SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

The following table presents the unsatisfied performance obligations as at December 31, 2018 (in billions of US$)

Unsatisfied performance obligations related to:	31 December 2018
- constructions contracts including finance leases	1.1
- operating contracts	5.7
Total	**6.8**

The unsatisfied performance obligations for the committed construction contracts relate mostly to three major construction contracts (one FPSO and two 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 lessor (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 result of various commercial discussions with clients, the Company recognized revenue amounting to US$ 23 million in 2018 originating from performance obligations satisfied in previous periods.

4.3.4 OTHER OPERATING INCOME AND EXPENSE

	2018	2017
Insurance claim income	37	125
Gains from sale of financial participations, property, plant and equipment	0	0
Other operating income	3	5
Total other operating income	**40**	**130**
Settlement expenses	(45)	(238)
Impairment of goodwill	(25)	-
Restructuring expenses	(1)	(10)
Other operating expense	0	(121)
Total other operating expense	**(70)**	**(369)**
Total	**(30)**	**(239)**

In 2018 and 2017 the insurance claim income corresponds to the Company's estimated share of the Yme insurance claim settlement, net of the claim-related costs (please refer to note 4.3.1 Financial Highlights).

In 2018, impairment of goodwill relates to the full impairment of the goodwill related to the acquisition of Houston-based subsidiaries (please refer to note 4.3.1 Financial Highlights).

In 2018, the settlement expenses mainly relate 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') (please refer to note 4.3.1 Financial Highlights).

The previous year's expense relates to (i) the non-recurring penalty following signature of the Deferred Prosecution Agreement with the U.S. Department of Justice (US$ 238 million) resolving the investigation into the Company's legacy issues, (ii) the US$ 40 million impairment of the *Turritella* (FPSO) finance lease receivable and the compensation (US$ 80 million) to the partners in the investee owning *Turritella* (FPSO) following the purchase option exercised by Shell and (iii) provisions for onerous contracts related to long-term offices rentals (US$ 7 million).

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2018 and 2017:

	Note	2018	2017
Expenses on construction contracts		(469)	(164)
Employee benefit expenses	4.3.6	(519)	(514)
Vessels operating costs		(289)	(337)
Depreciation, amortization and impairment		(235)	(253)
Selling expenses		(22)	(17)
Other costs		(142)	(346)
Total expenses		**(1,676)**	**(1,632)**

Year-on-year, expenses on construction contracts sharply increased mainly as a result of higher activity on Turnkey projects. The main projects responsible for the increase of expenses are FPSO *Liza Destiny* and the *Johan Castberg* TMS EPC project.

The decrease of vessels operating costs of US$ 48 million compared with 2017 relates mainly to *Turritella* (FPSO) which was sold to the client on January 16, 2018.

In 2018, depreciation, amortization and impairment was impacted by a US$ 25 million impairment charge of goodwill related to the acquisition of the Houston based subsidiaries and early adoption of IFRS 16 where 2018 rental expenses have been replaced by US$ 20 million additional depreciation. In 2017, depreciation, amortization and impairment was impacted by the US$ 40 million impairment of the finance lease receivable of *Turritella* (FPSO).

In 2018, other costs included the additional provision of US$ 43 million (200 million Brazilian Reais) for settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') (please refer to note 4.3.1 Financial Highlights). In 2017, other costs included i) US$ 238 million of monetary penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') and ii) US$ 80 million for the compensation to the partners in the *Turritella* (FPSO) investee following the purchase option exercised by Shell.

Expenses related to short-term leases and leases of low value assets amounted to US$ 4 million in 2018.