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

ENERGY. COMMITTED.

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).

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

	Directional	
in US$ million	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**

	Directional	
in US$ billion	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:

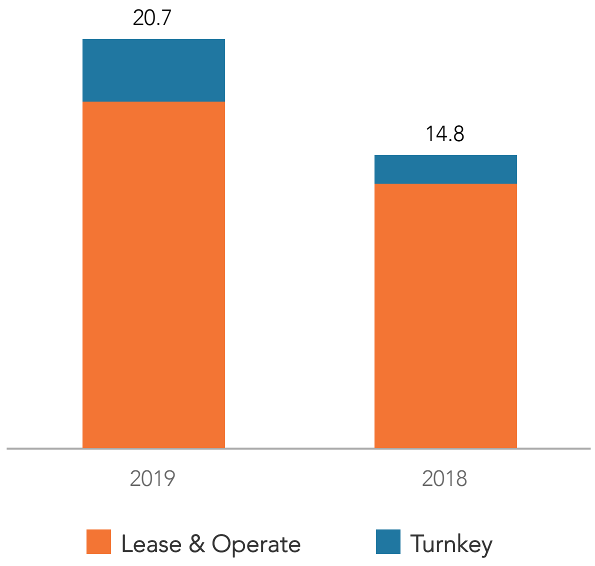
- The *Liza Destiny* contract covers 10 years of lease and operate but based on discussions with the client, it is expected that the client will purchase the unit after a period of up to two years of operations. As a result, the pro-forma backlog has been adjusted to reflect a shortened lease and operate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

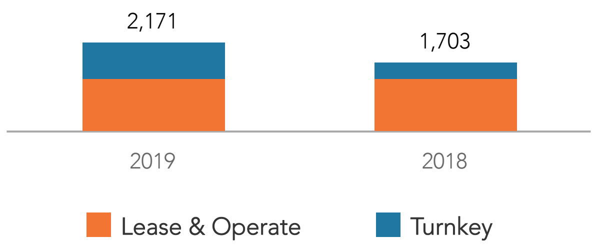


PROFITABILITY

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$)



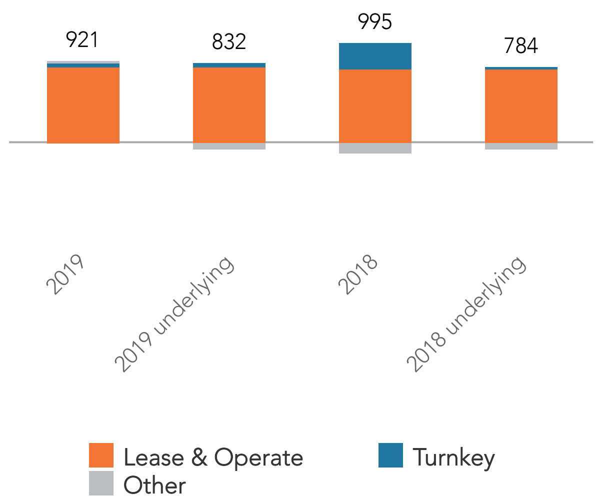
Directional Turnkey revenue increased to US$856 million, representing 39% of total 2019 revenue. This compares with US$406 million, or 24% of total revenue, in 2018. The increase was mostly attributable to the progress made on the Johan Castberg Turret Mooring System EPC project, in addition to a general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

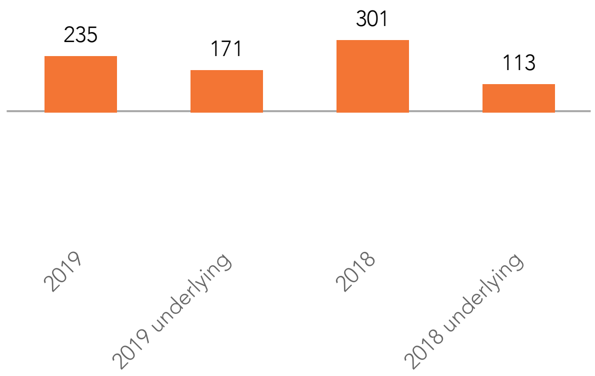
- Underlying Directional Lease and Operate EBITDA increased to US$842 million versus US$824 million in the year-ago period. The impact of units leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) was more than offset by a reduction in planned maintenance, an overall improvement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

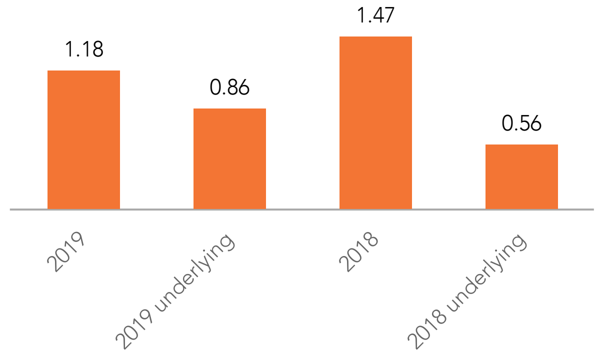
- The Company does not recognize any revenue and margin during the Turnkey phase of the project unless defined invoicing (if any) to the client occurred during the construction phase to cover specific construction work and/or services performed before the commencement of lease. These upfront payments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

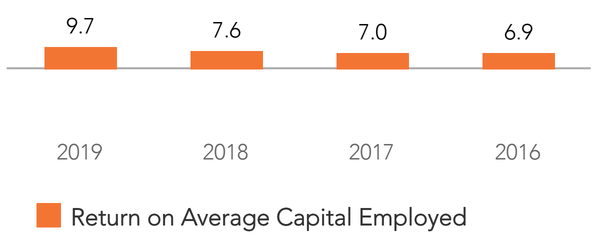
IFRS net debt stood at US$4,416 million at year-end 2019 compared with US$3,818 million in 2018. With the Lease and Operate segment generating strong operating cash flow in line with expectation, the increase of the net debt mainly reflected significant investments over the period in FPSO *Liza Destiny*,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

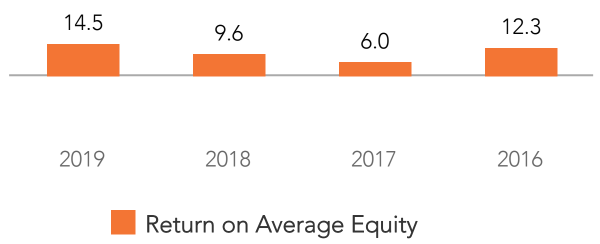
Return on average capital employed (ROACE) is a measure of the return generated on capital invested in the Company. The measure provides a guide for long-term value creation by the Company. ROACE is calculated as Underlying EBIT divided by the annual average of: i) total equity, ii) total borrowings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

	Notes	Fair value level	31 December 2019 Total book value	31 December 2019 Total fair value	31 December 2018 Total book value	31 December 2018 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-Serviçõs 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