SBM OFFSHORE

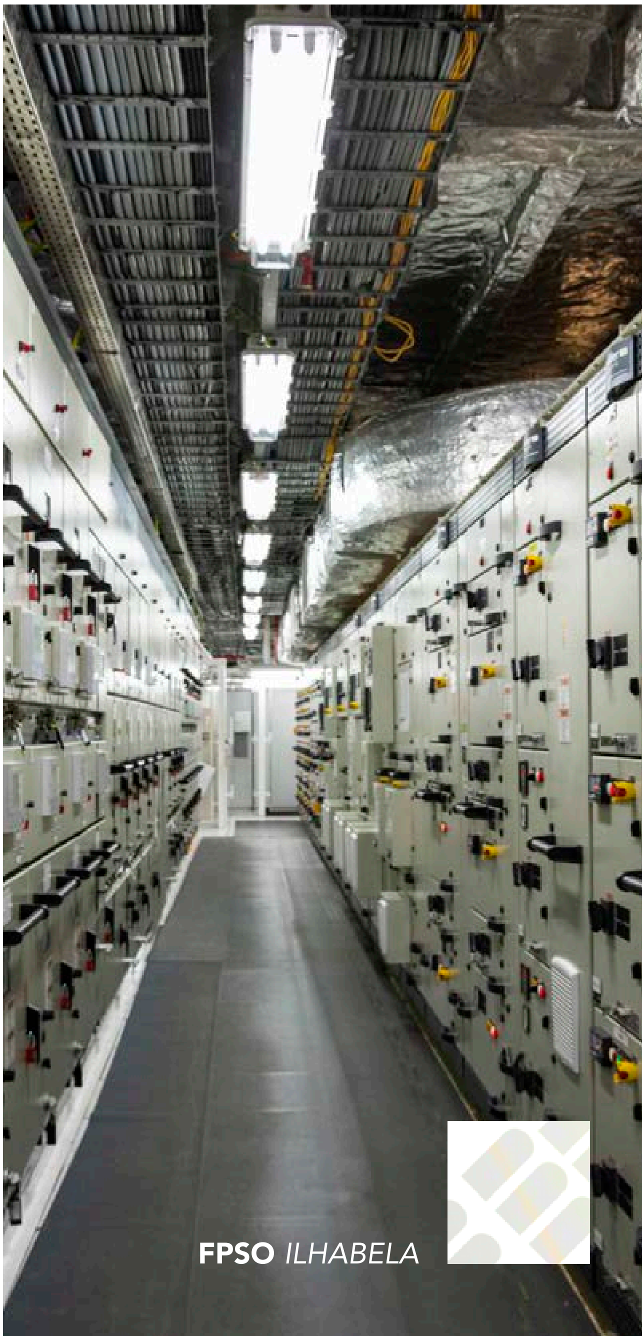
ENERGY. COMMITTED.

ANNUAL REPORT 2018

4.

FINANCIAL STATEMENTS 2018

·INTEGRITY·



FPSO *ILHABELA*

4 FINANCIAL STATEMENTS 2018

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

	Directional		IFRS	
in US$ million	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.

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.

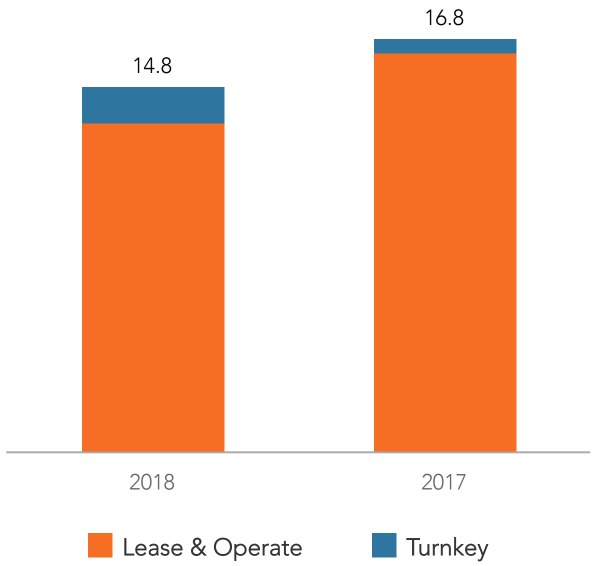
Consequently, the pro-forma Directional backlog at the end of 2018 remained substantial at US$ 14.8 billion (US$ 16.8 billion at the end of 2017).

[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$)

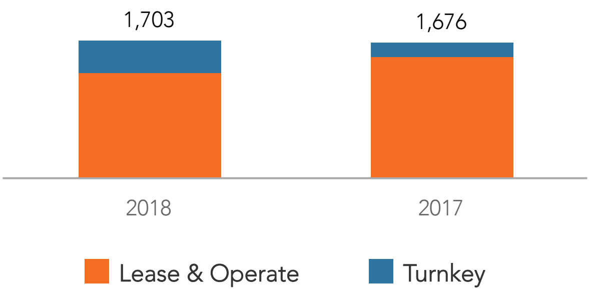


PROFITABILITY

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$)



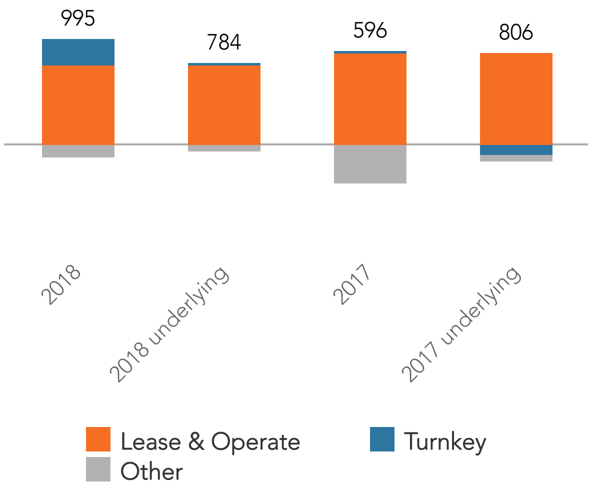
Directional Turnkey revenue increased to US$ 406 million, representing 24% of total 2018 revenue. This compares with US$ 175 million, or 10% of total revenue, in 2017. The increase was mostly attributable to the full-year contribution of the *Johan Castberg* Turret Mooring System EPC project, awarded 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:

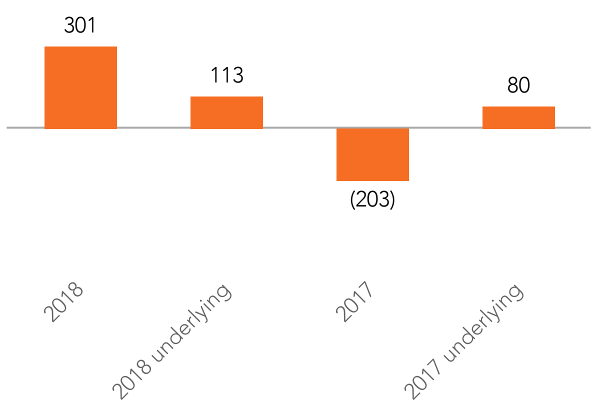
- A decrease in Underlying Directional Lease and Operate EBITDA from US$ 954 million in the year-ago period to US$ 824 million, mainly driven by *Turritella* (FPSO) leaving the fleet and planned maintenance. Full year 2018 Underlying Directional Lease & Operate EBITDA margin stood at 64%, stable compared 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.

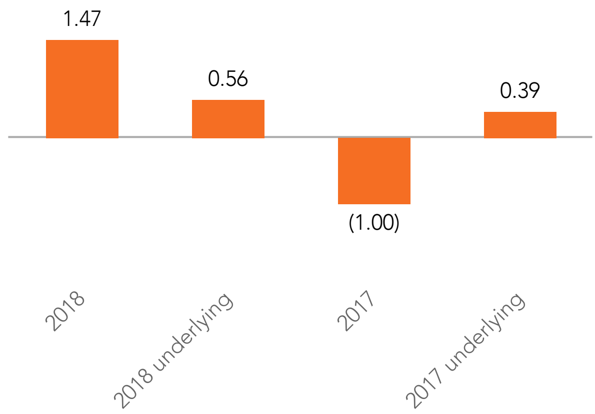
It should be noted that the construction of the FPSO *Liza Destiny* did not contribute to Directional revenue and gross margin over the period. This is because the contract is 100% owned by the Company and is classified as operating lease as per Directional accounting principles. Subject to the final 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 contribution of FPSO *Liza Destiny*, the general ramp-up of Turnkey activity, the implementation of IFRS 16 and realized savings on overhead costs.

Net income

Excluding non-recurring items, 2018 underlying consolidated IFRS net income attributable to shareholders stood at US$ 247 million, an increase of US$ 96 million from the previous year.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2018	2017	2016	2015	2014
Total equity	3,612	3,559	3,513	3,465	3,149
Net debt[1]	3,818	4,613	5,216	5,208	4,775
Net cash	718	957	904	515	475
Total assets	9,992	11,007	11,488	11,340	11,118

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

Total equity increased from US$ 3,559 million to US$ 3,612 million as a result of the profit over the financial year, partially offset by (i) dividends paid to shareholders and (ii) equity repayment and dividends paid to non-controlling interests.

IFRS net debt stood at US$ 3,818 million at year-end 2018 compared with US$ 4,613 million in 2017 despite (i) significant investments in FPSO *Liza Destiny* and two Fast4Ward™ hulls over the period and (ii) recognition of lease liabilities due to IFRS 16 implementation. 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 (at a net book value of US$ 189 million at December 31, 2018), 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$ 10.0 billion as of December 31, 2018 compared with US$ 11.0 billion at year-end 2017. This decrease is mainly attributable to finance lease redemptions, in particular the redemption of the *Turritella (FPSO)* finance lease receivable, and capex depreciation over the period, whereas the investments in 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 the net cash position.

4.1.5 OUTLOOK AND GUIDANCE

Management confirms its continued positive outlook for the Company. The recovery may not be industry-wide, however the recovery is visible within the area of large-size FPSOs with expected multiple awards for the coming years. SBM Offshore, as an industry leader with its game changing Fast4Ward™ program, is well positioned to be one of the key players to benefit from the upturn in the market.

The Company's 2019 Directional revenue guidance is around US$2.0 billion, of which US$1.3 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$750 million for the Group.

4.2 CONSOLIDATED FINANCIAL STATEMENTS

4.2.1 CONSOLIDATED INCOME STATEMENT

in millions of US$	Notes	2018	2017[1]
Revenue from contracts with customers	4.3.2 / 4.3.3	1,744	1,248
Interest revenue from finance lease calculated using the effective interest method	4.3.2 / 4.3.4	496	613
Total revenue		**2,240**	**1,861**
Cost of sales	4.3.5	(1,437)	(1,063)
Gross margin	4.3.2	**802**	**798**
Other operating income/(expense)	4.3.4 / 4.3.5	(30)	(239)
Selling and marketing expenses	4.3.5	(36)	(36)
General and administrative expenses	4.3.5	(122)	(132)
Research and development expenses	4.3.5 / 4.3.7	(23)	(33)
Net impairment gains/(losses) on financial and contract assets	4.3.5 / 4.3.8	13	(1)
Operating profit/(loss) (EBIT)	4.3.2	**603**	**358**
Financial income	4.3.9	46	27
Financial expenses	4.3.9	(279)	(358)
Net financing costs		**(233)**	**(331)**
Share of profit/(loss) of equity-accounted investees	4.3.31	13	(2)
Profit/(loss) before tax		**384**	**25**
Income tax expense	4.3.10	(40)	(26)
Profit/(loss)		**344**	**(1)**
Attributable to shareholders of the parent company		212	(155)
Attributable to non-controlling interests	4.3.32	132	154
Profit/(loss)		**344**	**(1)**

1 Restated to separately present net impairment losses on financial and contract assets following IFRS 9 implementation

Earnings/(loss) per share

	Notes	2018	2017
Weighted average number of shares outstanding	4.3.11	204,270,610	202,849,287
Basic earnings/(loss) per share	4.3.11	US$ 1.04	US$ (0.76)
Fully diluted earnings/(loss) per share	4.3.11	US$ 1.04	US$ (0.76)

4.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of US$	2018	2017
Profit/(loss) for the period	**344**	**(1)**
Cash flow hedges	4	200
Deferred tax on cash flow hedges	-	-
Foreign currency variations	(15)	(15)
Items that are or may be reclassified to profit or loss	**(11)**	**185**
Remeasurements of defined benefit liabilities	(4)	7
Deferred tax on remeasurement of defined benefit liabilities	-	0
Items that will never be reclassified to profit or loss	**(4)**	**7**
Other comprehensive income/(expense) for the period, net of tax	**(15)**	**192**
Total comprehensive income/(expense) for the period, net of tax	**329**	**191**
Of which		
- on controlled entities	312	192
- on equity-accounted entities	16	0
Attributable to shareholders of the parent company	164	23
Attributable to non-controlling interests	165	169
Total comprehensive income/(expense) for the period, net of tax	**329**	**191**

4.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in millions of US$	Notes	31 December 2018	31 December 2017
ASSETS			
Property, plant and equipment	4.3.13	1,198	1,243
Intangible assets	4.3.14	19	42
Investment in associates and joint ventures	4.3.31	421	457
Finance lease receivables	4.3.15	5,753	5,945
Other financial assets	4.3.16	211	201
Deferred tax assets	4.3.17	26	27
Derivative financial instruments	4.3.21	12	8
Total non-current assets		**7,641**	**7,922**
Inventories	4.3.18	101	10
Finance lease receivables	4.3.15	195	1,252
Trade and other receivables	4.3.19	596	635
Income tax receivables		11	10
Construction work-in-progress	4.3.20	695	134
Derivative financial instruments	4.3.21	34	85
Cash and cash equivalents	4.3.22	718	957
Assets held for sale		2	2
Total current assets		**2,351**	**3,085**
TOTAL ASSETS		**9,992**	**11,007**
EQUITY AND LIABILITIES			
Issued share capital		59	62
Share premium reserve		1,163	1,163
Treasury shares		(14)	(35)
Retained earnings		1,533	1,376
Other reserves	4.3.23	(108)	(65)
Equity attributable to shareholders of the parent company		**2,634**	**2,501**
Non-controlling interests	4.3.32	978	1,058
Total Equity		**3,612**	**3,559**
Borrowings and lease liabilities	4.3.24	4,017	4,347
Provisions	4.3.26	150	242
Deferred income	4.3.25	200	249
Deferred tax liabilities	4.3.17	36	16
Derivative financial instruments	4.3.21	41	80
Other non-current liabilities	4.3.27	100	-
Total non-current liabilities		**4,545**	**4,935**
Borrowings and lease liabilities	4.3.24	519	1,223
Provisions	4.3.26	317	588
Trade and other payables	4.3.27	899	596
Income tax payables		25	33
Derivative financial instruments	4.3.21	75	73
Total current liabilities		**1,835**	**2,514**
TOTAL EQUITY AND LIABILITIES		**9,992**	**11,007**

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 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.

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 2017	**213,471,305**	56	1,163	(166)	1,697	(235)	**2,516**	996	**3,513**
Profit/(loss) for the period		-	-	-	(155)	-	**(155)**	154	**(1)**
Foreign currency translation		8	-	(5)	-	(17)	**(15)**	1	**(15)**
Remeasurements of defined benefit provisions		-	-	-	-	7	**7**	-	**7**
Cash flow hedges		-	-	-	-	186	**186**	14	**200**
Total comprehensive income for the period		8	-	(5)	(155)	176	**23**	169	**191**
IFRS 2 vesting cost of share based payments		-	-	-	-	12	**12**	-	**12**
Treasury shares transferred on the share based scheme		-	-	20	(2)	(17)	**1**	-	**1**
Share cancellation	(7,800,000)	(2)	-	116	(113)	-	**-**	-	**0**
Cash dividend		-	-	-	(47)	-	**(47)**	(47)	**(93)**
Equity repayment[1]		-	-	-	-	-	**-**	(61)	**(61)**
Other		-	-	-	(4)	-	**(4)**	0	**(4)**
At 31 December 2017	**205,671,305**	62	1,163	(35)	1,376	(65)	**2,501**	1,058	**3,559**

1 Mainly equity repayment from SBM Stones S.à r.l., Alfa Lula Alto S.à r.l and Beta Lula Central S.à r.l. following shareholders resolution.

4.2.5 CONSOLIDATED CASH FLOW STATEMENT

in millions of US$	Notes	2018	2017
Cash flow from operating activities			
Receipts from customers		3,263[1]	2,057
Payments for finance lease construction		(284)	(51)
Payments to suppliers and employees		(1,206)[2]	(1,072)
Yme insurance claim settlement		99	281
Settlement Brazil Authorities and Petrobras		(196)	-
Penalty U.S. Department of Justice		-	(238)
Income taxes paid		(30)	(22)
Net cash flows from (used in) operating activities		**1,647**	**955**
Cash flow from investing activities			
Investment in property, plant and equipment		(42)	(43)
Investment in intangible assets		(6)	(1)
Addition to funding loans	4.3.16	(181)	(9)
Redemption of funding loans	4.3.16	71	68
Interest received		42	22
Dividends received from equity-accounted investees		59	76
Proceeds from disposal of property, plant and equipment		0	1
Proceeds from disposal of financial assets and other assets		1	15
Other investing activities		(5)	(8)
Net cash flows from (used in) investing activities		**(61)**	**121**
Cash flow from financing activities			
Equity repayment to partners		(165)	(61)
Addition to borrowings and loans	4.3.24	1	-
Repayments of borrowings and lease liabilities	4.3.24	(1,269)[3]	(576)
Dividends paid to shareholders and non-controlling interests		(103)	(93)
Payments to non-controlling interests for change in ownership		(5)	-
Interest paid		(257)	(290)
Net cash flows from (used in) financing activities		**(1,797)**	**(1,019)**
Net increase/(decrease) in cash and cash equivalents		**(211)**	**57**
Net cash and cash equivalents as at 1 January		957	904
Net increase/(decrease) in net cash and cash equivalents		(211)	57
Foreign currency variations		(28)	(4)
Net cash and cash equivalents as at 31 December		**718**	**957**

1 Includes US$ 987 million purchase price acquisition of Turritella (FPSO) by Shell.
2 Includes US$ (80) million compensation paid to the partners in the investee owning the Turritella (FPSO) before acquisition by Shell.
3 Includes US$ (723) million redemption of Turritella (FPSO) project financing loan.

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 2018	31 December 2017
Cash and cash equivalents	718	957
Net cash and cash equivalents	**718**	**957**

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, 2018 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 13, 2019.

4.2.7 ACCOUNTING PRINCIPLES

A. ACCOUNTING FRAMEWORK

The consolidated financial statements of the Company have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) and interpretations adopted by the EU, where effective, for financial years beginning January 1, 2018 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 2018 financial statements of SBM Offshore N.V.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AS OF JANUARY 1, 2018

The Company has adopted the following new standards as of January 1, 2018:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers';
- IFRS 16 'Leases';
- IAS 28 Amendment 'Long-term Interests in Associates and Joint Ventures';
- IFRS 2 Amendment 'Share-based Payment';
- IAS 40 Amendment 'Investment Property';
- IFRIC 22 'Foreign Currency Transactions and Advance Considerations';
- Annual Improvements to IFRS Standards 2014-2016 Cycle.

IFRS 9 – Financial Instruments

IFRS 9 includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard is mandatory as of January 1, 2018. The adoption of IFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements of the Company as described below.

Classification and measurement

IFRS 9 includes amended guidance for the classification and measurement of financial assets. IFRS 9 classifies financial assets in the following measurement categories: i) those to be measured subsequently at fair value (either through Other Comprehensive Income ('OCI'), or through profit or loss), and ii) those to be measured at amortized cost. The classification under IFRS 9 for financial assets is driven by the entity's business model for managing financial assets and their contractual cash flow characteristics. The Company's financial assets consists of trade receivables, finance lease receivables and other financial assets. The Company has assessed the business models that apply to its financial assets and concluded that the adoption of IFRS 9 has no impact on the classification and initial measurement of the existing financial assets of the Company. Furthermore, IFRS 9 did not introduce any changes for the classification and measurement of financial liabilities.

Hedge accounting
The foreign currency forwards and interest rate swaps in place as at December 31, 2017 qualify as cash flow hedges under IFRS 9 and the Company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. The existing hedging relationships are therefore treated as continuing hedging relationships. As a consequence, the Company concludes that the adoption of IFRS 9 has no impact on the Company's hedge accounting. Furthermore, new rules for hedge accounting do not generate significant changes in the Company's accounting policy.

Impairment of financial assets
IFRS 9 introduces an impairment model based on 'expected credit losses' (ECL), using forward looking information, whereas its predecessor IAS 39 referred to incurred losses. The Company has the following types of assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables;
- Construction work-in-progress;
- Finance lease receivables;
- Other financial assets.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

Construction work-in-progress (excluding finance lease related) and trade receivables
The Company applies the simplified approach in measuring expected credit losses for construction work-in-progress and trade receivables. Construction work-in-progress relates to unbilled work-in-progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for construction work-in-progress. To measure the expected credit losses for significant construction work-in-progress balances and trade receivable balances, the Company uses the credit risk of individual debtors and days past due. Furthermore, the Company used historical credit loss experience to determine a 1% expected credit loss rate on individually insignificant construction work-in progress and trade receivable balances. Construction work-in-progress balances and trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to make contractual payments in line with an agreed-upon repayment plan or the failure to engage in a repayment plan with the Company at all.

Finance lease receivable (including related construction work-in-progress)
Based on the Company's historical and forward-looking analyzes it is concluded that the Company's finance lease receivables have a low credit risk profile as illustrated by the lack of a case of default over the past six years, and that the counterparties of the finance lease receivables have a strong capacity to meet their contractual cash flow obligations based on existing contractual arrangements, which include parent company guarantees. For the majority of the Company's finance lease receivables, the exposure is reduced by the related non-recourse debt. Given the low credit risk associated with them, the Company applies the low credit risk simplification of IFRS 9 for the computation of the expected credit loss on its finance lease receivables. The Company defines a default as a late (i.e. later than 90 days after the due date) or non-payment of receivables.

Other financial assets

Other financial assets mainly comprise funding loans to associates and joint ventures and the discounted value of bareboat fees that the Company invoices to the client during the demobilization phase. The expected credit loss on the latter financial asset is analyzed as part of the finance lease receivable as described above. To determine the impairment for funding loans to associates and joint ventures, the Company follows the general approach of IFRS 9 without applying the low credit risk simplification. In essence this means that the Company determines, at the reporting date, whether there has been a significant increase in credit risk since initial recognition. In case of a significant increase in credit risk since initial recognition, a lifetime expected credit loss is recognized, if not, a 12-month expected credit loss is recognized.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial, since the Company holds the majority of its cash with high credit quality financial institutions.

The Company did not restate the comparative figures of 2017 based on the adoption rules of IFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the comparative balance sheet as at December 31, 2017, but they are recognized in the opening balance sheet on January 1, 2018.

The total impact of IFRS 9 adoption on the Company's consolidated equity as at January 1, 2018 is as follows:

	Equity attributable to shareholder[1]	Non-controlling interests	Total Equity
Closing disclosed at 31 December 2017 under IAS 39	**2,501**	**1,058**	**3,559**
Increase in provision for trade receivables and construction work-in-progress (excluding finance lease related)	(3)	0	(4)
Increase in provision for finance lease receivables (including construction work-in-progress related)	-	-	-
Increase in provision for funding loans	-	-	-
Impact of IFRS 9 adoption by associates and joint ventures	(1)	-	(1)
Adjustment from adoption of IFRS 9 on 1 January 2018	**(4)**	**(1)**	**(5)**
Opening at 1 January 2018 under IFRS 9	**2,497**	**1,057**	**3,554**

1 Impacting the Retained earnings

Net impairment losses related to financial and contract assets are recognized in a separate line in the consolidated income statement. The Company has restated its 2017 consolidated income statement and presented the net result of bad debt that would have been recorded based on the requirements of IFRS 9 in a seperate line 'Net impairment gains/(losses) on financial and contract assets'. The change in the presentation results in an increase of cost of sales by US$ 1 million to US$ 1,063 million.

IFRS 15 – Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This standard replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. IFRS 15 specifies how and when an IFRS reporter recognizes revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principle-based five-step model, to be applied to contracts with customers to provide goods or services in the ordinary course of business. This standard is mandatory as of January 1, 2018.

The Company has analyzed the possible impacts and practical consequences of the standard's application. The Company's analysis has been focused on two specific steps in the five-step model being i) the potential unbundling of existing contracts into multiple performance obligations and to a lesser extent on the potential bundling of separate contracts into one performance obligation and ii) the recognition of the transaction price over time or at a certain point in time. The analysis of the existing Company's construction contracts demonstrates the following:

- The Company's usual construction contracts represent one performance obligation, given the significant level of integration and interrelation of the various components of each of the Company's products; and
- The Company should recognize revenue over time based on input methods which is in line with the previous policy to measure revenue based on the percentage of completion. The conclusion to recognize revenue over time is based on the fact that (i) the Company delivers customized products, specific to identified clients, and without alternative use to the Company and (ii) usual construction contracts provide the Company with an enforceable right of payment for performance completed to date.

For the operating and maintenance contracts, there is no change in revenue recognition due to applying the new standard. The revenue remains to be recognized over time based on input methods.

Based on the above analysis the Company's accounting policies applied for revenue recognition did not change significantly due to the adoption of IFRS 15.

The Company opted to apply the retrospective implementation as of January 1, 2018, with restatement of comparative figures for 2017. Based on the Company's analysis it is concluded that the retrospective implementation of IFRS 15 as per January 1, 2018 has no impact on the comparative figures for 2017.

The Company decided to apply the practical expedient to not disclose the amount of the transaction price allocated to the remaining performance obligations for reporting periods before the date of initial application.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is mandatory as of January 1, 2019. The Company elected to early adopt IFRS 16 as of January 1, 2018 to align with the adoption of IFRS 15 'Revenue from contracts with customers', since both standards are applicable to the Company's contracts with customers.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

SBM Offshore as lessor

The implementation of IFRS 16 has no significant impact on the measurement and recognition of lease contracts with customers where the Company is the lessor.

SBM Offshore as lessee

The Company leases buildings, cars and an installation vessel. For these contracts, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. The impact of the initial adoption of IFRS 16 on the opening balance of equity as of January 1, 2018 was nil. The Company recognized lease liabilities amounting to US$ 218 million and recognized right-of-use assets equal to the lease liabilities adjusted for (i) onerous contract provisions of US$ 63 million, (ii) derecognition of right of use of assets related to subleases of US$ 5 million and (iii) derecognition of outstanding balances related to prepaid or accrued rent of US$ 4 million at December 31, 2017. Furthermore due to the adoption of IFRS 16, the Company's operating cash flows over the period have increased and financing cash flows have decreased for approximately the same amount as EBITDA, as lease payments are no longer considered as operating cash flows but as financing cash flows.

In the transition to IFRS 16, the Company adopted the following practical expedients:

- The Company elected to not apply IFRS 16 to contracts that were not previously identified as containing a lease when applying IAS 17 and IFRIC 4.

- For those lease contracts that were identified as being onerous at the date of transition, the right-of-use assets recognized as of January 1, 2018 were adjusted by the amount of provision for onerous lease contracts recognized in the statement of financial position as of December 31, 2017.
- The weighted average of SBM Offshore's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 3.2%.
- The lease contracts ending in 2018 are accounted for as short-term leases.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- The Company used hindsight in determining the lease terms when contracts contained options to extend or terminate the lease.

A reconciliation of the operating lease commitments at December 31, 2017, disclosed in the Company's 2017 financial statements, to the lease liabilities recognized in the statement of financial position at January 1, 2018 is provided below:

Operating lease commitments disclosed as at 31 December 2017	**231**
(Less): short-term leases recognized on a straight-line basis as expense	(1)
(Less): low-value leases recognized on a straight-line basis as expense	0
(Less): components of contracts reassessed as service agreements	(9)
Add/(less): adjustments as a result of a different treatment of extension and termination options	26
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	1
Discounting using the Company's incremental borrowing rate	(29)
Lease liabilities recognized as at 1 January 2018	**218**

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
The issued amendment clarifies that entities have to first apply IFRS 9 in accounting for impairment of long term interests in associates and joint ventures which form part of the 'net investment' in the associate or joint ventures and then the guidance of IAS 28 should follow. The Company elected for earlier application of this amendment, aligning the adoption of the 'Amendment to IAS 28' with the adoption of IFRS 9.

Other standards, interpretations and amendments
The adoption of the remaining standards, interpretations and amendments had no effect on the financial statements for the period ended 31 December, 2018.

STANDARDS AND INTERPRETATIONS NOT MANDATORILY APPLICABLE TO THE COMPANY AS OF JANUARY 1, 2018
The following standards and amendments published by the IASB and endorsed by the European Commission are not mandatorily applicable as of January 1, 2018:
- IFRS 9 Amendment 'Prepayment Features with Negative Compensation';
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

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:
- IAS 1 and IAS 8 Amendment 'Definition of Material';
- IFRS 3 Amendment 'Business Combinations';
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- IAS 19 Amendment 'Plan Amendment, Curtailment or Settlement'.

The Company is in the process of finalization of the impact analysis of all the above accounting pronouncements and does not expect a significant effect on the financial statements due to adoption of these standards, amendments and improvements.

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 of revenues and costs at completion, and margin recognition on construction contracts based on the input method:

Gross margin at completion and revenue at completion are reviewed periodically and regularly 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 recognition of variation orders, incentives and claims from clients where negotiations or discussions are at a sufficiently advanced stage. The gross margin at completion reflects at each reporting period the Management's current best estimate of the probable future benefits and obligations associated with the contract. 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 worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. As per IAS 12, 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.

Several of the estimates included in the 2018 financial statements are disclosed in note 4.3.1 Financial Highlights and/or are detailed as follows:
- Impairment of the net investment in the Brazilian yard amounting to US$ 19 million due to deterioration in the activity outlook of the yard (detailed in note 4.3.31 Interest in Joint Ventures and Associates);
- Impairment of the goodwill related to the acquisition of the Houston based subsidiaries, amounting to US$ 25 million (detailed in note 4.3.14 Intangible Assets).

Judgments:
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.

(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 have an indefinite useful life, for example goodwill, are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other 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) Impairment of financial assets

The Company assesses the impairment of financial assets based on the expected credit loss model. The Company has the following types of financial assets and contract assets that are subject to the expected credit loss model:

- Trade receivables and construction work-in-progress;
- Finance lease receivables;
- Other financial assets.

The detailed policy for impairment of financial assets and contract assets is disclosed in note 4.2.7 A. Accounting Framework – IFRS 9.

(e) 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), Liquified Natural Gas FPSOs, Turret Mooring Systems (TMS), 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. If these prices are not directly observable from the contract, they are estimated based on expected cost plus margin. 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'.

The Company assesses for each performance obligation whether the revenue should be recognized over time or at 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-in-progress, 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 is initially approved by oral agreement or implied by customary business practise, the Company recognizes revenue only to the extent of contract costs incurred. The Company recognizes the gross margin related to the variation orders and claims only once they are formally approved in writing.

Generally, the payments related to the construction contracts are corresponding to the work-in-progress, 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 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 most of them contain options to extend the term of the lease or terminate the lease earlier. Some of the contracts contain also 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 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.

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 Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Company recognizes an asset for the costs incurred to fulfil 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.

(f) 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.
The Company has two reportable segments:
- The Lease and Operate segment includes all earned day-rates on long-term 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.

(g) 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.

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'.

(h) 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.

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.

Details about the Company's impairment policies and the calculation of the credit loss allowance are provided in note 4.2.7 B. Critical Accounting Policies.

(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.

(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. This classification is performed when the following criteria are met:

- Management has committed to a plan to sell the asset or disposal group.
- The asset or disposal group is available for immediate sale in its present condition.
- An active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated.
- The sale of the asset or disposal group is highly probable.
- Transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year.
- The asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets or disposal groups classified as held for sale are measured at the lower of their carrying value or fair value less costs of disposal. Non-current assets are not depreciated once they meet the criteria to be held for sale and are shown separately on the face of the consolidated statement of financial position.

(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.

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.

Details about the Company's impairment policies and the calculation of the expected credit loss allowance are provided in note 4.2.7 A. Accounting Framework.

(l) 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.

(m) 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.

(n) 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). This presentation adequately reflects the Company's global tax burden.

(o) 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.

(p) 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 under 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 three types of share based payment plans that qualify as equity settled:

- Restricted share unit (RSU);
- Long-term and Short-term Incentive Programs Management Board; and
- Matching bonus shares.

The estimated total amount to be expensed over the vesting period related to share based payments is determined by reference to the fair value of the instruments determined at the grant date, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are 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

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

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.

Principally, the impact of the (early) adoption of IFRS 9, 15 and 16 as per January 1, 2018 is the same under Directional and IFRS reporting. The adoption of the standards does not change the methodology of the Company's Directional reporting and does not result in significant differences between the net result and equity attributable to shareholders under both reporting methods.

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 provides also 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, the latter being prepared applying the indirect method, 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.

It should be noted that for finance lease contracts, under IFRS, commencing before January 1, 2013 (i.e. the introduction date of Directional reporting) and accounted for as if they were operating lease contracts under Directional reporting, the Company has assumed that no subsequent costs have been added to the initial Directional capex value since commencement date of these lease contracts until January 1, 2013. In accordance with Company and IFRS policy related to property, plant and equipment, the initial Directional capex value equals to the sum of external costs, internal costs and third party financial costs incurred by the Company during construction. Starting January 1, 2013, subsequent costs are included in the 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.

SEGMENT HIGHLIGHTS

In 2018, the Turnkey segment was impacted by the net gain on disposal of the *Turritella* (FPSO) amounting to US$ 217 million (please refer to note 4.3.1 Financial Highlights) and additional settlement reached with insurers related to the Company's insurance claim arising from the Yme project with a net impact of US$ 37 million (please refer to note 4.3.4 Other Operating Income and Expense). The Lease and Operate segment was negatively impacted by *Turritella* (FPSO) leaving the fleet as per January 2018 (please refer to note 4.3.1 Financial Highlights).

It should be noted that under Directional, FPSO *Liza Destiny* does not yet contribute to revenue and/or margin in 2018, which will remain the case until the completion of the project, as the contract is 100% owned by the Company. After the delivery of the vessel to the client, revenue and margin will be recognized during the Lease and Operate phase, in line with the operating cash flow generation.

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[3]	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.

3 Includes net impairment losses on financial and contract assets.

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.

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 2018 period:

- Revenue is reduced by US$ 238 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$ 248 million) for the same reasons.
- Gross margin and EBIT increased by US$ 7 million and US$ 3 million respectively. As the current Company's finance lease fleet is still relatively young, the amount of the (declining) interests recognized under IFRS is higher than 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 2018 period:

- Revenue and gross margin increased by US$ 528 million and US$ 133 million respectively, mainly due to the accounting treatment of FPSO *Liza Destiny* 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 equal to the impact on gross margin, but also included here is the removal of the US$ 217 million net gain on the disposal of *Turritella* (FPSO) in January 2018. This gain was only recognized under Directional over the period (note that this profit has already been recognized years ago during the construction of the asset under IFRS finance lease treatment).

As a result, the restatement from operating to finance lease accounting treatment results in a reduction of net profit of US$ 90 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. Note that the net profit impact of changes in consolidation methods (increase of US$ 132 million) is equal to the amount of 'Profit attributable to non-controlling interests', as reported in the 2018 IFRS Income Statement.

2017 operating segments (Directional)

	Lease and Operate	Turnkey	**Reported segments**	Other	**Total Directional reporting**[1]
Third party revenue	**1,501**	**175**	**1,676**	**-**	**1,676**
Cost of sales	(989)	(171)	(1,160)	-	(1,160)
Gross margin	**512**	**4**	**516**	**-**	**516**
Other operating income/expense	(4)	123	119	(317)	**(199)**
Selling and marketing expenses	(2)	(33)	(36)	0	**(36)**
General and administrative expenses	(18)	(50)	(68)	(63)	**(132)**
Research and development expenses	(2)	(31)	(33)	0	**(33)**
Net impairment gains/(losses) on financial and contract assets	2	(2)	0	0	**0**
Operating profit/(loss) (EBIT)	**487**	**11**	**498**	**(381)**	**117**
Net financing costs					(233)
Share of profit of equity-accounted investees					(54)
Income tax expense					(34)
Profit/(Loss)					**(203)**
Operating profit/(loss) (EBIT)	487	11	498	(381)	**117**
Depreciation, amortization and impairment	467	10	478	1	478
EBITDA	**954**	**21**	**975**	**(380)**	**596**
Other segment information :					
Impairment charge/(reversal)	(10)	-	(10)	-	**(10)**

1 Restated to separately present net impairment losses on financial and contract assets following IFRS 9 implementation.

Reconciliation of 2017 operating segments (Directional to IFRS)

	Reported segments under Directional reporting[1]	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS[1]
Revenue				
Lease and Operate	1,501	(269)	322	1,554
Turnkey	175	130	2	307
Total revenue	**1,676**	(139)	324	**1,861**
Gross margin				
Lease and Operate	512	19	209	739
Turnkey	4	24	31	59
Total gross margin	**516**	43	240	**798**
EBITDA				
Lease and Operate	954	(269)	233	919
Turnkey	21	42	10	73
Other	(380)	-	0	(380)
Total EBITDA	596	(226)	243	**612**
EBIT				
Lease and Operate	487	19	207	713
Turnkey	11	23	(9)	25
Other	(381)	-	0	(381)
Total EBIT	**117**	43	198	**358**
Net financing costs	(233)	0	(98)	(331)
Share of profit of equity-accounted investees	(54)	0	52	(2)
Income tax expense	(34)	2	5	(26)
Profit/(loss)	(203)	44	158	(1)
Impairment charge/(reversal)	(10)	17	18	25

1 Restated to separately present net impairment losses on financial and contract assets following IFRS 9 implementation.

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	-	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	0	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**
Borrowings and lease liabilities	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.

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, 2018 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$ 3,699 million) and subsequent recognition of (i) finance lease receivables (US$ 3,993 million) and (ii) construction work-in-progress (US$ 652 millions) 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$ 433 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$ 146 million) and provisions (US$ 145 million).

As a result, the restatement from operating to finance lease accounting treatment gives rise to an increase of equity of US$ 1,334 million under IFRS compared with Directional reporting. This primary 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'.

The net impact of the changes in consolidation methods at equity level (increase of US$ 961 million as of December 31, 2018) largely equals the equity attributable to non-controlling interests (US$ 978 million) as reported in the 2018 IFRS Statement of Financial Position.

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 repayment to partners	-	-	(165)	(165)
Addition and repayments of borrowings and lease liabilities	(783)[6]	-	(485)	(1,268)
Dividends paid to shareholders and non-controlling interests	(51)	-	(52)	(103)
Interests 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)	0	(18)	(211)
Foreign currency variations	(29)	0	1	(28)
Net cash and cash equivalents as at 31 December	**657**	0	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.

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 flows from operating activities and investing activities.

Capital expenditures and proceeds from the disposal of finance leases (US$ 252 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.

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. Note that the impact of the higher lease revenue, and the proceeds from disposal of *Turritella* (FPSO), recognized within EBITDA under Directional, are presented on the line item 'Reimbursement from finance lease assets' under IFRS.

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 reimbursements of finance lease assets and increased repayments of borrowings under IFRS versus Directional.

Reconciliation of 2017 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	4,692	(3,545)	138	1,285
Investment in associates and joint ventures	36	-	421	457
Finance lease receivables	-	4,767	2,429	7,196
Other financial assets	268	(134)	100	234
Construction work-in-progress	18	116	0	134
Trade receivables and other assets	599	0	51	649
Derivative financial instruments	92	-	0	92
Cash and cash equivalents	878	0	79	957
Assets held for sale	332	(330)	-	2
Total Assets	**6,915**	875	3,217	**11,007**
EQUITY AND LIABILITIES				
Equity attributable to parent company	1,097	1,424	(19)	2,501
Non-controlling interests	0	0	1,057	1,058
Equity	**1,097**	1,424	1,038	**3,559**
Loans and borrowings	3,565	-	2,005	5,571
Provisions	971	(142)	1	830
Trade payable and other liabilities	584	37	15	636
Deferred income	587	(443)	114	257
Derivative financial instruments	110	-	43	154
Total Equity and Liabilities	**6,915**	875	3,217	**11,007**

Reconciliation of 2017 cash flow statement (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
EBITDA	**596**	(226)	243	**612**
Adjustments for non-cash and investing items	304	0	1	306
Changes in operating assets and liabilities	(162)	(91)	(17)	(270)
Reimbursement finance lease assets	0	266	63	329
Income taxes paid	(30)	-	8	(22)
Net cash flows from (used in) operating activities	**707**	(52)	299	**955**
Capital expenditures	(96)	52	0	(44)
Other investing activities	68	0	98	165
Net cash flows from (used in) investing activities	**(28)**	52	98	**121**
Equity repayment to partners	-	-	(61)	(61)
Addition and repayments of borrowings and loans	(381)	-	(194)	(576)
Dividends paid to shareholders non-controlling interests	(47)	-	(47)	(93)
Interests paid	(192)	-	(97)	(290)
Net cash flows from (used in) financing activities	**(620)**	-	(399)	**(1,019)**
Net cash and cash equivalents as at 1 January	823	-	81	904
Net increase/(decrease) in net cash and cash equivalents	59	0	(2)	57
Foreign currency variations	(3)	-	0	(4)
Net cash and cash equivalents as at 31 December	**878**	0	79	**957**

Deferred income (Directional)

	31 December 2018	31 December 2017
Within one year	100	42
Between 1 and 2 years	94	84
Between 2 and 5 years	241	274
More than 5 years	140	186
Balance at 31 December	**575**	**587**

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:

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**

2017 geographical information (revenue by country and segment)

	Directional			IFRS		
	Lease and Operate	Turnkey	**Reported segments**	Lease and Operate	Turnkey	**Reported segments**
Brazil	762	14	776	1,084	6	1,090
Angola	191	10	201	1	21	22
The United States of America	188	11	199	226	11	237
Canada	132	2	134	132	2	134
Equatorial Guinea	94	0	95	87	9	95
Malaysia	82	7	89	0	7	8
Guyana	-	28	28	-	147	147
Myanmar	22	1	23	8	4	12
Australia	0	20	20	0	20	20
Congo	14	4	18	0	4	4
Norway	-	11	11	-	11	11
Egypt	-	10	10	-	10	10
Nigeria	-	8	8	-	8	8
Other	16	48	64	16	47	63
Total revenue	**1,501**	**175**	**1,676**	**1,554**	**307**	**1,861**

The non-current assets by country are analyzed as follows:

Geographical information (non-current assets by country)

	31 December 2018		31 December 2017	
	IFRS	DIR	IFRS	DIR
Brazil	6,343	3,311	6,617	3,534
Angola	412	435	387	446
Canada	245	245	308	308
The United States of America	130	109	175	154
Malaysia	128	84	162	99
Equatorial Guinea	121	181	130	203
Guyana	-	530	-	116
Monaco	78	78	47	47
Other	184	174	96	102
Total	**7,641**	**5,148**	**7,922**	**5,009**

RELIANCE ON MAJOR CUSTOMERS

Under Directional, two customers each represent more than 10% of the consolidated revenue. Total revenue from these two major customers amounts to US$ 673 million (US$ 454 million and US$ 219 million, respectively). In 2017 the revenue related to the two major customers was US$ 834 million (US$ 492 million and US$ 342 million, respectively). In 2018 and 2017, the revenue of these major customers was predominantly related to the Lease and Operate segment.

Under IFRS, three customers each represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US$ 1,254 million (US$ 615 million, US$ 334 million and US$ 305 million respectively). In 2017 two customers accounted for more than 10% of the consolidated revenue (US$ 1,273 million), respectively for US$ 975 million and US$ 298 million.

4.3.3 REVENUE

The Company's revenue mainly originates from construction contracts and Lease and oOperate 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 2018 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 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, 2018. 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, 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.

4.3.6 EMPLOYEE BENEFIT EXPENSES

Information with respect to employee benefits expenses are detailed as follows:

	Note	2018	2017
Wages and salaries		(308)	(315)
Social security costs		(51)	(46)
Contributions to defined contribution plans		(31)	(31)
Contributions to defined benefit plans		(1)	(1)
Share-based payment cost		(17)	(12)
Contractors costs		(64)	(58)
Other employee benefits		(47)	(51)
Total employee benefits	4.3.5	**(519)**	**(514)**

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 26,000 Merchant Navy Officers and their dependents out of which approximately 90 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 determined 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	2018	2017
Pension plan		5	3
Lump sums on retirement		6	7
Defined benefit plans		**11**	**10**
Long-service awards		13	13
Other long-term benefits		**13**	**13**
Employee benefits provisions	4.3.26	**24**	**23**

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2018			31 December 2017		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	38	6	44	40	7	**47**
Fair value of plan assets	(32)	-	(32)	(37)	-	**(37)**
Benefit (asset)/liability	**5**	**6**	**11**	**3**	**7**	**10**

The fair value of plan assets decreased due to benefits paid to employees.

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 %	2018	2017
Discount rate	0.75 - 2.00	0.25 - 2.00
Inflation rate	1.00 - 1.75	1.75
Discount rate of return on plan assets during financial year	0.50	0.50
Future salary increases	1.00 - 3.00	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$ 23 million (2017: US$ 20 million).

The performance-related part of the remuneration, comprising both LTI and STI components, was 66% (2017: 56%). The remuneration (including the Management Board's remuneration which is euro denominated), was affected in 2018 by the impact of the fluctuation in the exchange rate of the US dollar (5% higher average rate compared with 2017), introduction, as part of Remuneration Policy 2018, of the Value Creation Stake and to a lesser extent by the phasing out of a 10% voluntary decrease in base salary, which ended on September 1, 2017.

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
Bruno Chabas						
2018	945	1,375	3,517	195	290	6,321
2017	843	1,682	1,881	321	277	5,005
Philippe Barril						
2018	650	710	2,100	173	163	3,796
2017	581	908	1,134	166	156	2,944
Erik Lagendijk						
2018	531	580	1,842	45	133	3,132
2017	432	675	941	42	116	2,205
Douglas Wood						
2018	531	580	1,990	47	133	3,281
2017	497	725	801	47	124	2,193
Peter van Rossum[5]						
2018	-	-	23	-	-	23
2017	179	253	359	12	74	877
Other key personnel[6]						
2018	2,482	1,478	808	1,353	151	6,272
2017	3,297	997	968	1,633	232	7,128
Total 2018	**5,138**	**4,724**	**10,279**	**1,813**	**870**	**22,825**
Total 2017	**5,829**	**5,240**	**6,083**	**2,221**	**979**	**20,352**

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 (for other key personnel this represents STI paid in the 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, first time in 2018, and hence the entire cost thereof has to be recognized in 2018.

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 Representing company contributions to Board member pensions; in the absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.

5 Peter van Rossum retired as Management Board member during the extraordinary meeting of shareholders of November 30, 2016 and his contract ended at the Annual General Meeting of April 13, 2017.

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$, being the reporting currency of the Company.

The following table represents the movements during 2018 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 are shown for the actual number as per the outcome of the performance criteria as per the Remuneration Policy. As at December 31, 2018 the following share-based incentives are outstanding:

Share-based incentives	Outstanding at the beginning of 2018	Granted	Vested	Outstanding at the end of 2018
Bruno Chabas	282,150	-	158,594	165,495
Philippe Barril	216,249	-	119,899	110,330
Erik Lagendijk	166,249	-	69,899	110,330
Douglas Wood	126,217	-	-	126,217
Peter van Rossum	132,743	-	64,859	61,690

SHORT-TERM INCENTIVE PROGRAM OF THE MANAGEMENT BOARD

The Short-Term Incentive Program, as amended in the Remuneration Policy 2018, 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 up or down by 10%. Any such adjustment will be explained in the Remuneration Report. However, in case 100% of the Company indicators have been realized, the adjustment will not provide an additional uplift.

For 2018, the Supervisory Board concluded that the Company's performance indicators (for the year 2018 a total of five performance indicators have been established) had outcomes ranging from slightly below target to maximum. The Company performance resulted in performance of 136% of salary for the CEO and 101% for the other Management Board members. The Supervisory Board decided upon an upwards adjustment of 10%. The total performance under the STI, including the adjustment, resulted in 146% for the CEO and 109% 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.

Following approval by the Annual General Meeting of Shareholders on April 11, 2018, the Value Creation Stake shares have been issued as follows:

	Number of issued shares
Bruno Chabas	113,452
Philippe Barril	78,112
Erik Lagendijk	63,817
Douglas Wood	63,817
Total 2018	**319,198**

The number of shares granted in 2018 was based upon 175% of the individual's base salary and determined by the 4-year average volume-weighed share price (VWAP) over the years 2014 through 2017, being EUR 12.34. The fair value of these shares upon issue was EUR 13.295, being the opening share price of April 12, 2018.

Under the Remunaration Policy 2015, the Management Board was entitled to a LTI, built up of EPS and relative TSR performance. For the LTI performance period 2016-2018, both the EPS performance indicator (weighting of 60%) and the relative TSR performance indicator (weighting of 40%) came in at close to the Maximum. The total vesting of the LTI grant 2016 resulted in 193% for the CEO, and 147% for each of the other Management Board members.

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the RSU plan in 2018 was 649,092 (2017: nil), with the three year employment period starting on 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.

	2018
Regular, relocation and skills retention RSU (share price as at January 2, 2018)	€ 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 assumptions included in the calculation for the matching shares are:

2018 awards – Fair values

	2018
STI matching shares	€ 13.46

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in EBIT 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. This is in addition to a true-up impact related to a change in the Company's compensation structure during 2018 (in thousands of US$). Total share-based compensation increased by US$ 5 million compared with 2017 mainly due to the Value Creation Stake, introduced under the Remuneration Policy 2018, which vests immediately upon the award date.

2018	Performance shares and RSU/ Value Creation Stake	Matching shares	Total
Instruments granted	11,575	1,442	**13,017**
Performance conditions	4,281		**4,281**
Total expenses 2018	**15,856**	**1,442**	**17,298**

2017	Performance shares and RSU/ Value Creation Stake	Matching shares	Total
Instruments granted	6,060	964	**7,024**
Performance conditions	4,831	134	**4,965**
Total expenses 2017	**10,891**	**1,098**	**11,989**

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.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR 761,000 (2017: EUR 769,000) and can be specified as follows:

in thousands of EUR	2018 Basic remuneration	2018 Committees	2018 Total	2017 Basic remuneration	2017 Committees	2017 Total
Floris Deckers – Chairman from 11/4	107	17	**124**	75	17	**92**
Frans Cremers – Chairman till 11/4	34	5	**39**	120	17	**137**
Thomas Ehret – Vice-chairman	80	10	**90**	80	10	**90**
Lynda Armstrong (till 11/4)	25	5	**30**	75	16	**91**
Roeland Baan	54	12	**66**	-	-	**-**
Bernard Bajolet	54	6	**60**	-	-	**-**
Francis Gugen	75	10	**85**	75	10	**85**
Sietze Hepkema	75	8	**83**	75	8	**83**
Laurence Mulliez	75	10	**85**	75	8	**83**
Cheryl Richard[1]	90	9	**99**	100	8	**108**
Total	**669**	**92**	**761**	**675**	**94**	**769**

1 Including intercontinental travel allowance.

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)

By operating segment:	2018 Average	2018 Year-end	2017 Average	2017 Year-end
Lease and Operate	1,524	1,535	1,506	1,513
Turnkey	1,443	1,456	1,489	1,429
Other	323	343	293	302
Total excluding employees working for JVs and associates	**3,289**	**3,334**	**3,287**	**3,244**
Employees working for JVs and associates	814	745	864	882
Total	**4,103**	**4,079**	**4,150**	**4,126**

Number of employees (by geographical area)

By geographical area:	2018 Average	2018 Year-end	2017 Average	2017 Year-end
the Netherlands	342	374	317	309
Worldwide	2,948	2,960	2,970	2,935
Total excluding employees working for JVs and associates	**3,289**	**3,334**	**3,287**	**3,244**
Employees working for JVs and associates	814	745	864	882
Total	**4,103**	**4,079**	**4,150**	**4,126**

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.

4.3.7 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to US$ 23 million (2017: US$ 33 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 in this dedicated line:

	2018	2017
Impairment losses		
- Individually impaired receivables (previous accounting policy)	-	-
- Movement in loss allowance for trade receivables	(3)	(1)
- Movement in loss allowance for construction work-in-progress		
(Impairment)/impairment reversal losses on financial lease receivables	-	-
(Impairment)/impairment reversal losses on other financial assets	15	-
Net impairment gains/(losses) on financial and contract assets	**13**	**(1)**

During the year 2018, the Company recognized a partial impairment reversal of a 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.

4.3.9 NET FINANCING COSTS

	2018	2017
Interest income on loans & receivables	10	9
Interest income on investments	19	13
Net foreign exchange gain	17	3
Other financial income	0	2
Financial income	**46**	**27**
Interest expenses on financial liabilities at amortized cost	(223)	(231)
Interest expenses on hedging derivatives	(36)	(88)
Interest expenses on lease liabilities	(7)	-
Interest addition to provisions	(14)	(23)
Net loss on financial instruments at fair value through profit and loss	0	-
Net cash flow hedges ineffectiveness	-	(17)
Net foreign exchange loss	0	0
Impairment of financial assets	0	0
Other financial expenses	-	-
Financial expenses	**(279)**	**(358)**
Net financing costs	**(233)**	**(331)**

The increase in net foreign exchange gain results from an index-linked term deposit protecting the Company against Kwanza devaluation for its cash held in Angola.

The decrease in net financing costs is mainly due to the reduction of interest expenses related to the *Turritella* (FPSO) project loan, including hedging derivatives. The loan was repaid on January 16, 2018 after the receipt of the purchase price from Shell.

The interest addition to provisions is mainly due to the unwinding of the discounting impact on the provision and liability for settlement with the Brazilian authorities and Petrobras.

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, (a) changes in the blend of income that is taxed based on revenues versus profit before taxes, (b) the different statutory tax rates in the location of the Company's operations and (c) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available. 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	2018	2017
Corporation tax on profits for the year		(20)	(18)
Adjustments in respect of prior years		1	1
Total current income tax		**(20)**	**(17)**
Deferred tax	4.3.17	(20)	(10)
Total		**(40)**	**(26)**

The Company's operational activities are subject to taxation at rates which range up to 35% (2017: 35%).

For the year ended December 31, 2018, 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 10.7% (2017: 96.8%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2018		2017	
	%		%	
Profit/(Loss) before tax		**384**		**25**
Share of profit of equity-accounted investees		13		(2)
Profit/(Loss) before tax and share of profit of equity-accounted investees		**370**		**27**
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(92)	25%	(7)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other jurisdictions	6%	(22)	117%	(32)
Withholding taxes and taxes based on deemed profits	3%	(11)	8%	(2)
Non-deductible expenses	5%	(17)	71%	(19)
Non-taxable income	(31%)	115	(291%)	79
Adjustments related to prior years	0%	1	(2%)	1
Adjustments recognized in the current year in relation to deferred income tax of previous year	(2%)	9	(1%)	0
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	6%	(24)	171%	(46)
Movements in tax risks provision	0%	-	1%	0
Total tax effects	**(14%)**	**51**	**73%**	**(20)**
Total of tax charge on the Consolidated Income Statement	**11%**	**(40)**	**97%**	**(26)**

The 2018 effective tax rate of the Company was primarily impacted by deferred income tax liability recognized during the construction period of a vessel for a contract in offshore Guyana. Similar to last year, the effective tax was also impacted by unrecognized deferred tax assets concerning Brazil, Angola, USA and the Netherlands.

With respect to the annual effective tax rate calculation for the year 2018, 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, Canada and the USA.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes and taxes based on deemed profits

	2018			2017		
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Taxes based on deemed profit	Total	Withholding tax	Taxes based on deemed profit	Total
Angola	-	-	-	0	-	0
Equatorial Guinea	-	-	-	0	-	0
Brazil	(4)	-	(4)	0	1	1
Guyana	(5)	-	(5)	(2)	-	(2)
Other[1]	(2)	-	(2)	(1)	0	(1)
Total withholding and overseas taxes	**(11)**	**-**	**(11)**	**(3)**	**1**	**(2)**

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$ 5.7 million in respect of ongoing tax audits and in respect of the Company's review of its uncertain tax positions. This amount is in relation of uncertain tax position concerning various taxes other than corporate income tax. 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$ 1.04 (2017: US$ (0.76)); the fully diluted earnings per share amounted to US$ 1.04 (2017: US$ (0.76)).

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

	2018	2017
Earnings attributable to shareholders (in thousands of US$)	212,045	(155,122)
Number of shares outstanding at January 1 (excluding treasury shares)	203,417,031	202,042,126
Average number of treasury shares transferred to employee share programs	853,579	807,161
Weighted average number of shares outstanding	**204,270,610**	**202,849,287**
Potential dilutive shares from stock option scheme and other share-based payments	34,813	-
Weighted average number of shares (diluted)	**204,305,423**	**202,849,287**
Basic earnings per share	US$ 1.04	US$ (0.76)
Fully diluted earnings per share	US$ 1.04	US$ (0.76)

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

In accordance with the Company's dividend policy, and further taking into account the specific circumstances relating to 2018 including the nature of the non-recurring items, a dividend of US$ 0.37 per share (based on the number of shares outstanding at December 31, 2018), to be paid out of retained earnings, will be proposed to the Annual General Meeting on April 10, 2019. This represents approximately 25% of the Company's US$ 301 million Directional 2018 net income.

The Company reviews its dividend policy on a regular basis and intends to revise this as follows: the Company's 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. The proposed change will be presented for discussion at the AGM on April 10, 2019.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares depending on residual liquidity and cashflow outlook. Based on this approach and having reviewed the current liquidity position, the requirement to fund growth and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 14, 2019 the Company will commence a euro 175 million share repurchase program, approximate to the net cash it has received for the Yme Insurance settlement.

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 following the early adoption of IFRS 16:

Property, plant and equipment (summary)

	31 December 2018	31 December 2017
Property, plant and equipment excluding leases	1,072	1,243
Right-of-use assets	126	-
Total	**1,198**	**1,243**

PROPERTY, PLANT AND EQUIPMENT OWNED BY THE COMPANY

The movement of the property, plant and equipment during the year 2018 is summarized as follows:

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**
Disposals	-	0	0	0	**0**
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**

2017

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	55	3,570	66	4	**3,694**
Accumulated depreciation and impairment	(14)	(2,155)	(52)	-	**(2,220)**
Book value at 1 January	**41**	**1,415**	**14**	**4**	**1,474**
Additions	-	31	2	19	**51**
Disposals	0	0	0	0	**0**
Depreciation	(5)	(214)	(4)	-	**(223)**
(Impairment)/impairment reversal	-	10	-	-	**10**
Foreign currency variations	5	-	1	0	**7**
Other movements	(1)	(72)	0	(3)	**(76)**
Total movements	**0**	**(245)**	**(1)**	**16**	**(231)**
Cost	61	3,255	68	19	**3,402**
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	**(2,160)**
Book value at 31 December	**41**	**1,170**	**13**	**19**	**1,243**

During the 2018 period the following main events occurred:

- Additions to property, plant and equipment regarding the capitalization of major overhaul expenditure related to FPSO *Capixaba* according to the component approach method.
- Deep Panuke MOPU impairment reversal of US$ 11 million; the impairment assessment of Deep Panuke MOPU was triggered by the last gas notification received from the client. This resulted in an increased value in use due to lower market rates and improved operating results when compared with the last impairment test performed in 2014. If the discount rate varies by +/- 1% the reversal of the impairment would be -/+ US$ 4 million.
- US$ 212 million of annual depreciation charges.

Property, plant and equipment at year-end comprises of:

- Three (2017: 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 (2017: one).
- One semi-submersible production platform, the *Thunder Hawk* (2017: one), leased to third parties under operating lease contracts.
- One MOPU facility, the *Deep Panuke* (2017: 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 partly based on the unit of production method and, for the other part, based on the straight-line method.

All other property, plant and equipment is depreciated on a straight-line method.

Company-owned property, plant and equipment with a carrying amount of US$ 569 million (2017: US$ 662 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 (2017: 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 six to fifteen 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 2018 is summarized as follows:

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value recognized at 1 January following early adoption of IFRS 16	**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 2018	31 December 2017
Cost	3,230	3,220
Accumulated depreciation and impairment	(2,256)	(2,081)
Book value at 31 December	**974**	**1,139**

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 2018	31 December 2017
Within 1 year	320	376
2 years	324	328
3 years	302	323
4 years	141	301
5 years	126	156
After 5 years	607	723
Total	**1,820**	**2,207**

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, 2018, while exercising the options for early termination as of December 31, 2018 would have resulted in a gain or a near break-even result for the Company.

4.3.14 INTANGIBLE ASSETS

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**

2017

	Development costs	Goodwill	Software	Patents	Total
Cost	23	25	11	19	**77**
Accumulated amortization and impairment	(5)	-	(7)	(19)	**(31)**
Book value at 1 January	**18**	**25**	**4**	**-**	**46**
Additions	0	-	1	-	**1**
Amortization	(4)	-	(2)	-	**(5)**
(Impairment)/impairment reversal	-	-	-	-	**-**
Foreign currency variations	-	-	0	-	**0**
Other movements	-	-	0	-	**0**
Total movements	**(3)**	**-**	**(1)**	**-**	**(4)**
Cost	23	25	12	19	**79**
Accumulated amortization and impairment	(9)	-	(8)	(19)	**(36)**
Book value at 31 December	**14**	**25**	**3**	**-**	**42**

Amortization of development costs is included in 'Research and development expenses' in the income statement in 2018 for US$ 4 million (2017: US$ 4 million).

Goodwill related to the acquisition of the Houston based subsidiaries is tested for impairment on an annual basis or whenever there is an indication that the goodwill may be impaired. The recoverable amount of the goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management which cover a six-year period, in line with the Company's internal forecasting horizon. Cash flows beyond the six-year period are extrapolated using an estimated growth rate of 2%. Management determined budgeted gross margin based on past performance and its expectations of market development and its perspective of awards in the Floating Production Unit (FPU) market (i.e. semi-TLP and semi-sub projects) and brownfield market supported by external sources of information. The discount rate used is pre-tax and reflects specific risks (9.8%).

Although SBM Offshore continues to pursue opportunities in the 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 expenses' of the consolidated income statement over the period ended December 2018.

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 2018	31 December 2017
Gross receivable	10,680	12,420
Less: unearned finance income	(4,732)	(5,224)
Total	**5,947**	**7,196**
Of which		
Current portion	195	1,252
Non-current portion	5,753	5,945

As of December 31, 2018, finance lease receivables relate to the finance lease of:

- 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 20 years;

The decrease in finance lease receivable is driven by the *Turritella* (FPSO) purchase price payment of US$ 987 million received from Shell on January 16, 2018 (please refer to note 4.3.1 Financial Highlights), redemptions of other finance lease receivables as per the payment plans and to a lesser extent by the end of the contract term for FSO Yetagun (ended in May 2018).

Included in the gross receivable is an amount related to unguaranteed residual values. The total amount of unguaranteed residual values at the end of the lease term amounts to US$ 61 million as of December 31, 2018. Credit losses related to finance lease receivables based on an expected credit loss model are less than US$ 1 million for 2018.

Gross receivables are expected to be invoiced to the lessee within the following periods:

Finance lease receivables (gross receivables invoiced to the lessee within the following periods)

	31 December 2018	31 December 2017
Less than 1 year	669	1,747
Between 1 and 2 years	671	669
Between 2 and 5 years	2,007	2,008
More than 5 years	7,334	7,995
Total Gross receivable	**10,680**	**12,420**

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 2018	31 December 2017
Gross receivable	669	1,747
Less: unearned finance income	(474)	(495)
Current portion of finance lease receivable	**195**	**1,252**

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 does not hold any collateral as security.

Purchase and termination options

The finance lease contract of FPSO *Aseng*, where the Company is the lessor, includes call options for the client to purchase the underlying asset or to terminate the contract early. The exercise of the purchase option for FPSO *Aseng* as of December 31, 2018 would have resulted in a gain for the Company while the exercise of the early termination option, in which case the Company would retain the vessel, would have resulted in a break-even result.

The finance lease contract of FPSO *Liza Destiny* (under construction as per December 31, 2018) also contains call options for the client to purchase the underlying asset or to terminate the contract early. These options are exercisable at any time starting from the delivery date of the vessel.

Please refer to note 4.3.1 Financial Highlights for the impact of Shell exercising the purchase option on the finance lease contract of the *Turritella* (FPSO) in 2017.

4.3.16 OTHER FINANCIAL ASSETS

The breakdown of the non-current portion of other financial assets is as follows:

	31 December 2018	31 December 2017
Non-current portion of other receivables	79	124
Non-current portion of loans to joint ventures and associates	133	77
Total	**211**	**201**

The decrease in the non-current portion of other receivables and the increase in the non-current portion of loans to joint ventures and associates are both mainly explained by a new loan between the Company and one of its joint ventures. This loan to the joint venture was used to repay the Company's outstanding non-current other receivables.

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 2018	31 December 2017
Current portion of loans to joint ventures and associates	*4.3.19*	101	33
Non-current portion of loans to joint ventures and associates		133	77
Total	*4.3.33*	**234**	**110**

The increase in the current portion of loans to joint ventures and associates addresses the temporary working capital needs of some of joint ventures, mostly located in Angola.

The carrying amount of funding loans is reduced by an amount of US$ 168 million as of December 31, 2018 (December 31, 2017: US$ 166 million) due to cumulative losses and impairment charges recognized 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 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	26	(26)	-	16	(16)
Tax losses	11	-	11	12	-	12
Other	15	10	5	15	-	15
Book value at 31 December	**26**	**36**	**(10)**	**27**	**16**	**11**

Movements in net deferred tax positions

	Note	2018 Net	2017 Net
Deferred tax at 1 January		**11**	**19**
Deferred tax recognized in the income statement	4.3.10	(20)	(10)
Deferred tax recognized in other comprehensive income		-	0
Foreign currency variations		(1)	1
Total movements		**(21)**	**(9)**
Deferred tax at 31 December		**(10)**	**11**

Expected realization and settlement of deferred tax positions is within 9 years. The current portion at less than one year of the net deferred tax position as of December 31, 2018 amounts to US$ 3 million. The deferred tax losses are expected to be recovered based on the anticipated profit in the applicable jurisdiction. The Company has US$ 24 million (2017: US$ 46 million) of deferred tax assets unrecognized in 2018 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$ 17 million (2017: US$ 21 million).

Deferred tax assets per location are as follows:

Deferred tax positions per location

	31 December 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Canada	14	26	(12)	12	16	(4)
Guyana	-	10	(10)			-
Monaco	5	-	5	6	-	6
Switzerland	3	-	3	3	-	3
the Netherlands	3	-	3	3	-	3
Brazil	1	-	1	2	-	2
Other	-	-	-	1	-	1
Book value at 31 December	**26**	**36**	**(10)**	**27**	**16**	**11**

4.3.18 INVENTORIES

	31 December 2018	31 December 2017
Materials and consumables	3	3
Goods for resale	2	-
MPF under construction	96	7
Total	**101**	**10**

Multi Purpose Floater ('MPF') under construction relates to the ongoing EPC phase of two Fast4Ward™ new-build multi-purpose hulls. The Company signed contracts with China Shipbuilding Trading Company, Ltd. and the shipyard of Shanghai Waigaoqiao Shipbuilding and Offshore Co., Ltd. in June 2017 and November 2018 for the construction of these two hulls.

The Fast4Ward™ hulls remain in inventory until they are allocated to an award of an FPSO contract.

4.3.19 TRADE AND OTHER RECEIVABLES

Trade and other receivables (summary)

	Note	31 December 2018	31 December 2017
Trade debtors		175	216
Other accrued income		121	153
Prepayments		87	38
Accrued income in respect of delivered orders		13	34
Other receivables		81	142
Taxes and social security		18	19
Current portion of loan to joint ventures and associates	4.3.16	101	33
Total		**596**	**635**

The increase in 'Prepayments' of US$ 49 million is mainly the result of advance payments in relation to higher turnkey activities, including prepayments for the construction of Multi Purpose Floater ('MPF') hulls.

'Other receivables' decreased by US$ 61 million during the period due to various payments received from clients and investees in 2018.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables as mentioned above. The Company does not hold any collateral as security.

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 2018	31 December 2017
Angola	64	101
Brazil	31	27
China	14	0
Equatorial Guinea	12	14
The United States of America	10	43
Malaysia	9	4
Australia	6	3
Guyana	2	2
Other	26	22
Total	**175**	**216**

The trade debtors balance is the nominal value less an allowance for estimated impairment losses as follows:

Trade debtors (trade debtors balance)

	31 December 2018	31 December 2017
Nominal amount	188	224
Impairment allowance	(12)	(7)
Total	**175**	**216**

The allowance for impairment represents the Company's estimate of losses in respect of trade debtors, please refer to note 4.3.29 Financial Instruments – Fair Values and Risk Management. 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 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 2018		31 December 2017	
	Nominal	Impairment	Nominal	Impairment
Not past due	108	(1)	119	-
Past due 0-30 days	23	(2)	41	-
Past due 31-120 days	23	(1)	15	-
Past due 121- 365 days	21	(4)	35	(3)
More than one year	12	(4)	13	(4)
Total	**188**	**(12)**	**224**	**(7)**

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 2018	31 December 2017
Recognized revenue		1,733	947
Instalments invoiced		(1,181)	(833)
Reclassification to contract liability	*4.3.27*	143	21
Total construction work-in-progress		**695**	**134**

The significant portion of the outstanding balance of construction work-in-progress as of December 31, 2018 relates to the FPSO *Liza Destiny* finance lease project, since the Company will receive most of the payments for the construction only during the lease period through bare boat payments.

In 2018, the Company incurred costs amounting to US$ 13 million related to fullfiling the contract of the FPSO *Liza Unity* project. These costs are recognized as an asset within 'Construction work-in-progress' as per December 31, 2018. The Company has not recognized any amortization or impairment related to this asset during 2018. The assets are recoverable since the client is obliged to reimburse the costs incurred by the Company.

Contract liabilities of US$ 143 million comprises the amounts of those individual contracts, mainly Turret Mooring System EPC projects, 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, 2018, 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 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps cash flow hedge	6	42	(36)	-	109	(109)
Forward currency contracts cash flow hedge	18	41	(23)	69	5	64
Forward currency contracts fair value through profit and loss	22	32	(11)	23	39	(16)
Total	**46**	**116**	**(70)**	**92**	**154**	**(61)**
Non-current portion	12	41	(29)	8	80	(72)
Current portion	34	75	(41)	85	73	11

The ineffective portion recognized in the income statement (please refer to note 4.3.9 Net Financing Costs) arises from cash flow hedges which totalled less than a US$ 1 million loss in 2018 (2017: US$ 17 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 2018	31 December 2017
Cash and bank balances	81	164
Short-term investments	637	793
Cash and cash equivalent	**718**	**957**
Net cash and cash equivalent	**718**	**957**

The cash and cash equivalents dedicated to debt and interest payments (restricted) amounted to US$ 188 million as per December 31, 2018 (2017: US$ 204 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$ 50 million (2017: US$ 58 million).

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 (EUR 200,000,000). This share capital is divided into four hundred million (400,000,000) ordinary shares with a nominal value of twenty-five eurocents (EUR 0.25) each and four hundred million (400,000,000) protective preference shares, with a nominal value of twenty-five eurocents (EUR 0.25) 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	2018	2017
Outstanding at 1 January	**205,671,305**	**213,471,305**
Share-based payment remuneration	-	-
Treasury shares cancelled	-	(7,800,000)
Outstanding 31 December	**205,671,305**	**205,671,305**

TREASURY SHARES

A total number of 945,880 treasury shares are still reported in the outstanding ordinary shares as at December 31, 2018 and held predominantly for employee share programs. During 2018, a total of 1,308,394 shares were transferred to employee share programs.

Within equity, an amount of US$ 1,116 million (2017: US$ 1,051 million) should be treated as legal reserve (please refer to note 4.5.5 Shareholders Equity).

ORDINARY SHARES

Of the ordinary shares, 1,061,910 shares were held by members of Management Board, in office as at December 31, 2018 (December 31, 2017: 574,685) 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 2018	Total shares at 31 December 2017
Bruno Chabas	354,561	439,027	793,588	574,685
Philippe Barril	165,047	-	165,047	-
Erik Lagendijk	69,351	-	69,351	-
Douglas Wood	33,924	-	33,924	-
Total	**622,883**	**439,027**	**1,061,910**	**574,685**

Of the Supervisory Board members, only Sietze Hepkema holds shares in the Company (256,333 shares as at December 31, 2018), 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 2017	**(84)**	**(128)**	**(1)**	**(45)**	**23**	**(235)**
Cash flow hedges						
Change in fair value	114	23	-	-	-	137
Transfer to financial income and expenses	1	27	-	-	-	28
Transfer to construction contracts and property, plant and equipment	4	-	-	-	-	4
Transfer to operating profit and loss	16	-	-	-	-	16
IFRS 2 share based payments						
IFRS 2 vesting costs for the year	-	-	-	-	12	12
IFRS 2 vested share based payments	-	-	-	-	(17)	(17)
Actuarial gain/(loss) on defined benefit provision						
Change in defined benefit provision due to changes in actuarial assumptions	-	-	7	-	-	7
Foreign currency variations						
Foreign currency variations	-	-	-	(17)	-	(17)
Balance at 31 December 2017	**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)**

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 increased marked-to-market value of interest rate swaps mainly arises from an increase in the interest rate whereas the decreased 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 2018	31 December 2017
Borrowings	3,856	4,347
Lease liabilities	161	-
Total Non-current portion of Borrowings and lease liabilities	**4,017**	**4,347**
Borrowings	492	1,223
Lease liabilities	27	-
Total Current portion of Borrowings and lease liabilities	**519**	**1,223**

BORROWINGS

The movement in borrowings is as follows:

	2018	2017
Non-current portion	4,347	5,564
Add: current portion	1,223	557
Remaining principal at 1 January	**5,571**	**6,120**
Additions	1	-
Redemptions	(1,241)	(576)
Transaction and amortized costs	17	26
Other movements	0	0
Total movements	**(1,223)**	**(550)**
Remaining principal at 31 December	**4,348**	**5,571**
Less: Current portion	(492)	(1,223)
Non-current portion	**3,856**	**4,347**
Transaction and amortized costs	94	112
Remaining principal at 31 December (excluding transaction and amortized costs)	**4,442**	**5,682**
Less: Current portion	(508)	(1,240)
Non-current portion	**3,934**	**4,442**

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.

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$ 94 million (2017: US$ 112 million), have the following forecast repayment schedule:

	31 December 2018	31 December 2017
Within one year	508	1,240
Between 1 and 2 years	535	508
Between 2 and 5 years	1,567	1,614
More than 5 years	1,831	2,319
Balance at 31 December	**4,442**	**5,682**

The borrowings by entity are as follows:

Loans and borrowings per entity

					Net book value at 31 December 2018			Net book value at 31 December 2017		
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	3.52%	15-Dec-21	137	65	202	202	62	264
Tupi Nordeste Sarl	FPSO Cidade de Paraty	50.50	5.30%	15-Jun-23	421	103	524	524	98	622
Guara Norte Sarl	FPSO Cidade de Ilhabela	62.25	5.20%	15-Oct-24	677	115	792	792	109	901
SBM Baleia Azul Sarl	FPSO Cidade de Anchieta	100.00	5.50%	15-Sep-27	307	31	339	339	30	368
Alfa Lula Alto Sarl	FPSO Cidade de Marica	56.00	5.30%	15-Dec-29	1,119	97	1,216	1,216	92	1,307
Beta Lula Central Sarl	FPSO Cidade de Saquarema	56.00	4.10%	15-Jun-30	1,195	81	1,276	1,276	77	1,353
SBM Turritella LLC	FPSO Turritella	55.00	3.60%	16-Jan-18	-	-	-	-	724	724
Revolving credit facility:										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	-	(1)	(1)	(1)	(1)	(2)
Other:										
Other		100.00			1	0	1	0	33	33
Net book value of loans and borrowings					**3,856**	**492**	**4,348**	**4,347**	**1,223**	**5,571**

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 FPSO *Liza Destiny* project facility and (iii) short-term credit lines. As per December 31, 2018, the undrawn FPSO *Liza Destiny* project facility of US$ 720 million required the fulfillment of specific lenders conditions precedent.

The expiry date of the undrawn facilities and unused credit lines are:

Expiry date of the undrawn facilities and unused credit lines

	2018	2017
Expiring within one year	100	100
Expiring beyond one year	1,720	1,000
Total	**1,820**	**1,100**

The revolving credit facility (RCF) in place as of December 31, 2018 has a maturity date of December 16, 2021. The US$ 1 billion facility was secured with a selected group of 13 core relationship banks and replaces the previous facility of US$ 750 million. In the last year of its term (from December 17, 2020 to December 16, 2021) the RCF will be reduced by US$ 50 million. The RCF can be increased by US$ 250 million on three occasions up to a total amount of US$ 1,250 million (US$ 1,200 million in the last year), subject to the approval of the RCF lenders. The RCF commercial conditions are based on LIBOR and a margin adjusted in accordance with the applicable leverage ratio ranging from a bottom level of 0.50% p.a. to a maximum of 1.90% p.a.

COVENANTS

The following key financial covenants apply to the RCF as agreed with the respective lenders, and, unless stated otherwise, relate to the Company's consolidated financial statements:

- **Solvency ratio:** tangible net worth divided by total tangible assets > 25%
- **Leverage Ratio:** consolidated net borrowings divided by adjusted EBITDA < 3.75
- **Interest Cover Ratio:** adjusted EBITDA divided by net interest payable > 4.0

For the purpose of covenants calculations, the following simplified definitions apply:

- **Tangible Net Worth:** Total equity (including non-controlling interests) of the Company in accordance with IFRS, excluding the mark to market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income
- **Total Tangible Assets:** The Company total assets (excluding intangible assets) in accordance with IFRS consolidated statement of financial position less the mark to market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income
- **Adjusted EBITDA:** Consolidated earnings before interest, tax and depreciation of assets and impairments of the Company in accordance with IFRS except for all Lease and Operate co-owned investees being then proportionally consolidated, adjusted for any exceptional or extraordinary items, and by adding back the capital portion of any finance lease received by the Company during the period
- **Consolidated Net Borrowings:** Outstanding principal amount of any moneys borrowed or element of indebtedness aggregated on a proportional basis for the Company's share of interest less the consolidated cash and cash equivalents available
- **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) by the Company less all interest and other financing charges received or receivable by the Company, as per IFRS and on a proportional basis for the Company's share of interests in all Lease and Operate co-owned investees.

Covenants

	2018	2017
Tangible net worth	3,585	3,537
Total tangible assets	9,927	10,872
Solvency ratio	36.1%	32.5%
Consolidated net borrowings	2,150	2,657
Adjusted EBITDA (SBM Offshore N.V.)	870[1]	879[2]
Leverage ratio	2.5	3.0
Net interest payable	134	171
Interest cover ratio	6.5	5.2

1 Exceptional items restated from 2018 Adjusted EBITDA are mainly related to the settlement with the 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.

2 Exceptional items restated from 2017 Adjusted EBITDA are mainly related to the settlement with the DoJ, the unwinding of the commitments to the partners in the investee owning the Turritella (FPSO), the estimated insurance income related to the Yme insurance claim (net of claim related expenses incurred up to December 31, 2017) and restructuring costs.

None of the borrowings in the statement of financial position were in default as at the reporting date or at any time during the year. During 2018 and 2017 there were no breaches of the loan arrangement terms and hence no default needed to be remedied, or the terms of the loan arrangement renegotiated, before the financial statements were authorized for issue.

The Company entered into a new RCF agreement with the respective lenders on February 13, 2019, refer to note 4.3.35 Events After End of Reporting Period for further details.

LEASE LIABILITIES

The movement in the lease liabilities is as follows:

	2018
Principal recognized at 1 January following early adoption of IFRS 16	**217**
Additions	3
Redemptions	(28)
Foreign currency variations	(4)
Total movements	**(29)**
Remaining principal at 31 December	**189**
Of which	
Current portion	27
Non-current portion	161

Maturity of the lease liabilities is analyzed as follows:

	31 December 2018
Within one year	27
Between 1 and 2 years	29
Between 2 and 5 years	76
More than 5 years	56
Balance at 31 December	**189**

The total cash outflow for leases in 2018 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 2018	31 December 2017
Deferred income on operating lease contracts	200	249
Total	**200**	**249**

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 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 contracts.

4.3.26 PROVISIONS

The movement and type of provisions during the year 2018 are summarized as follows:

Provisions (movements)

	Demobilisation	Onerous contracts	Warranty	Employee benefits	Brazil investigation	Other	Total
Balance at 31 December 2017	**93**	**63**	**68**	**23**	**299**	**285**	**830**
Derecognition at 1 January following early application IFRS 16	-	(63)	-	-	-	-	(63)
Balance at 1 January 2018	**93**	**-**	**68**	**23**	**299**	**285**	**768**
Arising during the year	-	0	12	1	48	77	138
Unwinding of interest	3	-	-	0	0	-	4
Utilised	-	-	(11)	(1)	(196)	(84)	(292)
Released to profit	-	-	(35)	0	-	(14)	(49)
Through OCI	-	-	-	4	-	-	4
Other	-	-	0	0	(103)	0	(103)
Foreign currency variations	-	-	0	(1)	-	(3)	(4)
Balance at 31 December 2018	96	0	34	26	48	262	467
of which :							
Non-current portion	96	-	-	26	28	0	150
Current portion	0	0	34	-	21	262	317

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$ 31 million between one and five years, and US$ 65 million after five years.

Onerous contract

Onerous contract provisions related to lease contracts were derecognized following the adoption of IFRS 16 on January 1, 2018 (see note 4.2.7 Accounting Principles). As per IFRS 16, right-of-use assets will be subject to impairment, if applicable.

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 decrease of the warranty provision consists of warranty costs effectively incurred over the period as well as a release of the provision following the signature of agreements relating to warranty issues with customers.

Brazilian Investigation
Provision regarding the Brazilian investigation decreased during the year due to:
- Payment of US$ 196 million for the Leniency Agreement with the Brazilian authorities and Petrobras (see note 4.3.1 Financial Highlights);
- Reclassification of the future bonus reduction provided in the Leniency Agreement to 'Other non-current liabilities' and 'Other non-trade payables' for the remaining payment of US$ 103 million (see note 4.3.27 Trade and Other Payables).

The remaining balance of US$ 48 million as per December 31, 2018 relates to the agreement signed between the Company and the Brazilian Prosecutor for an amount of BRL 200 million which was approved by the Fifth Chamber of the MPF on the December 18, 2018 (see note 4.3.1 Financial Highlights).

Other
The 'Other' provisions utilized during the year mainly relate to a payment of US$ 80 million for the compensation payable to the partners in the investee owning *Turritella* (FPSO) following early termination of the lease contract (see note 4.3.1 Financial Highlights).

Provisions arised during the year mainly relate to additional estimated insurance income to be shared with Repsol in accordance with the terms of the settlement agreement of March 11, 2013 which concluded the Yme project (see note 4.3.1 Financial Highlights). The Company has provisioned for a total cost of c.US$185 million as per December 31, 2018, covering payment to Repsol and other insurance related expenses, payable after signing of an agreement. The remainder of 'Other' provisions relate to commercial claims and regulatory fines related to operations.

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2018	31 December 2017
Trade payables		140	98
Accruals on projects		256	189
Accruals regarding delivered orders		39	60
Other payables		69	73
Contract liability	*4.3.20*	143	21
Advances received from customers		3	-
Pension taxation		8	9
Taxation and social security costs		55	52
Current portion of deferred income		62	9
Other non-trade payables		124	86
Total	*4.3.29*	**899**	**596**

The increase in trade payables, accruals on projects and contract liability incurred year-on-year is mainly related to higher Turnkey project activities during the year 2018.

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 increased in 2018 mainly due to recognition of a short-term liability for the outstanding payments related to the Leniency Agreement which were classified as provision at December 31, 2017 (see note 4.3.26 Provisions). The long-term portion of the liability for outstanding payments related to the Leniency Agreement is presented on 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 2018	31 December 2017
Within 1 month	134	88
Between 1 and 3 months	6	4
Between 3 months and 1 year	0	5
More than one year	0	1
Total	**140**	**98**

The Company recognized revenue of US$ 10 million during the period, which was included in the contract liability as per December 31, 2017.

4.3.28 COMMITMENTS AND CONTINGENCIES

PARENT COMPANY GUARANTEES

In the ordinary course of business, the Company is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations).

As such, the Company has issued parent company guarantees for contractual obligations in respect of several Group companies, including equity-accounted joint ventures, with respect to long-term Lease and Operate contracts.

BANK GUARANTEES

As of December 31, 2018, the Company has provided bank guarantees to unrelated third parties for an amount of US$ 358 million (2017: US$ 342 million). No liability is expected to arise under these guarantees.

The Company holds in its favor US$ 187 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

As at December 31, 2018, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US$ 135 million (December 31, 2017: US$ 296 million). Investment commitments have decreased principally due to progress achieved over the period on the construction of the FPSO *Liza Destiny*.

CONTINGENT LIABILITY

As announced by the Company on December 22, 2017 and July 5, 2018, the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') filed a claim based on the Improbity Law with the Federal Court in Rio de Janeiro against the Company. The claim related to the alleged improper sales practices before 2012 that are also the subject of the Leniency Agreement signed on July 26, 2018 (refer to note 4.3.1 Financial Highlights). In the context of this lawsuit, MPF asked the court to impose a provisional measure as a means to secure payment of damages potentially awarded.

On July 4, 2018, the Company became aware of an interim decision by the judge handling the case. The judge has partially granted the request for a provisional measure. The provisional measure aims to order Petrobras to start withholding a percentage of monthly payments due to the Company's subsidiaries under certain charter contracts in escrow, as collateral in respect of the Improbity Lawsuit.

Before taking a decision on the amounts to be withheld, the judge requested more information from Petrobras and the Company. SBM Offshore's Brazilian subsidiary subsequently filed a Motion for Clarification, since certain elements of the interim decision are unclear.

Following the signature of the Leniency Agreement on July 26, 2018, the Company also signed an additional agreement with the MPF. The Agreement means that the Company has now 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.

Following the Fifth Chamber approval, the MPF has made a court filing to terminate the improbity lawsuit filed in 2017, including the associated provisional measure to secure payment of potential damages. Upon closure of the lawsuit, the agreement with the MPF will become fully effective, after which SBM Offshore will pay the earlier announced fine of BRL 200 million.

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 as at December 31, 2018

	Notes	Fair value level	Fair value through profit and loss	Fair value - hedging instruments	Financial assets at amortized cost	Lease receivable & liability	Financial liabilities at amortized cost	Total book value	Total fair value
Financial assets measured at fair value									
Interest rate swaps	4.3.21	2	1	6	-	-	-	6	6
Forward currency contracts	4.3.21	2	22	18	-	-	-	40	40
Total			**23**		**-**	**-**	**-**	**46**	**46**
Financial assets measured at amortized cost									
Trade and other receivables	4.3.19		-		495	-	-	495	-
Finance leases receivables	4.3.15	3	-		-	5,947	-	5,947	5,712
Other financial assets	4.3.16				79			79	
Loans to joint ventures and associates	4.3.16	3	-		234	-	-	234	220
Total			**-**	**-**	**807**	**5,947**	**-**	**6,755**	**5,932**
Financial liabilities measured at fair value									
Interest rate swaps	4.3.21	2	0	42	-	-	-	42	42
Forward currency contracts	4.3.21	2	32	41	-	-	-	74	74
Total			**32**	**84**	**-**	**-**	**-**	**116**	**116**
Financial liabilities at amortized cost									
US$ project finance facilities drawn	4.3.24	2	-		-	-	4,348	4,348	4,351
Revolving credit facility/ Bilateral credit facilities	4.3.24	2	-		-	-	(1)	(1)	(1)
Lease liabilities			-		-	-	189	189	184
Other debt	4.3.24	3	-		-	-	1	1	1
Total			**-**		**-**	**-**	**4,536**	**4,536**	**4,535**

Additional information

- In the above table, the Company has disclosed the fair value of each class of financial assets and financial liabilities in a way that permits the information to be compared with the carrying amounts.
- Classes of financial instruments that are not used are not disclosed.
- 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.
- 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, 2018 and December 31, 2017. Financial Derivatives amounting to a nil fair value (2017: US$ 2 million) were subject to enforceable master netting arrangements or similar arrangements but were not offset as the IAS 32 'Financial instruments – presentation' criteria were not met. The impact of offsetting would result in a nil reduction of both assets and liabilities (2017: US$ 2 million).

Accounting classification and fair values as at December 31, 2017

	Notes	Fair value level	Fair value through profit and loss	Fair value - hedging instruments	Financial assets at amortized cost	Lease receivable & liability	Financial liabilities at amortized cost	Total book value	Total fair value
Financial assets measured at fair value									
Forward currency contracts	4.3.21	2	23	69	-	-	-	92	92
Total			**23**	**69**	**-**	**-**	**-**	**92**	**92**
Financial assets measured at amortized cost									
Finance leases receivables	4.3.15	3	-		-	7,196	-	7,196	7,351
Loans to joint ventures and associates	4.3.16	3	-		110	-	-	110	102
Total			**-**		**110**	**7,196**	**-**	**7,306**	**7,453**
Financial liabilities measured at fair value									
Interest rate swaps	4.3.21	2	-	109	-	-	-	109	109
Forward currency contracts	4.3.21	2	39	5	-	-	-	44	44
Total			**39**	**114**	**-**	**-**	**-**	**154**	**154**
Financial liabilities at amortized cost									
US$ project finance facilities drawn	4.3.24	2	-		-	-	5,539	5,539	5,565
Revolving credit facility/Bilateral credit facilities	4.3.24	2	-		-	-	(2)	(2)	(2)
Other debt	4.3.24	3	-		-	-	33	33	33
Total			-		-	-	5,570	5,570	5,596

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

	2018	2017
Foreign currency forwards		
Carrying amount	(23)	64
Notional amount	(1,427)	(914)
Maturity date	23-10-2019	27-5-2018
Hedge ratio	100%	100%
Change in discounted spot value of outstanding hedging instruments since 1 January	(88)	112
Change in value hedged rate for the year (including forward points)	88	(112)
Interest rate swaps		
Carriying amount	(36)	(109)
Notional amount	4,063	4,814
Maturity date	11-9-2026	15-10-2025
Hedge ratio	95%	96%
Change in discounted spot value of outstanding hedging instruments since 1 January	73	55
Change in value hedged rate for the year (including forward points)	(73)	(55)

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
Commodity 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%-10%)	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 (7%-10%)	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 2018					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)
31 December 2017					
Interest rate swaps	(109)	(32)	(55)	(36)	(123)
Forward currency contracts	64	55	12	-	67

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 2018					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)
31 December 2017					
Interest rate swaps	(109)	(32)	(55)	(36)	(123)
Forward currency contracts	64	55	12	-	67

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 2018 is summarized as follows:

	Finance lease receivable		Construction work-in-progress		Trade receivables		Other financial assets	
	2018	2017	2018	2017	2018	2017	2018	2017
Closing disclosed at 31 December 2017 under IAS 39	-	-	-	-	(1)	-	(114)	(114)
Amounts restated through opening retained earnings	0		0		(4)		0	
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	**0**	**-**	**0**	**-**	**(5)**	**-**	**(114)**	**(114)**
Increase in loss allowance recognised in profit or loss during the year	0		0		(3)	(1)		
Receivables written off during the year as uncollectible								
Unused amount reversed					1		15	
At 31 December 2018	**0**	**-**	**0**	**-**	**(7)**	**(1)**	**(99)**	**(114)**

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-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 2018			31 December 2017		
in millions of local currency	EUR	SGD	BRL	EUR	SGD	BRL
Fixed assets	81	-	388	46	-	139
Current assets	89	2	1,009	155	2	1,039
Long-term liabilities	(51)	-	-	(19)	-	-
Current liabilities	(93)	(12)	(1,415)	(57)	-	(2,232)
Gross balance sheet exposure	**26**	**(10)**	**(19)**	**125**	**2**	**(1,054)**
Estimated forecast sales	110	-	-	155	-	-
Estimated forecast purchases	(937)	(171)	(734)	(672)	(297)	(528)
Gross exposure	**(801)**	**(181)**	**(753)**	**(392)**	**(295)**	**(1,582)**
Forward exchange contracts	795	179	811	391	294	411
Net exposure	**(6)**	**(2)**	**58**	**(1)**	**(1)**	**(1,171)**

The decrease of the BRL exposure during 2018 was mainly driven by the recapitalization of the Brazilian operations entities.

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)

	2018	2017	2018	2017
	Average rate		Closing rate	
EUR 1	1.1810	1.1297	1.1450	1.1993
SGD 1	0.7414	0.7244	0.7344	0.7484
BRL 1	0.2753	0.3136	0.2577	0.3019

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 2017.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
	10 percent increase	10 percent decrease	10 percent increase	10 percent decrease
31 December 2018				
EUR	1	(1)	(95)	95
SGD	0	0	(13)	13
BRL	0	0	(20)	20
31 December 2017				
EUR	-	-	(62)	62
SGD	-	-	(22)	22
BRL	-	-	19	(19)

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)

	2018	2017
Fixed rate instruments		
Financial assets	6,026	7,196
Financial liabilities	(544)	(669)
Total	**5,482**	**6,527**
Variable rate instruments		
Financial assets	234	110
Financial liabilities	(3,898)	(5,013)
Financial liabilities (future)	(313)[1]	-
Total	**(3,977)**	**(4,902)**

1 hedge of corporate financing 2019

Interest rate risk (exposure)

	2018	2017
Variable rate instruments	(3,977)	(4,902)
Less: IRS contracts	4,063	4,814
Exposure	**86**	**(88)**

At December 31, 2018, it is estimated that a general increase of 100 basis points in interest rates would increase the Company's profit before tax for the year by approximately US$1 million (2017: increase of US$ 1 million) mainly related to residual exposure on un-hedged financial assets.

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 2017.

Interest rate risk (sensitivity)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2018				
Variable rate instruments	1	(1)	-	-
Interest rate swap	0	0	159	(171)
Sensitivity (net)	**1**	**(1)**	**159**	**(171)**
31 December 2017				
Variable rate instruments	(1)	1	-	-
Interest rate swap	0	0	203	(218)
Sensitivity (net)	**(1)**	**1**	**203**	**(218)**

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

	2018		2017	
Rating	Assets	Liabilities	Assets	Liabilities
AA	1	(1)	4	(13)
AA-	15	(34)	13	(18)
A+	29	(79)	38	(81)
A	2	(1)	20	(25)
A-	-	-	-	0
BBB+	-	-	17	(16)
Derivative financial instruments	**46**	**(116)**	**92**	**(154)**
AAA	246	-	381	-
AA+	-	-	-	-
AA	106	-	17	-
AA-	202	-	338	-
A+	104	-	69	-
A	11	-	4	-
A-	2	-	100	-
BBB-	-	-	0	-
Non-investment grade	47	-	50	-
Cash and cash equivalents and bank overdrafts	**718**	**-**	**957**	**-**

The Company maintains and reviews its policy on cash investments and limits per individual counterparty are set to:

- BBB- to BBB+ rating: U$25 million or 10% of cash available.
- A- to A+ rating: U$75 million or 20% of cash available.
- AA- to AA+ rating: U$100 million or 20% of cash available.
- Above AA+ rating: no limit.

As per December 31, 2018, 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$ 28 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 statement of financial position date, 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 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**

Liquidity risk 2017

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2017					
Borrowings		1,421	2,634	2,581	6,635
Derivative financial liabilities		99	182	63	345
Derivative financial assets		(78)	(5)	-	(83)
Trade and other payables	*4.3.27*	595	1	-	596
Total		**2,037**	**2,813**	**2,643**	**7,493**

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 an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including the short-term part of the long-term debt and bank overdrafts as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In addition, the Company aims to maintain sufficient headroom on all its banking covenants. At December 31, 2018 and 2017 all debt was held at project company level on a limited recourse basis. The gearing ratios at December 31, 2018 and 2017 were as follows:

Capital risk management

	2018	2017
Total borrowings and lease liabilities	4,536	5,571
Less: net cash and cash equivalents	718	957
Net debt	**3,818**	**4,613**
Total equity	3,612	3,559
Total capital	**7,430**	**8,172**
Gearing ratio	51.4%	56.4%

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 which 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 INTEREST IN JOINT VENTURES AND ASSOCIATES

The Company has several joint ventures and associates:

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2018 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-Serviçõs 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-Serviçõs 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
OPS Production Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & Operate	Angola operations
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
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
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 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
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
SNV Offshore Ltd.	Naval Ventures Corp (an entity of Synergy group)	Joint venture	50.00	Bermuda	Turnkey	Brazilian yard
Pelican Assets S.à.r.l.	SNV Offshore Limited (see information above)	Joint venture	50.00	Luxembourg	Turnkey	Brazilian yard
Estaleiro Brasa Ltda.	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard
Brasil Superlift Serviços Içamento Ltda.	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2018 main reporting segment	Project name
Normand Installer S.A.	The Solstad group	Joint venture	49.90	Switzerland	Turnkey	Normand Installer
OS Installer AS	Ocean Yield AS	Associate	25.00	Norway	Turnkey	SBM Installer
OS Installer Limited	Ocean Yield Malta Ltd	Associate	25.00	Malta	Turnkey	SBM 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

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:

	2018	2017
Investments in associates and joint ventures at 1 January	**457**	**484**
Share of profit of equity-accounted investees	13	33
Dividends	(59)	(76)
Cash flow hedges	2	3
Capital increase/(decrease)	3	4
Foreign currency variations	1	(1)
Share in negative net equity reclassification to loans to joint ventures and associates	2	10
Other	3	-
Investments in associates and joint ventures at 31 December	**421**	**457**

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 uncertainties around local content regulations, SBM Offshore together with joint venture partners, decided to take steps to close the BRASA construction yard for at least the coming few years. This decision resulted in the impairment of the assets of the joint venture (50% owned by the Company) of US$ 19 million. Because this investment is accounted for using the equity method, this impairment has been recognized on the line item 'Share of profit of equity-accounted investees' of the consolidated income statement for the period ended December 31, 2018 bringing the value of the net investment in the joint venture to nil.

The recoverable amount of the net investment is determined based on a value-in-use calculation which requires the use of assumptions. The cash flow projections used for the value-in-use calculation, as approved by the Management Board of the Company, use a horizon of five years. In the event (i) the yard is reopened (ii) and SBM Offshore will be successful on the ongoing Brazilian FPSO bids, with local content requirements reaching the higher end of the scale, justifying the reopening of the BRASA construction yard, the impairment could be (partly) reversed in the future.

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, 2018 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 break-even result for FPSOs *Saxi* and *Mondo* while this would result in a loss for the Company on FPSOs *N'Goma* and *Kikeh*. The Company considers the likelihood of the client exercising the option to terminate the contract on these two specific contracts as remote.

Hyperinflation Angola

The Company applies hyperinflation accounting in line with the requirements of IAS 29 for its local branch in Angola (OPS-Serviçõs de Produção de Petróleos Ltd.). The effects of this hyperinflation accounting on the consolidated financial figures of the Company are limited. The results of the Angolan branch represent an insignificant part of the Company's total assets or results. The results and the financial position of the Angolan branch are translated from Kwanza to US dollars based on the closing exchange rate of December 31, 2018.

The following tables present the figures at 100%.

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**

Information on significant joint arrangements and associates - 2017

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	1,130	981	27	432	386	291	-	101
Angola operations	Angola	225	1	22	-	-	180	10	156
FPSO Kikeh	Malaysia	350	253	5	-	4	17	107	111
Brazilian yard	Brazil	49	37	1	-	-	6	-	11
Angolan yard	Angola	130	0	77	437	437	62	-	13
Non material joint ventures/associates		255	211	21	252	236	51	41	44
Total at 100%		**2,140**	**1,483**	**154**	**1,121**	**1,063**	**605**	**158**	**436**

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

Entity name	% Ownership	% Interest	Maturity	Net book value at 31 December 2018 Non-current	Current	Total	Net book value at 31 December 2017 Non-current	Current	Total
US$ Project Finance facilities drawn:									
Sonasing Xikomba Ltd	50.00	4.77%	16-Aug-21	166	90	256	256	85	342
Normand Installer SA	49.90	4.99%	15-Feb-19	-	35	35	35	8	43
OS Installer Limited	25.00	4.18%	16-Dec-19	73	7	80	80	7	88
Loans from subsidiaries of SBM Offshore N.V.[1]				408	93	501	355	33	387
Loans from other shareholders of the joint ventures and associates				275	5	280	261	-	261
Loans from other joint ventures[2]				258	3	261	252	1	253
Net book value of loans and borrowings				**1,181**	**234**	**1,415**	**1,240**	**134**	**1,374**

1 Please refer to note 4.3.16 'Loans to joint-ventures and associates' for presentation of the carrying amount of these loans in 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.

Aggregated information on joint ventures and associates

	2018	2017
Net result at 100 %	29	(33)

Reconciliation equity at 100 % with investment in associates and joint ventures

	2018	2017
Equity at 100%	372	472
Partner ownership	(120)	(181)
Share in negative net equity reclassification to loans to joint ventures and associates	168	166
Investments in associates and joint ventures	**421**	**457**

4.3.32 INFORMATION ON NON-CONTROLLING INTERESTS

The Company has several jointly owned subsidiaries:

Entity name	Partners	% of ownership	Country registration	2018 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
SBM Stones S.à r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	100.00[1]	Luxembourg	Turnkey	FPSO Turritella

Entity name	Partners	% of ownership	Country registration	2018 main reporting segment	Project name
SBM Turritella LLC	owned by SBM Stones S.a r.l. (see information above)	100.00[1]	The United States of America	Turnkey	FPSO Turritella
SBM Stones Holding Operations B.V.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	100.00[1]	The Netherlands	Lease & Operate	FPSO Turritella
SBM Stones Operations LLC	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	100.00[1]	The United States of America	Lease & Operate	FPSO Turritella
Alfa Lula Alto S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Luxembourg	Turnkey	FPSO Cidade de Marica
Alfa Lula Alto Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Bermuda	Lease & Operate	FPSO Cidade de Marica
Alfa Lula Alto Operações Marítimas Ltda.	owned by Alfa Lula Alto Holding Ltd. (see information above)	56.00	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.	56.00	Luxembourg	Turnkey	FPSO Cidade de Saquarema
Beta Lula Central Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Bermuda	Lease & Operate	FPSO Cidade de Saquarema
Beta Lula Central Operações Marítimas Ltda.	Owned by Betal Lula Central Holding Ltd. (see information above)	56.00	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.	50.50	Luxembourg	Lease & Operate	FPSO Cidade de Paraty
Tupi Nordeste Operações Marítimas Ltda.	Owned by Tupi Nordeste Holding (see information below)	50.50	Brazil	Lease & Operate	FPSO Cidade de Paraty
Tupi Nordeste Holding Ltd.	Nippon Yusen Kabushiki Kaisha; Itochu Corporation; Queiroz Galvao Oleo e Gas, S.A.	50.50	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.	62.25	Luxembourg	Lease & Operate	FPSO Cidade de Ilhabela
Guara Norte Holding Ltd.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	62.25	Bermuda	Lease & Operate	FPSO Cidade de Ilhabela
Guara Norte Operações Marítimas Ltda.	Owned by Guara Norte Holding Ltd. (see information above)	62.25	Brazil	Lease & Operate	FPSO Cidade de Ilhabela
SBM Capixaba Operações Marítimas Ltda.	Owned by FPSO Capixaba Venture S.A. (see information below)	80.00	Brazil	Lease & Operate	FPSO Capixaba
SBM Espirito Do Mar Inc.	Queiroz Galvao Oleo e Gas, S.A.	80.00	Switzerland	Lease & Operate	FPSO Capixaba
SBM Espirito Do Mar B.V.	Queiroz Galvao Oleo e Gas, S.A.	100.00	The Netherlands	Lease & Operate	FPSO Capixaba
FPSO Capixaba Venture S.A.	Queiroz Galvao Oleo e Gas, S.A.	80.00	Switzerland	Lease & Operate	FPSO Capixaba
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
South East Shipping Co. Ltd.	Mitsubishi Corporation	75.00	Bermuda	Lease & Operate	Yetagun

1 Turritella (FPSO) subsidiaries were at 55% ownership until acquisition of full minority interests by the Company in March 2018

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) – 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 Turritella	The United States of America	4	-	0	2	-	2	7	12
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		39	0	9	-	-	7	23	31
Total 100%		**6,793**	**6,158**	**234**	**3,893**	**3,761**	**747**	**73**	**1,018**

Information on non-controlling interests (NCI) – 2017

Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities	Dividends to NCI	Revenue
FPSO Aseng	Equatorial Guinea	269	130	23	80	-	106	-	84
FPSO Espirito Santo	Brazil	311	264	15	-	249	47	39	113
FPSO Turritella	The United States of America	1,063	-	22	724	0	739	-	175
FPSO Cidade de Marica	Brazil	1,772	1,640	57	1,308	1,258	146	-	204
FPSO Cidade de Saquarema	Brazil	1,726	1,627	24	1,353	1,294	105	-	208
FPSO Cidade de Paraty	Brazil	1,214	1,123	28	622	538	145	-	160
FPSO Cidade de Ilhabela	Brazil	1,587	1,427	90	902	793	169	-	201
FPSO Capixaba	Brazil	197	175	8	65	74	87	7	94
Non material NCI		76	0	7	4	4	11	1	9
Total 100%		**8,214**	**6,387**	**274**	**5,056**	**4,210**	**1,554**	**47**	**1,247**

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)

	2018	2017
Net result	132	154

Reconciliation equity at 100 % with Non-controlling interests on partially owned subsidiaries

	2018	2017
Equity at 100%	2,286	2,450
Company ownership	(1,307)	(1,392)
Accumulated amount of NCI	**978**	**1,058**

4.3.33 RELATED PARTY TRANSACTIONS

During 2018, 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	2018	2017
Revenue		27	25
Cost of sales		(18)	(12)
Loans to joint ventures and associates	*4.3.16*	234	110
Trade receivables		99	139
Trade payables		56	61
Lease liabilities[1]		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 Interest in Joint Ventures and Associates.

4.3.34 INDEPENDENT AUDITOR'S FEES AND SERVICES

Fees included in other operating costs related to PwC, the 2018 and 2017 Company's external independent auditor, are summarized as follows:

in thousands of US$	2018	2017
Audit of financial statements	2,209	1,861
Out of which:		
- invoiced by PwC Accountants N.V.	1,133	*1,009*
- invoiced by PwC network firms	1,076	*852*
Tax advisory services by PwC network firms	79	47
Other non-audit services	111	101
Total	**2,399**	**2,009**

In both 2018 and 2017, the other non-audit services were mainly related to the review of the Company sustainability report.

4.3.35 EVENTS AFTER END OF REPORTING PERIOD

DIVIDEND

In accordance with the Company's dividend policy, and further taking into account the specific circumstances relating to 2018 including the nature of the non-recurring items, a dividend of US$ 0.37 per share (based on the number of shares outstanding at December 31, 2018), to be paid out of retained earnings, will be proposed to the Annual General Meeting on April 10, 2019. This represents approximately 25% of the Company's US$ 301 million Directional 2018 net income.

The Company reviews its dividend policy on a regular basis and intends to revise this as follows: the Company's 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. The proposed change will be presented for discussion at the AGM on April 10, 2019.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares depending on residual liquidity and cashflow outlook. Based on this approach and having reviewed the current liquidity position, the requirement to fund growth and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 14, 2019 the Company will commence a euro 175 million share repurchase program, approximate to the net cash it has received for the Yme Insurance settlement.

REVOLVING CREDIT FACILITY

The Company signed a new revolving credit facility agreement with the respective lenders on February 13, 2019, and the existing revolving credit facility has been cancelled, with no financial impact. 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 main terms of the new arrangement are:

- Tenor of 5 years with two one-year extension options;
- Facility Amount of US$ 1 billion with an uncommitted option to increase the RCF by an additional US$ 500 million;
- 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[2];
- Under the former RCF, a leverage covenant applied which limited the consolidated net borrowings divided by adjusted EBITDA to < 3.75. This growth-restrictive covenant has been replaced by a Lease Backlog Cover Ratio (LBCR). The LBCR is used to determine the maximum funding availability under the RCF. The LBCR is determined by calculating the net present value of the future contracted net cash after debt service of a defined portfolio of operational FPSOs in the backlog. The maximum theoretical amount available under the RCF is then determined by dividing the 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 February 13, 2019 headroom on the maximum theoretical amount available was exceeding US$ 0.5 billion;
- Leverage ratio, based on reported Directional figures, used to determine the pricing only;
- Additional financial covenants apply to the RCF as agreed with the respective lenders as follows:

[2] Sustainalytics is a provider of Environmental, Social and Governance and Corporate Governance research and ratings.

  - Solvency: Consolidated IFRS Tangible Net Worth divided by Consolidated IFRS Tangible Assets > 25%;
  - Interest Cover Ratio: Consolidated Directional Underlying EBITDA divided by Consolidated Directional Net Interest Payable is > 4.0;
- The computation of the covenants has been simplified and all calculations are based on either the reported Directional or IFRS figures including certain permitted adjustments;
- All other terms remain in line with the former RCF.

The new covenants are calculated on a semi-annual basis at the 31 December and 30 June. The new covenants will apply from the signing date of February 13, 2019.

4.4 COMPANY FINANCIAL STATEMENTS

4.4.1 COMPANY BALANCE SHEET

Company balance sheet

Before appropriation of profit	Notes	31 December 2018	31 December 2017
ASSETS			
Investment in Group companies	4.5.1	2,657	2,523
Deferred tax asset	4.5.2	3	3
Total non-current assets		**2,660**	**2,526**
Other receivables	4.5.3	11	12
Cash and cash equivalents	4.5.4	0	0
Total current assets		**12**	**13**
TOTAL ASSETS		**2,672**	**2,539**
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Issued share capital		59	62
Share premium reserve		1,163	1,163
Treasury shares		(14)	(35)
Legal reserves	4.5.5	1,116	1,051
Retained earnings		98	416
Profit of the year		212	(155)
Shareholders' equity	4.5.5	**2,634**	**2,501**
Other current liabilities	4.5.6	38	37
Total current liabilities		**38**	**37**
TOTAL EQUITY AND LIABILITIES		**2,672**	**2,539**

4.4.2 COMPANY INCOME STATEMENT

Company income statement

For the years ended 31 December	Note	2018	2017
Revenue	4.5.7	7	4
General and administrative expenses	4.5.8	(34)	(33)
Operating profit/(loss) (EBIT)		**(27)**	**(29)**
Financial expenses	4.5.9	0	(2)
Net financing costs		**0**	**(2)**
Result of Group companies	4.5.1	239	(125)
Profit/(Loss) before tax		**212**	**(156)**
Income tax (expense)/income	4.5.10	-	1
Profit/(Loss)		**212**	**(155)**

4.4.3 GENERAL

The Company financial statements are part of the 2018 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.

4.4.4 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

	2018	2017
Balance at 1 January	2,477	2,773
Reclassification to other receivables	46	41
Change in accounting policy - IFRS 9[1]	(4)	-
Investments net value	**2,518**	**2,814**
Result of Group companies	239	(125)
Investments	1	-
Divestments and capital repayments	-	(232)
Dividends received	(61)	(118)
Other changes (a.o. IFRS 9)[2]	(25)	189
Foreign currency variations	(14)	(9)
Movements	**141**	**(295)**
Balance at 31 December	2,613	2,477
Reclassification to other receivables[3]	44	46
Investments net value at 31 December	**2,657**	**2,523**

1 Opening balance restated following IFRS 9 implementation.
2 Mainly relates to Cash flow hedges (please refer to note 4.2.4 'Company's Consolidated Statement of changes in equity).
3 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
- SBM Offshore Holding S.A., Marly, Switzerland (date of incorporation April 14, 2018)

4.5.2 DEFERRED TAX ASSET

SBM Offshore N.V. is head of a fiscal unity in which almost all Dutch companies are included.

A deferred tax asset is recognized for tax losses of the fiscal unity which can be carried forward for a period of nine years and are expected to be recovered based on anticipated future taxable profits within the Dutch fiscal unity.

4.5.3 OTHER RECEIVABLES

	31 December 2018	31 December 2017
Amounts owed by Group companies	10	12
Other debtors	1	0
Total	**11**	**12**

Other receivables fall due in less than one year. The fair value of the receivables reasonably approximates to 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 2018	31 December 2017
Investees equity non-distributable[1]	1,232	1,124
Capitalized development expenditure[2]	15	14
Translation reserve	(79)	(62)
Cash flow hedges	(52)	(26)
Total	**1,116**	**1,051**

1 Including US$ 75 million of Swiss entities legal reserves.
2 Relates to the Company subsidiaries.

Under the Dutch guidelines for financial reporting which apply to the Company statement of financial position, a legal reserve must be maintained for the above-mentioned items.

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

	2018
Profit/(Loss) attributable to shareholders	212
In accordance with note 4.6.1 to be transferred to the 'Retained earnings'	212
At the disposal of the General Meeting of Shareholders	**-**

It is proposed that US$ 75 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 2018	31 December 2017
Trade payables	1	1
Amounts owed to Group companies	31	29
Taxation and social security costs	0	1
Other creditors	6	6
Total current liabilities	**38**	**37**

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

	2018	2017
Employee Benefits	(27)	(23)
Other costs	(7)	(11)
Total	**(34)**	**(33)**

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 Board of Management 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 to interest expenses charged by Group companies to SBM Offshore N.V.

4.5.10 INCOME TAX EXPENSE

The income tax relates to variance on valuation allowances on the deferred tax asset position recognized on the preceding years within the Dutch fiscal unity after settlements of tax positions between the Dutch group companies belonging to the fiscal unity. All tax liabilities and tax assets are transferred to the parent of the fiscal unity.

4.5.11 COMMITMENTS AND CONTINGENCIES

SBM Offshore N.V. has issued performance guarantees for contractual obligations to complete and deliver projects in respect of several Group companies, and fulfilment 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.

SBM Offshore N.V. is head of a fiscal unity for current income tax in which almost all Dutch group companies are included. Current income tax liabilities of Dutch group companies are calculated locally and settled via intercompany current accounts to the Company. This means that these companies are jointly and severally liable in respect of the fiscal unity as a whole.

4.5.12 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.

4.5.13 NUMBER OF EMPLOYEES

The members of the Management Board are the only employees of SBM Offshore N.V.

4.5.14 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.

4.5.15 EVENTS AFTER END OF REPORTING PERIOD

DIVIDEND

In accordance with the Company's dividend policy, and further taking into account the specific circumstances relating to 2018 including the nature of the non-recurring items, a dividend of US$ 0.37 per share (based on the number of shares outstanding at December 31, 2018), to be paid out of retained earnings, will be proposed to the Annual General Meeting on April 10, 2019. This represents approximately 25% of the Company's US$ 301 million Directional 2018 net income.

The Company reviews its dividend policy on a regular basis and intends to revise this as follows: the Company's 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. The proposed change will be presented for discussion at the AGM on April 10, 2019.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares depending on residual liquidity and cashflow outlook. Based on this approach and having reviewed the current liquidity position, the requirement to fund growth and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 14, 2019 the Company will commence a euro 175 million share repurchase program, approximate to the net cash it has received for the Yme Insurance settlement.

REVOLVING CREDIT FACILITY

The Company signed a new revolving credit facility agreement with the respective lenders on February 13, 2019, and the existing revolving credit facility has been cancelled, with no financial impact. 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 main terms of the new arrangement are:

- Tenor of 5 years with two one-year extension options;
- Facility Amount of US$ 1 billion with an uncommitted option to increase the RCF by an additional US$ 500 million;
- 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[3];
- Under the former RCF, a leverage covenant applied which limited the consolidated net borrowings divided by adjusted EBITDA to < 3.75. This growth-restrictive covenant has been replaced by a Lease Backlog Cover Ratio (LBCR). The LBCR is used to determine the maximum funding availability under the RCF. The LBCR is determined by calculating the net present value of the future contracted net cash after debt service of a defined portfolio of operational FPSOs in the backlog. The maximum theoretical amount available under the RCF is then determined by dividing the 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 February 13, 2019 headroom on the maximum theoretical amount available was exceeding US$ 0.5 billion;
- Leverage ratio, based on reported Directional figures, used to determine the pricing only;
- Additional financial covenants apply to the RCF as agreed with the respective lenders as follows:
  - Solvency: Consolidated IFRS Tangible Net Worth divided by Consolidated IFRS Tangible Assets > 25%;
  - Interest Cover Ratio: Consolidated Directional Underlying EBITDA divided by Consolidated Directional Net Interest Payable is > 4.0;

[3] Sustainalytics is a provider of Environmental, Social and Governance and Corporate Governance research and ratings.

- The computation of the covenants has been simplified and all calculations are based on either the reported Directional or IFRS figures including certain permitted adjustments;
- All other terms remain in line with the former RCF.

The new covenants are calculated on a semi-annual basis at the 31 December and 30 June. The new covenants will apply from the signing date of February 13, 2019.

Schiphol, the Netherlands
February 13, 2019

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 2018

Our opinion

In our opinion:
- SBM Offshore N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 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;
- SBM Offshore N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 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 accompanying 2018 financial statements of SBM Offshore N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of SBM Offshore N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:
- the company balance sheet as at 31 December 2018;
- 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 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 – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

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 experienced a recovery in its turnkey activities with two large projects started in the last year. These projects have contributed to the turnkey revenue and margin in this year. An additional FEED was awarded for an FPSO in 2018 and subject to final investment decision by this client, the Group expects to commence the engineering, procurement, construction and installation contract in 2019. The increase in activities during 2018 have led to an increase in contract assets relating to the projects currently under construction.

For some of the Group's activities the environment remains challenging. This is evidenced by the low activity at the Brazilian yard and difficult market conditions surrounding the Floating Production Unit ('FPU') product line in Houston. This resulted in impairments for these respective CGU's.

Furthermore, the Group has reached settlement agreements with the relevant Brazilian parties and authorities, enabling the Group to tender for and be awarded projects in Brazil.

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, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 4.2.7 section 'Use of estimates and judgement' of the financial statements, the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related significant inherent risks of material misstatement in construction contracts and impairment of goodwill and non-current assets, in particular investments in construction yards, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we considered the settlement agreements reached in Brazil with respect to the alleged improper sales activities a key audit matter given the impact on the financial statements.

Other areas of focus, that were not considered to be key audit matters, were the implementation of IFRS 9, 15 and 16, the accounting for uncertain tax provisions, the IT environment and the accounting for the final settlement of the YME insurance claim. The impact of IFRS 15 has been specifically considered with respect to the key audit matter on estimates in construction contracts.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences, which 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 forensic specialists.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: USD 21.24 million.

Audit scope

- We conducted audit work in three locations.
- Site visits were conducted to Monaco.
- Audit coverage: 100% of consolidated revenue, 98% of consolidated total assets. and 98% of consolidated profit before tax.

Key audit matters

- Estimates in construction contracts.
- Valuation of goodwill and non-current assets.
- Settlement agreements reached in Brazil.

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	USD 21.24 million (2017: USD 21.75 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement we used 0.6% of the net assets as at 31 December 2018.
Rationale for benchmark applied	We used this benchmark and the rule of thumb (%), based on the common information needs of users of the financial statements, including factors such as the headroom on covenants and the financial position of the Company. The benchmark has not changed from last year. The use of this benchmark is based on the current limited contribution of the turnkey segment to the total financial position of the company, whereby there is still a significant weight of the lease and operate segment. As a result thereof, we consider net assets still the appropriate benchmark for the financial performance of the company in 2018.
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 USD 14 million and USD 20.5 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 USD 10 million for balance sheet reclassifications and USD 2.1 million for profit before tax impact (2017: USD 2.2 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 performed sufficient work 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 the component level by the group engagement team and by each component auditor.

The group audit focused on two significant components in Monaco, the treasury shared service center in Marly, and two other components ('Yards and Construction' and 'Group Corporate Departments'). The two significant components in Monaco were subject to a full scope audit 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, 'Yards and Construction' and 'Group Corporate Departments' were 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	98%
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, including 'Yards and Construction', 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 the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained 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, amongst 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 including upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, 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 has visited the Monaco components 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). For each of these locations and the treasury function shared service center in Marly, Switzerland, we reviewed selected working papers of the 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 complex items at the head office. These included impairment assessments, share based payments, provisions for warranty obligations, taxes including deferred taxes and uncertain tax provisions, directional reporting as part of the segment reporting disclosures, the implementation of IFRS 9, especially the expected credit losses, IFRS 15, IFRS 16 and the Brazil settlements.

By performing the procedures above at component level, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on fraud

Our objectives

We assess and respond to the risk of fraud in the context of our audit of the financial statements. In this context and with reference to the sections on responsibilities in this report, our objectives in relation to fraud are:

- 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.

However, because of the characteristics of fraud, particularly those involving sophisticated and carefully organised schemes to conceal it, such as forgery, deliberate failure to record transactions and collusion, our audit might not detect instances of material fraud.

Our risk assessment

We obtained an understanding of the entity and its environment, including the entity's internal control. We made enquiries of management, internal audit and the Supervisory Board. In addition, we considered other external and internal information. 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. Fraud risk factors are events or conditions, which indicate an incentive or pressure, an opportunity, or an attitude or rationalization to commit fraud. We, together with our forensic specialists, evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

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 the Management Board that may represent a risk of material misstatement due to fraud.

Our response to the risk of fraud

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures, which include journal entry testing and evaluating accounting estimates for bias.

In particular, our procedures consisted of checking the results of whistleblowing and complaints procedures with the entity, data analysis of high-risk journal entries and evaluation of key estimates and judgements (including retrospective reviews of prior year's estimates). These procedures also included testing of transactions back to source information. We considered the possibility of fraudulent or corrupt payments made through third parties including agents and conducted detailed testing on third party vendors including agents. We conducted specific audit procedures in relation to the risk of bribery and corruption across various countries of operation determined by a risk based process. We also incorporated an element 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.

In the 'Key audit matters' section of this report, and specifically the key audit matter 'Estimates in construction contracts', we included the risk of fraud as a risk element because of the level of judgement and significant estimates involved relating to the accounting for revenue arising from construction contracts of the turnkey segment.

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 comments or observations 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 consider 'Estimates in construction contracts' a key audit matter for this year. The key audit matters 'Valuation of goodwill and non-current assets' and 'Settlement agreements reached in Brazil' are similar in nature to the key audit matters we reported in 2017 due to the nature of the company's business and its environment. The other key audit matter considered in the 2017 auditor's report ('Directional reporting enhancements'), in our opinion, does not longer warrant the classification of key audit matter in 2018, given 2017 was the first year the enhancements were applied.

Key audit matter	***Our audit work and observations***
Estimates in construction contracts	
Note 4.2.7 *and* 4.3.20 *to the consolidated financial statements*	
Revenue arising from construction contracts represents 42% of the Group's total revenue. The engineering and construction of FPSOs and Turrets is complex, involving significant management estimates, for instance, relating to 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. 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. 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. As construction contracts are complex and these involve significant judgement and estimates, we considered this area to be a key audit matter.	Our audit procedures on construction contracts included obtaining an understanding and evaluation of the significant estimates made by management, such as those regarding the cost to complete, the measuring of progress towards complete satisfaction of the performance obligations, contract modifications and variable consideration. We determined, based on reading the contracts with the customers, that the most critical and judgemental inputs to determine satisfaction of performance obligations over time are the cost incurred on construction contracts including the hours spent on construction projects and the estimate of the cost to complete. 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 company 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 company's internal project reviews. We observed a quarterly operations review meeting of senior management for one of the components located in Monaco. We found the controls to be effectively designed and 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 with management, finance and technical staff of the company. We substantiated the outcome of these discussions by 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

Key audit matter	*Our audit work and observations*
	progress towards complete satisfaction of the performance obligation. We also performed test of details such as vouching of invoices and hours incurred to assess the status of the project. In addition, we discussed the status of legal proceedings in respect of construction contracts, examined modifications of contracts such as various claims and variation orders between the company, subcontractors and clients and responses thereto, and obtained lawyers' letters. Furthermore, we have assessed the adequacy of the related (IFRS 15) disclosures in the financial statements. Our audit procedures did not indicate material findings with respect to the estimates in construction contracts and disclosures thereto.
Valuation of goodwill and non-current assets *Notes* 4.3.1, 4.3.14 *and* 4.3.31 *to the consolidated financial statements* Goodwill is subject to an annual impairment test or when indications are present, indicating goodwill might be impaired, while non-current assets 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. We determined the valuation of goodwill and non-current assets to be a key audit matter, due to the aggregate size of the goodwill and non-current assets and because management's assessment of the value in use of the Group's CGU's included a variety of internal and external factors, which represent significant estimates. Those estimates required the use of valuation models and a significant level of management judgement, particularly with respect to the future level and results of the business and the discount rates applied to the forecasted cash flows. Any change in the important assumptions, based on their sensitivity could have a significant effect on the financial statements. In particular, we focused our audit procedures on goodwill recognized in relation to the Houston based subsidiaries and the BRASA yard due to the impairment charges of USD 45 million recognized in the current year. Regarding the Houston goodwill, as a result of expected FPU projects not being awarded with the expected scope, and the continuing uncertainty surrounding these type of projects, the activities foreseen by management are more limited than anticipated in prior forecasts. As a result, the Group has impaired the goodwill in full. Relating to the BRASA yard, the change in local content regulations in Brazil in the course of 2018 and the lead time for opportunities to mature in terms of construction activities have led to the decision of the joint shareholders to close the yard for at least the coming few years. Due to these changes and the uncertainty surrounding the future evolution of these local content regulations, the activities foreseen by management are lower than anticipated in prior cash flow forecasts. As a result, the BRASA yard has been impaired in full.	We have discussed and challenged the triggering event analysis of management. In particular, we focused on whether all relevant CGU's were identified and the completeness of factors included in the analysis, which included amongst others assessing operational and financial performance and changes in discount rates. We performed audit procedures over the resulting impairment test for the goodwill relating to the Houston based subsidiaries and impairment test for the BRASA yard in Brazil. We evaluated the composition of management's future cash flow forecasts. We compared the current year actual results with the figures included in the prior year forecast to consider whether any forecasts included assumptions that, with hindsight, had been too optimistic. We found that for the Houston goodwill expected project awards included in prior forecasts did not fully materialise. Taking this into account, we performed audit procedures on management's inputs and assumptions such as prospective financial information (revenue and margin, operational and capital expenditure, number of employees, growth rates) comparing trends with external industry analysis and by considering the performance of the CGU. For the BRASA yard we assessed the changes of local content regulations and have obtained and examined the minutes of the board meeting in which the decision to close the yard was taken. We have re-performed calculations and compared the impairment models with generally accepted valuation techniques. With the assistance of our valuation experts, we independently calculated the discount rate. In calculating the discount rate, the key inputs used were independently sourced from market data and comparable companies. We compared the discount rate used by management to our independently calculated rate. We further evaluated the adequacy of the disclosure of the key assumptions and sensitivities underlying the tests. 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.

Key audit matter	*Our audit work and observations*
Settlement agreements reached in Brazil *Notes 4.3.1, 4.3.26 and 4.3.28 to the consolidated financial statements* On 26 July 2018, the Company signed a leniency agreement with the Brazilian Ministry of Transparency and the Comptroller's General Office ('CGU'), the General Counsel for the Republic ('AGU') and Petrobras. In addition, the Company has signed an agreement with the Brazilian Federal Prosecutor's Office ('MPF'). The Agreements mean that the Company has reached a final settlement with the MPF over alleged improper sales practices before 2012, in addition to that with the other Brazilian Authorities and Petrobras. Following the approval of the Fifth Chamber on 18 December 2018, the MPF has made a court filing to terminate the improbity lawsuit filed by the MPF in 2017. The agreement provides for the payment of an additional fine by SBM Offshore of BRL 200 million (USD 48 million as at 31 December 2018), to be paid in instalments. Considering the significance of the settlements and the appropriate disclosure of rights and obligations in the financial statements regarding the settlements, we considered this a key audit matter.	We have discussed the settlements between the Company, the Brazilian authorities and Petrobras with the Management Board. We have examined the settlement agreements, vouched payments to bank statements, have obtained lawyers' letters and held discussions with the Company's Brazilian and Dutch external lawyers. We assessed whether the fines and compensation for damages as set out in the settlement agreements are appropriately recognised in the financial statements. We have assessed the adequacy of the related disclosures in note 4.3.1, 4.3.26 and 4.3.28. Our audit procedures did not indicate material findings with respect to the settlements, as recorded, and the contingent liability relating to the closure of the improbity lawsuit, as disclosed 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 chapters ' 1 At a Glance ', ' 2 Strategy and Performance ', ' 3 Governance ', ' 4.1 Financial Review ',' 4.7 Key Figures ', ' 5 Non-Financial Data ' and ' 6 Other Information ' of the annual report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 appointed as auditors of SBM Offshore N.V. on 13 November 2013 by the Supervisory Board following 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 shareholders. Our appointment represents a total period of uninterrupted engagement of five 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 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 audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all 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, 13 February 2019
PricewaterhouseCoopers Accountants N.V.

M. de Ridder RA

Appendix to our auditor's report on the financial statements 2018 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 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. 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 & Finance Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding 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

	2018	2017	2016	2015	2014
Turnover	**2,240**	1,861	2,272	2,705	5,482
Results					
Net profit/(loss) (continuing operations)	**344**	(1)	247	110	652
Dividend	**75**	51	46	45	-
Operating profit (EBIT)	**603**	358	564	239	726
EBITDA	**838**	611	772	462	926
Shareholders’ equity at 31 December	**2,634**	2,501	2,516	2,496	2,419
Net debt	**3,818**	4,613	5,216	5,208	4,775
Capital expenditure	**40**	53	15	24	65
Depreciation, amortization and impairment	**235**	253	208	223	199
Number of employees (average)	**4,103**	4,150	5,237	7,300	8,330
Employee benefits	**519**	514	512	704	861
Ratios (%)					
Shareholders' equity : net assets	**32**	29	26	28	30
Current ratio	**128**	123	112	244	170
Return on average capital employed	**7.5**	4.1	6.3	2.8	10.0
Return on average shareholders' equity	**8.3**	(6.2)	7.3	1.2	25.8
Operating profit (EBIT) : net turnover	**26.9**	19.2	24.8	8.8	13.3
Net profit/(loss) : net turnover	**15.3**	0.0	10.9	4.1	11.9
Net debt : total equity	**106**	130	148	150	152
Enterprise value : EBITDA	**9.4**	15.2	12.4	19.3	8.6
Information per Share (US$)					
Net profit/(loss)	**1.04**	-0.76	0.87	0.14	2.75
Dividend	**0.37**	0.25	0.23	0.21	-
Shareholders' equity at 31 December	**12.81**	12.16	11.79	11.79	11.54
Share price (€)					
- 31 December	**12.93**	14.67	14.92	11.66	9.78
- highest	**17.12**	16.12	15.20	13.80	15.65
- lowest	**10.14**	12.88	9.59	8.11	8.74
Price / earnings ratio	**14.4**	(23.3)	18.4	93.4	4.3
Number of shares issued (x 1,000)	**205,671**	205,671	213,471	211,695	209,695
Market capitalization (US$ mln)	**3,044**	3,619	3,357	2,739	2,490
Turnover by volume (x 1,000)	**269,134**	295,835	379,108	478,943	516,024
New shares issued in the year (x 1,000)	**-**	0	1,776	2,000	948

Key Directional financial figures

	2018	2017	2016	2015	2014
Turnover	**1,703**	1,676	2,013	2,618	3,545
Lease and Operate	**1,298**	1,501	1,310	1,105	1,059
Turnkey	**406**	175	702	1,512	2,487
EBIT	**533**	117	290	191	201
Lease and Operate	**418**	487	398	315	274
Turnkey	**225**	11	(22)	231	195
Other	**(109)**	(381)	(86)	(354)	(268)
EBITDA	**995**	596	725	561	486
Net Profit	**301**	(203)	(5)	24	84