



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4 FINANCIAL STATEMENTS 2018

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

in US\$ million	Directional		IFRS	
	FY 2018	FY 2017	FY 2018	FY 2017
Revenue	1,703	1,676	2,240	1,861
Lease and Operate	1,298	1,501	1,302	1,554
Turnkey	406	175	938	307
EBITDA	995	596	838	612
Lease and Operate	824	954	761	919
Turnkey	278	21	184	73
Other	(107)	(380)	(107)	(380)
Underlying EBITDA	784	806	844	823
Lease and Operate	824	954	761	919
Turnkey	24	(86)	147	(34)
Other	(64)	(62)	(64)	(62)
Profit/(loss) attributable to shareholders	301	(203)	212	(155)
Underlying profit attributable to shareholders	113	80	247	151

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.

The Company's most recently awarded lease contracts have a longer duration and 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 becomes cash generating 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).

Turritella (FPSO) purchase option

After an operational transition period, SBM Offshore and Shell E&P Offshore Services B.V. (Shell) completed the transaction related to the sale of *Turritella* (FPSO) on January 16, 2018.

Under Directional reporting, the gain on the disposal of the vessel has been recognized for US\$ 217 million in the consolidated income statement for the year ended December 31, 2018. Under IFRS reporting, the financial impact of the transfer of *Turritella* (FPSO) was already fully recognized in 2017.

Leniency agreement signed between SBM Offshore, Brazilian authorities and Petrobras

On July 26, 2018 the Company signed a leniency agreement 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') (the 'Leniency Agreement'). The agreement was immediately effective and legally binding as of the signature date.

At signature date, the net present value of the total financial considerations of the Leniency Agreement was in line with the provision of US\$ 299 million accounted for as at December 2017. The impact on the consolidated income statement for the period ended December 31, 2018 is limited to US\$ (13) million under both Directional and IFRS.

Agreement signed between SBM Offshore and Brazilian Public Prosecutor

In addition to the Leniency Agreement, the Company signed an agreement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF'). The Agreement provides – in addition to the amounts agreed in the Leniency Agreement – for the payment of an additional fine by the Company of BRL 200 million (Brazilian Reais). The Fifth Chamber of the MPF approved the Agreement on December 18, 2018.

As a result from the signature of the agreement, a provision has been booked during the period, up to the amount of the present value of the financial terms of the agreement, being US\$ 43 million (as per exchange rate at the transaction date), under both Directional and IFRS.

Awarded contracts for ExxonMobil's second Liza FPSO

On July 2, 2018, ExxonMobil awarded the Company contracts to perform Front End Engineering Design (FEED) for a second FPSO for the Liza development located in the Stabroek block in Guyana (FPSO *Liza Unity*). Following the FEED and subject to requisite government approvals, project sanction and authorization to proceed with the next phase, the Company will construct, install and then lease and operate the FPSO for a period of up to 2 years, after which the FPSO ownership and operation will transfer to ExxonMobil.

The design of FPSO *Liza Unity* is based on the Company's industry leading Fast4Ward™ program and will incorporate the Company's new build, multi-purpose hull combined with several standardized topside modules.

Final settlement on the Yme insurance claim

On September 10, 2018, the Company announced that it had reached a final settlement of its insurance claim related to the Yme project. Following reimbursement first of legal fees and other claim-related expenses incurred to date (the significant majority of which were incurred by the Company), the balance of the settlement monies will be shared equally with Repsol and its partners.

The impact on the consolidated income statement for the year ended December 31, 2018 is an estimated insurance income of US\$ 37 million, net of the claim-related costs incurred and accounted for in 2018. The impact is the same under Directional and IFRS reporting.

As a result of this settlement, the litigation against insurers and the associated trial which was due to commence on October 1, 2018 has been fully concluded.

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Impairment of the goodwill related to the acquisition of the Houston based subsidiaries

Based on a more pessimistic outlook for the FPU market, and the fact that project awards included in prior forecasts did not fully materialize, goodwill related to the acquisition of Houston-based subsidiaries has been impaired in full. This results in an impairment charge of US\$ 25 million under both Directional and IFRS. The establishment of a global resource pool for engineering, announced in February 2018, has facilitated the deployment of Houston-based resources towards other Product Lines, including FPSO.

Impairment of the Brazilian yard

Brazil is a key market for SBM Offshore, where a number of opportunities are being actively pursued. However, given the lead time for opportunities to mature in terms of construction activities, combined with the uncertainty regarding the evolution of local content regulations, SBM Offshore, together with its joint venture partner, has decided to take steps to close the BRASA construction yard for at least the coming few years with an option to reopen thereafter. As a consequence, the assets of the joint venture (50% owned by the Company) were fully impaired, resulting in an impairment charge of US\$ 19 million accounted for in 2018, under both Directional and IFRS reporting.

4.1.3 FINANCIAL REVIEW DIRECTIONAL

in US\$ million	Directional	
	FY 2018	FY 2017
Revenue	1,703	1,676
Lease and Operate	1,298	1,501
Turnkey	406	175
EBITDA	995	596
Lease and Operate	824	954
Turnkey	278	21
Other	(107)	(380)
Underlying EBITDA	784	806
Lease and Operate	824	954
Turnkey	24	(86)
Other	(64)	(62)
Profit/(loss) attributable to shareholders	301	(203)
Underlying profit attributable to shareholders	113	80

in US\$ billion	Directional	
	FY 2018	FY 2017
Backlog	14.8	16.8

UNDERLYING PERFORMANCE

Non-recurring items for 2018 impacted the Directional profit attributable to shareholders by US\$ 188 million as follows:

- US\$ 211 million impact on EBITDA 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, net of claim-related costs incurred and accounted for in 2018) and (iii) the additional fine payable following the signature of the agreement with the Brazilian Federal Prosecutor's Office (Ministerio Publico Federal – 'MPF') (US\$ (43) million).
- A net impairment impact of US\$ (11) million comprising i) an impairment in full of the goodwill related to the acquisition of the Houston-based subsidiaries (US\$ (25) million), ii) an impairment in full of the net investment in the BRASA yard (US\$ (19) million), largely offset by partial reversals of impairments on iii) PP&E (US\$ 11 million) and iv) a loan to one of Angolan joint ventures (US\$ 21 million).
- US\$ (13) million impact on net financing costs, relating to the unwinding of the discount on the liability for the signed Leniency Agreement with Brazilian authorities and Petrobras.