed in conjunction with the business areas (i.e. Product Lines). This process ensures alignment with the business from the ideation phase up to the adoption of the new technology as a product for the Company's clients.

The potential impacts from climate change, the risks/ opportunities they pose, and the strategy to address them

1 Market impact

With its main business segment being within oil and gas, the Company could be impacted in case of an earlier than expected transition of demand away from hydrocarbons and towards alternative energy sources.

[33] Short term: 1-5 year cycle // Medium-term: 5-10 years // Long-term: +10 years

Opportunity

The primary business opportunity areas identified by SBM Offshore within the Renewable Energy sector are in Wind and Wave energy. In addition, SBM Offshore is also developing solutions for Liquefied Natural Gas (LNG).

Strategy

As part of the product development process, SBM Offshore assesses both Technology- and Business Readiness Levels. This aims to certify the maturity of the product prior to the commercial phase. An important step of this process is the development of prototypes and pilots, which can also be done as co-development projects with partners and/or clients.

2 Policy Change Impact

Company proving unable to contribute to the Paris Agreement targets, as well as exposure to carbon tax.

Opportunity

Reduction of overall emissions/carbon intensity in the Company's products and operations.

Strategy

Following the SDGs framework, the Company has set targets for seven of the SDGs, which have been identified as the ones most relevant to our business, as well as the ones where the Company can have the largest impact. Under the governance of the Group Sustainability team, the business leaderships developed roadmaps covering short-, medium-, and long-term[33] actions for each of these SDGs, including action to better manage and reduce SBM Offshore's greenhouse gas emissions.

3 Physical Impact

More extreme weather events and changes in climate patterns.

Risk

Disruption of operations.

Strategy

This year, the Risk and Sustainability teams assessed the operational impact climate change risks could have on the Company. The primary physical risk identified for the Company is a disruption of onshore operations due to extreme weather events and climate patterns, either in its offices or at yard locations. These are less likely to impact offshore operations, as the units are equipped to withstand and/or avoid extreme weather events. The Company mitigates these risks via specific emergency response plans tailored to specific scenarios in each location.

RISK MANAGEMENT

Climate change risks are inherently identified and assessed against our strategy in our risk management approach as deployed throughout the Company. When relevant, these risks are included in the detailed risk review and analysis is done for all tenders, projects and FPSO (asset) fleet operations which are part of the Company's portfolio. Climate change risks are assessed as part of the SBM Offshore's Enterprise Risk Management (ERM). This results in a heat-map of risks which are incorporated in a Risk report. This report provides an overview of the top ten risks and the latest Risk Profile versus the defined Risk Appetite status to the Management Board and Supervisory Board.

The quarterly Risk report covers proposal, projects and fleet individual risks, as well as Group Functions and Execution Centers, and includes actions and managing measures in place to mitigate each risk which are followed-up on by partners. In order to manage the transition risk and opportunity of a changing energy mix, SBM Offshore defines action in light of the evolution of the energy landscape. It is gradually diversifying its product portfolio through product development and investments in R&D.

METRICS AND TARGETS

Once again this year, SBM Offshore set out short-term targets for the upcoming year (see section 2.3 Sustainability). These ten targets were linked to the six SDGs the Comany has implemented. Several of SBM Offshore's SDG targets are part of the Company's efforts to mitigate the effects of climate change, focused on limiting the Company's emissions and adapting our ways of working.

Focus on emissions reduction:
- Reduce by 25% the mass of gas flared under SBM Offshore account (in tonnes of gas flared per thousand tonnes of hydrocarbon production) (SDG 7)
- Ensure that 60% of project offices operations have a local sustainability certification (SDG 7)

Focus on improved management of emissions:
- 100% of FPSO EPC proposals recording carbon emissions planned over asset life (SDG 9)
- Propose uniform air travel CO_2 measurement system to enable target setting (SDG 13)

Focus on new technological developments:
- 30% of R&D budget going to low-carbon technologies (SDG 9)

5.2 REPORTING BOUNDARIES

SBM Offshore not only reports on impacts it causes, but also on impacts it contributes to, and impacts that are linked to its activities. In each of the following paragraphs we elaborate in detail on the boundaries of our material topics. The boundary of a material topic relates to the parts of the organization and supply chain covered in the figures.

5.2.1 HEALTH, SAFETY AND SECURITY REPORTING

The HSS performance indicators boundaries take into account:
- Employees, which include all direct hires, part-time employees, locally-hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company
- Contractors which include any person employed by a contractor or contractor's subcontractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore.

SBM Offshore implements consultation and participation in accordance with the applicable rules and regulations, and with the ISM onboard offshore units in the form of joint committee. The committee meets with the management team at an agreed frequency to address health and welfare and safety concerns of the employees.

All employees are provided HSSE trainings to familiarize themselves with the Company's health, safety, and security rules and regulations. As part of the training content, individuals attend internal classroom training, attend external training, practice on hands-on training or perform e-learning. The training topics are based on the hazards identified through the structured identification process as well as the regulatory requirements and includes Company standard training package such as security, Life Saving Rules, display screen equipment, site hazard awareness etc.

HSS incidents are reported and managed through the Company centralized incident management tool (SRS – Single Reporting System) which is a web-based reporting system that is used to collect data on all incidents occurring in all locations where the Company operates. The system records safety, environmental, security incidents, loss of containments, equipment failure and damage only incidents.

SBM Offshore reports on all incidents classified as fatalities, injuries and high consequence injuries - work-related injuries that results in a fatality or in an injury from which the worker is not expected to recover from within six months. Safety incidents are reported based on the incident classifications as defined by the IOGP Report 2018 – June 2019. Health incidents are reported based on the occupational illnesses classification given in IOGP Report Number 393 – 2007. The main-type of work-related injury categories are related to slips, trips and falls (walking at same level & on stairs) (40%) as well as finger injuries (30%).

All incidents with an actual or a potential consequence for the Health, Safety and Security of personnel and/or impact on the environment arising out of Company's activities are investigated. Investigations, based on the type, criticality and severity of the event, are performed by specifically identified personnel using methods amongst which TapRoot® and 5 Why. The Company also reports incident data from contractor's construction facilities if the incident is related to an SBM Offshore project.

Safety incidents are reported based on the incident classifications as defined by the IOGP Report 2018 – June 2019. Health incidents are reported based on the occupational illnesses classification given in IOGP Report Number 393 – 2007.

The Company uses records of exposure hours and SRS data to calculate Health and Safety performance indicators set by SBM Offshore.

5.2.2 ENVIRONMENTAL REPORTING

OFFSHORE

In accordance with the IOGP and IPIECA guidelines, SBM Offshore reports on offshore units using the following reporting boundaries:

- Units in the Company's fleet producing and/or storing hydrocarbons under Lease and Operate contracts
- Units in which the Company exercises full operational management control

SBM Offshore considers 'operational management control' as: having full authority to introduce and implement operating policies at the operation, in line with the IPIECA definition.

The environmental and process safety performance of the Company is reported by region or management area: Brazil, Angola, North America & Equatorial Guinea. Based on the criteria stated above, SBM Offshore reports on the environmental and process safety performance for the following 12 units:

- Brazil – FPSO *Espirito Santo*, FPSO *Capixaba*, FPSO *Cidade de Paraty*, FPSO *Cidade de Anchieta*, FPSO *Cidade de Ilhabela*, FPSO *Cidade de Marica*, FPSO *Cidade de Saquarema*
- Angola – FPSO *Mondo*, FPSO *Saxi Batuque* and FPSO *N'Goma*
- North America & Equatorial Guinea – FPSO *Aseng*
- Asia – FPSO *Kikeh*

The environmental offshore performance reporting methodology was chosen according to the performance indicators relative to GRI Standards and IOGP guidelines. This includes:

- Greenhouse Gases, referred to as GHG which are N_2O (Nitrous Oxide), CH_4 (Methane) and CO_2 (Carbon Dioxide)
- GHG emissions per hydrocarbon production from flaring and energy generation
- Non Greenhouse Gases which are CO (Carbon Monoxide), NOx (Nitrogen Oxides), SO_2 (Sulphur Dioxide) and VOCs (Volatile Organic Compounds)
- Gas flared per hydrocarbon production, including gas flared on SBM Offshore account
- Energy consumption per hydrocarbon production
- Oil in Produced Water per hydrocarbon production

SBM Offshore reports some of its indicators as a weighted average, calculated pro rata over the volume of hydrocarbon production per region. This is in line with the IOGP Environmental Performance Indicators.

ONSHORE

SBM Offshore reports on its onshore scope 1, 2 and 3 emissions[34]. As indicated in the 2018 Annual Report, efforts have been made in 2019 to further mature onshore emissions reporting to extend the reporting scope to include all locations in operational control by SBM Offshore. In 2019, the reporting scope includes all locations where the headcount is over 10 and yards over which the Company has full operational control. This scope has been extended from that used previously; due to improved reporting and data quality, the Company can now report onshore emissions on more locations. There is no revision of the 2018 data however, as there was no data for the locations added in the scope in 2019.

Next to this, the Company has started reporting both the 'location-based approach' as well as the 'market-based approach' for its scope 2 emissions. This is related to the SDG target on percentage of renewable energy used in the offices set in place in 2018. These changes did not result in a change of the reported emissions over 2018 as for 2018 only information on the location-based approach is available. SBM Offshore reports onshore emissions data for the following locations: Amsterdam, Houston, Kuala Lumpur, Marly, Monaco, Rio de Janeiro, Schiedam, Shanghai, Carros lab, Canada Shorebase, Georgetown Shorebase, Luanda Shorebase, Malabo Shorebase, Rio Shorebase, Santos Shorebase, and Vitória Shorebase. The Singapore office is excluded as we have no visibility on energy breakdown usages as the energy is included in the lease.

[34] The World Resources institute GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

The Company reports on scope 3 emissions related to business flights. This consists of all flights invoiced and paid for via our standard travel system in 2019 and the data covers all operating companies. The GHG emissions relating to business flights are based on third-party documentation on distances, the conversion to CO_2 - equivalent is based on CO2emissiefactoren.nl. There are two ways of calculating flight related emissions: including or excluding the additional impact of CO_2 when emitted at high altitude. Unlike the 2018 report, this year the Company is calculating scope 3 emissions using emissions factors that include the additional impact of CO_2 when emitted at high altitude for all flights. This methodological change as well as an increase in amount of flights, have caused a significant increase in flights related GHG emissions compared to 2018.

For the onshore electricity usage, the Company uses the World Resources Institute Greenhouse Gas Protocol (GHG Protocol) method and conversion factors to calculate CO_2 equivalents. For fuels the Company uses conversion factors published by the UK government's Department for Environment Food & Rural Affairs (DEFRA). CO_2 equivalency is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally, 100 years).

ATMOSPHERIC EMISSIONS

The calculation of air emissions from offshore operations units uses the method as described in the EEMS-Atmospheric Emissions Calculations (Issue 1.810a) recommended by Oil & Gas UK. SBM Offshore uses the GHG Global Warming Potentials from the Fourth Assessment Report issued by the Intergovernmental Panel on Climate Change (IPCC).

Emissions reported in the Company records include:

- GHG emissions for the production of energy. Records of GHG emissions from steam boilers, gas turbines and diesel engines used by the operating units.
- GHG emissions from gas flared. Flaring events accountability is split into either client or SBM Offshore: 'SBM Offshore Account' is flaring resulting from unplanned events. Whereas client account is flaring resulting from events caused by the client or planned by SBM Offshore in agreement with the client.
- GHG emissions from flights. Scope 3 emissions are calculated using distances and third-party emissions factors.
- GHG emissions for onshore operations are reported using the market-based and location-based approaches.

Identifying the causes of flaring for which SBM Offshore is responsible and acting on these events is part of the continuous improvement process.

OFFSHORE ENERGY CONSUMPTION

The energy used to produce oil and gas covers a range of activities, including:

- Driving pumps producing the hydrocarbons or re-injecting produced water
- Heating produced oil for separation
- Producing steam
- Powering compressors to re-inject produced gas
- Driving turbines to generate electricity needed for operational activities

The main source of energy consumption of offshore units is Fuel Gas and Marine Gas Oil.

OIL IN PRODUCED WATER DISCHARGES

Produced water is a high volume liquid discharge generated during the production of oil and gas. After extraction, produced water is separated and treated (de-oiled) before discharge to surface water. The quality of produced water is most widely expressed in terms of its oil content. Limits are imposed on the concentration of oil in the effluent discharge stream (generally expressed in the range of 15-30 ppm) or discharge is limited where re-injection is permitted back into the reservoir. The overall efficiency of the oil in water treatment and as applicable reinjection can be expressed as tonnes of oil discharged per million tonnes of hydrocarbon produced.

Incidental environmental releases to air, water or land from the offshore operations units are reported using the data recorded in the SRS database. SBM Offshore has embedded a methodology for calculating the estimated discharge and subsequent classification within the SRS tool.

Changes in reporting

In 2019, SBM Offshore chose to no longer report spills according to the GRI indicator previously used, GRI 306-3: Effluents and waste. The Company feels that 'oil in produced water' is a more relevant indicator for our water pollution as the levels of discharge are significantly higher than of oil spills and the data is of higher quality. Oil spills are still reported in other sections of the report.

DATA REVISIONS

The offshore environmental data has been revised due to an improved scoping methodology implemented in 2019. The parameter 'Units in which the Company has full ownership or units that are jointly owned and where the Company has at least 50% ownership' was removed and scoping is now solely based on operational control, as is common in this industry. SBM Offshore considers operational control as: having full authority to introduce and implement operating policies at the operation. This scoping update results in Kikeh being included in the offshore emissions reporting scope. In accordance with the GHG Protocols and to facilitate comparability of the data, we have revised the environmental data reported in 2018 to reflect the new scope.

Using this new scope, the 2018 figures would have been as follows:

Revised Data for 2018

	2018 Annual Report	Revised 2018 Annual Report
Number of offshore units (vessels)	13	14
SBM Offshore Production		
Hydrocarbon Production (tonnes)	52,207,616	53,883,020
Energy Consumption		
Total Energy Consumption[1]	58,033,793	62,085,490
Emissions – Offshore		
GHG Scope 1		
Carbon dioxide (CO_2) in tonnes	4,764,227	5,284,570
Methane (CH_4) in tonnes	10,132	12,072
Nitrous oxide (N_2O) in tonnes	295	320
Emissions – Onshore		
GHG Scope 1[2]	194	194
GHG Scope 2[2]	3,880	3,880
GHG Scope 3 – Air travel	17,529	17,529
Flaring		
Total Gas Flared per production[3]	9.81	11.45
Gas Flared on SBM Offshore account per production[3]	3.70	3.98
Proportion of Gas Flared on SBM Offshore account	38%	35%
Other/Air Pollution – Non Greenhouse Gas Emissions		
Carbon monoxide (CO) in tonnes	6,491	7,390
Nitrogen oxides (NOx)	7,184	7,824
Sulphur dioxides (SO_2)	1,448	1,485
Volatile organic compounds (VOCs)	1,068	1,282
Emissions – (Offshore+Onshore)		
Total emissions	**5,126,895**	**5,703,414**
Discharges		
Quantity of oil in produced water discharges in tonnes per million tonnes of hydrocarbon production[4]	3.50	5.33

1 GJ = gigajoule, energy from fuel gas and marine gas oil
2 tonnes of CO_2 equivalents
3 tonnes of gas flared per thousand tonnes of hydrocarbon production
4 tonnes of oil discharged to sea per million tonnes of hydrocarbon production

5.2.3 PROCESS SAFETY REPORTING

A Loss of Primary Containment (LOPC) is defined as an unplanned or uncontrolled release of any material from primary containment, including non-toxic and non-flammable materials (e.g. steam, hot condensate, nitrogen, compressed CO_2 or compressed air).

A Process Safety Event (PSE) is defined as a LOPC from a process that meets the Tier 1 or Tier 2 definitions within API RP 754.

LOPC events are reported in the Company's Single Reporting System as highlighted in section 5.2.1. This system includes a built-in calculation tool to assist the user in determining the release quantity of LOPC events. All LOPCs are analysed to identify those considered to be PSEs as per API RP 754. Process Safety KPIs used by the Company include the number of Tier 1 and the number of Tier 2 PSEs.

5.2.4 HUMAN RESOURCES REPORTING

The Company's Human Resources (HR) data covers the global workforce and is broken down by region (continents) and employment type. The performance indicators report on the workforce status at year-end December 31, 2019. They include all staff assigned on unlimited or fixed-term contracts, employee new hires and departures, total number of locally-employed staff from agencies, and all crew working on board the offshore operations units and shore bases.

HEADCOUNT, TURNOVER & NATIONALIZATION

Human Resources considers:

- 'Direct Hire' employees as a staff member holding a labor contract for either an unlimited or a defined period (or an offer letter for an unlimited period in the USA). Direct hires are recorded on the payroll, directly paid by one entity of the SBM Offshore Group.
- 'Contractors' as an individual performing work for or on behalf of SBM Offshore, but not recognized as an employee under national law or practice (not part of SBM Offshore companies payroll, they issue invoices for services rendered).
- 'Subcontractors' are not considered as staff in the HR headcount breakdown structure. This population is managed as temporary service and are not covered by HR processes policies.

SBM Offshore includes the BRASA Yard in Brazil and the PAENAL Yard in Angola in its reporting scope based on partial ownership and operational control including human resource activities and social responsibility for the employees.

In principle, reporting on headcount, turnover, training and collective bargaining covers all SBM Offshore, including construction yards. For the reporting on Appraisals, construction yard employees are not included, due to the limits on influence and impact that SBM Offshore has on JV partners in the PAENAL and BRASA yards.

SBM Offshore reports its HR data in all the regions (Africa, Asia, Europe, North America, South America, Other) it is located.

Certain differences may potentially arise between the headcount numbers reported by Finance, HSSE and HR. This is due to the difference in the reporting structure of the two departments. Turnover has been calculated as such; number of employees who have left the Company in 2019 (between January 1 and the December 31, 2019) compared with the headcount on January 1, 2019 and the number of newcomers in 2019.

For fleet operations, engagement and development of the local workforce is the main indicator for successful local content development. In this perspective, SBM Offshore monitors the percentage of local workforce – % of nationalization per regions – and invests in training to increase or maintain the targeted level. For example, specific programs in both below countries focus on education and training of nationals to facilitate them entering the workforce with the required level of qualifications and knowledge.

- 87% of Brazilian direct hire workforce consists of Brazilian nationals
- 81% of Angolan direct hire workforce consists of Angolan nationals

PERFORMANCE MANAGEMENT

In order to ensure personal development and optimal management of performance within the Company, SBM Offshore conducts annual performance reviews for all employees. Globally, the Company uses a common system to rate and evaluate all employees.

COLLECTIVE BARGAINING

Collective bargaining is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working conditions, benefits, and other aspects of workers' compensation and rights for workers. Within SBM Offshore, it is considered as collective bargaining: all the employees of which the interests are commonly represented by external or internal representatives of a trade union to which the employees belong.

HUMAN RIGHTS

SBM Offshore considers all contracts with qualified vendors as significant investment agreements, therefore the Company included human rights clauses in the Supply Chain Charter signed by our vendors.

Changes in reporting

This year, SBM Offshore is reporting on fewer GRI indicators. We no longer report against GRI 404-1: Training and Education or our Own Indicator on People development, and GRI 401-1: Employement has been replaced by an Own indicator on Turnover. This is part of an effort to streamline the reporting and increase focus on the most material information.

5.2.5 COMPLIANCE REPORTING

SBM Offshore reports on significant fines paid by SBM Offshore and all affiliate companies. To define a significant fine the following thresholds are considered (subject to final assessment by Management Board on a case by case basis):

1. **Operational fines of a regulatory and/or administrative nature which exceed US$500,000**

   No significant operational fine had to be paid in 2019.

2. **Legal and compliance fines of a criminal nature which exceed US$50,000**:

   No significant legal and compliance fines of a criminal nature had to be paid in 2019.

5.3 NON-FINANCIAL INDICATORS

5.3.1 HEALTH, SAFETY & SECURITY

Health, Safety & Security

	Year-to-Year		2019 – by Operating Segment	
	2019	2018	Offshore	Onshore
Exposure hours				
Employee[1]	13,926,255	12,038,253	8,809,567	5,116,688
Contractor[2]	20,652,056	15,282,127		20,652,056
Total Exposure hours	**34,578,311**	**27,320,380**	**8,809,567**	**25,768,744**
Fatalities (work related)				
Employee	0	0	0	0
Contractor	1	1	0	1
Total Fatalities	**1**	**1**	**0**	**1**
Fatality Rate (Total)[3]	**0.01**		**0**	**0.01**
Injuries				
High-consequence work-related Injury Employee[4]	0	0	0	0
High-consequence work-related Injury Contractor[5]	0	0	0	0
High-consequence work-related Injury Rate Employee[6]	0	0	0	0
High-consequence work-related Injury Rate Contractor[6]	0.00	0	0	0.00
High-consequence Work-related Injury Rate (Total)[7]	**0.00**	**0**	**0**	**0.00**
Total Recordable Injury Employee	16	14	11	5
Total Recordable Injury Contractor	6	11	0	6
Total Recordable Injury Rate Employee[8]	0.23	0.23	0.25	0.20
Total Recordable Injury Rate Contractor[8]	0.06	0.14	0	0.06
Total Recordable Injury Frequency Rate (Total)[8]	**0.13**	**0.18**	**0.25**	**0.09**
Occupational Illness				
Employee	1	20	1	0
Contractor	0	0	0	0
Total Recordable Occupational Illness Frequency Rate (Employees only)[9]	**0.01**	**0.33**	**0**	**0**

1 Direct hires, part-time employees, locally hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company.

2 Any person employed by a contractor or contractor's sub-contractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore.

3 Fatalities per 200,000 exposure hours.

4 Work-related injury that results in an injury from which the Employee cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months, excluding fatality.

5 Work-related injury that results in an injury from which the Contractor cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months, excluding fatality.

6 High-consequence work-related injuries per 200,000 exposure hours.

7 Total high-consequence work-related injuries per 200,000 exposure hours.

8 Recordable injuries per 200,000 exposure hours.

9 Occupational illnesses per 200,000 exposure hours.

Process Safety

	Year-to-Year		2019 – Regional Breakdown			
	2019	2018	Brazil	Angola	Africa / North America	Asia
Loss of Containment – Process						
Total	348	344	237	35	37	39
API 754 Classified Materials	199	181	136	18	27	18
API 754 Classified Materials (by TIER)						
Tier 1 incidents (number)	2	4	0	1	0	1
Tier 2 incidents (number)	3	5	1	1	1	0

5 NON-FINANCIAL DATA

5.3.2 ENVIRONMENT

	Year-to-Year		2019 – Regional Breakdown				
	2019[1]	2018 (revised)	Brazil	Angola	North America & Carribean	Asia & Equatorial Guinea	Europe
Number of offshore units (vessels)	**12**	14	7	3	0	2	0
SBM Offshore Production							
Hydrocarbon Production (tonnes)	**53,442,908**	53,883,020	40,198,782	10,001,807	-	3,242,318	-
Energy Consumption							
Offshore Energy Consumption	**61,368,370**	62,044,952	39,640,665	14,896,399	-	6,831,305	-
Onshore Energy Consumption	**42,097**	40,538	1,593	92	14,589	2,792	23,032
Total Energy Consumption[2]	**61,410,467**	62,085,490	39,642,258	14,896,491	14,589	6,834,097	23,032
Offshore Energy consumption per production	**1.15**	1.15	0.99	1.49	-	2.11	-
Emissions – Offshore							
Carbon dioxide (CO_2) in tonnes	**5,239,388**	5,284,570	2,582,114	1,918,037	-	739,238	-
Methane (CH_4) in tonnes	**12,332**	12,072	2,751	7,313	-	2,269	-
Nitrous oxide (N_2O) in tonnes	**311**	320	177	94	-	40	-
Emissions – Onshore							
GHG Scope 1[3]	**233**	194	0	0	0	0	233
GHG Scope 2 (location based)[3]	**3,429**	3,880	61	10	1,942	449	967
GHG Scope 2 (market based)	**510**		61	10	49	366	24
GHG Scope 3 – Air travel	**27,742**	17,529	4,225	n.a.[4]	1,680	798	21,040
Flaring							
Total Gas Flared per production[5]	**11.87**	11.45	2.97	39.45	-	37.12	-
Gas Flared on SBM Offshore account per production[5]	**3.95**	3.98	2.16	8.53	-	12.01	-
Proportion of Gas Flared on SBM Offshore account	**33%**	35%	73%	22%	-	32%	-
Other/Air Pollution – Non Greenhouse Gas Emissions							
Carbon monoxide (CO) in tonnes	**7,335**	7,390	2,818	3,354	-	1,164	-
Nitrogen oxides (NOx)	**7,534**	7,824	4,466	2,009	-	1,059	-
Sulphur dioxides (SO_2)	**138**	1,485	45	22	-	70	-
Volatile organic compounds (VOCs)	**1,315**	1,282	267	798	-	250	-
Emissions – (Offshore+Onshore)							
Volume of GHG	**5,668,961**	5,703,414	2,707,811	2,129,005	1,729	809,120	21,297
Offshore GHG emissions	**5,640,476**	5,681,811	2,703,525	2,128,995	-	807,956	-
Onshore GHG emissions (market based)	**28,486**	21,603	4,286	10	1,729	1,164	21,297
Offshore GHG emissions per production[6]	**105.54**	105.45	67.25	212.86	-	249.19	-
Discharges							
Quantity of oil in produced water discharges[7]	**5.13**	5.33	0.95	9.58	-	43.23	-

1 Excluding Liza Destiny, first oil on December 20, insufficient data
2 GJ = gigajoule, energy from fuel gas and marine gas oil
3 tonnes of CO_2 equivalents
4 Emisions related to flights are reported in the other regions
5 Tonnes of gas flared per thousand tonnes of hydrocarbon production
6 Tonnes of GHG emissions per thousand tonnes of HC production
7 Tonnes of oil discharged to sea per million tonnes of hydrocarbon production

5.3.3 HUMAN RESOURCES

Headcount by Direct Hire and by Contractor

	Total			Ratios
	Grand Total	Direct Hire	Contractor	% of Contractor Employees
Africa	777	629	148	19%
Asia	978	583	395	40%
Europe	1,798	1,546	252	14%
North America	334	294	40	12%
South America	1,643	1,387	256	16%
Grand Total	**5,530**	**4,439**	**1,091**	**20%**

Headcount by employee contract and employee type

	Permanent Male Employees	Permanent Female Employees	Temporary Male Employees	Temporary Female Employees	Part-Time Male Employees	Part-Time Female Employees	% of Part-Time Employees
Africa	533	91	3	2	0	0	0%
Asia	437	122	16	8	0	0	0%
Europe	1,041	380	77	48	37	69	7%
North America	215	76	3	0	2	2	1%
South America	1,180	175	13	19	0	0	0%
Grand Total	**3,406**	**844**	**112**	**77**	**39**	**71**	**2%**

Direct Hires New Joiners Headcount

	Total New Hires	
	Total New Hire Headcount	New Hire Ratio
Africa	67	10%
Asia	206	38%
Europe	298	18%
North America	35	10%
South America	259	15%
Grand Total	**865**	**17%**

Direct Hires Turnover Headcount

	Total Turnover	
	Total Turnover Headcount	Total Turnover Rate
Africa	41	6%
Asia	73	11%
Europe	127	8%
North America	29	9%
South America	368	21%
Grand Total	**638**	**13%**

Direct Hires Performance Appraisals

	Male %	Female %	Total %[1]
Performance Appraisals Completed - Onshore (2018)	92%	90%	92%
Performance Appraisals Completed - Offshore (2018)	93%	100%	94%

1 An appraisal is considered completed when it has been validated by the Line Manager

Direct Hires Collective Bargaining

	%
Percentage of Employees covered by Collective Bargaining Agreements	87%[1]

1 The rights of expatriate population are supported by internal policies, as agreed in the employment contract and with reference to the offshore and onshore manuals. Accordingly, they are considered by SBM Offshore to be qualified for collective bargaining.

5.3.4 5-YEAR KEY SUSTAINABILITY FIGURES

	2019	2018	2017	2016	2015
Health, Safety and Security					
TRIFR (rate)	**0.13**	0.18	0.19	0.31	0.22
High consequence Injury rate	**0**	0	0	0	0
Fatalities work related (number)	**1**	1	0	0	0
Total consolidated exposure hours[1]	**34.58**	27.32	13,38	14.63	31.36
Environment[2]					
Total GHG Emissions Offshore[3]	**5,640**	5,681	6,185	7,095	6,888
Total GHG Emissions Offshore per production[4]	**105.54**	105.45	106.65	149.58	178.73
Flaring per production	**11.87**	11.45	12.4	24.43	34.5
Flaring on SBM account per production	**3.95**	3.98	6.02	2.59	3.07
Offshore energy consumption[5]	**61,410,467**	62,085,490	67,089,996	55,634,601	42,357,353
Human Resources[6]					
Total Employees[7]	**5,530**	4,740	4,810	4,748	7,020
Total Direct Hires[7]	**4,439**	4,079	4,126	4,174	6,342
Total Contractors[7]	**1,091**	661	684	574	678
Contractors / Direct Hires Ratio[7]	**20%**	14%	14%	12%	10%
Total of Females in Direct Hire Workforce	**22%**	19%	18%	20%	21%
Part-time Workforce	**2%**	3%	4%	4%	3%
Employee Rates[6]					
Turnover	**13%**	10%	10%	19%	22%
Appraisals					
Performance Appraisals Completed	**93%**	96%	94%	94%	96%

1 in millions of hours
2 2015-2018 data revised to reflect updated reporting boundaries (see section 5.2.2)
3 thousand tonnes of CO_2 equivalents
4 tonnes of GHG emissions per thousand tonnes of hydrocarbon production
5 GJ = gigajoule, energy from fuel gas and marine gas oil
6 does not include construction yards except if specified otherwise
7 including construction yards

5.4 GRI CONTENT INDEX

This report has been prepared in accordance with the Global Reporting Initiative standards: Core option (General Disclosures and information linked to our Material Topics from version 2016 of the GRI standards – except G4-0G5, G4-0G6 and G4-0G13 and own indicators).

Standard	Disclosure	Reference /direct answer
1. Organizational profile		
102-1	Name of the organization	SBM Offshore N.V
102-2	Activities, brands, products, and services	1.2, 1.6
102-3	Location of the organization's headquarters	6.2
102-4	Location of operations	1.2
102-5	Ownership and legal form	3.5
102-6	Markets served	1.4
102-7	Scale of the organization	1.2 2.4
102-8	Information on employees and other workers	2.8, 5.3.3
102-9	Supply chain	1.6
102-10	Significant changes to the organization and its supply chain	No significant changes
102-11	Precautionary Principle or approach	Sustainability policy
102-12	External initiatives	2.3, 2.7.2, 2.11
102-13	Memberships of associations	2.11
2. Strategy		
102-14	Statement from senior decision-maker	1.1
3. Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	1.3
4. Governance		
102-18	Governance structure	3.5
5. Stakeholder Engagement		
102-40	List of stakeholder groups	5.1.3
102-41	Collective bargaining agreements	5.3.3
102-42	Identifying and selecting stakeholders	5.1.3
102-43	Approach to stakeholder engagement	5.1.3
102-44	Key topics and concerns raised	1.7, 5.1.2
6. Reporting practise		
102-45	Entities included in the consolidated financial statements	4.3.30
102-46	Defining report content and topic Boundaries	1.7, 5.2
102-47	List of material topics	1.7
102-48	Restatements of information	5.2.2
102-49	Changes in reporting	5.2.2, 5.2.4
102-50	Reporting period	calendar year 2019
102-51	Date of most recent report	February 14, 2019
102-52	Reporting cycle	annual
102-53	Contact point for questions regarding the report	6.2
102-54	Claims of reporting in accordance with the GRI Standards	5.1
102-55	GRI content index	5.4
102-56	External assurance	5.6, 5.1.1

MATERIAL TOPICS

Reporting standard	Disclosure	Reference/omission
Material topic: *Economic Performance* and *Cost of ownership and Fleet management & Project Performance*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.4, 2.5
	103-2 The management approach and its components	2.4, 2.5
	103-3 Evaluation of the management approach	2.4, 2.5
GRI 201-1: Economic Performance	Direct economic value generated or distributed	4.2
Material topic: *Pollution to Air & Sea* and *Environmental Impact*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.6, 5.2.2
	103-2 The management approach and its components	2.6
	103-3 Evaluation of the management approach	2.6
GRI 305-1 Emissions	Direct greenhouse gas (GHG) emissions (Scope 1)	5.3.2
GRI 305-2 Emissions	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	5.3.2
GRI 305-7 Emissions	NO_x, SO_x, and other significant air emissions	5.3.2
G4-OG5	Volume and disposal of formation or produced water	5.3.2
G4-OG6	Volume of flared and vented hydrocarbon	5.3.2
Material topic: *Employee Health, Safety* and *Security* and *Process Safety*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.6, 2.7.1
	103-2 The management approach and its components	2.6, 2.7.1
	103-3 Evaluation of the management approach	2.6, 2.7.1
GRI 403-9 Occupational Health and Safety (2018)	Work-related Injuries	5.3.1
G4-OG13	Number of process safety events by business activity	5.3.1
Material topic: *Human rights*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.11
	103-2 The management approach and its components	2.11
	103-3 Evaluation of the management approach	2.11
GRI 412-3 Human Rights Assessment	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	2.10, 2.11

5 NON-FINANCIAL DATA

Reporting standard	Disclosure	Reference/omission
Material topics which SBM Offshore reports according to GRI and own indicators		
Material topic: *Human Capital Development & Retention*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.8, 5.2.4
	103-2 The management approach and its components	2.8
	103-3 Evaluation of the management approach	2.8
GRI 404-3 Training and Education	Percentage of employees receiving regular performance and career development reviews	5.3.3
Own Indicator	Employee Turnover rate	5.3.3
Material topic: *Ethics & Compliance* and *Transparency, trust and reputation*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	1.3, 3.8
	103-2 The management approach and its components	3.8
	103-3 Evaluation of the management approach	3.8
Own indicator	Training on-corruption policies and procedures	3.8
GRI 205-3: Anti-corruption	Confirmed incidents of corruption and actions taken	3.8.
GRI 419-1: Socioeconomic Compliance	Non-compliance with laws and regulations in the social and economic area	5.2.5, 3.8,
Own Indicator	Publication of benchmark results	2.3
Material topics which SBM Offshore reports according to own indicators		
Material topics: *Innovation & Technology* and *Renewable Energy* and *Energy Transition*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.1, 2.9
	103-2 The management approach and its components	2.9
	103-3 Evaluation of the management approach	2.9
Own indicator	% of R&D investments in low-carbon technologies	2.9
Material topic: *Operational Excellence / Quality* and *Digitalization & Standardization*		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.7
	103-2 The management approach and its components	2.7
	103-3 Evaluation of the management approach	2.7
Own indicator	Certification and classification performance on; ISO 9001, ISO 14001, OHSAS 18001 & ISM	5.5

5.5 CERTIFICATION AND CLASSIFICATION TABLES

Complementing sections 2.7.2 Quality and Regulatory Management and 3.10 Operational Governance, the below tables map the compliance and certification of SBM Offshore entities and (onshore and offshore) sites with the following international certification standards and codes:

- ISO 9001 – International Standard related to Quality Management Systems
- ISO 14001 – International Standard related to Environmental Management Systems
- OHSAS 18001 – International Standard related to Occupational Health & Safety Management Systems (transitioning to ISO 45001)
- 'Class' – Marine Certification by Classification Societies (e.g. ABS – American Bureau of Shipping)
- ISM – International Safety Management Code (from IMO – International Maritime Organization)
- ISPS – International Ship & Port Facility Security Code (from IMO)

OFFICES & WORKSITES	ISO 9001	ISO 14001	OHSAS 18001	ISM
Corporate Offices				
Amsterdam (Netherlands)	Certified			
Monaco	Certified			
Locations				
Houston (United States)	Certified			
Rio de Janeiro (Brazil)	Certified			
Monaco	Certified			
Schiedam (Netherlands)	Certified			
Kuala Lumpur (Malaysia)	Certified			
Imodco				
Monaco	Certified			
Construction Sites				
PAENAL (Angola)	Certified		Certified	
Operations Offices				
Monaco (Management Office)	Certified	Compliant	Compliant	Certified
Angola		Compliant	Compliant	Certified
Brazil		Compliant	Compliant	Certified
Canada		Compliant	Compliant	N/A
Equatorial Guinea		Compliant	Compliant	Certified
Guyana		(ongoing)	(ongoing)	Certified
Malaysia		Compliant	Compliant	Certified

Certified: certified by accredited 3rd Party
Compliant: verified as compliant by independent, qualified 3rd Party
Classed: certified by classification society

5 NON-FINANCIAL DATA

OFFSHORE PRODUCTION FLEET	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
Angola					
FPSO Mondo	Compliant	Compliant	Classed	Certified	Certified
FPSO Saxi Batuque	Compliant	Compliant	Classed	Certified	Certified
N'Goma FPSO	Compliant	Compliant	Classed	Certified	Certified
Brazil					
FPSO Capixaba	Compliant	Compliant	Classed	Certified	Certified
FPSO Espirito Santo	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Anchieta	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Paraty	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Ilhabela	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Maricá	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Saquarema	Compliant	Compliant	Classed	Certified	Certified
Canada					
Deep Panuke (MOPU)	Certified	Certified	N/A	N/A	N/A
Equatorial Guinea					
FPSO Aseng	Compliant	Compliant	Classed	Certified	Certified
FPSO Serpentina	Compliant	Compliant	Classed	Certified	Certified
Guyana					
Liza Destiny	(ongoing)	(ongoing)	Classed	Certified	Certified
Malaysia					
FPSO Kikeh	Certified	Compliant	Classed	Certified	Certified

OFFSHORE INSTALLATION FLEET	ISO 9001	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
SBM Installer	Certified	Certified	Certified	Classed	Certified	Certified
Normand Installer	Certified	Certified	Certified	Classed	Certified	Certified

Certified: certified by accredited 3rd Party
Compliant: verified as compliant by independent, qualified 3rd Party
Classed: certified by classification society

5.6 ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: the Management Board and Supervisory Board of SBM Offshore N.V.

Assurance report on the sustainability information 2019

Our conclusion

Based on our procedures performed, nothing has come to our attention that causes us to believe that the sustainability information included in the annual report 2019 of SBM Offshore N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the thereto related events and achievements for the year ended 31 December 2019

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria as included in the section 'reporting criteria' below.

What we have reviewed

We have reviewed the sustainability information included in the annual report for the year ended 31 December 2019, as included in the following sections in the annual report (hereafter 'the sustainability information'):

- Chapter 1 : At a glance;
- Chapter 2 : Strategy and performance;
- Chapter 3.8 : section 'Compliance'; and
- Chapter 5 : Non-financial data.

This review is aimed at obtaining a limited level of assurance.

The sustainability information comprises a representation of the policy and business operations of SBM Offshore N.V., Amsterdam with regard to sustainability and the thereto related business operations, events and achievements for the year ended 31 December 2019.

The basis for our conclusion

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assuranceopdrachten inzake maatschappelijke verslagen' ('*Assurance engagements on corporate social responsibility reports*'), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of this assurance report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independence and quality control

We are independent of SBM Offshore N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

We apply the 'Nadere voorschriften kwaliteitssystemen '(NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The Management Board of SBM Offshore N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in section 5.1 'Scope on non-financial information' of the annual report. The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

We have reviewed the sustainability information taking into account the reporting boundaries set by SBM Offshore N.V., as disclosed in section 5.2 'Reporting boundaries'.

Limitations to the scope of our review

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

The links to external sources or websites included in the sustainability information are not part of the sustainability information itself, reviewed by us. We do not provide assurance over the information outside of this annual report.

Review approach

Overview and context

SBM Offshore N.V. states that sustainability is an important value driver for SBM Offshore N.V.'s business and operations. SBM Offshore N.V. believes its licence to grow is dependent on developing sustainable solutions for the offshore oil and gas industry. SBM Offshore N.V. uses the United Nations Sustainable Development Goals (SDGs) as target guidelines, and the GRI standards as reporting standard to report on non-financial performance.

SBM Offshore N.V. recognized 31 topics and based on their materiality assessment 17 topics can be considered important for reflecting SBM Offshore N.V.'s economic, environmental, and social impacts, or influencing the decisions of stakeholders. Based on our review procedures we have identified two topics that we consider key review matters: merged material topics and offshore emission boundaries.

The materiality matrix presents the topics that are material to stakeholders and on which SBM Offshore N.V. can have significant impact. SBM Offshore N.V. assessed the material topics identified and merged the topics into 8 'merged material topics'. To every merged material topic SBM Offshore N.V. allocated one performance indicator to be disclosed in the annual report, which results in minimum information being provided to stakeholders on the performance. We have spent significant amount of time on the assessment of the coverage of the performance indicators in relation to the 'merged material topics' based on GRI. We therefore determined this as a key review matter.

Pollution to air and sea is a material topic to SBM Offshore N.V. and is amongst others measured by various metrics on offshore emissions. This year the boundaries of reporting have been revised, thereby changing the reporting boundaries for offshore emissions which requires a thorough assessment of reporting definitions. We therefore determined this as a key review matter.

Materiality

Based on our professional judgement we determined materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the company.

We determined materiality levels for specific quantitative information within a bandwidth of 5% to 10% of the value of the indicator. The determination for either the lower or higher end of the range is based on how material the topic is for the user of the sustainability information and SBM Offshore N.V.

We agreed with the Management Board that we report any deviations observed during the course of our assessment that, in our opinion, are relevant for quantitative or qualitative reasons.

Scope of the review

SBM Offshore N.V. is the parent company of a group of entities. The sustainability information incorporates the consolidated information of this group of entities to the extent as specified in section 5.1 'Scope of non-financial information' and section 5.2 'Reporting boundaries' of the Annual Report. Our group review procedures consisted of review procedures at corporate (consolidated), including site visits. Our selection of sites in scope of our review procedures is primarily based on the site's individual contribution to the consolidated information. Furthermore, our selection of sites considered relevant reporting risks and geographical spread.

By performing our review procedures at group level, together with additional review procedures at site level, we have been able to obtain sufficient and appropriate assurance evidence about the group's sustainability information to provide a conclusion about the sustainability information.

All procedures were performed by the group review team. The group review team visited the locations in Monaco, Amsterdam and Shanghai.

Key review matters

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the sustainability information. We have communicated the key review matters to the Management Board and Supervisory Board. The key review matters are not a comprehensive reflection of all matters discussed. In this section, we described the key review matters and included a summary of the review procedures we performed on those matters.

These matters were addressed in the context of our review of the sustainability information as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters. Any comments or observations we made on the results of our procedures should be read in this context.

Key review matter	*Our review and observations*
Change in reporting boundaries for emission reporting *See section* 5.2 *Reporting Boundaries –* 5.2.2 *Environmental Reporting – Offshore emissions and* 5.4 *GRI Content Index* When using the control approach to consolidate GHG emissions, companies shall choose between either the operational control or financial control criteria. SBM Offshore has chosen operational control criteria in their reporting up to 2018. We discussed with management whether the current reporting scope is still appropriate. SBM Offshore N.V. reassessed the external reporting boundaries and adjusted them to better reflect 'operational control' based on the IPIECA (2003) definition, as is common in the industry. SBM Offshore N.V. provided a position paper elaborating on the boundary setting based on 'operational control'. We consider this a key review matter because the reassessment of the boundaries was complex by nature given the choice of control criterion in the oil and gas industry can have substantial consequences for a company's GHG emissions.	In 2019 as part of our planning procedures, we have assessed the scope. We have reviewed the boundaries used against the GHG protocol and industry guidelines for reporting GHG emissions (IPIECA, 2003). We performed inquiries to gain sufficient understanding of the defined boundaries. We have reviewed the definition of the boundaries and determined they are in line with GRI. SBM Offshore N.V. provided an overview of the vessels in scope based on 'operational control'. We verified whether the vessels included qualify to be in scope based on the defined boundaries with supporting documentation and whether the 'operational control' definition is correctly applied. SBM Offshore N.V. revised 2018 figures for Offshore emissions in line with the reassessed definition and disclosed this in the annual report. We reviewed the disclosure on revised Offshore emissions, including a change in scope of for the offshore emissions in 2019. Based on our review procedures nothing came to our attention which is not in accordance with GRI standards with respect to the information on offshore emissions and the disclosures thereto.

Key review matter	*Our review and observations*
Merging of material topics *See section* 1.7 *Materiality and Value Creation, and* 5.4 *GRI Content Index* In 2018 SBM Offshore N.V. did a stakeholder analysis in order to identify material topics. By adding the business impact, the materiality matrix of 2018 was created. SBM Offshore validated the materiality matrix with a sample of clients and vendors in 2019. Based on the results obtained, SBM Offshore N.V. concluded no changes to be made to the materiality matrix in 2019. SBM Offshore identified 17 material topics. In the process of establishing the annual report SBM Offshore N.V. assessed the link between the material topics and the business processes within the company. This assessment resulted in 8 merged material topics and the decision to allocate one performance measure to every 'merged material topic'. We consider this a key review matter because the assessment requires judgment and careful consideration.	We held several discussions with management and those charged with governance on the merged material topics. Especially, we discussed the coverage of the material topics by the indicators presented in the annual report. We reviewed the materiality matrix based on GRI and results of the stakeholder analysis performed by SBM Offshore N.V.. We evaluated whether the disclosed management approach and corresponding indicators are representative for the identified 'merged material topics', thereby providing minimum required amount of information to the stakeholders of SBM Offshore N.V.. Finally, we evaluated whether SBM Offshore N.V. disclosed the merged material topics appropriately in the GRI index of the annual report. Based on our review procedures nothing came to our attention which is not in accordance with the GRI Standards with respect to the information on materiality matrix and the disclosures thereto.

Responsibilities for the sustainability information and the review

Responsibilities of the Management Board and Supervisory Board

The Management Board of SBM Offshore N.V. is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in the section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the Management Board regarding the scope of the sustainability information and the reporting policy are summarized in section 5.1 'Scope of non-financial information' and section 5.2 'Reporting Boundaries' of the annual report. The Management Board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Management Board is also responsible for such internal control as the Management Board determines necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing SBM Offshore N.V.'s reporting process on the sustainability information.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance information to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of SBM Offshore N.V.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Management Board.
- Obtaining and understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability's strategy and, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information;
  - Determining the nature and extent of the review procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. The visits to locations in Monaco and the Netherlands are aimed at, on a local level, validating source data and evaluating the design of internal controls and validation procedures;
  - Obtaining assurance information that the sustainability information reconciles with underlying records of SBM Offshore N.V.;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level.
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the sustainability information;
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

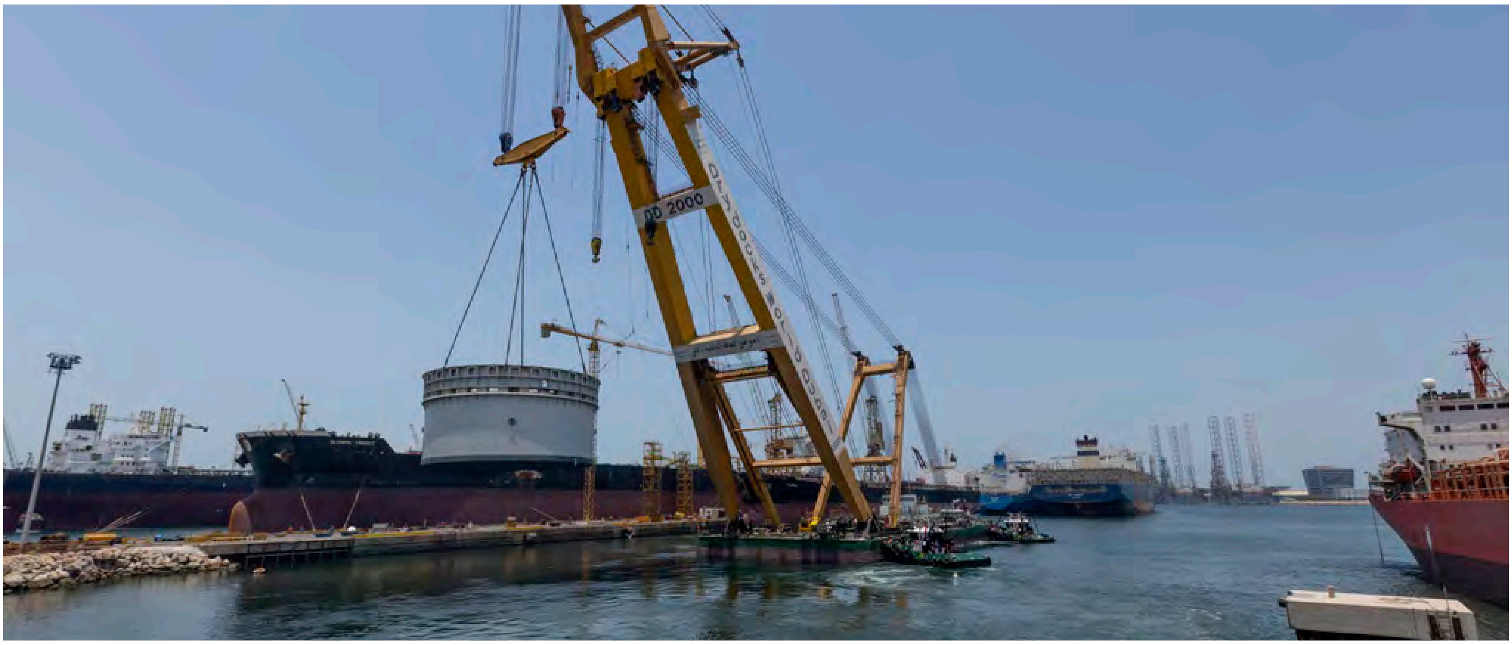
We communicate with the Supervisory Board on the planned scope and timing of the engagement and on the significant findings that result from our engagement.

Amsterdam, 12 February 2020

PricewaterhouseCoopers Accountants N.V.

A.A. Meijer RA

JOHAN CASTBERG TURRET MOORING SYSTEM



6. OTHER INFORMATION

6 OTHER INFORMATION

6.1 Glossary

Term	Definition
A&RC	Appointment and Remuneration Committee
AGM	Annual General Meeting of Shareholders
AGU	Advocacia Geral da Uniao – Attorney General's Office
API	American Petroleum Institute
BEPS	Base Erosion and Profit Shifting
boepd	Barrels of Oil Equivalent Per Day
bopd	Barrels of Oil Per Day
CALM	Catenary Anchor Leg Mooring
CAPEX	Capital Expenditure
CGCO	Chief Governance and Compliance Officer
CGU	Controladoria Geral da Uniao – Comptroller General's Office
CMHI	China Merchants Heavy Industry
CMIH	China Merchants Industry Holdings
CMO	Change Management Office
DSCV	Diving Support and Construction Vessel
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EGM	Extraordinary General Meeting of Shareholders
EPC	Engineering Procurement and Construction
EPCI	Engineering Procurement Construction and Installation
EPS	Earnings per Share
Euribor	Euro Interbank Offered Rate
FEED	Front-End Engineering and Design
FID	Final Investment Decision
FLNG	Floating Liquefied Natural Gas
FOW	Floating Offshore Wind
FPSO	Floating Production Storage and Offloading
FPU	Floating Production Unit
FSO	Floating Storage and Offloading
GDPR	General Data Protection Regulation
GEMS	Global Enterprise Management System
GHG	Greenhouse Gases
GRCD	Group Risk and Compliance Director
GRI	Global Reporting Initiative
GTS	Group Technical Standards
GWP	Global Warming Potential
HR	Human Resources

Term	Definition
HSS	Health, Safety & Security
HSSE	Health, Safety, Security & Environment
IASB	International Accounting Standards Board
ICOFR	Internal Control Over Financial Reporting
IFRS	International Financial Reporting Standards
IOGP	International Association of Oil and Gas Producers
IP	Intellectual Property
IPCC	Intergovernmental Panel on Climate Change
IPIECA	International Petroleum Industry Environmental Conservation Association
ISM	International Safety Management
ISO	International Organization for Standardization
ISPS	International Ship and Port Facility Security
ISRS	International Sustainability Rating System™
JV	Joint Venture
KPI	Key Performance Indicator
LBCR	Lease Backlog Cover Ratio
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LOPC	Loss of Primary Containment
LPG	Liquefied Petroleum Gas
LTI	Long-Term Incentive
MNOPF	Merchant Navy Officers Pension Fund
MOPU	Mobile Offshore Production Unit
MPF	Multi-Purpose Floater
mtpa	Million Tonnes per Annum
NO_x	Nitrous Oxides
NPV	Net Present Value
OECD	Organization for Economic Co-operation and Development
OHSAS	Occupational Health and Safety Assessment Series
OIFR	Occupational Illness Frequency Rate
OPEX	Operating Expenditure
PFC	Production Field Center
PP&E	Property, Plant & Equipment
ppm	Parts Per Million
PSE	Process Safety Events
PSF	Process Safety Fundamentals
PSM	Process Safety Management

Term	Definition
R&D	Research and Development
RAC	Risk Assurance Committee
RCF	Revolving Credit Facility
ROACE	Return on average capital employed
ROAE	Return on average equity
RP	Remuneration Policy
RSU	Restricted Share Unit
SDG	United Nations Sustainable Development Goals
SO_x	Sulphur Oxides
SRD II	EU Shareholders' Rights Directive
SRS	Single Reporting System
STI	Short-Term Incentive
SWS	Shangahi Waigaoquiao Shipbuilding
TLP	Tension-Leg Platform
TMS	Turret Mooring System
TRIFR	Total Recordable Injury Frequency Rate
TRL	Technology Readiness Level
TSR	Total Shareholder Return
UN	United Nations
UNGP	United Nations' Guiding Principles
VLCC	Very Large Crude Carriers
WEC	Wave Energy Converter

6 OTHER INFORMATION

6.2 ADDRESSES & CONTACT DETAILS

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