SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

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

	Directional	
in US$ million	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**

	Directional	
in US$ billion	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.

For reference, non-recurring items for 2017 were impacting the Directional profit attributable to shareholders by US$ (283) million as follows:

- US$ (210) million impact on EBITDA relating to (i) the penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') (US$ (238) million), (ii) the Yme project estimated net insurance claim income (US$ 125 million, net of claim-related costs incurred and accounted for in 2017) (iii) the compensation to the partners in the investee owning the *Turritella* (FPSO) following the purchase option exercised by Shell (US$ (80) million) and (iv) the net increase of the provision for the onerous long-term charter contract with the SBM Installer[1] (US$ (17) million).
- US$ (39) million impact on net financing costs, relating to (i) unwinding of the discount on the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ (18) million) and (ii) the hedge accounting discontinuance of the interest rate swap on the *Turritella* (FPSO) project loan (US$ (21) million).
- US$ (34) million impact on the line item 'Share of profit of equity-accounted investees' relating to the impairment of the Company's carrying amount of the net investment in the joint venture owning the PAENAL construction yard.

BACKLOG

Under the Company's policy, the backlog would not yet take the operating and maintenance scope on FPSO *Liza Destiny* into account, which is agreed in principle, but pending a final work order. However, for the purpose of transparency, to be consistent with prior year and to better reflect the current reality, the pro-forma backlog represented in the table below takes the operating and maintenance scope on FPSO *Liza Destiny* into account.

With respect to FPSO *Liza Destiny*, as disclosed on July 3, 2018, discussions with the client are underway regarding a potential accelerated transfer of ownership using the purchase option in the ten year lease contract. The outcomes of these discussions are expected to lead to a transfer of the FPSO ownership and operation after a period of up to two years after startup. As a result, the pro-forma backlog has been adjusted to reflect a shortened Lease and Operate duration of two years for FPSO *Liza Destiny*.

The pro-forma Directional backlog at the end of December 2018 decreased by c. US$ 2.0 billion to a total of US$ 14.8 billion. This decrease is mostly explained by turnover for the period of US$ 1.7 billion, mainly coming from Lease and Operate, and the update of the backlog related to FPSO *Liza Destiny*. The decrease is partially mitigated by various new orders and variation orders, mainly in the Turnkey segment, which caused a net increase in the backlog of c. US$ 0.4 billion.

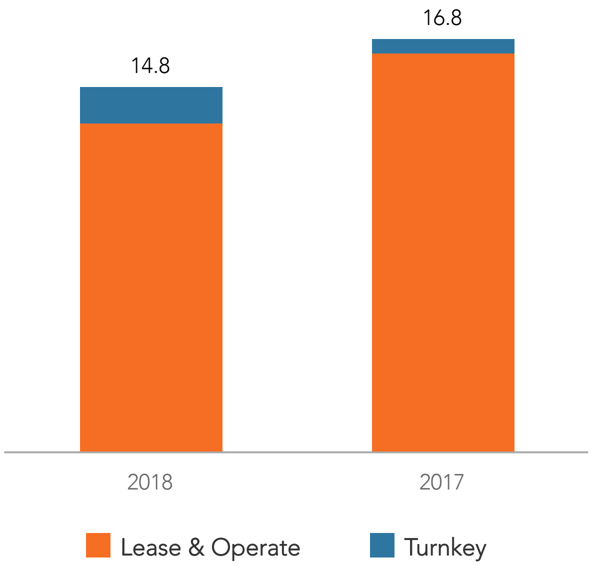
Consequently, the pro-forma Directional backlog at the end of 2018 remained substantial at US$ 14.8 billion (US$ 16.8 billion at the end of 2017).

[1] Diving Support and Construction Vessel (DSCV) - one of the two units in SBM Offshore's installation fleet

Pro-forma Backlog (in billions of US$)

in billions of US$	Turnkey	Lease & Operate	Total
2019	0.4	1.3	1.8
2020	0.1	1.5	1.6
2021	0.9	1.4	2.3
Beyond 2021	0.0	9.1	9.1
Total Backlog	1.4	13.4	14.8

Pro-forma Backlog (in billions of US$)

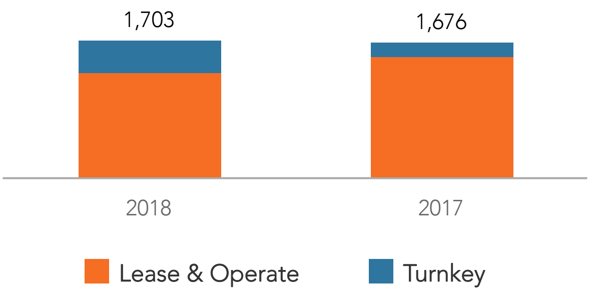


PROFITABILITY

Revenue

Total Directional revenue increased by 2% to US$ 1,703 million compared with US$ 1,676 million in 2017. This increase is primarily attributable to an improvement in the Turnkey segment.

Revenue Directional (in millions of US$)



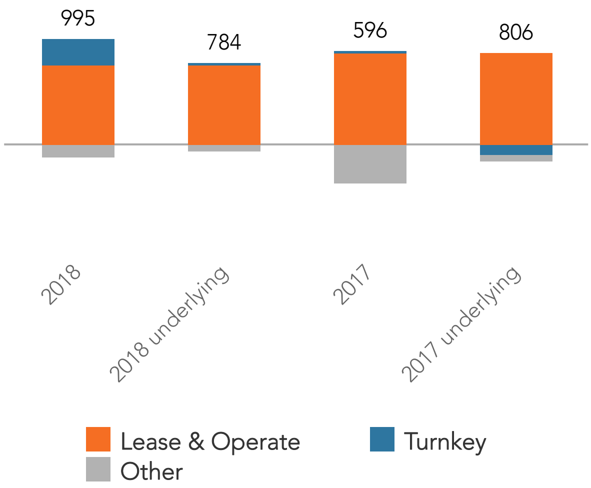
Directional Turnkey revenue increased to US$ 406 million, representing 24% of total 2018 revenue. This compares with US$ 175 million, or 10% of total revenue, in 2017. The increase was mostly attributable to the full-year contribution of the *Johan Castberg* Turret Mooring System EPC project, awarded at the back-end of 2017, in addition to a general ramp-up of Turnkey activities, such as Offshore Terminals and Offshore Contracting services.

Directional Lease and Operate revenue decreased by 14% to US$ 1,298 million, representing 76% of total Directional revenue contribution in 2018, down from the 90% contribution in 2017. This decrease mainly resulted from *Turritella* (FPSO) leaving the fleet after successful handover of the vessel to Shell on January 16, 2018.

EBITDA

Directional EBITDA amounted to US$ 995 million, representing a 67% increase compared with US$ 596 million in 2017. The 2018 figure includes non-recurring items totaling US$ 211 million (please refer to the detail provided in 4.1.1 Financial Overview).

EBITDA Directional (in millions of US$)



Adjusted for non-recurring items, Underlying Directional EBITDA was broadly stable at US$ 784 million compared with US$ 806 million in 2017. The variance in Underlying EBITDA by segment is further detailed as follows:

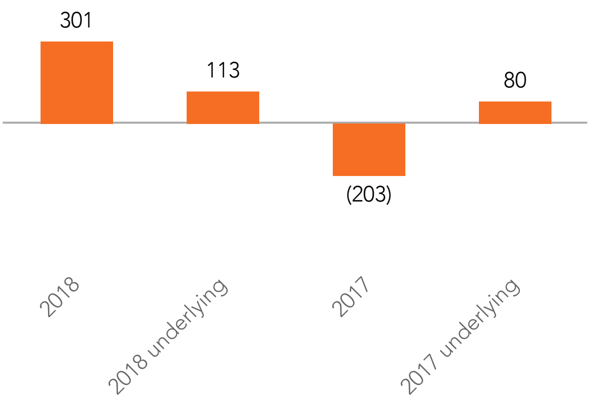
- A decrease in Underlying Directional Lease and Operate EBITDA from US$ 954 million in the year-ago period to US$ 824 million, mainly driven by *Turritella* (FPSO) leaving the fleet and planned maintenance. Full year 2018 Underlying Directional Lease & Operate EBITDA margin stood at 64%, stable compared with 64% in 2017.
- Underlying Directional Turnkey EBITDA increased by US$ 110 million due to the gradual ramp-up of Turnkey activity year-on-year, the impact of implementing IFRS 16 and realized savings on overhead cost. The Underlying Directional Turnkey EBITDA margin expressed as percentage of Turnkey revenue came in at 6%, compared with (49)% in the previous period. The increased level of activity during 2018 was sufficient to absorb structural cost of the segment.
- The Underlying Other non-allocated costs charged to EBITDA stood at US$ (64) million, stable when compared with the year-ago period.

Following the early adoption of IFRS 16 as per January 1, 2018, lease payments that were previously presented as rental cost are now presented as depreciation and finance cost. This change in classification had a positive impact on the Company's reported Directional EBITDA of approximately US$ 30 million and resulted in an increase of depreciation and net financing cost.

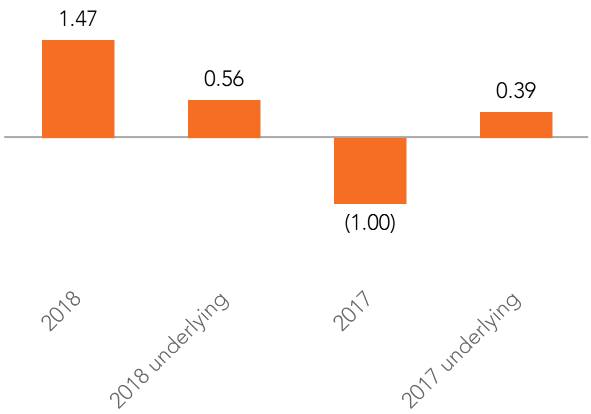
It should be noted that the construction of the FPSO *Liza Destiny* did not contribute to Directional revenue and gross margin over the period. This is because the contract is 100% owned by the Company and is classified as operating lease as per Directional accounting principles. Subject to the final outcome of the discussion with the client relating to the potential acquisition of the FPSO *Liza Destiny*, the Company has determined that it is optimal from an operational and financial perspective to retain full ownership as opposed to partnering on this project. As a consequence, under the Company's Directional accounting policy, the Company has not booked revenue and margin deriving from partner contributions during the Turnkey phase of the project. The Company will instead book revenue and margin for its 100% share in the Lease and Operate phase, in line with the cash flows during the lease period.

Net income

Net Income Directional (in millions of US$)



Weighted Average Earnings Per Share Directional (in US$)



Directional consolidated net income for 2018 increased to a US$ 301 million gain compared with a US$ (203) million loss in 2017. These results include non-recurring items, which generate a net profit of US$ 188 million in 2018 compared with a net loss of US$ (283) million in 2017.

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

STATEMENT OF FINANCIAL POSITION

in millions of US$	2018	2017
Total equity	1,317	1,097
Net debt[1]	2,353	2,687
Net cash	657	878
Total assets	6,535	6,915
Leverage ratio	2.5	3.0
Solvency ratio	36.1	32.5

1 Net debt at December 31, 2018 is calculated as total borrowings (including lease liabilities) less cash and cash equivalents.

Shareholder's equity increased from US$ 1,097 million to US$ 1,317 million, mostly due to the 2018 result, partly offset by dividends paid to shareholders.

Directional net debt decreased to US$ 2,353 million at year-end 2018, compared with US$ 2,687 million in 2017 despite (i) significant capital expenditures (US$ 332 million) (mainly in FPSO *Liza Destiny)*, (ii) investment in two Fast4Ward™ hulls (approx. US$ 90 million) and (iii) recognition of lease liabilities due to IFRS 16 implementation (a net book value of US$ 189 million at December 31, 2018). This has been possible as a result of the strong operating cash flow from the Lease and Operate segment, while the net proceeds from the Yme insurance claim and the *Turritella* (FPSO) disposal offset to a large extent the payment of the non-recurring penalties as a result of the Leniency Agreement.

Excluding the lease liabilities recognized following the early adoption of IFRS 16, all of the Company's debt consisted of non-recourse project financing in special purpose investees with no borrowing at corporate level as of December 31, 2018.

Total assets decreased to US$ 6.5 billion as of December 31, 2018 compared with US$ 6.9 billion at year-end 2017. This decrease was driven by the disposal of *Turritella* (FPSO) and regular impact of depreciation of the fleet, whereas the investments in assets under construction (FPSO *Liza Destiny*) and inventory (two Fast4Ward™ hulls), financed by the use of the cash available at Corporate level, were offset by a consequent decrease of net cash.

The relevant covenants (solvency ratio, leverage ratio and interest cover ratio) applicable for the Company's RCF, undrawn as at year-end 2018, were all met at December 31, 2018. 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.

CASH FLOW / LIQUIDITIES

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

The consolidated cash flow statement under Directional reporting is as follows:

in millions of US$	2018	2017
EBITDA	**995**	**596**
Adjustments for non-cash and investing items		
Addition/(release) provision	78	292
(Gain)/loss on disposal of property, plant and equipment	(221)[1]	0
Share-based payments	17	12
Changes in operating assets and liabilities		
Decrease in operating receivables	100	31
Movement in construction work-in-progress / contract liability	98	7
Movement in inventories	(90)[2]	(5)
Decrease in operating liabilities	(317)[3]	(196)
Income taxes paid	(35)	(30)
Net cash flows from (used in) operating activities	**625**	**707**
Capital expenditures	(332)	(96)
(Addition) / repayments of funding loans	(60)	38
Other investing activities	584[4]	30
Net cash flows from (used in) investing activities	**192**	**(28)**
Repayments of borrowings and loans	(783)[5]	(381)
Dividends paid to shareholders	(51)	(47)
Interest paid	(176)	(192)
Net cash flows from (used in) financing activities	**(1,010)**	**(620)**
Foreign currency variations	(29)	(3)
Net increase/(decrease) in cash and cash equivalents	**(222)**	**55**

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$ (217) million.
2 Mainly includes investment in two Fast4Ward™ hulls.
3 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.
4 Mainly includes the Company 55% share in the proceeds from the sale of Turritella (FPSO) for US$ 544 million.
5 Includes the Company 55% share in the redemption of Turritella (FPSO) project financing loan for US$ (398) million.

Net decrease in cash and cash equivalents by US$ 222 million over 2018 mainly as a result of the Company's investment, without drawdown on the Company's existing financing, in the FPSO *Liza Destiny* project and the construction of two Fast4Ward™ new-build multi-purpose hulls. Payment of the non-recurring penalties as a result of the Leniency Agreement, dividends distributed, repayment of the Company's non-recourse debt in accordance with the respective repayment schedules and interest paid on this non-recourse debt, was offset by the Company's strong operating cash flow and the proceeds from the Yme insurance claim and the *Turritella* (FPSO) disposal.

4.1.4 FINANCIAL REVIEW IFRS

	IFRS	
in US$ million	FY 2018	FY 2017
Revenue	**2,240**	**1,861**
Lease and Operate	1,302	1,554
Turnkey	938	307
EBITDA	**838**	**612**
Lease and Operate	761	919
Turnkey	184	73
Other	(107)	(380)
Underlying EBITDA	**844**	**823**
Lease and Operate	761	919
Turnkey	147	(34)
Other	(64)	(62)
Profit/(loss) attributable to shareholders	**212**	**(155)**
Underlying profit attributable to shareholders	**247**	**151**

UNDERLYING PERFORMANCE

The 2018 non-recurring items described in note 4.1.3 Financial Review Directional have the same impact under IFRS and Directional reporting, with the exception of i) the disposal of *Turritella* (FPSO) which was already fully recognized in 2017 under IFRS and ii) a different value for the reversal of impairment on a loan to one of the Angolan joint ventures (US$ 15 million under IFRS compared with US$ 21 million under Directional reporting). As a result, the total impact of non-recurring items for 2018 on IFRS profit attributable to shareholders is US$ (35) million.

For reference, total non-recurring items for 2017 underlying performance impacted the IFRS profit attributable to shareholders by US$ (306) million.

PROFITABILITY

Revenue

Total IFRS revenue increased by 20% to US$ 2,240 million compared with US$ 1,861 million in 2017. 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, both starting during the second half of 2017, as well as the general ramp-up of other Turnkey activities such as Offshore Terminals and Offshore Contracting. The positive contribution of the Turnkey segment was partly offset by a decrease in revenue of the Lease and Operate segment mainly due to *Turritella* (FPSO) leaving the fleet, planned maintenance, and declining profile of interest revenue from finance leases.

EBITDA

IFRS EBITDA amounted to US$ 838 million, representing a 37% increase, largely driven by non-recurring items, compared with US$ 612 million in 2017.

Adjusted for non-recurring items, 2018 underlying IFRS EBITDA was broadly stable at US$ 844 million compared with US$ 823 million in 2017. This resulted from a decrease of the Underlying EBITDA of the Lease and Operate segment, mainly due to *Turritella* (FPSO) leaving the fleet, planned maintenance and declining profile of interest revenue from finance leases, more than offset by an improvement in the Turnkey segment with the full year