SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 FINANCIAL HIGHLIGHTS

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. At the transaction date, the Company owned 55% of the investee that owned the *Turritella* (FPSO). Nippon Yusen owned another 15% and Mitsubishi Corporation the remaining 30%. The transaction comprised a total cash consideration to the investee of US$ 987 million primarily used for the repayment of the project financing loan of US$ 723 million.

The financial impacts in the year ended December 31, 2018 consolidated financial statements are the following:

- Under Directional reporting, the gain on the disposal of the vessel has been recognized for US$ 217 million under the line item 'Other operating income' of the consolidated income statement for the year ended December 31, 2018. This corresponds to the difference between the Company's 55% share in the proceeds from the sale (US$ 544 million) and the net book value of the vessel accounted for as asset held for sale in the Directional statement of financial position as of December 31, 2017 (US$ 327 million). After payment of the US$ 80 million compensation to the partners in the investee according to the guarantee provided by the Company in the joint venture agreements in case of early termination of the lease contract, as provided for in 2017, the transaction resulted in a reduction of the Company's Directional net debt by US$ 463 million compared with 2017 year-end.
- Under IFRS reporting, the net book value of the finance lease receivable accounted for in the statement of financial position as of December 31, 2017 has been fully recovered through the receipt of the selling price of US$ 987 million at transaction date, without any additional impact on the IFRS consolidated income statement for the year ended December 31, 2018. After payment to the partners in the investee of the US$ 80 million compensation, as provided for in 2017, dividends and equity repayment, the transaction resulted in a reduction of the Company's IFRS net debt by US$ 764 million compared with 2017 year-end.

Leniency agreement signed between SBM Offshore, Brazilian authorities and Petrobras

On July 26, 2018 SBM Offshore N.V. and SBM Holding Inc. S.A. 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. The agreement is to a large extent comparable to the agreement which was reached in July 2016 with CGU, AGU and Petrobras and which also included the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') as reported on July 16, 2016. This agreement was however ultimately not approved by the Fifth Chamber of the MPF, as reported on September 2, 2016.
The Leniency Agreement provides for:

- A cash payment by SBM Offshore to Petrobras totalling US$ 146 million (BRL 549 million), of which US$ 70 million (BRL 264 million) is a civil fine and US$ 76 million (BRL 285 million) is compensation for alleged damages. The total amount was paid within 90 days; and
- A reduction of 95% in future performance bonus payments related to FPSOs *Cidade de Anchieta* and *Capixaba* Lease and Operate contracts, representing an agreed nominal value of approximately US$ 180 million over the period 2016 to 2030, of which an amount of US$ 41 million relating to historical bonus payments (2016 to signature date) was paid as per the agreement within 90 days of the signing of the Leniency Agreement and an amount of US$ 9 million relating to the first reduction payment of FPSOs *Cidade de Anchieta* after signature date was paid in October 2018. The future bonus payments (from signature date to 2030) represented a net present value of approximately US$ 110 million (at the signature date), as further compensation for alleged damages.

At signature date, the total of the above financial considerations of the leniency agreement were in line with the provision of US$ 299 million accounted for as at December 2017. After (i) payments made over the second half of 2018 (US$196 million) and (ii) subsequent revaluation of the net present value of future bonus payments

(US$ 13 million accounted for in the income statement and related to yearly escalation and unwinding of the discounting impact), the outstanding liability as per December 31, 2018 amounted to US$ 116 million.

Agreement signed between SBM Offshore and Brazilian Public Prosecutor

Following the Leniency Agreement, the Company signed an additional agreement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') on August 31, 2018. The Agreement means that the Company has now also reached a final settlement with the MPF over alleged improper sales practices before 2012, in addition to that with the Brazilian Authorities and Petrobras. The Agreement was approved by the Fifth Chamber of the MPF on December 18, 2018.

The Agreement provides – in addition to the amounts agreed in the Leniency Agreement – for the payment of an additional fine by SBM Offshore of BRL 200 million (Brazilian Reais). The additional fine is to be paid to Petrobras in instalments: an upfront payment of BRL 60 million, with seven yearly instalments of BRL 20 million thereafter.

As a result of 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, impacting the line 'Other operating expense' of the consolidated income statement. The impact of unwinding the discounting impact, recorded on the line 'Net financing costs' in the consolidated income statement, is limited to an amount below US$ 1 million.

Following the Fifth Chamber approval, the MPF has made a court filing to terminate the improbity lawsuit including the associated provisional measure to secure payment of potential damages. The MPF initiated the improbity lawsuit in 2017 (refer to note 4.3.28 Commitments and Contingencies). Upon closure of the lawsuit, the agreement will become fully effective, after which SBM Offshore will pay the earlier announced fine of BRL 200 million in line with the agreed payment schedule.

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. 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. As such, once the contract is awarded, the FPSO *Liza Unity* lease contract will be qualified and accounted as finance lease under IFRS 16.

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. The agreement reached with the remaining insurers of the Yme project follows partial settlements with other insurers announced on July 17, 2017, August 11, 2017 and August 9, 2018. Including the prior settlements, total insurance recoveries related to the Yme project represent a total amount close to US$ 390 million.

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 Yme License partners in accordance with the terms of their settlement agreement of March 11, 2013 which concluded the Yme project.

The impact on the result attributable to the Company for the period ended December 31, 2018 is an insurance income of US$ 37 million, net of the claim-related costs incurred and accounted for in 2018, reported as 'Other operating income' in the consolidated income statement for the year ended December 31, 2018.

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.

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

Although the Company will continue to seek opportunities in the Floating Production Unit (FPU) market, the visibility of client activity in this segment remains subdued. Following this more pessimistic market outlook, 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, recognized on the line item 'Other operating (expense)' of the consolidated income statement over the period ended December 2018 (please refer to note 4.3.14 Intangible Assets). 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 under both Directional and IFRS reporting. Because this investment is accounted for using the equity method, this non-cash impairment has been recognized on the line item 'Share of profit of equity-accounted investees' of the consolidated income statement over the period ended December 31, 2018 (please refer to note 4.3.31 Interest in Joint Ventures and Associates) bringing the value of the net investment in the joint venture to nil.

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