



**OFFSHORE**

ENERGY. COMMITTED.

# ANNUAL REPORT 2018

This year was an active one in the yards for SBM Offshore, with the construction phase a key focus for three major projects; work advanced on two FPSOs, including our first Fast4Ward™ FPSO and a Turnkey turret project. The photos in the Annual Report provide an insight into these activities on the ground with our project management teams shaping the future for the offshore phase.

The quiet market of past years is steadily changing and we are on track to continue ramping up to meet clients' needs. In today's challenging market, operators need to rely on experienced contractors in order to achieve their goals on time and on budget. SBM Offshore's people are the key to the Company's success. They are our experience and our expertise. They are the key to our future. They embody our new vision.

This is their story.



**OFFSHORE**

ENERGY. COMMITTED.

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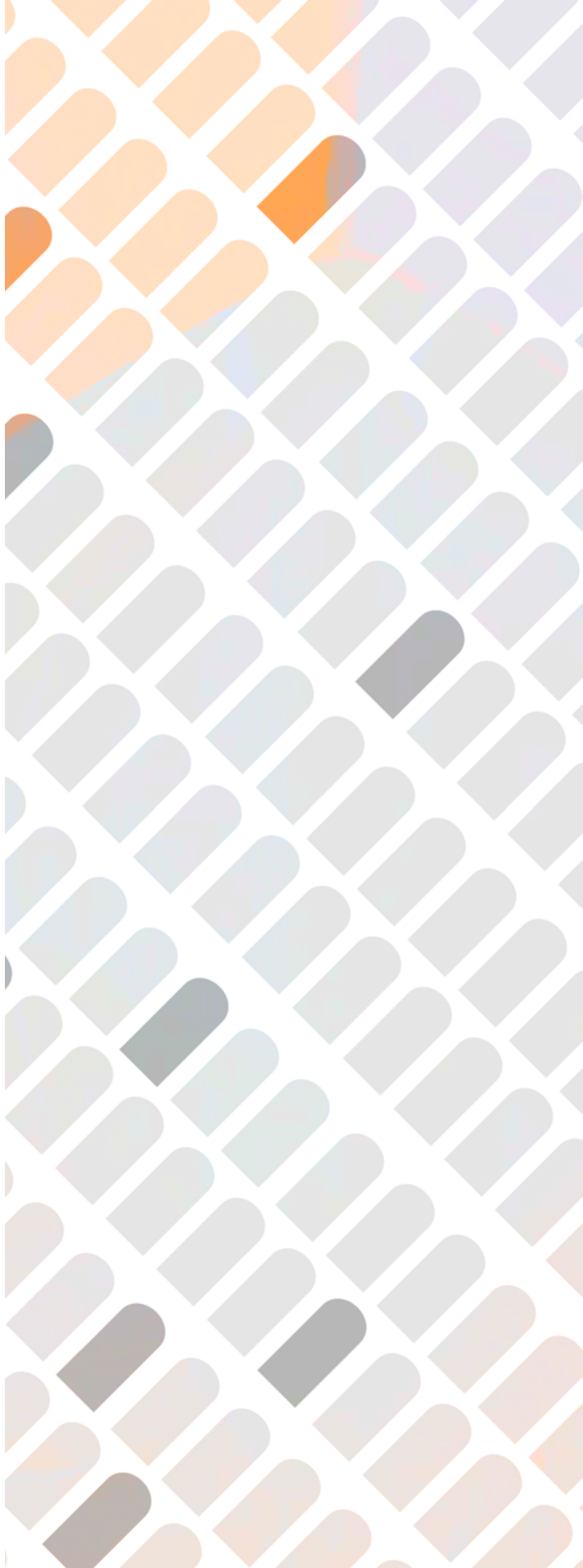
1.

AT A GLANCE

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**#ENERGYCOMMITTED**

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FAST4WARD™  
CHINA





# #ENERGYCOMMITTED



*"This year was busy for our project teams; with construction of three projects, including our first Fast4Ward™ FPSO hull. Signing a second hull contract shows confidence in our solution. With financial performance on track and past legacy issues behind us, we are on our way to a bright future."*

**Bruno Chabas**  
Chief Executive Officer



## 1.1 MESSAGE FROM THE CEO

2018 was a watershed year for both the Company and the wider industry, marking the beginning of a new cycle. SBM Offshore's faster and reliable solutions to industry challenges will lead to profitable growth for years to come. On the macro front, oil prices rose while break-evens of deep water fields kept coming down. This, combined with the improving balance sheets of the oil companies, had the knock-on effect of a return to capital investments, with nine awards in 2018 (four FPSOs – our key market). It was a fruitful year, as we advanced our projects and positioned ourselves for future awards, to profitably grow the Company.

The offshore oil industry must continue to reinvent itself. Embracing standardized solutions from experienced contractors, such as SBM Offshore, provides clients with a higher level of economic certainty, regardless of oil price fluctuations. Although 2018 was a positive year, with the trend mostly upwards, oil price volatility is part of our industry. We offer reliable solutions to this uncertain reality with Fast4Ward™, which increases predictability, reduces costs and ensures lower break-even points for deep water development. All the more important, as the demand for energy rises and the energy mix evolves, with a more prominent role for gas and renewables being forecast for the future.

SBM Offshore is benefiting from these trends because we have been preparing for this scenario for several years by leveraging our expertise to optimize, transform and innovate.

The timing of our Fast4Ward™ program coincides perfectly with an appetite for profitable growth in the industry. This led to a second hull contract, while the first hull forms the design basis for a major project offshore Guyana. Our investment into our digitalization journey will also help us further create value through standardization and economies of scale.

We have also been preparing for the energy transition. Our 12 years of in-house marine renewable energy technology development is being leveraged for the Company's new energy solutions.

We are adapting to the evolving needs of our clients for operations offshore. In a hybrid of the traditional, commercial models, on one hand 'Turnkey' sale and on the other hand 'Lease and Operate', the build-operate-transfer model (BOT), allows SBM Offshore to build and commission a unit and operate it during a shorter period than usual, such as the crucial start-up phase, before then transferring ownership to the client.

We have transformed our ways of working – our organization is more flexible and dynamic to match today's market, with sustainability embedded at every level. Our reputation was eroded in the past by legacy issues and our priority is to restore trust as demonstrated by our actions, through prioritizing integrity and championing compliance.

The Company reached a full and final settlement on its insurance claim related to the Yme MOPU. This project ended in March 2013 following a settlement between the Company and Repsol (formerly Talisman) on behalf of the Yme License.

Closure was also achieved with the signing of the leniency agreement with the Brazilian authorities and Petrobras, followed by an agreement with the Brazilian Public Prosecutor at year-end. The immediate result is that it brings us back to the tender table in Brazil, one of a number of important countries in our growing portfolio.

Our financial results are testament to our track record of performance and potential and have yet to reflect the Liza projects. Encouragingly, activity levels in Turnkey are growing, which further bolsters our confidence in future opportunities. Lease and Operate performance this year – with a 98% uptime – continued to generate strong cash flow from our substantial backlog, with visibility nearly 20 years ahead. Complementing this, the close out of the sale of the *Turritella* (FPSO), as well as final proceeds from the closure of the Yme insurance case, led to a reduction in net debt. Underlying EBITDA was delivered ahead of plan.

We continue to target excellence in all our activities. Construction began on the hull for our first Fast4Ward™ FPSO project. Work on FPSO *Liza Destiny* is progressing in line with project schedule. Fabrication of the Turret Mooring System (TMS) for

## 1 AT A GLANCE

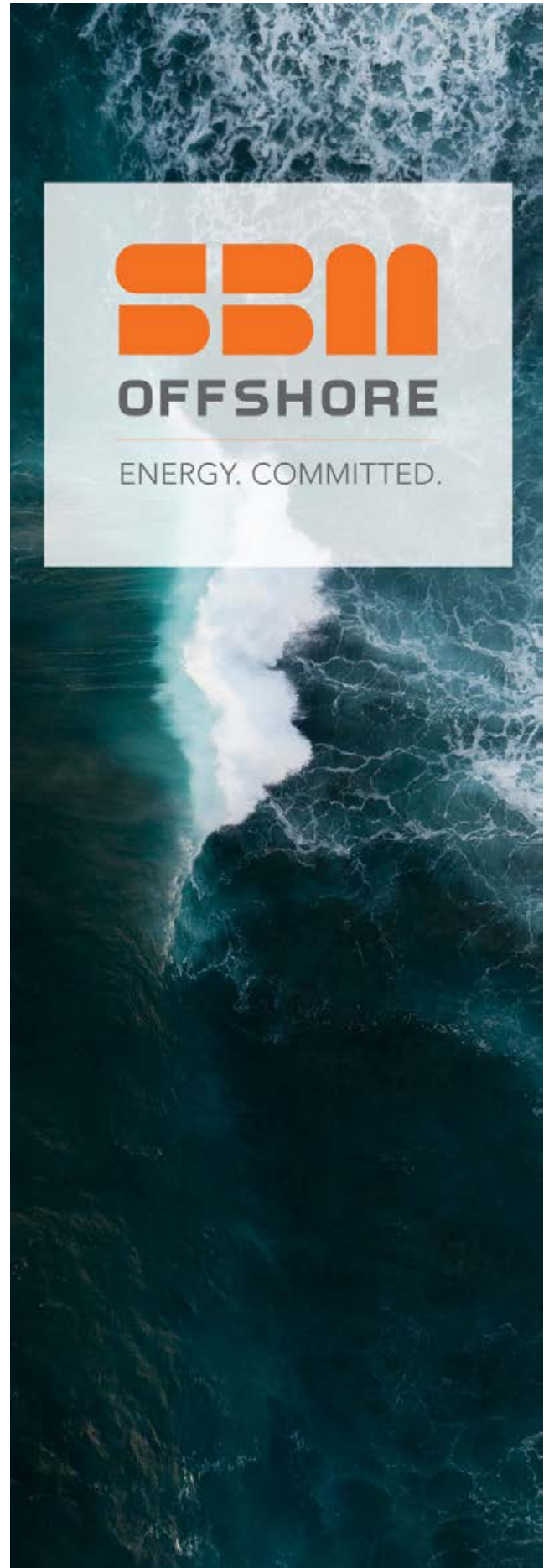
the *Johan Castberg* FPSO is advancing and also on schedule.

Our efforts on safety leadership and culture saw us maintain, in general, last year's overall health and safety performance. In particular, this year we focused on progressing Process Safety Management. However, much to our regret, an injury to a worker proved fatal at a construction yard in Singapore. Following a joint in-depth investigation, preventive measures have been implemented by the yard owner, which include key construction controls, work planning and supervision and focusing on hazard recognition. We have increased our efforts and leadership as we strive to achieve our goal of no harm.

We continue our commitment to support Sustainable Development Goals, with SBM Offshore being included in the Dow Jones Sustainability Index. Once again, our environmental performance has progressed, as evidenced by SBM Offshore's flaring account having achieving the targeted reduction.

In five years time we expect to have grown the Company significantly. I firmly believe in a bright future ahead. We know where we are going and we know how to get there: by driving our quality, our performance and by continuing to invest in our people and our technology.

I thank all SBMers for their achievements this year. We will continue to be guided by our core Values and our vision. We believe the oceans will provide the world with safe, sustainable and affordable energy for generations to come.





# 2018

## KEY FIGURES



TOTAL OIL PRODUCTION CAPACITY  
**1,540,000 bopd**



**0.18**  
TOTAL RECORDABLE  
INJURY FREQUENCY RATE  
(per 200,000 hours)



OIL PRODUCTION  
UPTIME  
**98%**



**4,740**  
PEOPLE



**10%**  
DECREASE IN GAS FLARED  
PER PRODUCTION COMPARED TO 2017



**90%**  
COMPLETION RATIO FOR  
ONSHORE COMPLIANCE TRAINING  
TO DESIGNATED STAFF



**35%**  
LESS GHG PER PRODUCTION  
COMPARED TO INDUSTRY BENCHMARK



**35**  
TRAINING HOURS  
PER EMPLOYEE



DIRECTIONAL REVENUE  
**US\$ 1,703 million**



IFRS REVENUE  
**US\$ 2,240 million**



UNDERLYING  
DIRECTIONAL EBITDA  
**US\$ 784 million**



UNDERLYING IFRS EBITDA  
**US\$ 844 million**



DIRECTIONAL TOTAL ASSETS  
**US\$ 6.5 billion**



IFRS TOTAL ASSETS  
**US\$ 10 billion**



MARKET CAPITALIZATION  
**US\$ 3 billion**



ENTERPRISE VALUE  
**US\$ 7.8 billion**



UNDERLYING DIRECTIONAL  
NET PROFIT  
**US\$ 113 million**



CORPORATE GEARING  
**0%**

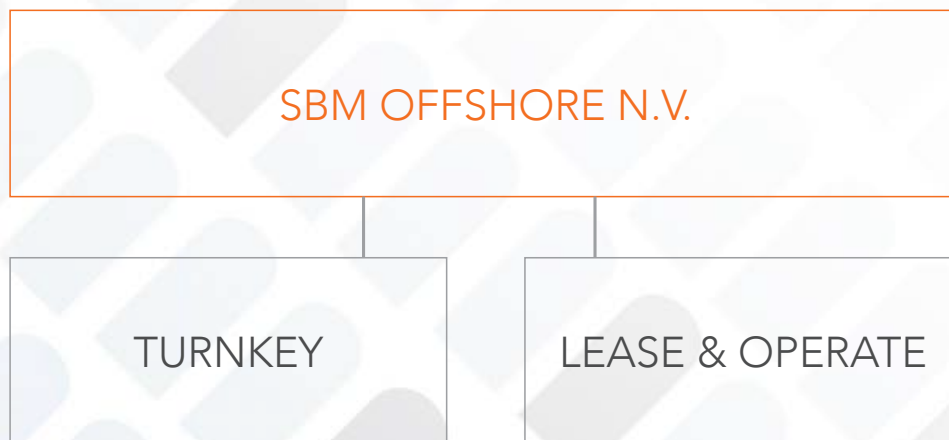
## 1 AT A GLANCE

### 1.2 SBM OFFSHORE AND ITS GLOBAL PRESENCE

SBM Offshore provides floating production solutions to the offshore energy industry, over the full product

lifecycle. The Company is market-leading in leased floating production systems, with multiple units currently in operation worldwide, and has a unique breadth of operational experience in this field.

#### COMPANY ORGANIZATION CHART (SIMPLIFIED VERSION)



**CORPORATE HEAD OFFICE**  
Amsterdam (NL)

**GROUP FUNCTIONS**  
Amsterdam (NL), Marly (CH), Monaco (MC)

**LOCATIONS**  
BRASA (BR), Carros (FR), Dubai (UAE), Houston (USA),  
Kuala Lumpur (MY), Luanda (AO), Monaco (MC), PAENAL (AO),  
Rio de Janeiro (BR), Schiedam (NL), Shanghai (CN), Singapore (SG)

**OPERATIONS AND MAINTENANCE**  
Worldwide

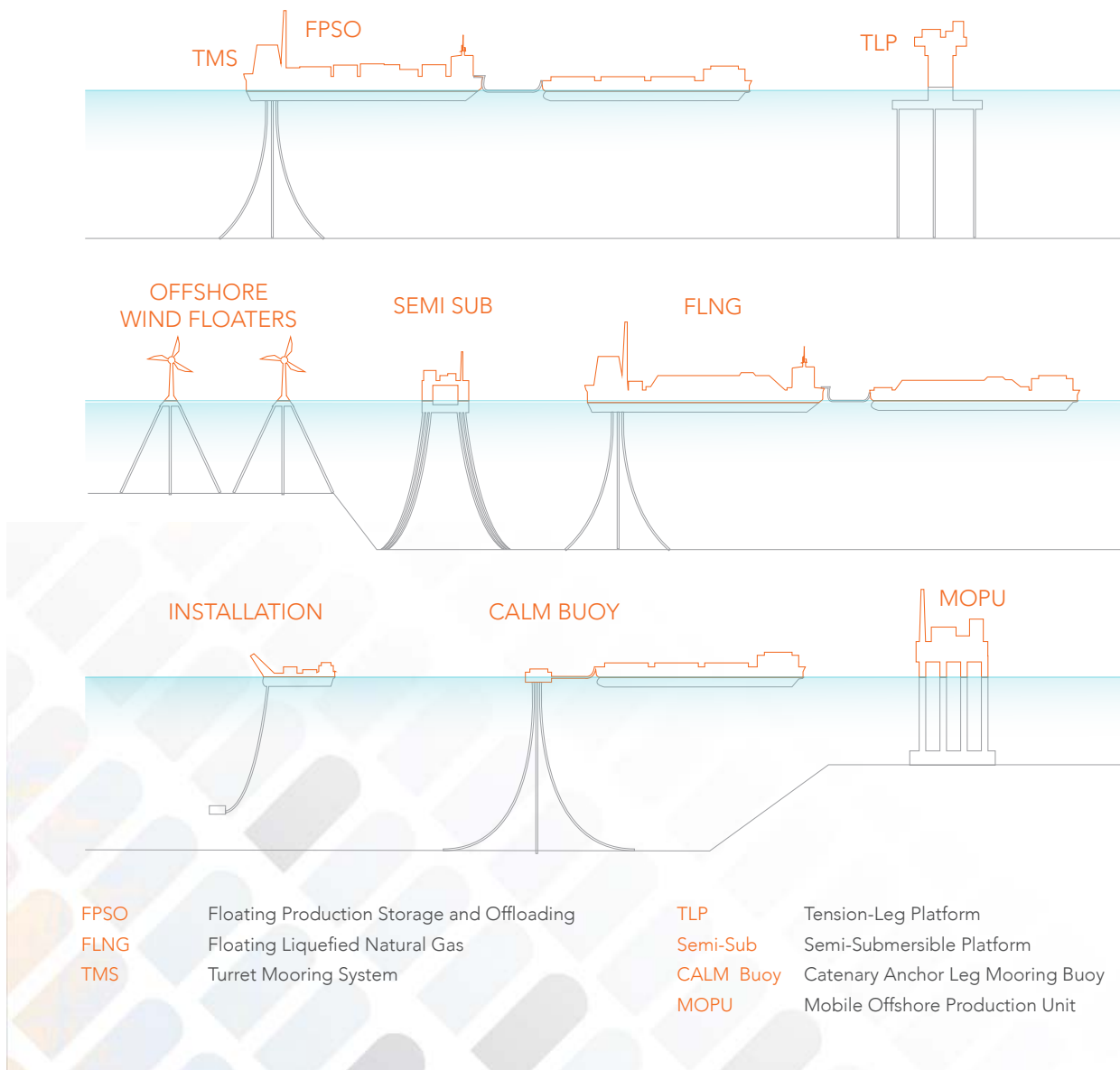
## OPERATING STRUCTURE

The Company's main activities are the design, supply, installation, operation and life extension of Floating Production Storage and Offloading (FPSO) vessels. These are either owned and operated by SBM Offshore and leased to its clients on a long or short-term basis or supplied on a Turnkey-sale basis. Other products include: semi-submersibles, Tension Leg Platforms (TLP), Floating Liquefied Natural Gas (FLNG), Turret Mooring Systems (TMS), brownfield, offshore offloading terminals and, most recently, solutions for renewable energy. At year-end the

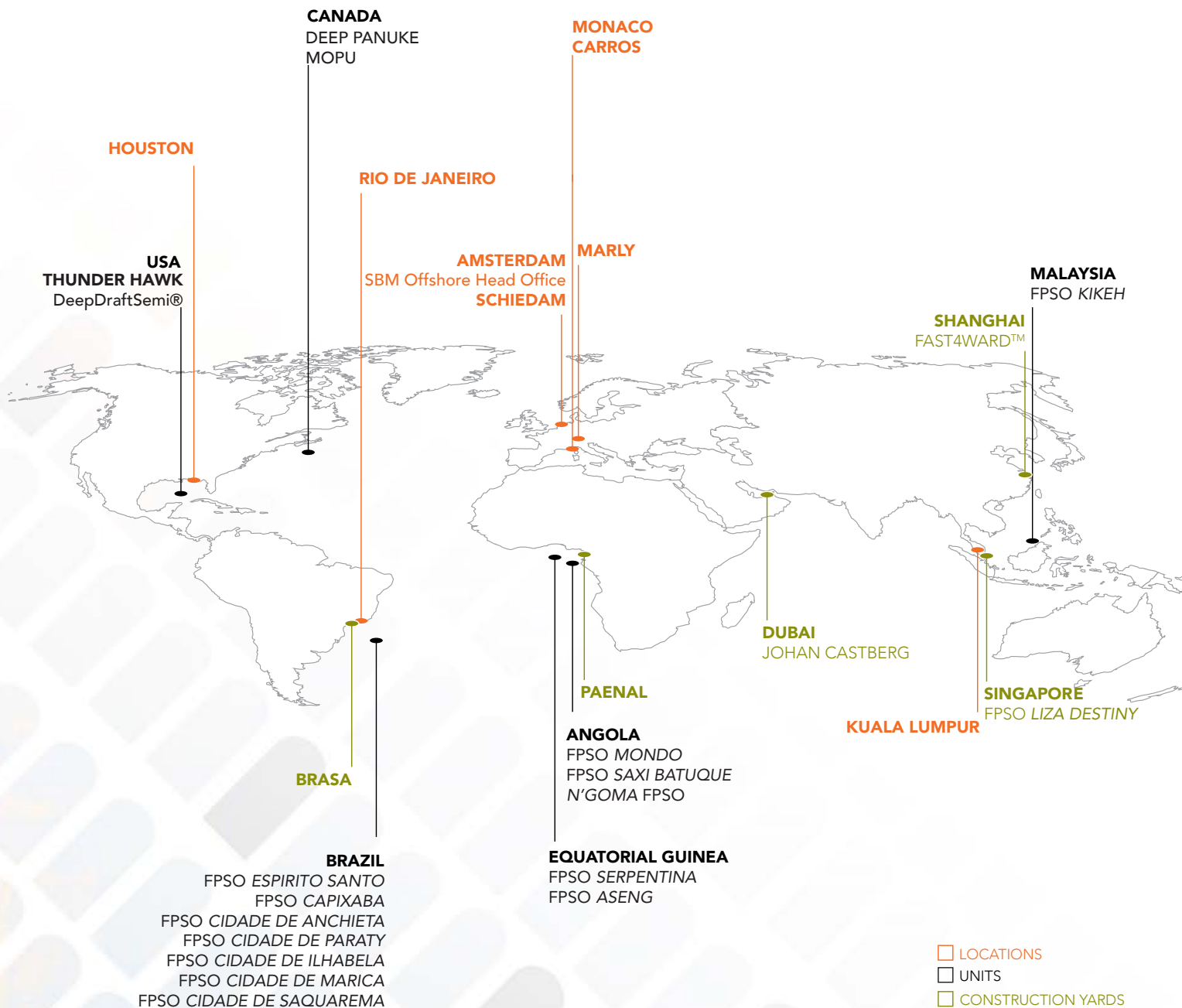
Company had a fleet of 13 FPSOs and one semi-submersible in operation worldwide and almost 320 years of cumulative operational experience.

With its corporate seat in Amsterdam, SBM Offshore employs approximately 4,350 people worldwide, including circa 650 contractors, which are spread over offices in key markets, operational shore bases and the offshore fleet of vessels. Group Companies employ a further 400 people, working for the joint ventures with two construction yards.

## SBM OFFSHORE ACTIVITIES



# SBM OFFSHORE GLOBAL PRESENCE



## OUR PROJECTS IN BRIEF

### FAST4WARD™

**Client:** SBM Offshore (hull reserved. planned to be allocated to FPSO *Liza Unity*, subject to authorizations and FID)  
**Project type:** FPSO (new build based on Fast4Ward™ design)  
**Contract:** FEED completed. Construct, install and then Lease and Operate subject to FID  
**Production capacity:** 220k bopd  
**Water depth:** c. 1,600 meters  
**Offshore location:** Stabroek block, Guyana

### FPSO LIZA DESTINY

**Client:** ExxonMobil  
**Project type:** FPSO (conversion)  
**Contract:** EPCI and Lease & Operate  
**Production capacity:** 120k bopd  
**Water depth:** c. 1,600 meters  
**Delivery date:** 2020  
**Offshore location:** Stabroek block, Guyana

### JOHAN CASTBERG

**Client:** Equinor  
**Project type:** Large-scale TMS  
**Contract:** EPC  
**Water depth:** c. 370 meters  
**Delivery date:** 2020  
**Offshore location:** Barents Sea, Norway

### PROVENCE GRAND LARGE (PGL)

**Client:** EDF Energies Nouvelles (EDF-EN)  
**Project type:** Pilot - three floating wind systems  
**Product type:** SBM Offshore proprietary wind floater (8MW wind turbines by Siemens Wind Power)  
**Contract:** FEED – ongoing. EPCI pending FID  
**Water depth:** 100 meters  
**Offshore location:** Mediterranean Sea, France

## 1.3 VISION AND VALUES

### OUR VISION

*SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen.*

### OUR VALUES

SBM Offshore's core values reflect its long history of industry leadership. They are the essence of who each SBMer is and how the Company works. The values create pride, with each employee embracing them to realize SBM Offshore's vision. They form an integrated component of organizational and individual goal setting, as well as performance evaluation.

#### Integrity

SBMers act professionally and in an ethical, honest and reliable manner. Transparency, doing the right thing and consistency are essential to the way the Company behaves towards all of its stakeholders.

#### Care

SBMers respect and care for each other and for the community. Employees value teamwork and diversity. The Company listens to all its stakeholders. Safety is paramount to everything the Company does.

#### Entrepreneurship

SBMers have an entrepreneurial mindset in everything they do. They deliver innovative and fit-for-purpose solutions with passion. In doing so, the Company aims to exceed its clients' expectations and proactively achieve sustainable growth through balancing risks and rewards.

#### Ownership

SBMers are all accountable for delivering on their commitments and pursuing the Company's objectives with energy and determination. Quality is of the essence. SBMers say what they do and do what they say.

## 1.4 ACTIVITIES AND MARKETS

The market recovery is currently accelerating on the back of industry fundamentals. Additionally the energy mix is changing; the demand for coal is decreasing and forecasts predict accelerated demand growth for other energy sources.

### MACRO TRENDS

By 2040, the world population will grow to 8.5 billion citizens. Taking into account increasing urbanization, with 75% of the total population living in big cities close to the oceans, the global energy demand is set to grow in the coming decades. Consensus among many market analysts is that the demand for oil will also continue to grow until at least 2035 – albeit at a slower pace – and the energy mix will become more balanced. Combined with current oil field depletion, supply gaps are probable and offshore deep water oil production will continue to play a role in the years to come. Furthermore, the shift to alternative energy sources provides SBM Offshore with new market opportunities going forward. The Company is continually reviewing its strategy based on macro trends and believes that it is effectively adapting to the energy transition.

Despite the current upturn, Management remains vigilant and maintains a disciplined approach to market opportunities, particularly as oil prices are expected to be volatile. Geopolitical factors are contributing to this: tensions in the Middle East, the deteriorating situation in Venezuela, the impact of renewed USA sanctions on Iran and the trade issues between China and the USA.

SBM Offshore has a solid foundation to cope with such market volatility based on its backlog. Moreover, to better anticipate market volatility, which may affect clients' investment decisions, the Company continues to focus on an efficient cost-base, shorter cycle times and standardized ways of working. In line with this, SBM Offshore has matured its Fast4Ward™ concept into a principle-based program to be applied across its product portfolio, which will facilitate the philosophy 'Better Performance, Delivered Faster', as well as de-risk projects. Fast4Ward™ is the Company's new business model to fast-track projects, reduce risks and provide a reliable execution plan, making projects even more competitive. Fast4Ward™ fits the needs of the most economically attractive deep water developments, which require high

## 1 AT A GLANCE

production capacities, combined with larger and more complex processing capabilities, and which can benefit most from shorter cycle time to first oil.

It is expected that, going forward, a combination of a robust technology portfolio, project management, engineering capabilities, operations expertise and financing capabilities will be needed to deliver sizeable deep water projects across the energy mix. Success will depend not only on internal capabilities and discipline, but also on the right partnering strategy to add value to current businesses and enhance learning for new businesses. Focus on the full lifecycle value is becoming increasingly important for oil companies.

### 2018 PERFORMANCE

SBM Offshore continues to be active in the following market segments: Floating Production Storage and Offloading Units (FPSOs), Floating Production Units (FPU), Turret & Mooring Systems (TMS) and Terminals. The Company also has a strong focus on the operation of its fleet. Besides these segments, the Company remains focused in the development of its Renewables and Gas floating solutions, in preparation for the energy transition.

Following a period of under-investment in oil and gas production infrastructure, the Company believes that fast action is required to secure future supply for the growing demand. Deep water projects rank favorably in clients' project portfolios. As predicted by SBM Offshore, nine FPSO contracts were awarded in 2018, none to SBM Offshore. The Company assesses each tender opportunity for relative risk and reward and, on that basis, a decision is made to proceed or not.

In 2018 progress was made on two projects; a FPSO and a complex TMS. In addition, on-going Front-End Engineering and Design (FEED) activity across all Product Lines demonstrates that the Company can leverage its experience – particularly in the critical preparatory stage – to help advance clients' projects to the next stage.

SBM Offshore is currently constructing its first standardized hull based on Fast4Ward™, which is planned to be allocated to the FPSO *Liza Unity* project, subject to authorizations. In addition, the Company placed an order for a second generic hull. This decision to start construction in anticipation of future orders is unique in the industry and reflects Management confidence in the market upturn and the increased interest from customers for Fast4Ward™.

Major achievements throughout the year include:

- FEED contract awarded based on Fast4Ward™ design for a second FPSO for the Liza field.
  - Several contracts for CALM Terminals.
  - *N'Goma FPSO* – completion of a field development project with the start-up of the first Ochigufu well.
  - Strong fleet performance.
  - Good progress in the projects in our backlog.
  - In general, maintained similar levels of Health and Safety performance when compared to 2017.
- However, despite the priority for safety, regrettably, a fatality occurred this year during the construction phase for a project; reinforced measures were taken.

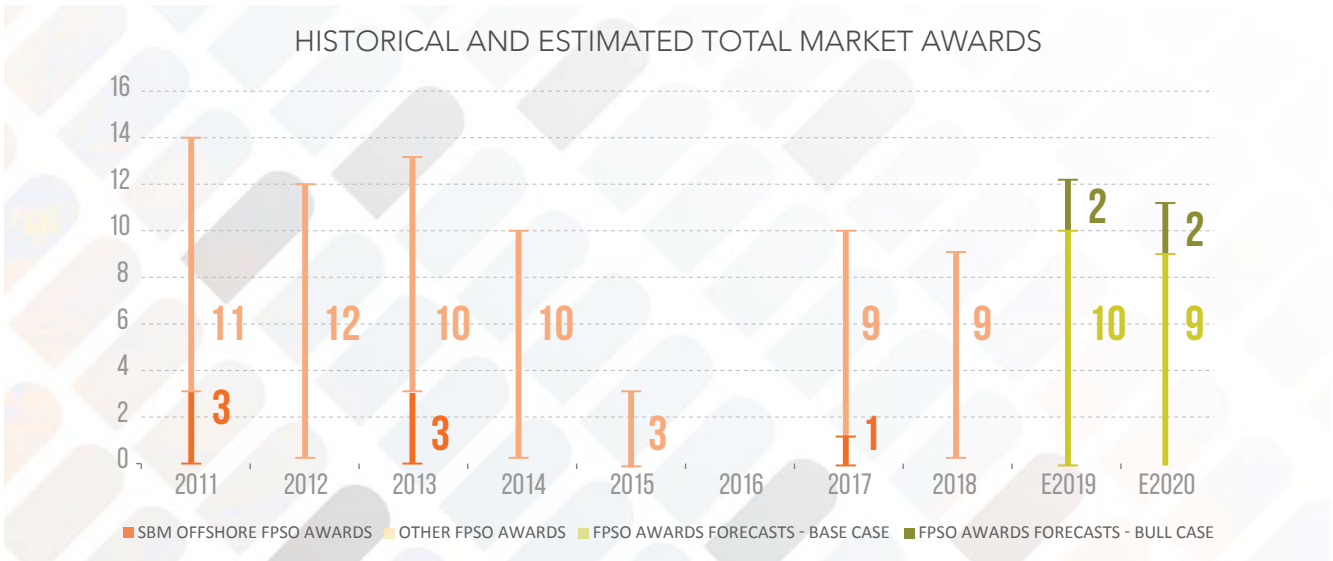




**FUTURE**

Looking ahead, up to 23 FPSO projects could reach Final Investment Decision (FID) between 2019 and 2020 in the bull case scenario. This is an upward estimate of the market condition compared to the Company's view one year ago.

Management firmly believes that the market will continue to pick up. The benefits of the Company's strategic decisions are now yielding results, positioning SBM Offshore as the partner of choice for future projects. The Company continues to adapt to the fast-moving market, as well as directing efforts towards the energy transition.



# 1 AT A GLANCE

## 1.5 MARKET POSITIONING

SBM Offshore is active in multiple energy markets – oil, gas and renewables. Oil markets mainly supply the transportation and industry sectors, while gas and renewables feed into power generation, industry sectors and buildings. Currently, most of SBM Offshore’s revenues are derived from the deep water oil and associated gas markets. The Company is the leader in its market in terms of total oil and gas production (boepd), the number of cumulative years of operating experience and the number of FPSO units delivered to date.

### MARKET SEGMENTATION

#### FPSO Market

The global market for FPSOs can be roughly split into three segments:

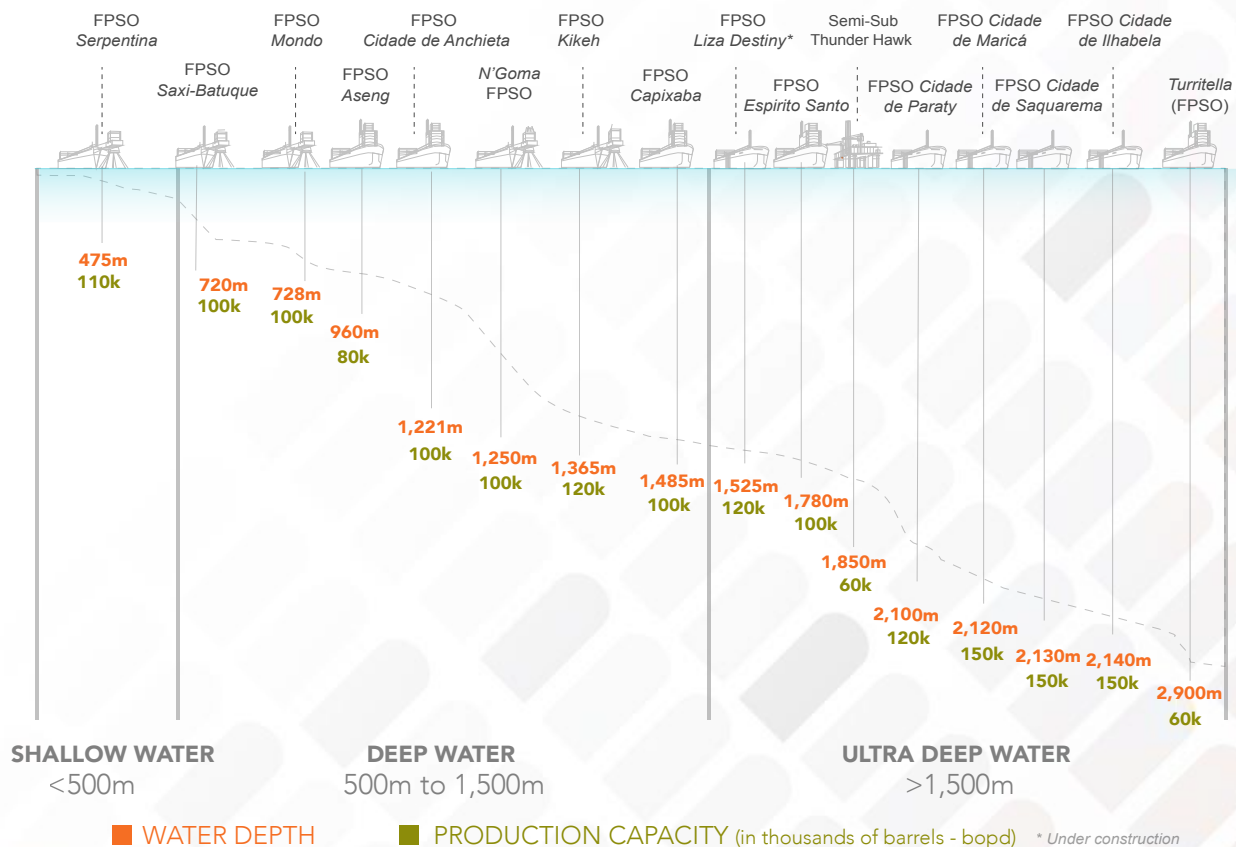
- Large conversion FPSOs: SBM Offshore’s main market where oil tankers, also known as Very Large Crude Carriers (VLCCs), are converted to FPSOs with production capabilities of 60,000 to 150,000 barrels of oil per day

- Newbuild FPSOs: with production volumes of typically around 200,000 barrels of oil per day. With its first Fast4Ward™ FPSO under construction, the Company is now firmly positioned in the newbuild, large capacity FPSO business
- Small conversion FPSOs: based on smaller crude oil tankers, with production rates of up to 60,000 barrels of oil per day

In order to maintain its leading position in its focus FPSO market segments, the Company focuses on:

- Leveraging the Company’s experience and business model by strengthening its position in its core markets, whilst also looking to develop sustainable business in new regions.
- Transformation programs to increase return to our customers, the main one being Fast4Ward™, which reduces delivery time via standardization and improves efficiencies and productivity through digitalization.

DEEP WATER EXPERIENCE BY WATER DEPTH (KEY VESSELS)





Deeper water typically requires more complex solutions in terms of design and operations. The chart illustrates SBM Offshore's worldwide expertise focusing on deep and ultra-deep water.

### Gas

The Company has developed a solid portfolio and business strategy to meet the needs of an evolving energy mix, with a more dominant role for gas. The growing demand for long-distance transportation of natural gas as well as production of associated gas, is increasing the market for liquefied natural gas (LNG) solutions. The Company is developing solutions for the floating liquefied natural gas (FLNG) market. The following segments can be identified in this market:

- Large FLNG solutions with a production capacity typically above 3 million tonnes per annum (mtpa)
- Mid-scale FLNG solutions ranging between 1 and 3 mtpa
- Smaller FLNG solutions of <1 mtpa

The Company is targeting mid-scale FLNG and has developed safe and reliable solutions for both newbuild and conversion projects. The Company's approach is rooted in 20 years of designing, building and operating large offshore gas and liquefied petroleum gas (LPG) projects, as well as numerous FLNG (pre-)FEED studies, with more than 1 million engineering manhours dedicated to FLNG.

### Renewable Energy

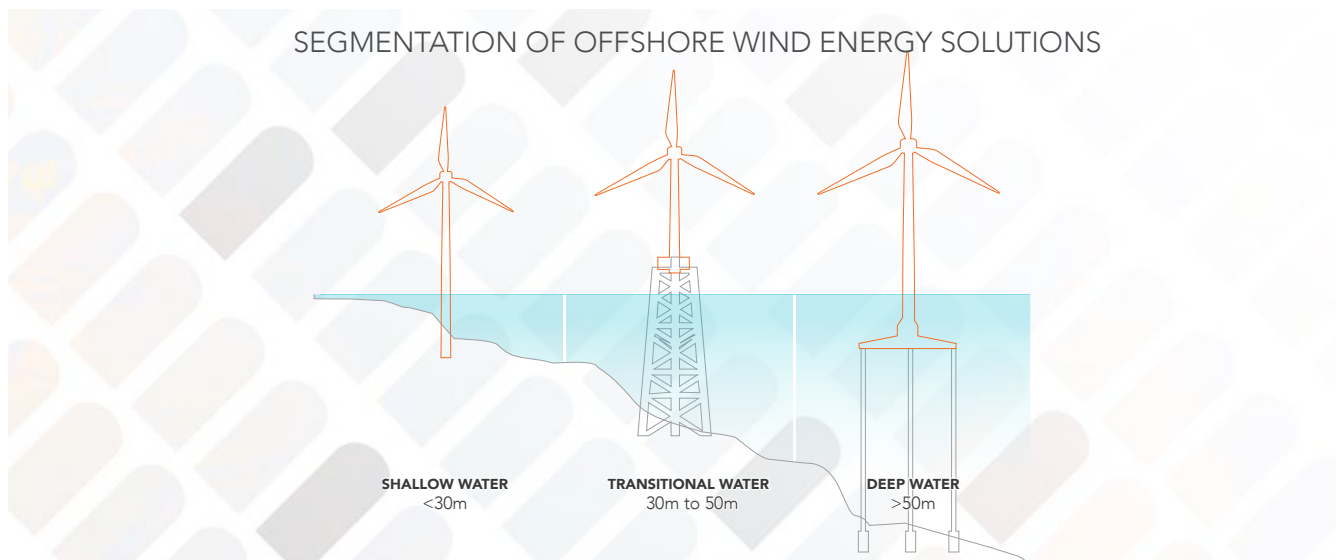
SBM Offshore focuses on two markets for renewable energy production:

- Floating Offshore Wind (FOW)
- Wave Energy Converter (WEC)

Both markets are in development and heavily linked to the readiness of innovative technologies.

The FOW market is developing worldwide, with several pilot projects ongoing in anticipation of future commercial floating wind farm projects. The Company is leveraging its experience in past floaters' design and mooring systems to provide the market with an effective technical solution that can be designed, built and installed for commercial scale. The first application will be deployed for the Provence Grand Large project in the Mediterranean Sea. Offshore wind segmentation is mainly determined by field characteristics (i.e. wind speeds and water depth).

For wave energy, the market is yet to develop and will materialize upon the validation of new technologies. SBM Offshore's WEC is an example of such new technology. Using electro-active polymers, it brings an effective energy solution with no mechanical components, designed to achieve low CAPEX and OPEX; therefore a low Levelized Cost of Energy (LCOE). The first pilot project is under development.



## 1 AT A GLANCE

### 1.6 POSITION WITHIN THE VALUE CHAIN

In line with its vision, SBM Offshore provides a broad range of products and services to its clients, aiming to unlock the potential energy that the oceans contain. The next illustration outlines the lifecycle phases of the oil and gas industry at large and SBM Offshore's activities within this cycle. The Company is also preparing for the energy transition by focusing on the renewable energy market, as illustrated at the end of this section.

The Company's clients usually control the complete value chain, from the initial offshore exploration phase to the physical distribution of hydrocarbon-based fuels. SBM Offshore's added value in this value chain primarily relates to field development activities. The Company is to a lesser extent involved in the transportation of hydrocarbons via its CALM Buoys to transfer crude oil.

#### SBM OFFSHORE'S OIL AND GAS VALUE CHAIN

SBM Offshore's value chain is reflected in the full lifecycle of producing offshore energy for its clients. The Company aims to add value to each lifecycle phase, leveraging its experience to succeed in winning business, executing projects on time and on budget and operating its fleet at maximum efficiency.

#### Engineering and Design

SBM Offshore has the capability for conceptual studies, basic design and detailed design through in-house or in-sourced resources. SBM Offshore invests in product and technology development to maintain the required technology innovation and expertise to meet its clients' requirements for specific field development and to increase its competitive advantage.

#### Procurement

SBM Offshore's supply chain represents a substantial part of the total costs of constructing a Floating Production System. In line with its Fast4Ward™ philosophy, the Company fosters an integrated supply chain, partnering with suppliers to develop efficient delivery of bulk, equipment and services.

#### Financing

The Company ensures optimum results for clients by offering various financial models:

- In the case of a Lease and Operate contract, the facility is sold to asset specific companies – SBM Offshore usually retains a majority stake – to charter and operate the asset for the client throughout its lifecycle.
- In the case of a direct sale, the construction is financed by the client, and a margin is generated from the Turnkey sale.
- In the case of a hybrid of the two above, such as the build-operate-transfer model (BOT), SBM Offshore builds and commissions the unit, operating it during a defined period (the crucial start-up phase). The transfer of ownership to the client then occurs at the end of this defined period.

#### Construction

While maintaining responsibility for delivery and project management, SBM Offshore outsources most construction activities (for either conversion or new build Floating Production Systems) and has agreements in place with yards that allow delivery of Floating Production Systems through different execution models and local content requirements. SBM Offshore provides value through integration and project management.

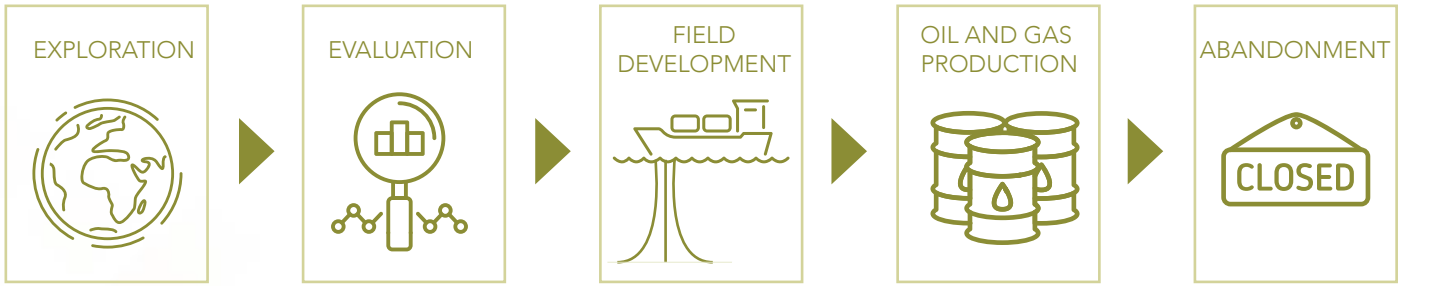
#### Installation

Installation of the floating facilities is done with specialized installation vessels and requires specific engineering expertise and project management skills. SBM Offshore is the co-owner of two installation vessels that provide the expertise to install its fleet of Floating Production Systems offshore, as well as performing other offshore works for third parties. Access to these vessels allows SBM Offshore to control the risks associated with cost fluctuations over a period of several years from contract award.

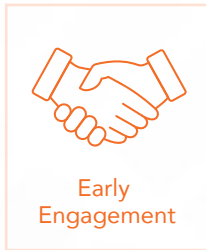
#### Operations & Maintenance

The asset specific companies, fully owned by SBM Offshore or co-owned with partners, which lease offshore facilities to clients, mostly operate such facilities as well. This activity creates value for clients, as the uptime performance of the facility directly impacts the amount of hydrocarbons produced. In most contracts, these asset specific companies are compensated for providing the production facilities by a fixed dayrate complemented by an operating fee. Income is independent of oil price fluctuations.

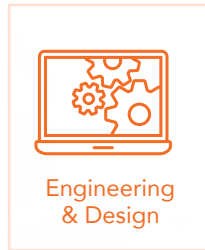
# OIL AND GAS VALUE CHAIN



^  
**BUSINESS DEVELOPMENT**



^  
**TURNKEY**



^  
**LEASE & OPERATIONS**



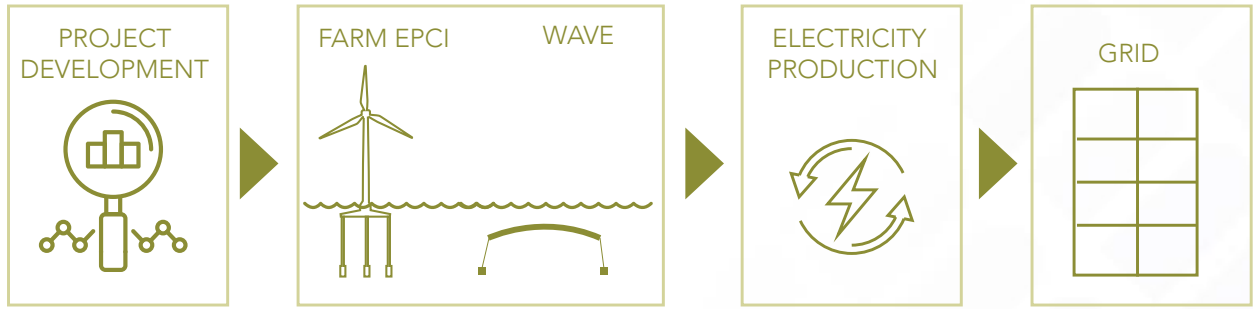
^  
**DECOMMISSIONING**



**SBM OFFSHORE ACTIVITIES**



# RENEWABLE VALUE CHAIN



^

Co-development

An icon showing two stylized human figures with arrows pointing towards each other, representing collaboration or co-development.

^

Design (License)

An icon showing a pencil writing on a document with a line graph, representing design and licensing.

^

Operations & Maintenance

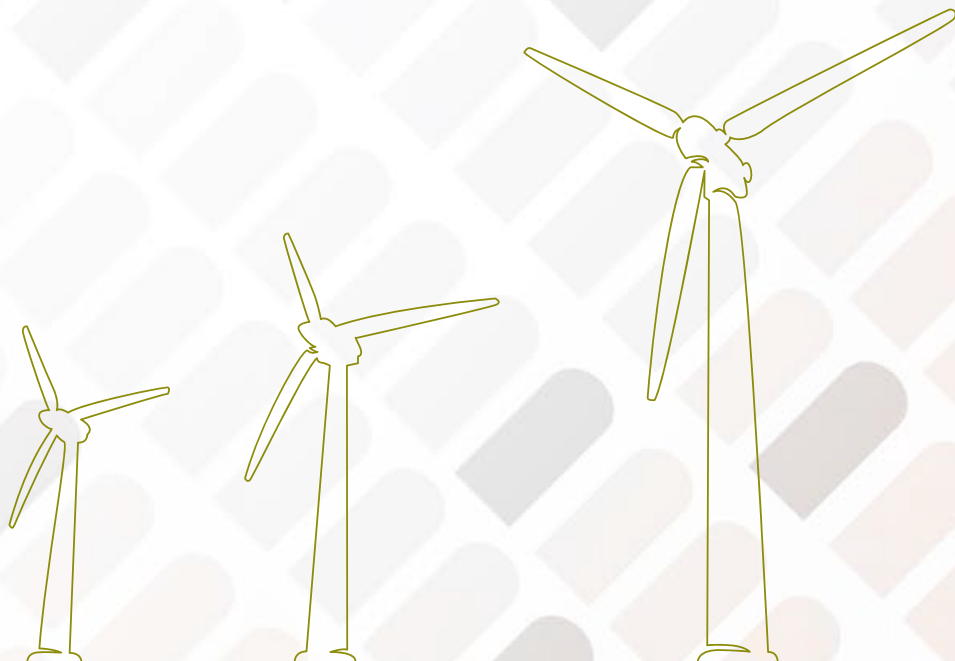
An icon showing three workers wearing hard hats, representing operations and maintenance.

EPCI Floater

An icon showing a circular arrow with a smaller arrow inside, representing a float or cycle.

EPCI Farm (Partnership)

An icon showing two hands shaking, representing a partnership.



Most contracts include a bonus/penalty reward related to uptime performance of the different systems, as well as penalties related to greenhouse gases (GHG) emission levels. The FPSO facility processes the well fluids into stabilized crude oil for temporary storage on board, which is then transferred to a shuttle tanker to export it from the field. Oil and gas enhanced recovery systems are used to maintain production levels. To do this, secondary recovery systems for gas injection, water injection and gas lift systems are installed on the production facility. SBM Offshore's latest FPSO designs can include CO<sub>2</sub> removal from gas streams and reinjection into the well offshore. Operating and maintaining floating production facilities requires proven operational expertise and a robust management system, which SBM Offshore has developed almost 320 cumulative contract years of operations.

### Decommissioning & Recycling

At the end of the lifecycle the facilities are decommissioned and recycled. As the leased FPSOs are under SBM Offshore's full or co-ownership, the Company applies the Hong Kong Convention rules to green recycle its FPSOs.

## RENEWABLE ENERGY VALUE CHAIN

### Energy Transition

SBM Offshore's strategy is to position the Company in this growing market sector as the energy mix evolves, with a more dominant role for renewables. SBM Offshore is investing in technology development for renewable energy, especially in floating offshore wind and wave energy. The Company's Renewables Product Line is focusing on developing its expertise, as well as identifying opportunities for technology co-development with clients and partners.

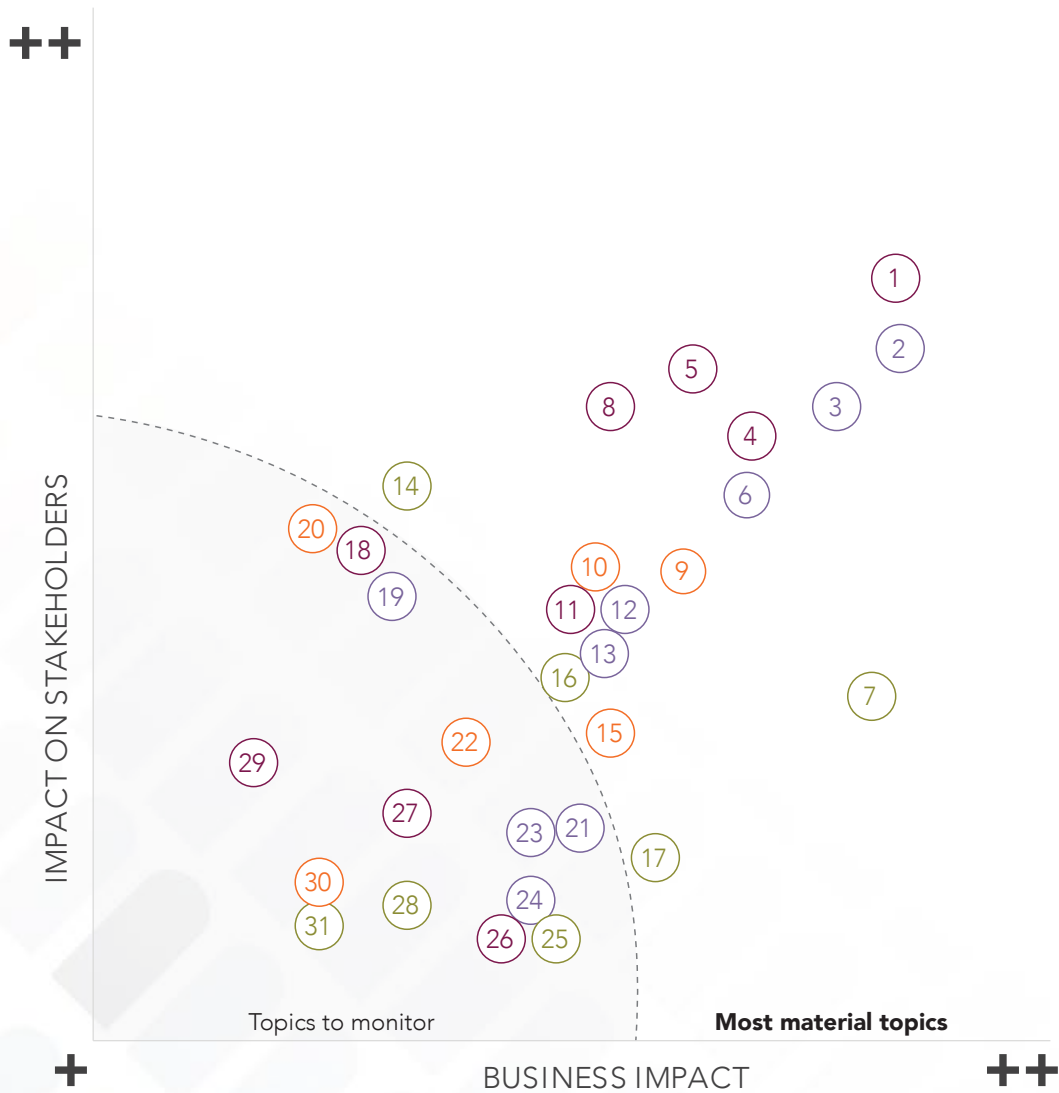
## 1.7 MATERIALITY-BASED VALUE CREATION

Conducting sustainable business for SBM Offshore is dependent on continued and effective communication with stakeholders and the recognition of the impact of operations on the environment. The Company recognizes this and acknowledges stakeholder engagement's importance in understanding risk and opportunities, as well as for setting strategic objectives within the value chain.

Recently, SBM Offshore identified financial and non-financial topics that have a material impact on the Company's ability to create value. The results of this analysis are presented in the Materiality Matrix below, which is a visual representation of SBM Offshore's impact on these topics and related stakeholders' decisions.



# SBM OFFSHORE MATERIALITY MATRIX



## OPTIMIZE

- 2. Fleet Management & Project Performance
- 3. Process Safety
- 6. Pollution to Air & Sea
- 12. Economic Performance
- 13. Cost of Ownership
- 19. Waste
- 21. Supply Chain
- 23. Cost & Energy Efficiency
- 24. Emissions Reduction



## TRANSFORM

- 9. Environmental Impact
- 10. Operational Excellence / Quality
- 15. Digitalization & Standardization
- 20. Partnerships and Mergers & Acquisitions
- 22. Training and Development
- 30. Local Content and Supporting Local Communities



## INNOVATE

- 7. Human Capital Development & Retention
- 14. Innovation & Technology
- 16. Energy Transition
- 17. Renewable Energy
- 25. Green Recycling of Vessels
- 28. Disruptions
- 31. Climate Change



## OUR VALUES

- 1. Ethics & Compliance
- 4. Employee Health and Safety
- 5. Transparency, Trust and Reputation
- 8. Security
- 11. Human Rights
- 18. Risk Management
- 26. Diversity
- 27. Corporate Governance and Investor Relations
- 29. Community and Society

## MATERIAL TOPICS FOR 2018

The matrix maps SBM Offshore's business impact and the impacts on stakeholders for various important topics. From this matrix, SBM Offshore's Management has established a group of the most material topics for the Company. Furthermore, the matrix visualizes the alignment of these topics with the Company's strategy and the relation with SBM Offshore's core values: Integrity, Care, Entrepreneurship and Ownership.

### Value Creation

Engaging with stakeholders also enables sustainable, long-term value creation which is an intrinsic aspect of the Company's business model (for more on who our stakeholders are, see section 5.1.3).

SBM Offshore's production accounts for 1% of total world oil production (onshore and offshore), 10% of deep water oil production (>150m water depth) and 15% of ultra-deep water (>1,000m water depth). This puts the Company in a position of responsibility in supplying safe, sustainable and affordable energy from the oceans to the world's population on both a short and long-term basis.

Hence, engaging with stakeholders to better meet their expectations and create long-term value is a key part of SBM Offshore's daily operations and overall strategy. The value creation model hereafter represents the Company's business model and stakeholder expectations as well as the changing environment within which the Company operates. In addition, it visualises the interconnectivity of SBM Offshore's operations and demonstrates how the outputs are the results of daily activities.

The results shown in the model are the direct result of SBM Offshore's resources and expertise to create value for the stakeholders. They are categorized into six different forms of capitals, as the essential inputs to the Company. Some of these results are linked to the United Nations Sustainable Development Goals (SDGs) that SBM Offshore is contributing to. For more details see section 2.3.



# VALUE CREATION MODEL

## THE INPUTS ON WHICH WE FLOAT



Our **financial capital** enables us to finance our projects and thereby our growth:

- Directional Lease & Operate Backlog: US\$ 13.4 billion



Our **produced capital** consisting of a fleet that enables consistent, reliable and safe production:

- 15 units in our fleet
- 5.6 billion barrels production cumulated to date
- 390 people working for the joint venture (JV) construction yards



We leverage our **intellectual capital** to bring new and innovative solutions to our clients:

- R&D investments: US\$ 23 million **SDG 13**
- + 300 years of cumulative years of operating experience



Ensuring the health and safety of our **human capital** consisting of motivated, diverse and expert colleagues: **SDG 3**

- Headcount 4,740
- 142,065 training hours in 2018 **SDG 4**



Utilizing our **social capital** in all facets of business and collaborations:

- Member of Building Responsibly



**Natural capital** needed for operations:

- 58,033,795 GJ of energy to run our operations

## OUR BUSINESS MODEL TO CREATE STAKEHOLDER VALUE

### OUR VISION STATEMENT

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come.

We share our experience to make it happen.

### STRATEGY

#### OPTIMIZE

Best in class

#### TRANSFORM

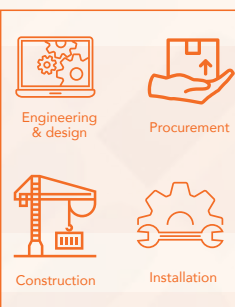
Change our ways of working

#### INNOVATE

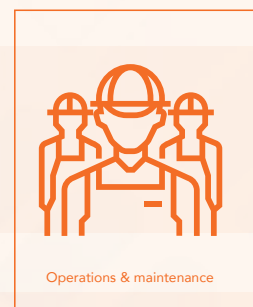
Gas and renewables floating solutions

### SBM OFFSHORE ACTIVITIES

#### TURNKEY



#### LEASE & OPERATIONS



#### DECOMMISSIONING



#### FINANCING

### OUR VALUES

INTEGRITY CARE

ENTREPRENEURSHIP OWNERSHIP



## OUR ANNUAL RESULTS WHICH BENEFIT OUR STAKEHOLDERS



We delivered solid and stable performance needed for long-term growth:

- Directional revenue: US\$ 1,703 million
- Underlying directional EBITDA: US\$ 784 million

Realizing our goal to Transform and Optimize:

- 98% uptime
- Our energy efficiency increased by 1% GJ/tonne hydrocarbons produced **SDG 7**

Develop 'Floating at large' solutions, using SBM Offshore past experience on FPSOs:

- Offshore LNG: for off-grid opportunities and distribution
- Offshore Renewables: using wind and wave as next source of energy

Caring for our colleagues to minimize incidents:

- Total Recordable Injury Frequency Rate: 0.18 (per 200,000 exposure hours)
- 5.26% decrease in TRIFR **SDG 8**

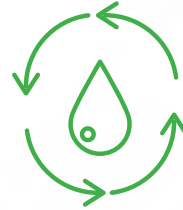
License to operate and grow responsibly in all levels of the Company:

- 99.40% of vendors that have gone through the revised qualification process signed the Supply Chain charter of co-development projects **SDG 8**

More efficient and cleaner energy usage enables long-term value for the Company:

- 97.79 tonnes of Greenhouse gas per 1,000 tonnes of hydrocarbons produced (35% lower than the industry benchmark). **SDG 9**
- Oil spills: 0 m<sup>3</sup> (>1 barrel (159L)) **SDG 14**
- 10% decrease in gas flared per production **SDG 7**

## THE IMPACT OF OUR OUTPUT ON SOCIETY



### THE IMPACT TODAY:

SBM Offshore plays an important role in meeting society's need for safe, sustainable and affordable energy that enables the daily life of millions of people. This is achieved by making floating solutions that create value for the Company's stakeholders and leveraging our operating experience. In addition, we provide a safe and healthy working environment for thousands of people.

### THE IMPACT TOMORROW:

Playing a leading role in supporting energy providers with the knowledge and experience to help them make the most of conventional energy and develop new and sustainable ways of producing energy to meet the world's growing needs.



# 2018 IN BRIEF

## JANUARY

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### *Turritella* (FPSO) Handover Completed

- SBM Offshore with Shell completed the transaction for the sale of the FPSO, ensuring a safe and controlled handover of operations. This award-winning FPSO was designed and constructed by SBM Offshore to meet the challenges of the Stones field in the harsh environment of the Gulf of Mexico, where SBM Offshore operated the vessel for 16 months during the start-up phase of operations. Shell opted to exercise its right to purchase the FPSO, allowing it to assume operatorship of the Stones development in its entirety and create additional efficiencies.

### *FPSO Liza Destiny*

- First steel cut for the construction of the topsides for the FPSO project was combined with a safety-engagement event at the two Singapore yards for the construction phase, reinforcing safety as our number one priority. This phase is in parallel with engineering, procurement and construction (EPC) work for the conversion of the tanker.

## FEBRUARY

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- SBM Offshore proudly supported the inaugural exhibition 'Guyana International Petroleum Business Summit & Exhibition' (GIPEX). Hosted by Guyana's Ministry of Natural Resources, this was the country's first ever event for the nascent local petroleum industry. Under our local subsidiary name – Guyana Deepwater Operations Inc. (GDO), SBM Offshore joined other industry players in supporting GIPEX. The event was ideal for meeting with local businesses and discuss the role that SBM Offshore plays in the oil and gas value chain.
- Full Year 2018 Earnings published. SBM Offshore continued to deliver very robust operating and financial performance against the backdrop of a gradually recovering offshore oil and gas market. Lease and Operate set financial records in both revenues and EBITDA.

## MARCH

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- First steel cut for SBM Offshore's Fast4Ward™ FPSO hull took place at the Shanghai Waigaoqiao Shipbuilding (SWS) yard in China. The Company's first Fast4Ward™ project became a reality and is progressing per plan. Where shorter cycle times are a key value driver for clients, SBM Offshore is confident that the Fast4Ward™ program will transform the industry, delivering cost competitiveness for deep water projects through standardization. With this game-changing business model, the Company is reducing cycle time to energy delivery, de-risking projects, ensuring a reliable execution plan and improving quality and safety.

## APRIL

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### Dry dock of FPSO *Liza Destiny* at Keppel shipyard

- The milestone represents progress on the EPC phase for the FPSO, ultimately destined for the Liza Phase 1 project in Guyana, which is subject to authorizations and FID. This marked an important step in the conversion phase, to prepare the vessel for the integration of the topsides later in the year. To meet the project's requirements, the conversion includes upgrade work on the hull and integration of topsides, which is being undertaken in Singapore.

### Annual General Meeting (AGM) – New members of the Supervisory Board (SB) appointed

- Roeland Baan and Bernard Bajolet were appointed as members of the SB at the 2018 AGM.

## MAY

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- Steel cut for the turret for *Johan Castberg* project for Statoil (now known as Equinor) took place at Dubai Dry Docks World yard, in line with schedule. The event coincided with SBM Offshore's 5<sup>th</sup> Life Day which focuses on safety. The Castberg project is on track to meet delivery early 2020, in line with the client's plan.
- First Quarter 2018 Trading Update published.
- OTC 2018 'Distinguished Achievement Award'. The joint award to Shell and SBM Offshore was in recognition of the successful development of the world's deepest oil and gas project, the Stones field, using a leased FPSO, an industry-first pairing of a steel lazy wave riser system with the largest disconnectable buoy turret mooring system and an artificial lift system designed for 15,000 psi.
- Launch of Fast4Ward™ Semi-submersible solution.
- Dividend of US\$ 0.25 per ordinary share paid (in EUR) (increase of c. 9% versus amount paid in 2017).

## JUNE

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- FPSO *Cidade de Paraty* celebrated five years of safe and efficient offshore operations having achieved first oil in June 2013. Most impressive is the achievement of 756 consecutive days with no recordable incidents. *Paraty* was the first of a series of four pre-salt FPSOs for offshore Brazil and the first Generation 3 FPSO, increasing our knowledge of complex gas processing.

# JANUARY

FPSO LIZA DESTINY – FIRST STEEL CUT



# JUNE

FPSO CIDADE DE PARATY – 2018

## JULY

### Leniency Agreement signed between SBM Offshore, Brazilian Authorities and Petrobras

- Normal business relations in respect to tenders with Petrobras are resumed. The Company is effectively now able to compete for new business opportunities with Petrobras (i.e. to compete for new tenders for the national oil company in Brazil).

### SBM Offshore awarded FPSO *Liza Unity* contracts by ExxonMobil

- This will be SBM Offshore's largest FPSO to date. The design of this FPSO is based on our Fast4Ward™ program, incorporating its new build, multi-purpose hull combined with several standardized topsides modules. The FPSO is destined for the Liza development offshore Guyana. Following FEED, subject to FID and authorization to proceed with the next phase, SBM Offshore will construct, install and then Lease and Operate the FPSO for a period of up to two years, after which the FPSO ownership and operation will transfer to ExxonMobil.

## AUGUST

- The compliance Leadership Program was put in place to reinforce managers' engagement with employees and support them in making compliance an integral part of our ways of working. This is a key part of SBM Offshore's journey of continuous improvement in compliance.

## SEPTEMBER

### Legacy issues

- Agreement signed between SBM Offshore and the Brazilian Federal Prosecutor's Office (MPF). The agreement means that the Company has now also reached a final settlement with the MPF over alleged improper sales practices, in addition to the settlement reached with the Brazilian Authorities and Petrobras (as announced in July).

### Participation at Gastech

- As part of its strategy to meet the needs of an evolving energy mix, with a more dominant role for gas and renewables in the future, SBM Offshore had a prominent presence at the Gastech conference to promote its portfolio of floating gas and FLNG solutions.

### Claim settled

- SBM Offshore reaches full & final settlement of its Yme Insurance claim.

## OCTOBER

### China MoUs signed

- To strengthen mutual cooperation, SBM Offshore signed three memoranda of understanding (MoUs) with key Chinese companies: ICBC Leasing, China Merchant Industry Holdings and China Petroleum Technology and Development Corporation. The MoUs are a step towards further collaboration as we continue to develop our experience and valued partnerships in China. This is another solid step along that path. The signing event coincided with SBM Offshore's participation in the Monaco Economic Board (MEB) Trade Mission to Beijing.



SEPTEMBER  
FAST4WARD™



# DECEMBER

FPSO LIZA DESTINY – MODULE LIFTING CAMPAIGN

## NOVEMBER

Third Quarter Trading Update published  
SBM Offshore's design for wind floater receives ABS stamp of approval

- Classification society, ABS, has issued an Approval in Principle (AIP) to SBM Offshore for its proprietary wind floater design, based on a TLP concept. The approved design has been developed to a technology maturity level of a Front End Engineering Design (FEED). The complete design was developed in-house at SBM Offshore, in collaboration with our partner, IFP Energies Nouvelles (IFPEN).

Fast4Ward™ gaining speed – SBM Offshore signs for hull #2 as keel is laid for hull #1

- Coinciding with the keel laying ceremony for its first Fast4Ward™ FPSO hull, SBM Offshore signed the contract for a second hull with SWS shipyard in China. This is evidence that SBM Offshore game changing solution is on track. The level of client endorsement to date demonstrates that the concept is winning the confidence of the clients and prospective clients.

## DECEMBER

FPSO *Liza Destiny* module lifting campaign

- Topsides integration progressing well.

Expansion in China

- Official opening of new office in Shanghai, China, allows SBM Offshore to be closer to its valued Chinese partners, yards and suppliers and to better support project teams on the ground.

Final agreement in Brazil

- The Leniency Agreement with the Brazilian Federal Prosecutor's Office (MPF) of September 1, 2018 was approved by the Brazilian Fifth Chamber for Coordination and Review and Anti-corruption. This Leniency Agreement comprises a final settlement between the Company and the MPF with respect to alleged improper sales practices.

Sale of vessel

- FSO N'Kossa II was handed over to client TEPC (Total Congo) as planned, following conclusion of the charter contract on December 31, 2018.



2.

STRATEGY &  
PERFORMANCE

---

· CARE ·

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# OUR STRATEGY



## VISION

*SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen.*

**AMBITION 2025**  
GROW SIZE GROW VALUE


**STRATEGY**  
OPTIMIZE – TRANSFORM – INNOVATE

**KNOW HOW**  
FLOATING ENERGY SOLUTIONS

**VALUES**  
INTEGRITY, CARE, ENTREPRENEURSHIP, OWNERSHIP

  
**Population**  
2 billion more people by 2050

  
**Demand**  
2/3 more energy demand by 2060

  
**Rising living standards**  
more demand for goods and services

  
**Urbanization**  
2/3 people living in cities by 2050

   
**Oil price**





## 2.1 GROUP STRATEGY

### Management approach

SBM Offshore believes the oceans will provide the world with safe, sustainable and affordable energy for generations to come. We share our experience to make it happen. To be able to achieve this vision, the development of SBM Offshore's strategy is based on the analysis of energy supply and demand, feedback from stakeholders, trends in the market, the Company's capabilities to perform in its markets and the elements in the materiality matrix (see section 1.7 Materiality-based Value Creation ).

SBM Offshore aims to grow and create long-term value for its stakeholders. The Company continues to focus on the offshore floating energy production market and adheres to a defined risk appetite framework as it pursues potential projects in its core businesses and prepares for the energy transition.

Key guiding principles in the strategy are:

- Making informed choices, remaining consistent and ensuring a long-term view.
- To build on strengths, yet adapting based on clients' reality and demands.
- Time to market is essential whilst remaining cost effective. In order to achieve this, digitalization is key.
- Partnering and collaboration are fundamental to increase competitiveness and to be able to grow through learning.
- Market is picking up. The Company needs to optimize its execution model and plan resource capacity to allow growth.

Based on those principles, SBM Offshore's strategy has been built on three strategic pillars:

- **Optimize** core business activities and be the Best in Class to deliver backlog.

This means ensuring targeted uptime, the highest safety, process safety and quality performance,

delivering on time and on budget. These objectives can only be achieved by developing the Company's talents and relying on people to create value.

- **Transform** the industry by de-risking deep water developments and unlocking new field developments for our clients.

SBM Offshore's roadmap to this transformation is the Fast4Ward™ program, which will allow 'Better Performance, Delivered Faster'. The Fast4Ward™ principles are: Client First, Standardization, Flawless Execution, Integrated Supply Chain and Enabling Digital Solutions.

A Digital Transformation program has been established to support the enabling of new ways of working.

- **Innovate** as a way to maintain SBM Offshore's technology leadership position and to evolve its product portfolio in line with market needs and expectations, in particular for the energy transition to floating gas and renewable energy solutions.

SBM Offshore manages performance of these strategic pillars through a balanced score card.

In order to strengthen ways of working, SBM Offshore further streamlined its organization in February 2018. The role of Chief Strategy Officer was created to oversee strategy, sustainability, technology and governance of new business development. As a result, through centralized resources and supply chain management, project execution has become more standardized and flexible, in alignment with the Company's product strategy. A dedicated entity focused on China and Singapore was created to increase local presence and further develop relationships, as well as a global construction approach. In addition, to optimize the fleet's performance, Operations has been strengthened to embed brownfield fleet support activities.

## 2 STRATEGY AND PERFORMANCE

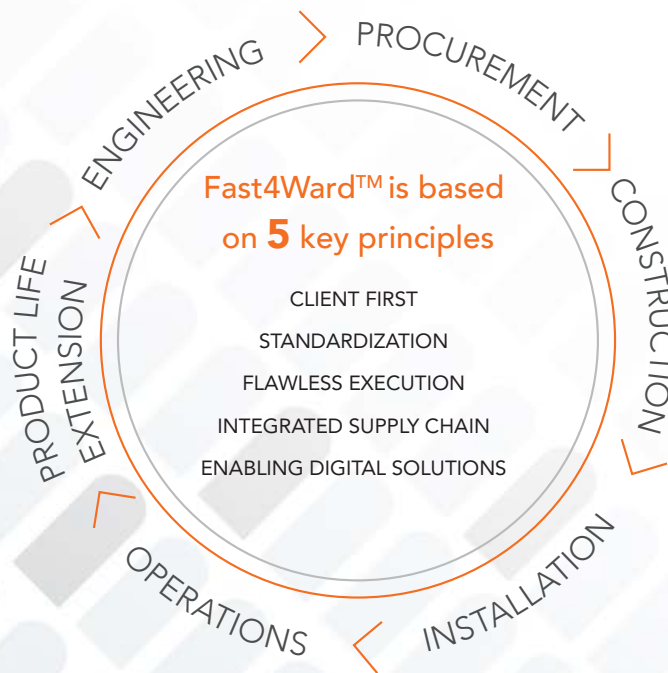
### 2.2 FAST4WARD



BETTER PERFORMANCE, DELIVERED FASTER

**Fast4Ward™ is SBM Offshore's philosophy to transform the business by reducing cycle time to energy delivery, de-risking projects and improving quality and safety.**

Fast4Ward™ is based on five key principles: engaging early with clients, standardization, focus on flawless execution, partnering with the supply chain and use of digital solutions in today's volatile environment. The Company is applying the Fast4Ward™ principles across its product portfolio.



**REDUCING  
CYCLE TIME**

UP TO 12 MONTHS FASTER  
UP TO US\$ 1 BILLION NPV GAIN

**DE-RISKING  
PROJECTS**

STANDARDIZED  
HULL AND TOPSIDES

**ENABLING LOWER  
BREAK-EVENS**

LOWER CAPEX AND OPEX

## 2.3 SUSTAINABILITY

### MANAGEMENT APPROACH

Sustainability is an important value driver for SBM Offshore's business and operations. The Company aims to be the industry frontrunner on sustainability, as reflected in the Company's vision. SBM Offshore's approach to sustainability is integrated in the Company's strategy and sustainability objectives are aimed at creating value for all stakeholders.

SBM Offshore's approach is to create a competitive and commercial advantage by developing sustainable solutions that answer social issues that go beyond current rules and regulations. These solutions are being embedded in the Company's mainstream business development and operations.

To provide context for SBM Offshore's targets and performance, the Company uses the United Nations Sustainable Development Goals (SDGs) as target guidelines, and the GRI standards as the reporting standard on progress and non-financial performance. By doing so, the Company relates its most material topics and business impact to internationally agreed-to long-term goals on which the Company can transparently report. Furthermore, through reporting on performance relating to internationally acclaimed benchmarks, SBM Offshore allows stakeholders to assess its performance in a broader context.

Along with the sustainability department, the Company has Sustainability Ambassadors to lead the implementation of the sustainability strategy and embed it within the Company's ways of working. This program is founded on continuous engagement with employees.

### 2018 PROGRESS

In 2018, the Company identified the key performance indicators (KPIs) for three SDGs and seven corresponding sub-targets on which SBM Offshore's activities will or can have the most impact. The following table illustrates these SDGs and chosen sub-targets as well as the Company's own KPIs for each SDG. SBM Offshore has chosen to focus on alignment with a limited amount of goals per year to ensure better focus on each of them. In 2018, these were SDG 7: affordable and clean energy, SDG 8: decent work and economic growth and SDG 14: life below water (see section 2.3).

### Sustainability reporting and benchmarking

- SBM Offshore commits to reporting its sustainability performance against the Global Reporting Initiative Standards in a transparent manner and reports on indicators for its sustainability policies, which reflect all the material topics.
- SBM Offshore was included in the Dow Jones Sustainability Index Europe in the category OIE Energy Equipment & Services in 2018. The Company maintained its overall ranking of third in its industry, with a percentile ranking of 85/100.
- Other external institutes such as CDP (formerly know as Carbon Disclosure Project) and De Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) have also rated the Company, providing it with useful feedback on its performance.

#### Ranking of SBM Offshore in Sustainability Benchmarks

	2018	2017	Maximum Score	Ranking
CDP	B	C	A+	n/a
Dow Jones Sustainability Index (DJSI)	85 <sup>1</sup>	88 <sup>1</sup>	100	DJSI Europe

<sup>1</sup> Percentile ranking

### FUTURE

SBM Offshore will continue to focus on stakeholders' expectations, the SDGs, and embedding sustainability into its way of working. SBM Offshore recognizes the growing expectations on businesses to contribute to the SDGs and will continue to report and perform in accordance with these and the emerging guidance on SDG reporting.



# SBM OFFSHORE'S COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

SDG	CHOSEN SUB-TARGET	SBM OFFSHORE AMBITION
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## SUSTAINABLE DEVELOPMENT GOALS: TARGETS FOR 2019

<p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<p><b>TARGET 7-3</b> DOUBLE THE IMPROVEMENT IN ENERGY EFFICIENCY</p>	<p>Reduce by <b>20%</b> the mass of gas flared under SBM Offshore account* (in tonnes of gas flared per thousand tonnes of hydrocarbon production)</p>	<p>Purchase <b>25%</b> of total energy in offices from green energy providers</p>
<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p><b>TARGET 8-8</b> PROTECT LABOUR RIGHTS AND PROMOTE SAFE WORKING ENVIRONMENTS</p>	<p>Ensure that <b>100%</b> of vendors that have gone through the revised qualification process signed the Supply Chain charter</p>	<p>Maintain Total Recordable Injury Frequency Rate below <b>0.29</b></p>
<p><b>14 LIFE BELOW WATER</b></p>	<p><b>TARGET 14-1</b> REDUCE MARINE POLLUTION</p>	<p>Reduce offshore plastic waste by <b>40%</b> (in tonnes)</p>	<p>Ensure that <b>100%</b> of our offices have a recycling program</p> <p>Volume of oil spills: <b>0 m<sup>3</sup></b></p>

\*SBM Offshore account is flaring resulting from unplanned events (section 5.2.2.)

## POST 2019: ADDITIONAL SUSTAINABLE DEVELOPMENT GOALS

<p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p><b>TARGET 3-4</b> REDUCE MORTALITY FROM NON-COMMUNICABLE DISEASES AND PROMOTE MENTAL HEALTH</p>	<p>Reduce health problems among employees</p>
<p><b>4 QUALITY EDUCATION</b></p>	<p><b>TARGET 4-4</b> INCREASE THE NUMBER OF PEOPLE WITH RELEVANT SKILLS FOR FINANCIAL SUCCESS</p>	<p>People development</p>
<p><b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p>	<p><b>TARGET 9-4</b> UPGRADE ALL INDUSTRIES AND INFRASTRUCTURES FOR SUSTAINABILITY</p>	<p>Reduce CO<sub>2</sub> emissions</p>
<p><b>13 CLIMATE ACTION</b></p>	<p><b>TARGET 13-2</b> INTEGRATE CLIMATE CHANGE MEASURES INTO POLICIES AND PLANNING</p>	<p>Incentive to non-carbon projects</p>

## 2.4 FINANCIAL PERFORMANCE

The Company's primary business segments are Lease and Operate and Turnkey. Although financial results are presented per segment, activities between business segments are closely related. In addition to reporting under IFRS guidelines, SBM Offshore's Directional reporting methodology was implemented to reflect Management's view of the Company and how it monitors and assesses financial performance. This chapter of the Annual Report presents numbers based on Directional reporting.

### PROFITABILITY

Full-year 2018 Directional revenue was US\$ 1,703 million, an increase of 2% compared with 2017 revenues of US\$ 1,676 million, with an improvement in the Turnkey segment more than offsetting a decrease in the Lease and Operate segment. Directional Turnkey revenue totaled US\$ 406 million, compared to US\$ 175 million in 2017. This reflected an overall general ramp-up of Turnkey activity in the context of improving market conditions. Directional Lease and Operate revenue totaled US\$ 1,298 million, compared to US\$ 1,501 million in the year before. This decrease mainly resulted from *Turritella* (FPSO) leaving the fleet after the successful handover of the vessel to Shell on January 16, 2018.

Excluding non-recurring items, Underlying Directional EBITDA was broadly stable at US\$ 784 million compared with 2017 US\$ 806 million in the prior year. Underlying Directional Lease and Operate EBITDA decreased from US\$ 954 million in 2017 to US\$ 824 million, explained by *Turritella* (FPSO) leaving the fleet and planned maintenance. This decrease was partly offset by an increase of US\$ 110 million in Underlying Directional Turnkey EBITDA driven by the increased activity year-on-year, the impact of implementing IFRS 16 and realized savings on overhead cost. Underlying other non-allocated costs charged to EBITDA stood at US\$ (64) million in 2018, stable when compared with US\$ (62) million reported in 2017.

2018 Underlying Directional net income attributable to shareholders stood at US\$ 113 million, an increase of US\$ 33 million compared with the previous year. After considering depreciation and net financing cost, both decreasing following *Turritella* (FPSO) leaving the fleet, the ramp-up in Turnkey activity was

more than sufficient to absorb the decreased contribution of the Lease and Operate segment.

The above Underlying figures exclude several non-recurring items described in section 4.1.3 Financial Review Directional and positively impacting the 2018 Directional EBITDA and net profit attributable to shareholders by US\$ 211 million and US\$ 188 million respectively. Including this, the 2018 Directional EBITDA was US\$ 995 million and the net profit attributable to shareholders was US\$ 301 million.

### BACKLOG

The Directional backlog, which is presented on a pro-forma basis in note 4.1.3 Financial Review Directional, remains solid at US\$ 14.8 billion compared to US\$ 16.8 billion at year-end 2017.

The year-on-year variance is mainly explained by the recognition of US\$ 1.7 billion turnover for the period and the update of the backlog related to FPSO *Liza Destiny*, for which discussions with the client are underway regarding a potential accelerated transfer of ownership using the purchase option in the ten-year lease contract. The outcome 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 start-up. 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*. These impacts are partially mitigated by various new orders and variation orders amounting to c.US\$ 0.4 billion, mainly in the Turnkey segment.

### STATEMENT OF FINANCIAL POSITION

The Company's financial position remains very robust. Directional shareholders 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 to US\$ 2,687 million in 2017, despite (i) significant investments in FPSO *Liza Destiny* and two Fast4Ward™ hulls over the period (approximately US\$ 410 million) and (ii) 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 thanks to the strong operating cash flow from the Lease and Operate segment, while the net proceeds from the Yme

## 2 STRATEGY AND PERFORMANCE

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.

At December 31, 2018, all of the Company's debt, not considering the lease liabilities recognized as a result of IFRS 16, consists of project financing held in special purpose vehicles. Over 2018, the Company did not utilize its revolving credit facility and, as such, does not hold any debt at corporate level.

### 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*.

For a total overview of the Company's financials, please see the Financial Statements in section 4 of the Annual Report.



## 2.5 ECONOMIC PERFORMANCE

### 2.5.1 FLEET

SBM Offshore's assets are key value drivers for the Company, generating a predictable revenue for SBM Offshore through long-term Lease and Operate contracts. The expertise and experience of around 2,200 offshore crew and onshore staff, supporting the fleet, ensures value creation through safe and efficient operations of the Company's offshore fleet.

#### KEY FIGURES IN 2018

- 5.6 billion barrels production cumulated to date
- 9,286 oil offloads cumulated to date
- 319 cumulative years of operational experience

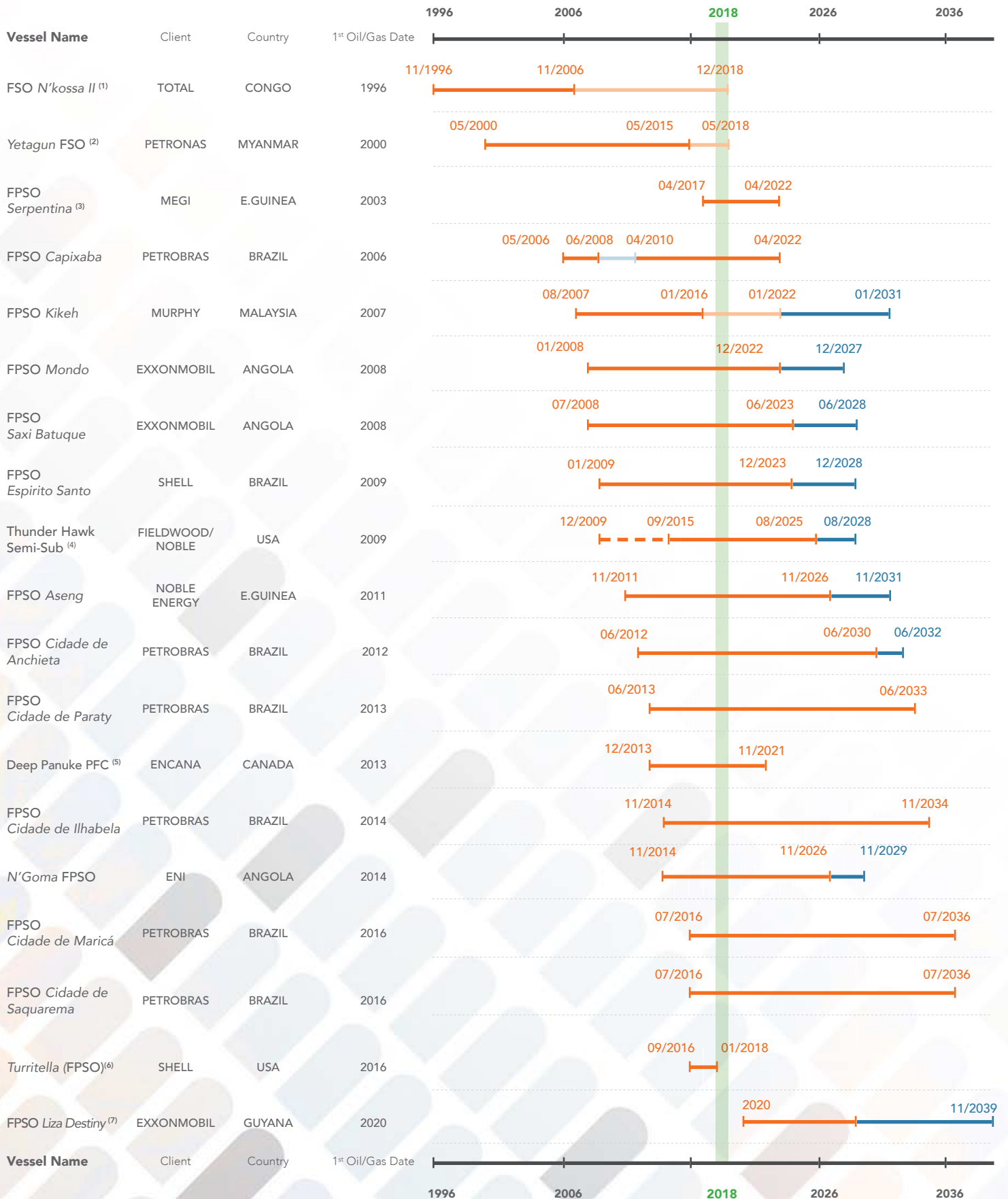
2018 represented a year of consolidation and ongoing optimization of the Company's operations. A solid performance was achieved in terms of occupational health and safety and overall asset operational performance, while significant progress was also made on transformation programs such as process safety management and digitalization. These programs are essential to SBM Offshore's work as a forward-looking operator with the ambition of excellence in operational efficiency and incident prevention. Furthermore, SBM Offshore progressed per plan in the readiness activities for the future operations of FPSO *Liza Destiny*, offshore Guyana.

In 2018, the following changes occurred in the fleet operated by SBM Offshore:

- *Turritella* (FPSO): The handover of ownership and operations of *Turritella* (FPSO) to Shell was concluded in January as planned and SBM Offshore supported the client in the transition period to November 2018.
- *FSO Yetagun* terminated operations in April and was decommissioned and sold to new owners. Under the latter's responsibility and in-line with SBM Offshore policies and in accordance with the Hong Kong convention, the vessel subsequently entered its green recycling phase.
- *FSO N'Kossa II* was handed over to client TEPC (Total Congo) as planned, following conclusion of the charter contract on December 31, 2018.
- PFC (MOPU) *Deep Panuke* received notification from Encana Corporation of cessation of gas production in May 2018. SBM Offshore is working closely with the client to achieve a smooth decommissioning of the facility.

# OPERATIONS FLEET

■ Initial Lease Period 
 ■ Contractual Extension Option 
 ■ Confirmed Extension 
 ■ Conversion



(1) Vessel sold 31 December 2018

(2) Vessel sold in May 2018

(3) FPSO *Serpentina* is owned by the client and is operated by Gepsing - a subsidiary between SBM Offshore (60%) and GEPetrol (40%)

(4) Operator - Fieldwood took over from Noble as operator in July 2018.

(5) ENCANA has requested SBM Offshore to further study a decommissioning and demobilization plan. The charter contract with client until November 2021 remains in place.

(6) Transfer of ownership to Shell in January 2018

(7) Discussions with the client are underway regarding a potential accelerated transfer of ownership using the purchase option in the 10 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 2 years.

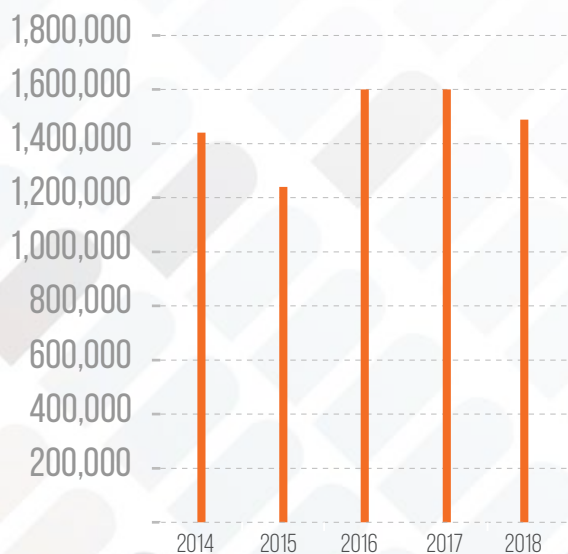
## 2 STRATEGY AND PERFORMANCE

### FULL FLEET (AS OF DECEMBER 31, 2018<sup>1</sup>)

At the end of 2018, SBM Offshore was responsible for operating 15 units in the fleet across the globe, consisting of:

- 13 FPSOs
- 1 MOPU under decommissioning
- 1 Semi-submersible unit

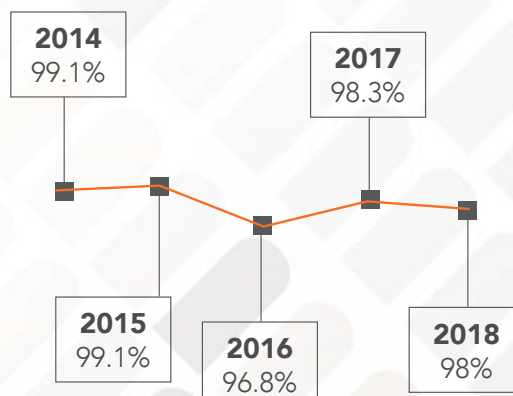
FLEET OIL PRODUCTION CAPACITY  
(bopd)



### OPERATIONAL PERFORMANCE

SBM Offshore is committed to delivering reliable and safe production performance of its units, whilst adhering to its environmental objectives. The main production performance indicator of the fleet is 'Production Uptime', which measures the percentage of time in which a unit is available to produce. In 2018 production uptime was 98.0%. The unavailability was essentially due to planned maintenance and life-time extension activities on *FPSO Capixaba*, which progressed in line with the yearly plan. The underlying performance of the remainder of the fleet was at 99.2% uptime, and in particular, the latest generation 'G3' fleet of four FPSOs in Brazil's Santos basin continued to deliver strong performance at nameplate throughout, with an uptime of 99.4%.

FLEET UPTIME DATA  
FOR PERIOD 2014 – 2018



Various initiatives were undertaken in 2018 to reinforce operational quality and efficiency through:

- Continued focus on leadership and talent development in the offshore organization.
- Improved integration of back-office Fleet Engineering Support.
- Restructuring of OPS (JV of SBM Offshore and Sonangol) in Luanda.
- Progress on integrated planning, encompassing all required activities onboard, and with the objective of reaching maturity in 2019.
- Digitalization continued to advance applications for further optimization of assets' performance and asset integrity programs. A centralized Operational Intelligence and Performance Optimization Center (OIPOC) was opened that will support the fleet through digital applications.

### ASSET INTEGRITY, MAINTENANCE AND COST MANAGEMENT

SBM Offshore's approach to asset integrity is to target asset preservation with optimal lifecycle costing. Progress was made on:

- Digitalization: the digital journey continues to advance applications for further optimization of the assets integrity program.
- Process Safety culture: significant steps were taken to improve process safety management capability, with the roll out of behavioural rules to prevent the occurrence of process safety events. Process safety leading KPIs were also launched, with particular focus on Management of Change (MOC) and maintenance of safety critical equipment as key drivers in major incident prevention.

<sup>1</sup> Oil tanker GENE is engaged in oil transportation services.



## 2.5.2 TURNKEY

### MANAGEMENT APPROACH

SBM Offshore continues to actively engage with clients, to transform its product offering by optimizing and standardizing its floating production system designs and leveraging its technology expertise to innovate its products, including its offshore mooring systems. In line with a holistic approach, the Company is engaging with strategic partners to ensure all-encompassing solutions for clients, including due consideration to the energy transition going forward. Overall, the industry environment continues to improve, with project activity picking up steadily. SBM Offshore continues to adhere to a defined risk appetite framework as it pursues potential projects.

### OPERATIONAL ACTIVITIES

SBM Offshore's consistent approach to integrating operational feedback into all phases of its projects is the foundation for optimization of its activities across the lifecycle. This also greatly contributes to the Company's capacity to continuously improve its designs and project execution processes.

SBM Offshore believes that simplification and de-risking is the solution for future projects in today's cost and schedule-conscious climate. Hence, why the Company is applying its Fast4Ward™ program, which encompasses standardization, across its entire product portfolio.

### 2018 PERFORMANCE

The Company's KPIs include securing new contracts and progress made on projects, in line with clients' plans. The following highlights provide visibility on performance in 2018.

#### FPSOs

- Work on FPSO *Liza Destiny* is progressing in accordance with the project schedule. The topside modules lifting campaign started at the end of year, to the client's satisfaction.
- The construction phase for the Company's first Fast4Ward™ FPSO hull advanced in line with plan, with first steel cut in Q1 and keel laying in Q4. This hull is reserved and planned to be allocated to the FPSO *Liza Unity* project, subject to authorizations.
- SBM Offshore signed a contract with SWS yard for a second hull for the Company's Fast4Ward™

program, allowing the construction phase to begin.

#### Turret Mooring Systems

- Fabrication of the TMS for Equinor's *Johan Castberg* FPSO is advancing and on schedule to meet the planned delivery date in early 2020.

#### Renewables

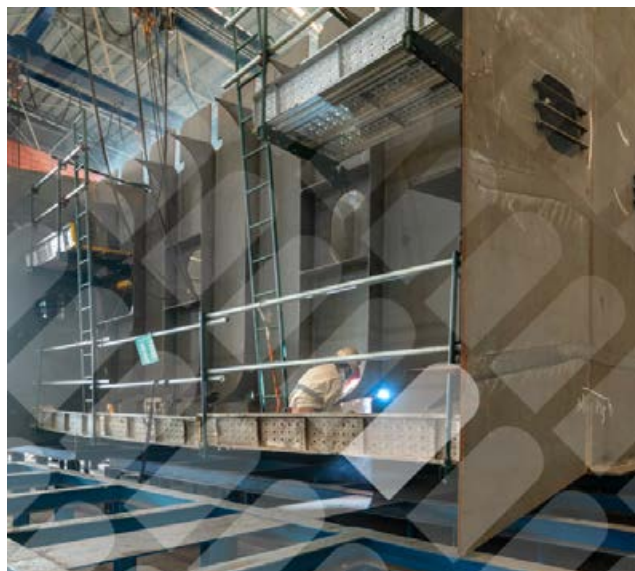
- SBM Offshore is progressing with engineering services for the EDF Renewables Provence Grand Large (PGL) offshore floating wind pilot project. The Early Works Contract with EDF Renewables was awarded in Q1 2018, following SBM Offshore's tender being selected in 2016 to provide its proprietary floating systems solution.

#### FEEDs

- SBM Offshore secured the FEED for the FPSO *Liza Unity* project, based on the Fast4Ward™ design. Following the FEED and subject to FID, SBM Offshore will construct, install and then lease and operate the FPSO.

#### FUTURE

As part of its readiness strategy as the market gradually improves, the Company continues to invest and grow its capacity, in order to provide floating solutions by optimizing, transforming, innovating and proposing various business models, such as Turnkey sale, build-own-transfer (BOT) and Lease and Operate. The Company aims at engaging early with clients, to be the preferred contractor in providing optimized conceptual solutions and business models, to support the viability of projects and maximize return.



## 2 STRATEGY AND PERFORMANCE

### 2.6 HEALTH, SAFETY, SECURITY AND ENVIRONMENT

#### MANAGEMENT APPROACH

SBM Offshore is committed to safeguard the Health, Safety and Security (HSS) of its employees, subcontractors and assets, as well as managing the Company's environmental impact. The foundations for the achievements of the Company are based on a structured risk management approach in deploying industry best practices and adopting environmentally friendly innovations in the operations of its offshore units.

The Company continues to develop its integrated Management System and promote a proactive Health, Safety, Security & Environment (HSSE) culture amongst all employees and the companies to whom SBM Offshore outsources. Similarly, SBM Offshore is managing its footprint by operating in an environmentally robust and sustainable manner to minimize the impact of the Company's activities on local ecosystems and to proactively protect the environment.

#### 2018 PERFORMANCE

SBM Offshore's HSSE performance is monitored and assessed through different performance indicators, with a specific focus on the core following ones:

- Total Recordable Injury Frequency Rate (TRIFR) and Occupational Illness Frequency Rate (OIFR)
- Level of security risk: incidents resulting in harm or injury to personnel
- Prevention of flaring: flaring or related emissions into the air
- Reduction in consumption, recycle and re-use: energy consumption and waste management
- Compliance with set procedures and implementation of control measures for oil in water discharges into the sea
- Prevention of discharges: prevent oil and chemical spills

All incidents with an actual or a potential consequence for the Health, Safety, Security of personnel and/or impact on the environment are reported, investigated to determine the immediate and root causes, are communicated to the relevant parties within the organization and corrective measures are taken. HSSE performance and data are tracked on a daily basis and consolidated on a monthly basis, to be disclosed annually.

HSSE results are recorded and reported in accordance with the Global Reporting Initiative (GRI) Standards and International Association of Oil and Gas Producers (IOGP) guidelines. The results are compared to previous years, as well as benchmarked against the IOGP averages.

#### Key targets

In line with its long-term strategy of continuous improvement, SBM Offshore set for 2018 the following targets:

- To achieve a TRIFR better than 0.26
- To reduce the gas flared under SBM Offshore control by 9.6% compared to 2017
- To achieve on all offshore units better environmental performance than the 2016 IOGP industry benchmark for the following environmental aspects: GHG emissions<sup>2</sup>, gas flared<sup>3</sup>, energy consumption<sup>4</sup>, oil in produced water<sup>5</sup> and oil spills per production<sup>6</sup>

#### Key achievements

The Company continued to expand the HSSE initiatives in 2018 as follows:

- Maintain all International Safety Management (ISM) and International Ship and Port Security (ISPS) certifications on offshore units and shorebases, as well as verification of compliance with ISO 14001 and OHSAS 18001 requirements for SBM Offshore Operations. This includes obtaining the ISO 14001 and OHSAS 18001 compliance verification on the most recent unit, FPSO *Cidade de Saquarema*.
- Celebrate the five-year anniversary of the Company-wide Life Day and engagement with employees via multi-disciplinary monthly campaigns.
- Strengthen manager and supervisor engagement skills to support the ownership of a safety culture amongst leaders to cascade and embed the Company HSSE culture throughout the organization and all activities.

<sup>2</sup> Companies participating in the 2016 IOGP benchmark reported 151 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, Report 2016e, p.24

<sup>3</sup> Companies participating in the 2016 IOGP benchmark reported 12.9 tonnes of gas flared per thousand tonnes of hydrocarbon produced, Report 2016e, p.34

<sup>4</sup> Companies participating in the 2016 IOGP benchmark consumed 1.4 gigajoules of energy for every tonne of hydrocarbon produced, Report 2016e, p.32

<sup>5</sup> Companies participating in the 2016 IOGP benchmark reported 10.2 tonnes of oil discharged to sea per million tonnes of hydrocarbon produced, Report 2016e, p.40

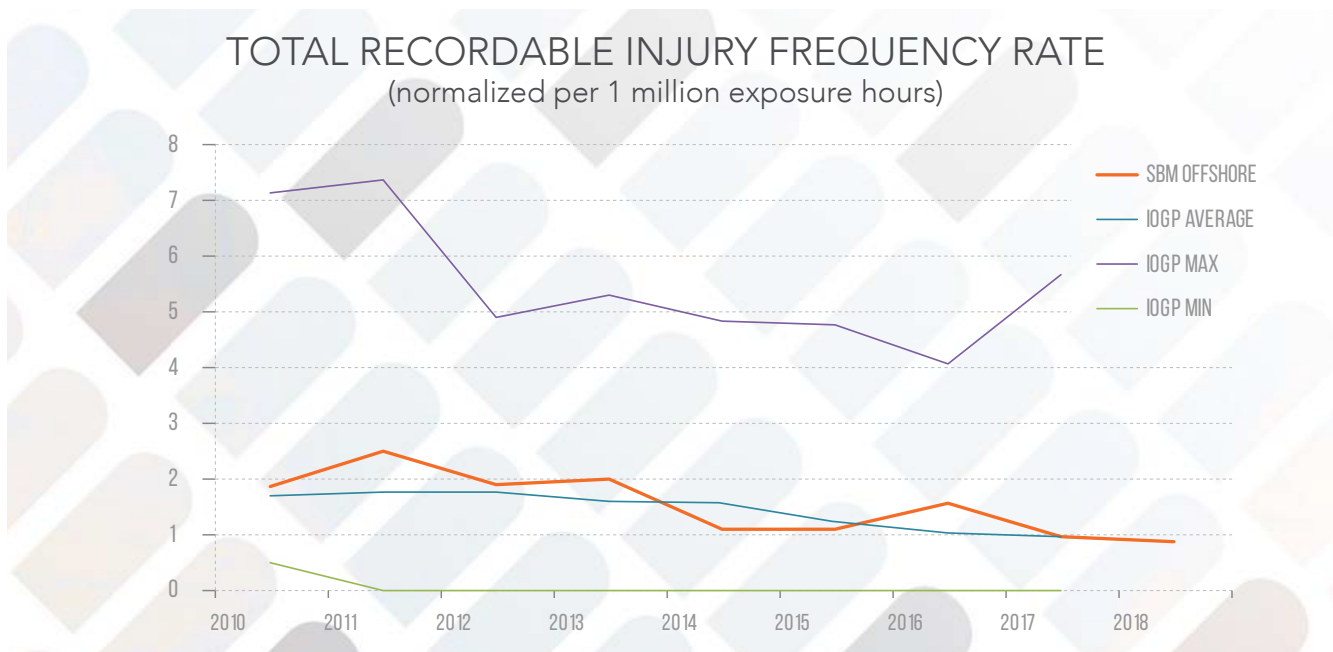
<sup>6</sup> Companies participating in the 2016 IOGP benchmark reported 0.4 oil spills greater than one barrel per million tonnes of hydrocarbon produced, Report 2016e, p.47

- Conduct a sensing survey to assess the maturity level of the safety culture on all offshore units and shorebases and develop related action plans.
- Strengthen SBM Offshore Management System HSSE sections to embrace the International Sustainability Rating System (ISRS) ambition and verify the implementation and application of the improvement actions identified during the ISRS maturity assessment.
- Pursue the objective to reduce the volume of gas flared under the control of the offshore units, fostering ownership and promoting local initiatives.

- Foster initiatives on waste minimization and reduce the use of plastic on offshore units.
- Promote health management on SBM Offshore activities with offshore units health risk assessment developed and cascaded worldwide, stress survey and awareness campaigns as well as Life Day relaxation activities.

The following graph shows that SBM Offshore’s Total Recordable Injury Frequency Rate has remained around the IOGP average since 2010<sup>7</sup>.

<sup>7</sup> For this graph normalized per 1 million exposure hours; includes IOGP Contributing Members (maximum, average, minimum)



### Key results

Despite further progress in the overall journey of ‘No Harm, No Defects, No Leaks’, regrettably, one yard contractor staff member was fatally injured in an incident on a FPSO construction project in Singapore. Following the investigation, root causes have been analyzed and appropriate measures have been put into effect. A large number of objectives have, however, been achieved and the following HSS performance was recorded in 2018:

- SBM Offshore performed significantly better than our TRIFR target of 0.29 and achieved an overall TRIFR of 0.18 in 2018 compared to 0.19 in 2017.
- The Occupational Illness Frequency Rate (OIFR) for employees deteriorated to 0.33 in 2018 from 0.02 in 2017. The 2018 rate is a result of three events, for which two were related to gastric disorders onboard offshore units, which triggered several individuals to be impacted (14 individuals exposed

on one event) thereby resulting in an increase of the OIFR.

- The frequency of incidents with high potential to harm people remained stable at 0.09 in 2018, similar to the 2017 frequency rate.
- Seven ‘work-related’ security incidents (as opposed to safety incidents) were reported. None of these security incidents resulted in any actual injury or physical harm to SBM Offshore personnel. Throughout 2018, the security function maintained a strong focus on providing training and awareness sessions to personnel, as well as supporting the organization with security advice during the early phases of exploring new country entry opportunities.
- Dow Jones Sustainability Index (DJSI): three sections out of the HSSE sections were assessed as best in class performance .

## 2 STRATEGY AND PERFORMANCE

The following environmental performance was recorded in 2018<sup>8</sup>:

- GHG emissions from energy generation and gas flared relative to the hydrocarbon production decreased compared to 2017. A total of 5,105,292 tonnes of GHG have been produced in 2018, representing 97.79 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, which is better than 2017 and 35% lower than the industry benchmark<sup>9</sup>. This decrease is mainly due to a 10% reduction in the volume of gas flared compared to 2017 (see next point).
- The total gas flared in 2018 was 9.81 tonnes per thousand tonnes of hydrocarbon produced (of which 62% was requested by the client) compared to 10.9 in 2017 thereby achieving a 10% reduction which is better than the 9.6% set target. The Company reports a total gas flared per production below the IOGP industry benchmark<sup>10</sup> of 12.1.
- Out of the 11 units which participated in the flaring reduction challenge, seven met their individual target (ranging between 1 and 20% target reduction between units)
- The volume of energy consumption used per hydrocarbon produced remained stable at 1.11 gigajoules of energy for every tonne of hydrocarbon produced (compared to 1.12 in 2017), which is 26% lower than the industry benchmark<sup>11</sup>
- The quantity of oil discharged to sea per hydrocarbon production was 3.50 tonnes per million tonnes of hydrocarbon produced, compared to 2.55 in 2017, while the IOGP average is 13.3. The Company continues to perform in this aspect much better than the industry, as the IOGP average also showed an increase over the previous year.
- There was no hydrocarbon spill exceeding one barrel in volume (159L) reported, while the industry benchmark<sup>12</sup> is 0.5.

### FUTURE

SBM Offshore has the ambition to continue to improve its HSSE performance and has therefore decided to set the following targets for 2019:

- 2019 TRIFR target of 0.29
- 20% reduction of quantity of gas flared under SBM Offshore control
- All offshore units to achieve better environmental performance than the 2017 IOGP industry benchmark for the following environmental aspects: GHG emissions<sup>13</sup>, gas flared<sup>14</sup>, energy consumption<sup>15</sup>, oil in produced water<sup>16</sup> and oil spills per production<sup>17</sup>

To structure its continuous improvement and achieve its ambition in 2019, SBM Offshore has planned the following HSSE initiatives to progress toward the goals of 'No Harm, No Defects, No Leaks':

- Engage at project and offshore unit level to support the ownership of a safety culture among leaders and supervisors
- Deploy the nine Life Saving Rules published in October 2018 by the IOGP, to continue the journey started in 2011 by adopting the recently updated industry practices of the current SBM Offshore 12 Life Saving Rules
- Verify effectiveness of key controls and Lessons Learned arising out the fatal accident investigation
- Develop health management and performance reporting through enhanced health surveillance programs and mental and social health initiatives
- Maintain compliance with all existing certification requirements on shorebases and offshore units

<sup>8</sup> Detailed data are provided in the non-financial table, section 5.3.2

<sup>9</sup> Companies participating in the 2017 IOGP benchmark reported 151 tonnes of GHG emissions per thousand tonnes of hydrocarbon produced, Report 2017e, p.25

<sup>10</sup> Companies participating in the 2017 IOGP benchmark reported 12.1 tonnes of gas flared per thousand tonnes of hydrocarbon produced, Report 2017e, p.35

<sup>11</sup> Companies participating in the 2017 IOGP benchmark consumed 1.5 gigajoules of energy for every tonne of hydrocarbon produced, Report 2017e, p.33

<sup>12</sup> Companies participating in the 2017 IOGP benchmark reported 0.5 oil spills greater than one barrel per million tonnes of hydrocarbon produced, Report 2017e, p.48

<sup>13</sup> Target of 151 tonnes of GHG Emissions per thousand tonnes of hydrocarbon produced as reported by companies participating in the 2017 IOGP benchmark, Report 2017e, p. 25

<sup>14</sup> Target of 12.1 tonnes of gas flared per thousand tonnes of hydrocarbon produced as reported by companies participating in the 2017 IOGP benchmark, Report 2017e, p.35

<sup>15</sup> Target of 1.5 gigajoules of energy for every tonne of hydrocarbon produced as reported by companies participating in the 2017 IOGP benchmark, Report 2017e, p.33

<sup>16</sup> Target of 13.3 tonnes of oil discharged to sea per million tonnes of hydrocarbon produced as reported by companies participating in the 2017 IOGP benchmark, Report 2017e, p.41

<sup>17</sup> Target of 0.5 oil spills greater than one barrel per million tonnes of hydrocarbon produced as reported by companies participating in the 2017 IOGP benchmark, Report 2017e, p.48

## 2.7 OPERATIONAL EXCELLENCE

### MANAGEMENT APPROACH

Group Execution Functions are organized to support operational and assurance functions, with the goal of achieving operational excellence in all areas of the Company's business.

This goal is pursued via the maintenance of the Company's Global Enterprise Management System (GEMS) (see section 3.10.1) and continuous improvement, such as adoption of best practice through the application of the International Sustainability Rating System (ISRS) (see section 2.7.2) and Process Safety Management frameworks.

For more information on Operational Governance, please refer to section 3.10.

### 2018 PERFORMANCE

The Company supported the Journey to Excellence efforts to streamline GEMS, learn from events and other continuous improvements initiatives.

#### Key achievements

- Learning from events through investigation and follow-up of significant incidents at Management level.
- Adoption of a number of Lessons Learned initiatives with the purpose of analyzing, developing and implementing robust solutions to improve our operations.
- Deployment of Process Safety Fundamentals and Process Safety leading KPIs across all the Company's operating units as highlighted in section 2.7.1 Process safety management
- Continued deployment of Process Safety Management and Investigation/Root Cause Analysis training programs.
- Ongoing integration of Operations Management System documentation into GEMS

### FUTURE

The following objectives have been set for 2019:

- Continue to optimize GEMS, including restructuring and simplification where required
- Process Safety Management strategy and targets as highlighted in section 2.7.1
- Continuation of the deployment of ISRS and Process Safety Management frameworks, including the development or improvement of associated

tools where required, and strengthening hazard management processes.

- Maintain efforts on continuous improvement, including incident investigation and follow-up, and Lessons Learned initiatives.

## 2.7.1 PROCESS SAFETY MANAGEMENT

### MANAGEMENT APPROACH

A Process Safety Management (PSM) framework and program based on an industry standard<sup>18,19</sup> is in place, which when applied throughout the product lifecycle, has the potential to reduce the risk of major accidents.

The PSM framework consists of a set of risk-based priority activities and practices that are being embedded in the Company's GEMS and the Group Technical Standards (GTS), which have been aligned with the ISRS improvement activities.

All Loss of Primary Containment (LOPC) events occurring offshore are reported to the relevant parties within the organization and analyzed to identify appropriate treatment measures. SBM Offshore follows IOGP 456 and API 754 standards for LOPC classification. The annual statistics are compared to previous years and benchmarked against IOGP averages.

### 2018 PERFORMANCE

#### Key achievements

- Successful deployment of Process Safety Fundamentals (PSFs)<sup>19</sup> fleetwide.
- Implementation of internal Process Safety Leading KPI's across our operating assets, with better than target performance achieved.

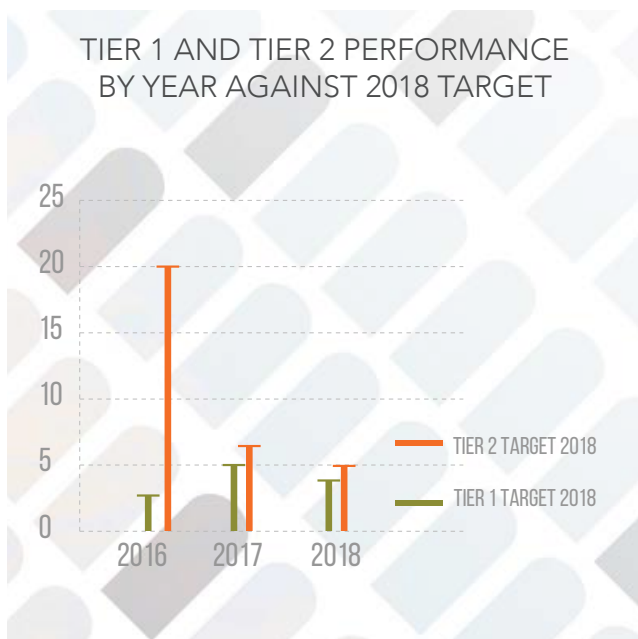
#### Key results

- The number of Tier 1 Process Safety Events (PSE) was higher than our target primarily due to cargo tank vent dispersion issues on one of our assets which has now been resolved.
- Our recorded number of Tier 2 PSEs was 5, which was better than our target of 6.
- A total of 344 process related LOPC events were recorded, of which 181 were of API 754 classified materials.

<sup>18</sup> 'Guidelines for Risk Based Process Safety' by the Centre for Chemical Process Safety (CCPS)

<sup>19</sup> PSFs are a set of 10 guidelines that reinforce best practices targeting causal factors related to PSE with the objective of reducing LOPC events.

## 2 STRATEGY AND PERFORMANCE



### FUTURE

The following objectives have been set for 2019:

- Targets are set to reduce the number of Tier 1 and 2 PSEs compared to 2018 i.e Tier 1 PSE performance to be 1 or better, and Tier 2 PSE performance to be 3 or better.
- Continue implementation of the PSM framework throughout our business processes.

### 2.7.2 INTERNATIONAL SUSTAINABILITY RATING SYSTEM™

Since adopting the DNV GL's International Sustainability Rating System™ (ISRS) system in 2014, the Company has been implementing the ISRS best practices into its ways of working.



## 2.8 QUALITY AND REGULATORY

### MANAGEMENT APPROACH

SBM Offshore is committed to performing its business in full compliance with all applicable laws and regulations and to delivering products and services meeting all related regulatory requirements, as well as any applicable specifications and requirements imposed by relevant stakeholders (including but not limited to clients).

As part of the Group Execution Functions, the combined Quality & Regulatory Management function is dedicated to ensuring that such objectives are consistently met in the Company's core business, notably through:

- Promoting a quality and compliance culture across its organization and ensuring appropriate behaviors
- Ensuring compliance of GEMS with relevant international standards (including, but not limited to, ISO 9001) and, in turn, ensuring effective compliance of the organization with GEMS.
- Providing systematic identification of regulatory requirements applicable to its core business activities and ensuring their implementation within the organization.
- Ensuring that conformity, compliance and acceptance of the Company's products and services are effectively achieved and maintained throughout their lifecycle.

### 2018 PERFORMANCE

#### Key achievements

- Active promotion of quality and regulatory compliance through communication campaigns and events (combined with HSSE and Process Safety)
- Maintenance of SBM Offshore's ISO 9001:2015 certification.
- Development and implementation of a revised, more risk-based and integrated approach to assurance activities across disciplines and business entities
- Quality improvement initiatives in the context of SBM Offshore's Journey to Excellence, focusing notably on 'Costs of Non-Quality' and 'Quality Rules'
- Regulatory watch and research as required to support the Company's Win, Execute and Operate

activities and strengthen corresponding assurance coverage

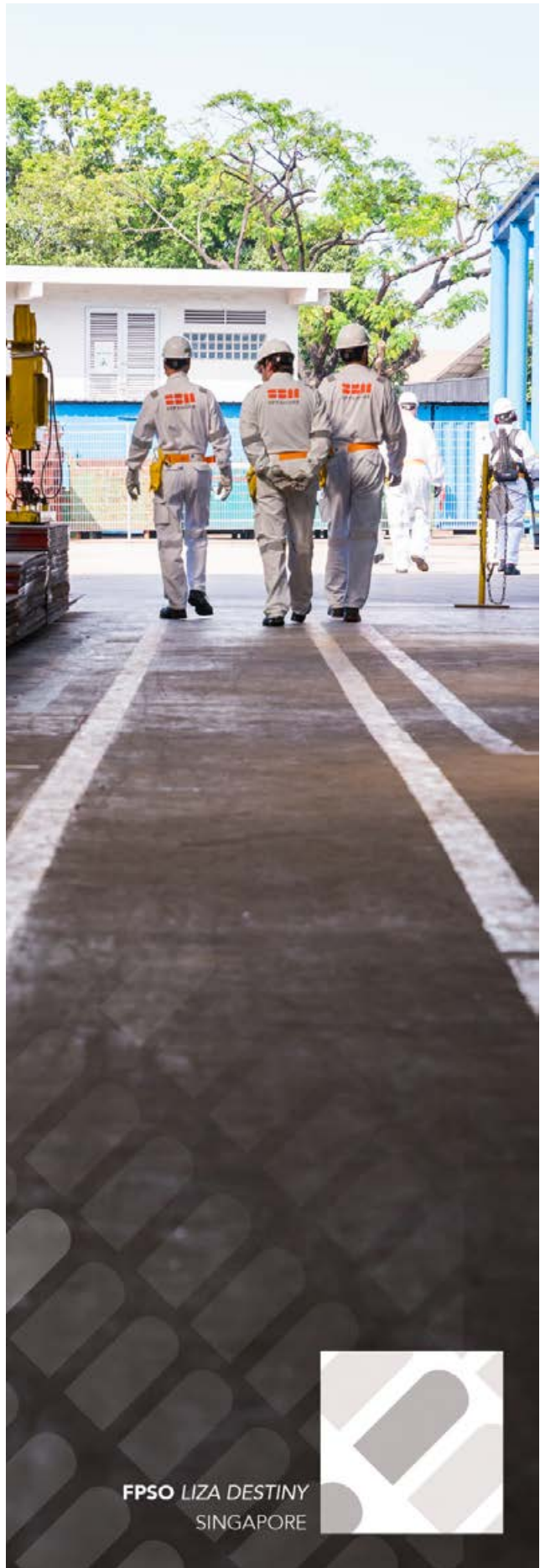
Most importantly, all Company offshore facilities were duly accepted by all relevant authorities and regulators, with all related permits, licenses, authorizations, notifications and certificates duly granted and maintained valid. Offshore facilities have also remained in class at all times as required from both statutory and insurance perspectives.

## FUTURE

### Key objectives for 2019

- Leading contribution to the Company's Journey to Excellence, with specific focus on the 'No Harm, No Defects, no Leaks' target and the 'right first time' principle
- Reduction of Cost-of-Non-Quality (and Cost-of-Non-Compliance) through systematic tracking, investigations and pilot initiatives to both prevent and mitigate future occurrences across the Company's Corporate, Win, Execute and Operate activities
- Leveraging ISRS to effectively support ongoing optimization and transformation.
- Smarter and leaner management system, assurance activities and ways of working.
- Deployment of SBM Offshore's new Quality Rules as part of the development of an integrated product assurance approach and as a quality-focused complement to SBM Offshore's well established Life Saving Rules and Process Safety Fundamentals.
- Effective use of independent third parties (including, but not limited to, certification and classification bodies, as shown in table 5.5 ) for inspection, verification and assurance services related to Execute and Operate activities
- Maintenance of an effective regulatory watch and interface with regulators, supporting ongoing business, innovation and new ventures.

As a permanent, overarching objective, all Company projects, facilities and sites are to be performed, delivered and maintained in full compliance with all applicable laws, regulations and requirements from relevant stakeholders.



FPSO LIZA DESTINY  
SINGAPORE



FAST4WARD™  
SHANGHAI





## 2.9 TALENTED PEOPLE

### OUR PEOPLE: OUR COMPETITIVE EDGE

SBM Offshore's employees are the main drivers of the Company's success. Their diverse skills represent an incomparable advantage for the Company.

To serve its stakeholders, SBM Offshore wants to attract and work with the best talent in the world to. The Company believes in diversity as a source of creativity and competitiveness, not only between different nationalities, but also in gender. SBM Offshore pays particular attention to developing its employees' skills, in order to speed up their career development.

As a priority, employees are assured that safe and healthy working conditions are optimized.

Competition for highly qualified management and technical personnel is intense in the Company's industry. Future success depends, in part, on SBM Offshore's ability to hire, assimilate and retain engineers, sales people and other qualified personnel.

The Company's human resources strategy is designed to create a motivating working environment that will set the conditions for employees to contribute at their best. Specific policies have been developed covering international mobility, career development, training, compensation and managing talent. The Company's expatriates help prepare the future of its business, build local teams and assemble the necessary skill sets in targeted regions. They are tasked with identifying and preparing local successors.

The Company places considerable emphasis on training to expand its skills base and retain employees.

A few years ago the Company put in place a system for measuring employee satisfaction, in which all employees worldwide can participate. In June, the third Pulse Survey was launched and a special focus was given to facilitating participation of offshore employees. The qualitative data and the analysis of the results – compared to external benchmarks – allowed the Company to highlight several areas for improvement. Many comments received fed the

management's reflection to reshape its reward strategy and its Performance Management System.

### Talent Management

Within SBM Offshore, we believe in developing our talented people and, by doing so, strengthening the organization. Development is important for all employees of SBM Offshore. The focus for this specific topic, as presented in this Annual Report, is nevertheless on employees who are seen as having potential for future leadership roles. They are identified via an assessment of their performance and the potential to take a leadership role one or more levels up in the coming years. Preparing our talents for these future steps is done by identifying and following-up on development actions.

## 2018 PERFORMANCE

### Key Achievements

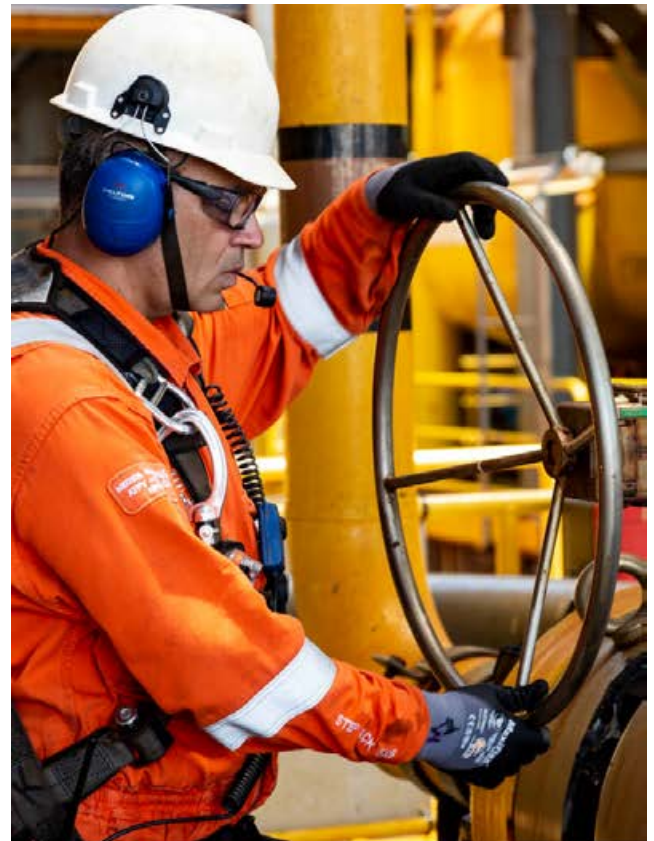
- Training (e-learning/other training): SBM Offshore employees continue to use the e-learning platform. In 2018, 92% of employees (registered into the platform) connected at least once in it for an average of 4 hours spent on the platform per learner and the most visited topics are Compliance & HSSE. SBM Offshore continues to invest in its employees by providing them with traditional training based on best practices, such as the Crucial Conversations training. In 2018, the number of employees who received this training was 315.
- Role Profiles: in the first quarter 2018, job descriptions were replaced by Role Profiles, with the main objective being to enable a Company-wide overview of current and future resources, as well as efficiency in HR processes. Each profile describes the purpose of the role, what should be achieved and the required behavioral and functional competencies.
- Pulse Survey 2018: a before/after analysis of the results from 2017 and 2018, both qualitative and quantitative, has been performed for all SBM Offshore employees who have participated in the survey. Follow-up on KPIs (including perception of fairness, affective commitment to the Company) and critical topics (well-being initiatives, career paths) have been highlighted to drive the HR Strategy, both at a global and local level. Based on this analysis, action plans will be built and implemented in 2019 to address where the expected levels on our KPIs were not reached, but

## 2 STRATEGY AND PERFORMANCE

also on which main topics employees raised their concerns.

- Implementation of a Human Capital Management System: at the beginning of December 2018, a Human Capital Management System (HCMS) was launched and will be gradually deployed globally. The change management program put in place to enable this launch included a full year focus on standardization of all HR processes and data across all locations. The objectives will be to improve the productivity and service level of the HR function, a tool for managers to better manage their teams, whilst providing transparency for employees. Over the course of 2019, additional components (including performance management, succession planning and compensation) will be deployed, illustrating the integrated approach used in the system.
- Reshape Performance Appraisal process: the Performance Appraisal process is being simplified and made more transparent and fair. One new element is the introduction of multi-source feedback. There will also be more emphasis on team goals. The aim is to support the focus on talent and drive engagement. A pilot group, including employees from all locations, was launched in 2018. The aim is to deploy to all employees in 2019.
- In 2019, SBM Offshore will continue with the deployment of the Human Capital Management System (HCMS).
- Talent Development Process: in 2018, the overall development progress completion was 81% for direct hires.

In conclusion, SBM Offshore continues to invest in and develop its people and to evolve its talent management programs, in line with changes in the Company and a transforming industry. In the fourth quarter 2018, SBM Offshore started preparing for the ramp up and the bulk of recruitments will take place in 2019. SBM Offshore continues to pursue its high standards in vital areas of consistency, equity and transparency across the Company. Management believes that satisfied and engaged employees will lead to increased productivity, as well as the desired entrepreneurial and ownership behaviors and, ultimately, to the achievement of the Company's goals and delivery of the desired results for its clients.



# OUR PEOPLE KEY FIGURES

**4,079** DIRECT HIRES



**12%** NEW HIRES IN 2018

**78** NATIONALITIES

OFFICE

55.5%



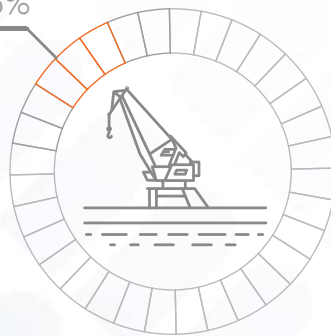
**2,265**  
EMPLOYEES



**53,531**  
TRAINING HOURS

YARD

9.5%



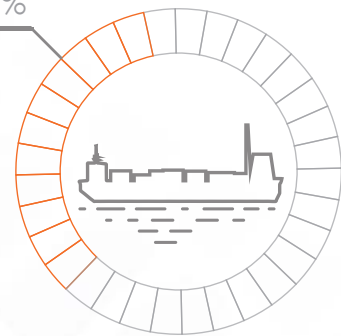
**387**  
EMPLOYEES



**13,270**  
TRAINING HOURS

VESSEL

35%



**1,427**  
EMPLOYEES



**75,264**  
TRAINING HOURS

## 2 STRATEGY AND PERFORMANCE

### 2.10 TECHNOLOGY

#### MANAGEMENT APPROACH

To develop its technology strategy, SBM Offshore first engages externally with its clients and internally with Product Line divisions to identify and analyze the key technical and business trends in the offshore industry. Armed with this market-based information, the Company predicts future technology gaps and strives to find innovative, safe, reliable and cost-effective solutions to meet these challenges. SBM Offshore's technology team actively works towards this goal by transforming and innovating to ensure that the Company is well positioned for future projects as clients' needs evolve.

In 2018, the Company continued to meet the needs of an evolving energy mix by increasingly diversifying its efforts into emerging technologies associated with gas, power and renewable energies.

The Company operates a robust technology development process, which ensures that investment in each new project or innovation is justified against a business case. Moreover, SBM Offshore develops its new technology through a structured stage-gate process to ensure that it is fully mature before being offered for sale or introduced into projects. This Technology Readiness Level (TRL) process includes full-scale prototype testing of new proprietary components and full FEED level definition of new systems as part of the qualification requirements.

The Business Readiness Level (BRL) system, which manages business maturity, measuring the readiness of functions such as construction and operations to adopt the new technology, acts as a complement to the TRL process and both processes endeavor to reach maturity at the same pace.

#### KPIs and Targets

Technology development continues to be guided by three principles:

1. To embed the Fast4Ward™ principles in all Technology development programs.
2. To embrace Digital Transformation to differentiate technology solutions.
3. To embed the Sustainability Development Goals into our technology solutions.

The success of SBM Offshore's Technology division is measured by the capacity to innovate and develop

differentiated solutions ready for application within the Product Lines. The method of measurement applied is the quantity of TRL gates passed, which signify progress on the technology development program. In 2018 over 60 TRL stage gates were passed.

#### Competitive Advantage through Technology

SBM Offshore strives to deliver high performance solutions that meet or exceed client's expectations and go beyond what is available in the market. During 2018, revenues were generated from several projects where technology played an important part in SBM Offshore being selected for the contract award.

### 2018 PERFORMANCE

#### Key Achievements

The major development projects undertaken in 2018 include:

- Floating Offshore Wind, where the mini-TLP concept has achieved Approval in Principle (AIP) from classification society ABS and has been further developed to optimize industrialization potential. A development study is ongoing with a client
- The S3 Wave Energy Converter (WEC) project continues towards pilot tests at sea
- Latest digital solutions adopted to improve fleet operational performance and increase EPCI efficiency. The roll out of the digital program commenced in 2018 and will continue in 2019, with increased focus on benefit realization
- Continued development for floating gas solutions with conversion and new build options targeted at mid-scale capacities
- Development of FLNG topsides concepts jointly with a LNG contractor
- Development of a new LNG-to-Wire concept, to deliver clean and low cost electricity to coastal areas
- Continued work to build expertise in the Steel Lazy Wave Riser (SLWR) design as a cost effective solution for ultra-deep water and/or HPHT fields
- A range of new swivels for enhanced performance is being developed and fabrication of a test rig for a prototype swivel progressed and will continue in 2019
- Progress on a co-development project in Brazil, under the Agencia Nacional do Petroleo, Gass

Natural e Biocombustiveis (ANP) R&D funding program.

### Intellectual Property

The Company maintains a significant Intellectual Property (IP) portfolio, including patents, trademarks, and copyrights. The IP portfolio contains 151 patent families, each registered in many countries around the world, and covers a wide range of technologies, including FPSO mooring and turret systems, semi-submersible and tension leg FPU, hydrocarbon transfer and processing systems including LNG and gas processing, drilling and riser technologies, offshore installation and also covering renewable technologies like wind floaters and wave energy systems. During 2018, the Company divested several non-core patents, filed 14 new patent applications for new and innovative technologies and closed out a legal case of an infringement of a Malaysian patent of SBM Offshore.

### Technical Standards

A key driver for the cost of new projects is the technical standards to be applied in addition to the local regulatory requirements. Typically, these standards can fall into three categories – client standards, contractor standards or a hybrid set of customized standards. In the current climate of severe cost pressure there is a logical push in the industry towards wider acceptance of contractor standards. By leveraging its expertise, SBM Offshore can minimize project customization and efficiently deliver more standard products with significant cost and schedule savings.

The Company achieves this through its Group Technical Standards (GTS), by integrating key elements of its accumulated project and fleet operational experience. To date, the Company has executed over 20 major projects using its GTS as the basis since they were established in 2003. The Company aims to continuously improve and develop the GTS.

## 2.11 SUPPLY CHAIN

### STRATEGY

The Supply Chain function remains focused on supporting the projects with the highest level of safety, performance and quality. In 2018, Supply chain resources of the Company's worldwide locations were amalgamated and now report to the centralised Group Supply Chain function under the Resources and Services division. As such, responsibility for the processes, tools and project supply chain activities is now under the same umbrella allowing monitoring of the business synergies, better sharing of the lessons learned and continuous improvement of the ways of working. Throughout this year, particular attention and efforts on vendor qualification have been maintained in order to ensure that subcontractors' capabilities have been properly assessed before commercial engagement. Group Supply Chain has also actively participated in the development of supply chain activities in China through the set-up of the local team and organization and the definition of a plan to expand our approved vendor data base with local Companies.

### 2018 PERFORMANCE

#### Key Achievements

- In a permanent objective to achieve better quality, the vendor qualification campaign launched in 2017 has been pursued. This exercise was undertaken with relevant internal stakeholders to guarantee a multi-dimensional assessment
- Close collaboration between strategic sourcing and all Company Product Lines to better define objectives and priorities, to deliver the most appropriate procurement strategies, framework agreements and market intelligence information for each strategic category.
- The collaboration with SBM Offshore's strategic vendors has been further enhanced and key events have again been organized this year, such as a Global Supply Chain Vendor Day and Executive and Operational Steering Committees.
- High focus has been maintained on the importance for our vendors to adhere to our Code of Conduct. In this respect, suppliers that have gone through the revised vendor qualification process are required to sign the Supply Chain Charter, in order to fulfill the Company commitments to meet human rights and labor law standards, among others.

## 2 STRATEGY AND PERFORMANCE

### Performance measurements:

- 38 Frame Agreements signed .
- Global Supply Chain Vendor Day in Rotterdam, the Netherlands.
- Three Steering committee meetings organized with strategic vendors.
- 492 vendors qualified under revised qualification process since 2017, of which 99.4% signed Supply Chain Charter.

### FUTURE

SBM Offshore plans to finalize the vendor qualification campaign and finalize implementation of the outsourcing of this service, so as to allow the Company to put the focus on vendor performance monitoring. The Company also intends to pursue Supply Chain development in China by qualifying more vendors and ensuring efficient and timely support is provided to the projects' local supply chain activities.

SBM Offshore also intends to implement a long-term strategy, allowing the Company to accommodate future growth through:

- Embedding the Fast4Ward™ principles into the Supply Chain function.
- Working in integrated teams to better benefit from Lessons Learned.
- Increasing flexibility by pursuing the subcontracting of post-order management activities (such as expediting, inspection and vendor documentation review).
- Supporting synergies across projects on key equipment, with the early involvement of the Strategic Sourcing team.

### 2.12 HUMAN RIGHTS

SBM Offshore is committed to respecting internationally-recognized human rights standards. These fundamental rights contribute to the general well-being of the communities in which SBM Offshore operates. The Company can potentially have an impact on local communities in countries where it executes long-term Lease and Operate contracts offshore, as well as through its supply chain and construction activities.

### MANAGEMENT APPROACH

SBM Offshore's Code of Conduct sets the Company's standard with regards to human rights. In the

development of the Code of Conduct, the Company referred to principles described in the:

- Universal Declaration of Human Rights (UDHR)
- United Nations Guiding Principles for Business and Human Rights (UNGP)
- International Labor Organization core conventions related to human rights

The Company's well-established values of Integrity, Care, Entrepreneurship and Ownership are reflected in SBM Offshore's approach towards human rights. SBM Offshore's global business operations cover a wide range of activities. Supported by its Code of Conduct and Supply Chain Charter, the Company works with the supply chain function to notify vendors within its supply chain of the Company's expectations towards human rights, as well as the anti-corruption policy (available on the website: <https://www.sbmoffshore.com/who-we-are/our-ethics/anti-corruption/>).

### 2018 PERFORMANCE

#### Key achievements

- Supply Chain Charter signed (see section 2.11 ).
- SBM Offshore joined Building Responsibly, a group of leading engineering and construction companies working together to raise the bar in promoting the rights and welfare of workers across the industry.
- In 2018, SBM Offshore created a new position within the Sustainability Department to focus on human rights and to facilitate their development and integration within Company operations.
- Human rights was the topic of a Life Day workshop, which helped increase the education and awareness on the topic of human rights across the Company.
- Specific sub-target set related to the human rights and commitment to SDG 8: decent work and economic growth.

### FUTURE

SBM Offshore plans to further improve on its human rights commitments by developing a specific policy and program dedicated to upholding them. The Company intends to build on existing human rights processes and procedures and further embed human rights into its ways of working. It plans to support worker rights and the ten workers welfare principles from Building Responsibly.



**FPSO LIZA DESTINY**  
FIRST MODULE LIFTING





3.

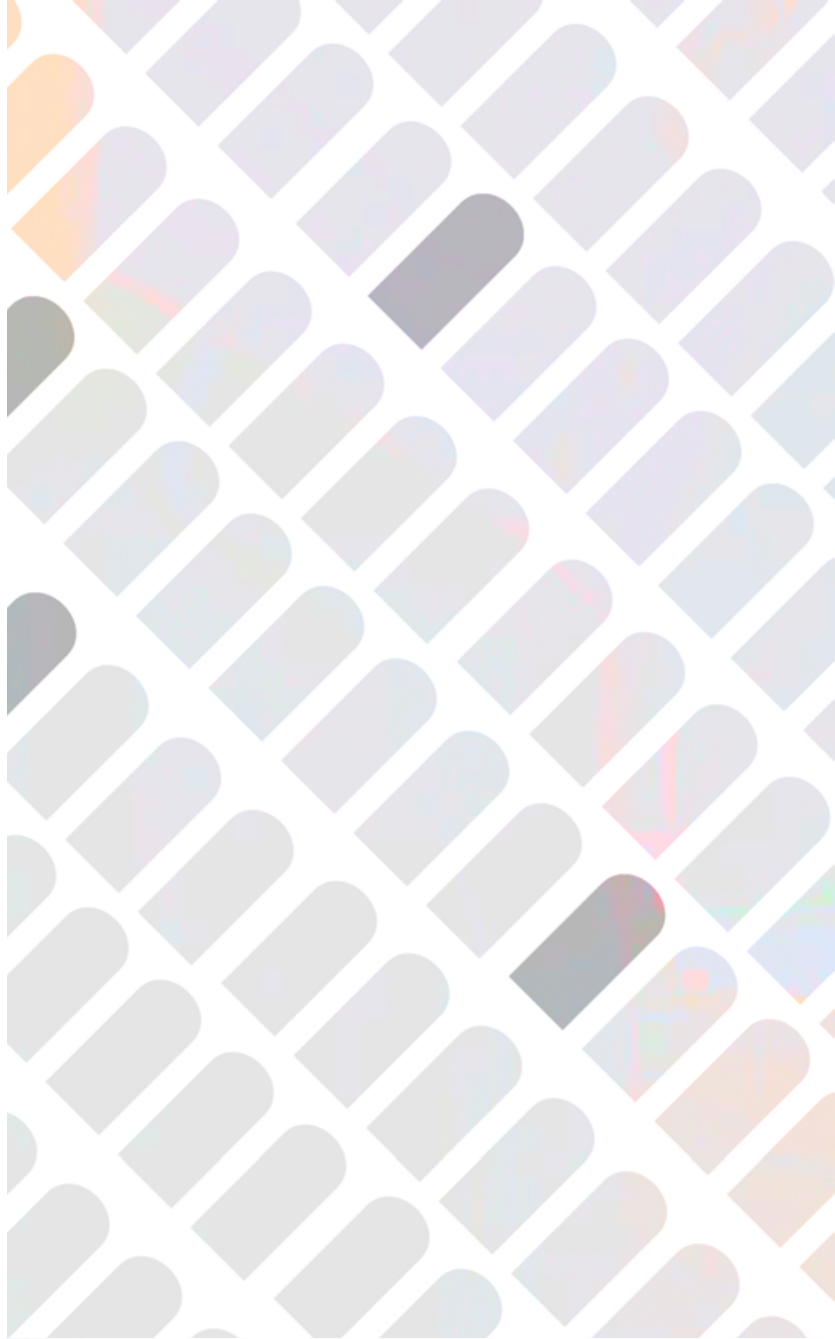
GOVERNANCE

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OWNERSHIP.

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**FPSO LIZA DESTINY**  
SINGAPORE

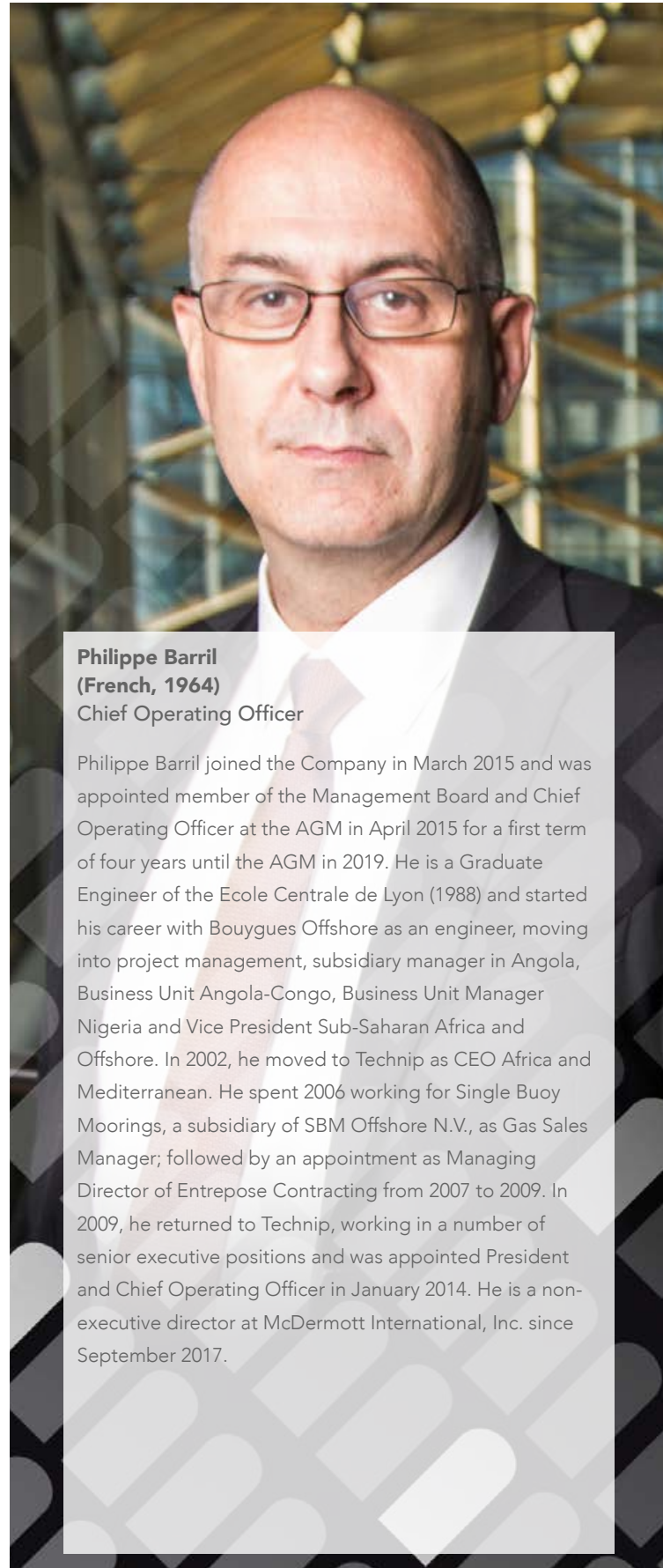


## 3.1 MANAGEMENT BOARD



**Bruno Chabas**  
(Swiss and French, 1964)  
Chief Executive Officer

Bruno Chabas joined SBM Offshore as Chief Operating Officer and Member of the Management Board in May 2011 and became CEO in January 2012. Prior to joining, he worked for 18 years with Acergy S.A. (now Subsea 7 SA). From November 2002 until January 2011, he served as the Chief Operating Officer of Acergy S.A., responsible for all the day-to-day commercial and operational activity worldwide. From June 1999 through October 2002, he served as Chief Financial Officer. Between 1992 and 2002, Bruno Chabas held various management positions within preceding companies in the United Kingdom, France and the United States. He has been an Independent Non-Executive Director of FORACO International S.A. since August 2007 and holds an MBA from Babson College, Massachusetts. Since May 2018, Bruno Chabas is also Non-Executive Director at GTT (Gaztransport & Technigaz). During an Extraordinary General Meeting on November 4, 2015, Bruno Chabas was reappointed as Management Board member for a second term of four years until the Annual General Meeting of 2020. The Supervisory Board has designated him CEO for this current term.



**Philippe Barril**  
(French, 1964)  
Chief Operating Officer

Philippe Barril joined the Company in March 2015 and was appointed member of the Management Board and Chief Operating Officer at the AGM in April 2015 for a first term of four years until the AGM in 2019. He is a Graduate Engineer of the Ecole Centrale de Lyon (1988) and started his career with Bouygues Offshore as an engineer, moving into project management, subsidiary manager in Angola, Business Unit Angola-Congo, Business Unit Manager Nigeria and Vice President Sub-Saharan Africa and Offshore. In 2002, he moved to Technip as CEO Africa and Mediterranean. He spent 2006 working for Single Buoy Moorings, a subsidiary of SBM Offshore N.V., as Gas Sales Manager; followed by an appointment as Managing Director of Entrepose Contracting from 2007 to 2009. In 2009, he returned to Technip, working in a number of senior executive positions and was appointed President and Chief Operating Officer in January 2014. He is a non-executive director at McDermott International, Inc. since September 2017.



**Erik Lagendijk**  
(Dutch, 1960)

Chief Governance and Compliance Officer

Erik Lagendijk joined the Company in January 2015 and was appointed a member of the Management Board and Chief Governance and Compliance Officer at the AGM in April 2015 for a first term of four years until the AGM in 2019. He studied law at the University of Amsterdam (1988) and completed the Executive Development program at IMD Lausanne in 1999. He attended the Foundations of Finance program at the Amsterdam Institute of Finance in 2002 and a Non-Executive Development program at the IESE in Barcelona in 2013. He worked for ING Bank in both banking and legal roles. In 2000 he joined AEGON N.V. as the Group General Counsel.

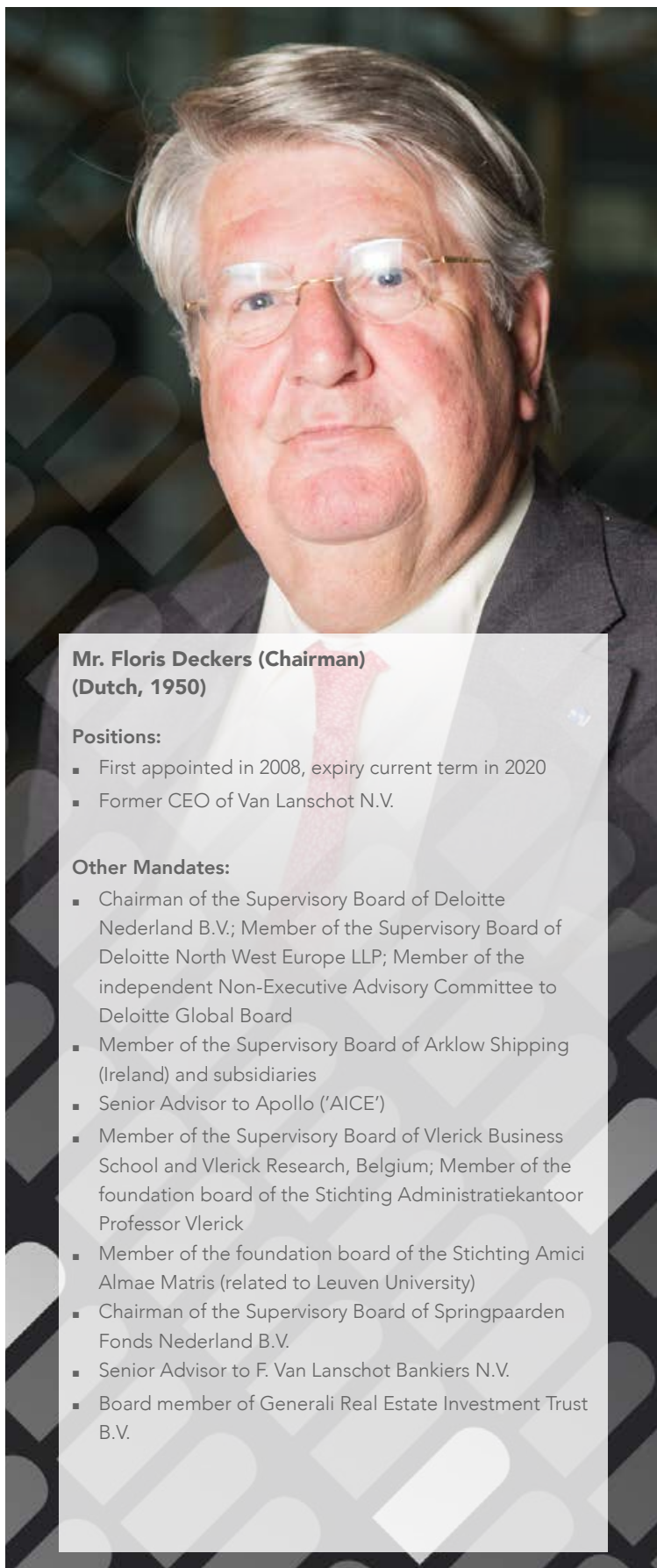


**Douglas Wood**  
(British, 1971)

Chief Financial Officer

Douglas Wood joined SBM Offshore as Group Financial Director in October 2016. During the Company's Extraordinary General Meeting (EGM) on November 30, 2016 he was appointed as a member of the Management Board for a four-year term of office, expiring at the Annual General Meeting of 2021, and took over the role of CFO. Prior to joining SBM Offshore, he worked for Shell for 23 years in various financial management positions, most recently as CFO and Director of Showa Shell Sekiyu K.K. in Japan. His other roles included Head of Business Performance Reporting & Financial Planning (for Shell Exploration & Production) and Vice President Finance & Planning Exploration (Shell Upstream International). Douglas Wood is a Fellow of the Chartered Institute of Management Accountants since 2006 and in 1993 obtained a degree in Classics at Oxford University.

## 3.2 SUPERVISORY BOARD



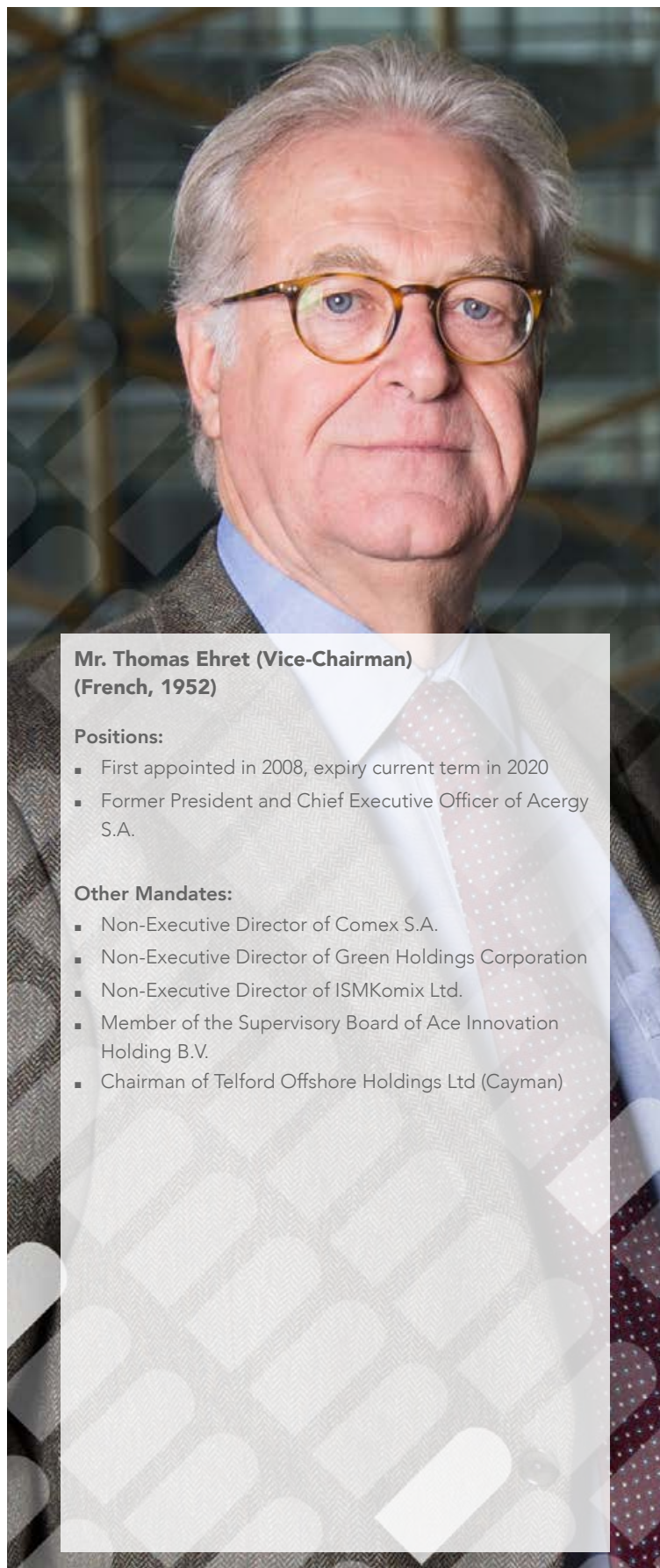
**Mr. Floris Deckers (Chairman)**  
(Dutch, 1950)

**Positions:**

- First appointed in 2008, expiry current term in 2020
- Former CEO of Van Lanschot N.V.

**Other Mandates:**

- Chairman of the Supervisory Board of Deloitte Nederland B.V.; Member of the Supervisory Board of Deloitte North West Europe LLP; Member of the independent Non-Executive Advisory Committee to Deloitte Global Board
- Member of the Supervisory Board of Arklow Shipping (Ireland) and subsidiaries
- Senior Advisor to Apollo ('AICE')
- Member of the Supervisory Board of Vlerick Business School and Vlerick Research, Belgium; Member of the foundation board of the Stichting Administratiekantoor Professor Vlerick
- Member of the foundation board of the Stichting Amici Almae Matris (related to Leuven University)
- Chairman of the Supervisory Board of Springpaarden Fonds Nederland B.V.
- Senior Advisor to F. Van Lanschot Bankiers N.V.
- Board member of Generali Real Estate Investment Trust B.V.



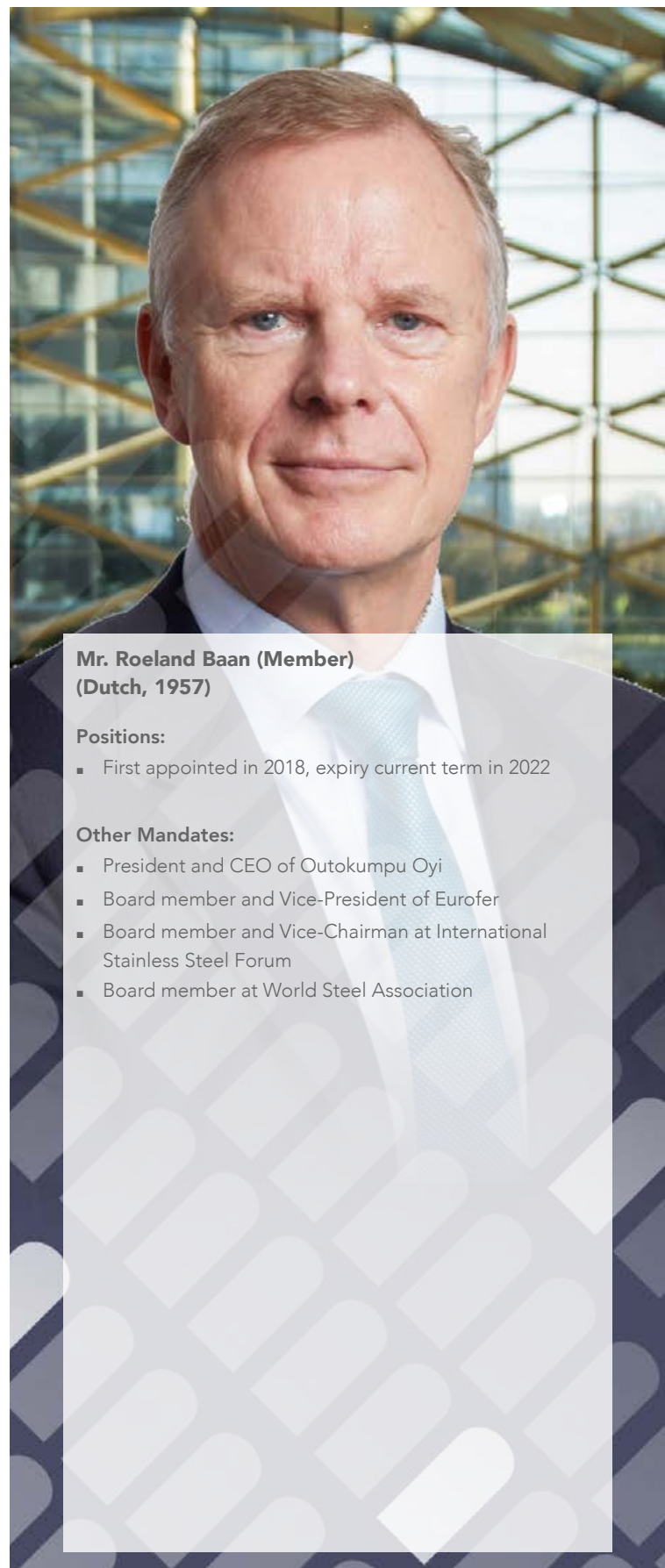
**Mr. Thomas Ehret (Vice-Chairman)**  
(French, 1952)

**Positions:**

- First appointed in 2008, expiry current term in 2020
- Former President and Chief Executive Officer of Acergy S.A.

**Other Mandates:**

- Non-Executive Director of Comex S.A.
- Non-Executive Director of Green Holdings Corporation
- Non-Executive Director of ISMKomix Ltd.
- Member of the Supervisory Board of Ace Innovation Holding B.V.
- Chairman of Telford Offshore Holdings Ltd (Cayman)



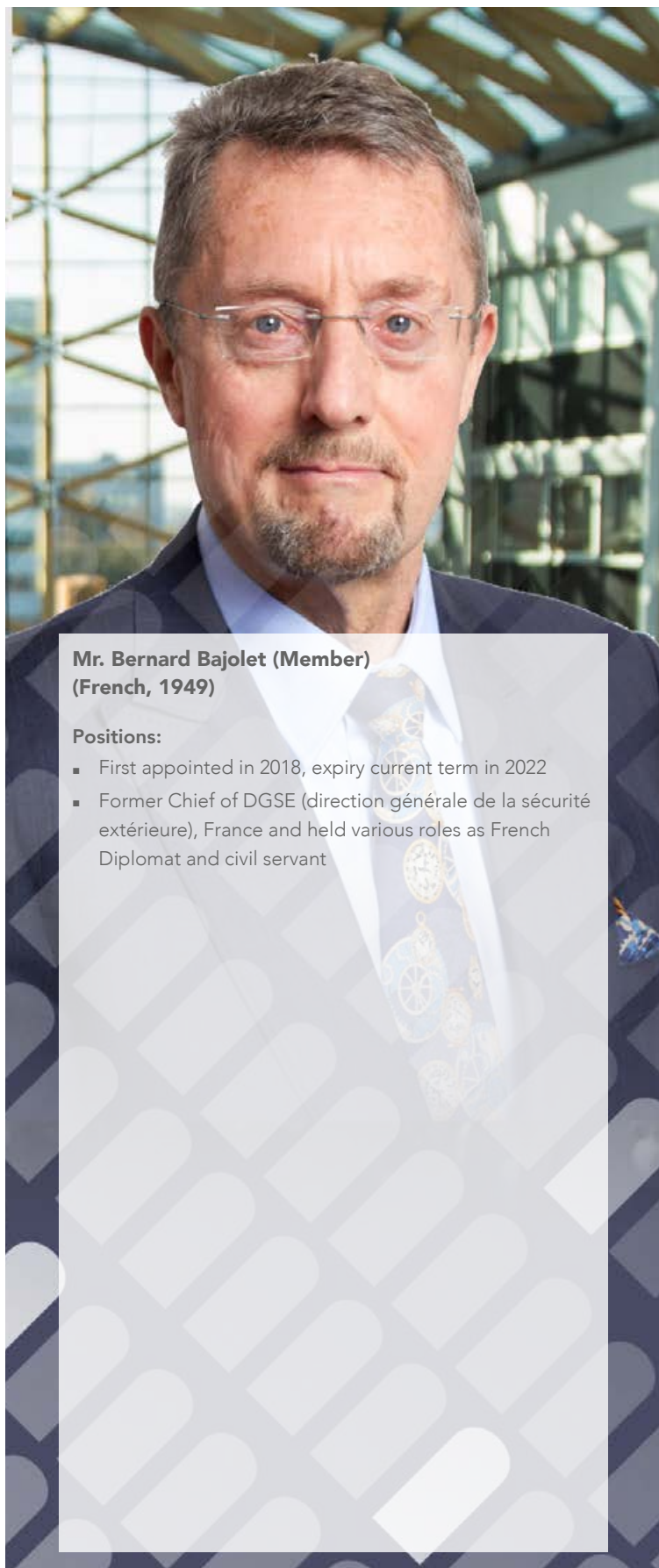
**Mr. Roeland Baan (Member)**  
(Dutch, 1957)

**Positions:**

- First appointed in 2018, expiry current term in 2022

**Other Mandates:**

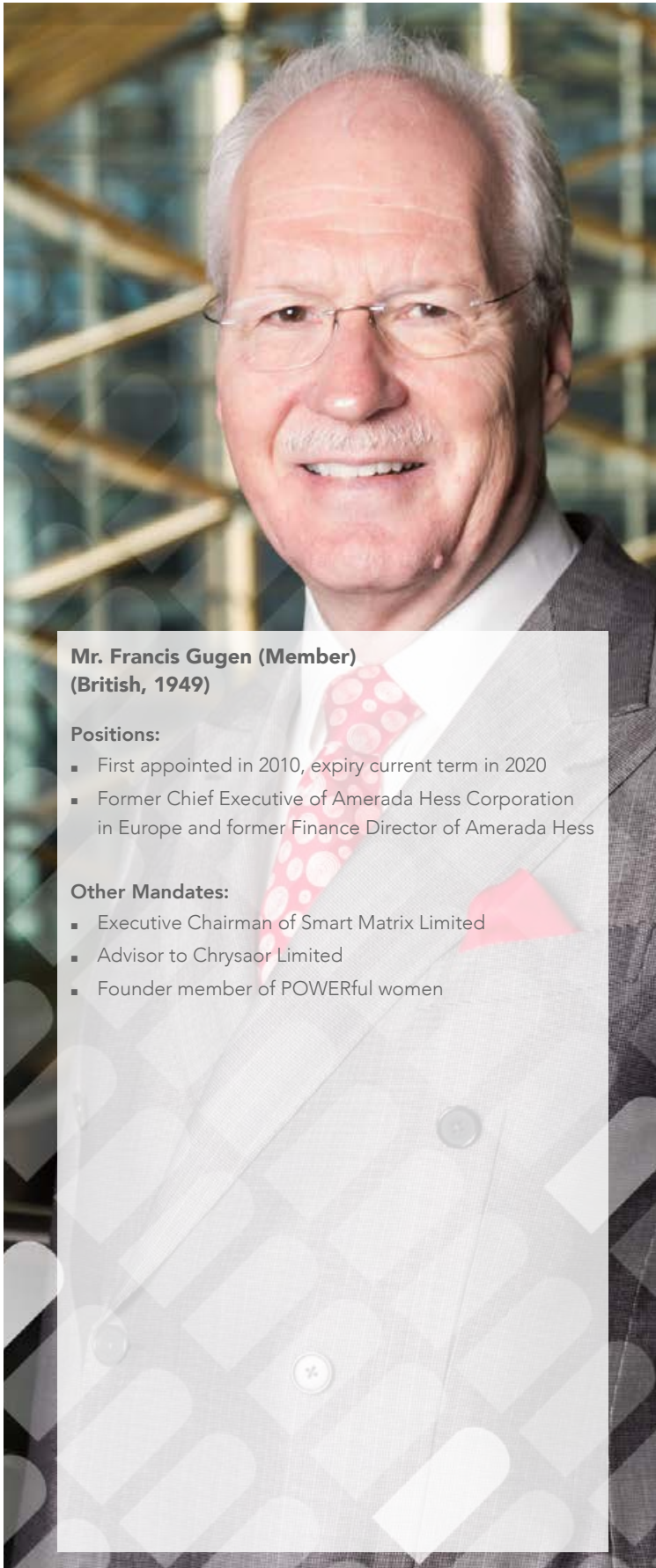
- President and CEO of Outokumpu Oyi
- Board member and Vice-President of Eurofer
- Board member and Vice-Chairman at International Stainless Steel Forum
- Board member at World Steel Association



**Mr. Bernard Bajolet (Member)**  
(French, 1949)

**Positions:**

- First appointed in 2018, expiry current term in 2022
- Former Chief of DGSE (direction générale de la sécurité extérieure), France and held various roles as French Diplomat and civil servant



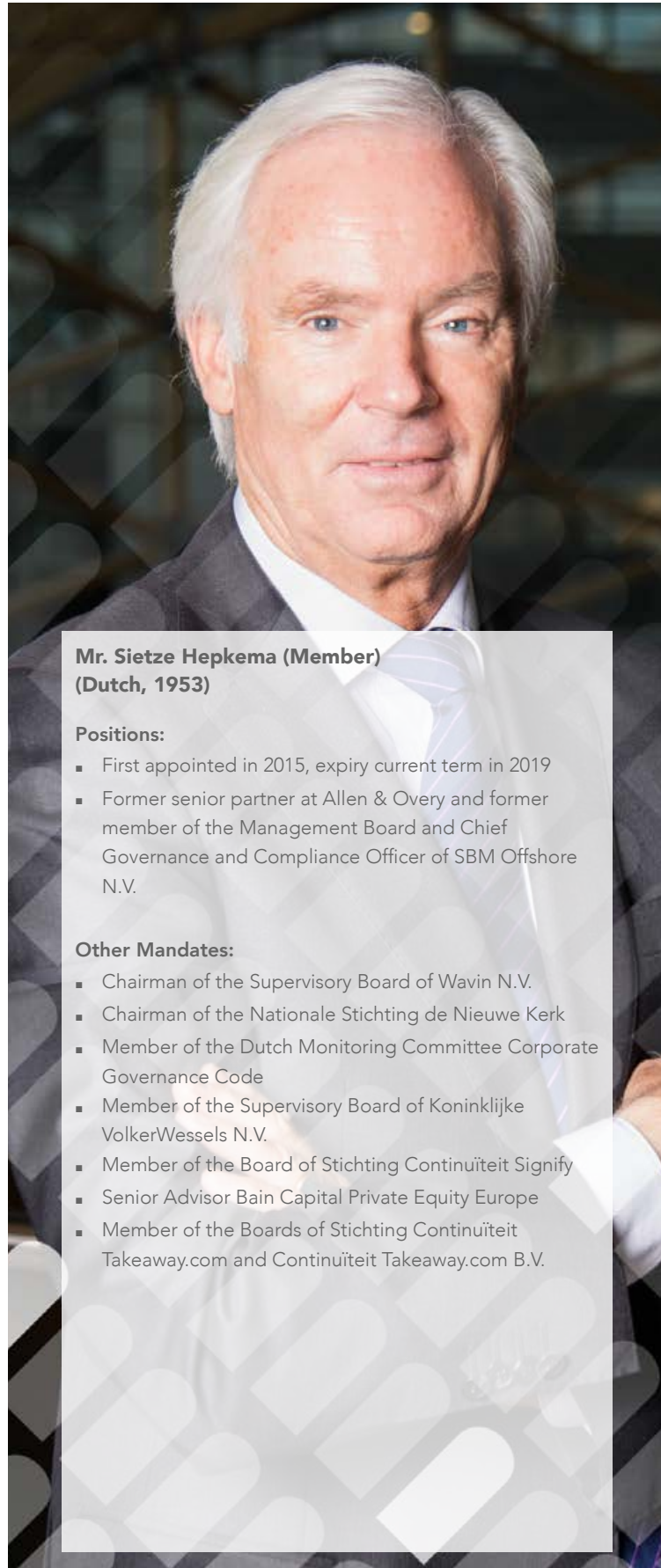
**Mr. Francis Gugen (Member)**  
(British, 1949)

**Positions:**

- First appointed in 2010, expiry current term in 2020
- Former Chief Executive of Amerada Hess Corporation in Europe and former Finance Director of Amerada Hess

**Other Mandates:**

- Executive Chairman of Smart Matrix Limited
- Advisor to Chrysaor Limited
- Founder member of POWERful women



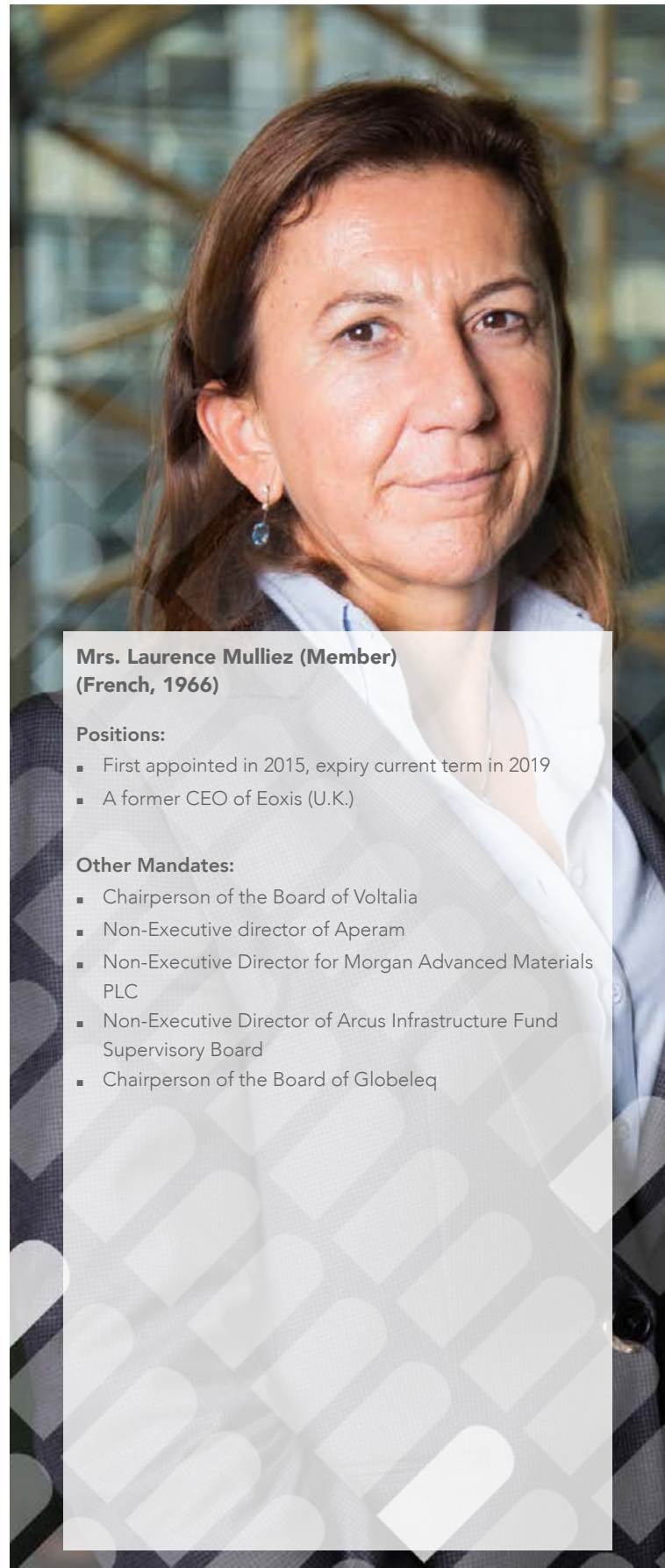
**Mr. Sietze Hepkema (Member)**  
(Dutch, 1953)

**Positions:**

- First appointed in 2015, expiry current term in 2019
- Former senior partner at Allen & Overy and former member of the Management Board and Chief Governance and Compliance Officer of SBM Offshore N.V.

**Other Mandates:**

- Chairman of the Supervisory Board of Wavin N.V.
- Chairman of the Nationale Stichting de Nieuwe Kerk
- Member of the Dutch Monitoring Committee Corporate Governance Code
- Member of the Supervisory Board of Koninklijke VolkerWessels N.V.
- Member of the Board of Stichting Continuïteit Signify
- Senior Advisor Bain Capital Private Equity Europe
- Member of the Boards of Stichting Continuïteit Takeaway.com and Continuïteit Takeaway.com B.V.



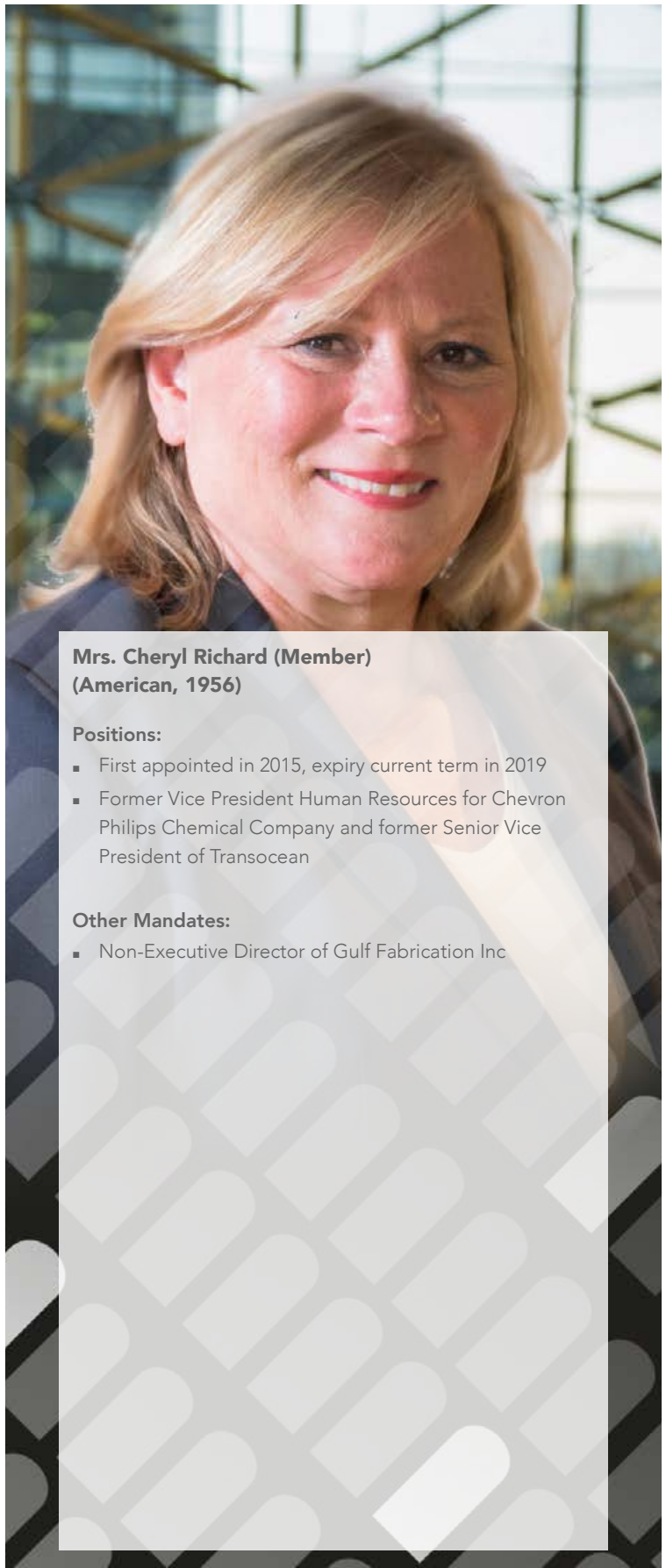
**Mrs. Laurence Mulliez (Member)**  
**(French, 1966)**

**Positions:**

- First appointed in 2015, expiry current term in 2019
- A former CEO of Eoxis (U.K.)

**Other Mandates:**

- Chairperson of the Board of Voltalia
- Non-Executive director of Aperam
- Non-Executive Director for Morgan Advanced Materials PLC
- Non-Executive Director of Arcus Infrastructure Fund Supervisory Board
- Chairperson of the Board of Globeleq



**Mrs. Cheryl Richard (Member)**  
**(American, 1956)**

**Positions:**

- First appointed in 2015, expiry current term in 2019
- Former Vice President Human Resources for Chevron Phillips Chemical Company and former Senior Vice President of Transocean

**Other Mandates:**

- Non-Executive Director of Gulf Fabrication Inc

## 3 GOVERNANCE

### 3.3 REPORT OF THE SUPERVISORY BOARD

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#### Message from the Chairman of the Supervisory Board

Dear reader,

I am pleased to present you this Report of the Supervisory Board which describes its activities during 2018.

The Company has concluded the last legacy issues. On July 26, 2018, the Company signed a Leniency Agreement with the Brazilian Authorities (CGU and AGU) and Petrobras. This agreement enables SBM Offshore and Petrobras to normalize business relations in respect of tenders, with SBM Offshore now being able to effectively compete for new business in Brazil with immediate effect. Furthermore, on September 1, 2018 SBM Offshore signed an agreement with the MPF in order to settle on the alleged improper sales practices before 2012. The required approval of this agreement by the Fifth Chamber was granted in December 2018. A joint request to the court to formally close the Improbability lawsuit filed by the MPF in 2017 has been made. SBM Offshore also reached a final settlement of its Yme insurance claim. For the financial details in relation to the closure of these legacy issues, I refer to note 4.3.1 Financial Highlights.

2018 has also been a positive year for the Company from a commercial perspective. SBM Offshore has been awarded the contracts for ExxonMobil's second Liza FPSO offshore in Guyana. Following FEED and subject to requisite government approvals, project sanction and an authorisation to proceed with the next phase, SBM Offshore will construct, install, lease and operate the FPSO for a period up to two years, after which the FPSO ownership will transfer to ExxonMobil. This second Liza FPSO is based on the Company's Fast4Ward™ program which enables it to transform the business by reducing cycle time to energy deliver, de-risking of projects and improving quality and safety for its clients. Fast4Ward™, as a product offering, is maturing in the market. On the basis of increased client interest and better demand visibility, the Company has committed to build its second Fast4Ward™ hull.

The Supervisory Board supports the increasing focus of the Company with respect to the preparation for and the potential impact of the energy transition as well as the approach of the Company to integrate sustainability in its strategy and operations.

For further details about the activities of the Supervisory Board and its committees, I refer to the next sections of this chapter.

Floris Deckers  
Chairman of the Supervisory Board

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#### THE SUPERVISORY BOARD

##### Composition

Your Supervisory Board has seen a number of changes in 2018. Both Frans Cremers and Lynda Armstrong stepped down after the Annual General Meeting of April 11, 2018 after having served for eight and four years respectively. The Supervisory Board has elected Floris Deckers as its Chairman of the Supervisory Board. Francis Gugen was re-appointed for a third term (two years) ending at the 2020 AGM. When deciding on the proposal to re-appoint Francis Gugen, the Supervisory Board has taken into account his past performance and it was concluded to be important to retain the experience Francis Gugen brings as Chairman of the Audit and Finance Committee. The Supervisory Board welcomed Roeland Baan and Bernard Bajolet who were newly appointed at the 2018 AGM. In accordance with best practice 2.2.2 of the Corporate Governance Code, for all (re-)appointments the profile and competency matrix for the Supervisory Board have been closely observed.

##### Independence

All Supervisory Board members are independent from the Company within the meaning of best practice provisions 2.1.7 to 2.1.9 inclusive of the Dutch Corporate Governance Code with the exception of Sietze Hepkema, who was a Management Board member of SBM Offshore until his appointment as Supervisory Board member in April 2015. None of the Supervisory Board members serve on the Management Board of a Dutch listed company.

##### Meetings

The Supervisory Board held ten meetings in 2018, of which seven were scheduled. The attendance percentage of the Supervisory Board for these meetings was 96.43%. In addition, three extra meetings were held to provide updates on the discussions with the authorities in Brazil. The percentage for these meetings of 83.33%. An overview of the attendance of Supervisory Board members per meeting is found in the following table.



Members	Scheduled SB meeting	Extra SB meeting	Audit and Finance Committee	Technical and Commercial Committee	Appointment and Remuneration Committee
Floris Deckers <sup>1</sup> (Chairman)	7/7	2/3	2/2	3/3	5/5
Thomas Ehret (Vice-Chairman)	6/7	2/3	-	5/5	-
Roeland Baan <sup>1</sup>	5/5	1/2	-	3/3	3/3
Bernard Bajolet <sup>1</sup>	5/5	2/2	-	3/3	-
Francis Gugen	7/7	2/3	5/5	-	-
Sietze Hepkema	7/7	3/3	5/5	-	-
Laurence Mulliez <sup>1</sup>	6/7	3/3	3/3	4/4	-
Cheryl Richard	7/7	3/3	-	-	5/5
Frans Cremers <sup>1</sup>	2/2	1/2	-	2/2	2/2
Lynda Armstrong <sup>1</sup>	2/2	1/2	-	2/2	2/2

<sup>1</sup> Where a Supervisory Board member retired from or was appointed to the Supervisory Board, stepped down from a Committee or was appointed throughout the year, only meetings during his/her tenure were taken into account

The Management Board prepared detailed supporting documents as preparation for all meetings. The meetings are spread over two days, starting on the first day with the meetings of the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and Commercial Committee. The Company Secretary is also the secretary of the Supervisory Board and its sub-committees. The Management Board and the Company Secretary attended all meetings of the Supervisory Board. Prior to each of the physical Supervisory Board meetings, an informal pre-board dinner was held, in most instances in the presence of the Management Board. At the end of each Supervisory Board meeting, the members of the Supervisory Board discussed the topics of the meeting in a private setting. Contacts between members of the Supervisory Board and Management Board takes place on a regular basis, also outside the regular setting.

Standard items on the agenda of Supervisory Board meetings were updates from each of the Management Board members including the following topics:

- Health, Safety, Security and Environment
- Operational performance
- Financial performance
- Updates on various topics related to compliance matters
- Risk and Opportunity reporting
- Market environment and commercial activities
- Strategic initiatives
- Stakeholder and shareholder interests
- IT, Digital and Cybersecurity

More specifically, in 2018, amongst other items, the following was discussed in the Supervisory Board meetings:

- During the scheduled meetings and in extra meetings, updates were given on the discussions with the authorities in Brazil.
- In February 2018, the Supervisory Board discussed and approved the Annual Financial Statements 2017. The Supervisory Board approved the proposal to the General Meeting of an all cash dividend distribution. In that same meeting, the Operating Plan 2018 was approved in its final form.
- In April 2018, the Supervisory Board prepared for the General Meeting.
- In the May 2018 meeting, the Supervisory Board discussed the Q1 2018 Trading update.
- In August 2018, the Half-Year Financial Statements 2018 were approved.
- In the November 2018 meeting, the Supervisory Board discussed the Q3 2018 Trading update. In this meeting, the Supervisory Board also discussed succession planning of the Management Board, senior management of the Company and the Supervisory Board.
- The Supervisory Board discusses the long-term value creation strategy, the implementation of the strategy and the principle risks associated with it on a regular basis. This was for example discussed during the August 2018 meeting and in the December 2018 meeting, in which the Long-Term Strategic Plan was discussed and approved. In this context the most significant risks have been taken into account. The Supervisory Board annually discusses the Company's Risk Appetite statement.

### 3 GOVERNANCE

- The Company Values are discussed on a regular basis. The updated Code of Conduct was part of the discussions.
- The three committees provided feedback of their meetings in the Supervisory Board meeting and made recommendations for decisions by the Supervisory Board.

#### THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has three committees. These committees have advisory powers and provide the

Supervisory Board with updates on their meetings. Due to Frans Cremers and Lynda Armstrong stepping down and the appointment of Roeland Baan and Bernard Bajolet, a number of changes to the committee composition became effective in 2018.

The composition of each committee is detailed below.

Members	Audit and Finance Committee	Technical and Commercial Committee	Appointment and Remuneration Committee	
			Appointment matters	Remuneration matters
Floris Deckers (Chairman) <sup>1</sup>		√	Chairman	√
Thomas Ehret (Vice- Chairman)		Chairman		
Roeland Baan <sup>2</sup>		√	√	√
Bernard Bajolet <sup>2</sup>		√		
Francis Gugen	Chairman			
Sietze Hepkema	√			
Laurence Mulliez <sup>3</sup>	√	√		
Cheryl Richard <sup>4</sup>			√	Chairman

<sup>1</sup> As per April 11, 2018 Chairman of Supervisory Board, member of the Technical and Commercial Committee, Chairman of the Appointment and Remuneration Committee dealing with Appointment matters and member of the Appointment and Remuneration Committee dealing with Remuneration matters

<sup>2</sup> Newly appointed as per April 11, 2018

<sup>3</sup> Member of the Audit and Finance Committee as of April 11, 2018. Member of the Technical and Commercial Committee as of October 1, 2018

<sup>4</sup> Chairman of the Appointment and Remuneration Committee for remuneration matters as per April 11, 2018

There is an open invitation to join committee meetings for those Supervisory Board members who are not a member of a specific committee. This invitation is frequently made use of.

#### Audit and Finance Committee

The Audit and Finance Committee convened five times in 2018. The attendance percentage of the Audit and Finance Committee was 100%. The Management Board, the Group Internal Audit Director, the Group Contoller and the External Auditor attended the meetings. After each Audit and Finance Committee meeting, meetings of the Audit and Finance Committee with the External Auditor outside the presence of the Management Board were held. The Chairman of the Audit and Finance Committee regularly held meetings with the CFO, and separately with SBM Offshore's Group Internal Audit Director.

Besides the standard agenda topics, such as reports on Financial Performance, Compliance, Risk, Litigation and Internal Audit activities, the following was discussed in 2018:

- Funding, covenants and liquidity

- Dividend proposal
- Review of payments to agents
- External Auditor's audit plan, management letter and board report
- Functioning of, relationship with and re-appointment of the External Auditor
- Financing Strategy
- Investor Relations
- The Group's tax structure, tax planning and transfer pricing policies
- IT and Cyber security

#### Appointment and Remuneration Committee

The Appointment and Remuneration Committee had five meetings in 2018. The attendance percentage of the Appointment and Remuneration Committee Meetings was 100%. The Appointment and Remuneration Committee consists of two parts as prescribed by the Corporate Governance Code: a part for Selection and Appointment matters and a part for Remuneration matters. During the Supervisory Board meetings, the respective Chairmen reported on the selection and appointment matters and on the remuneration matters reviewed by the Committee, on actions arising and the follow-up of

such actions. They made recommendations on those matters that require a decision from the Supervisory Board. The meetings were attended by the Management Board and the Group HR Director, except where the Appointment and Remuneration Committee chose to discuss matters in private. At various times, the members of the Appointment and Remuneration Committee met outside of formal meetings in preparation for the physical meetings.

The main subjects discussed by the Appointment and Remuneration Committee – besides the standard topics – were as mentioned below. On Management Board remuneration matters, the views of the Management Board members on their own remuneration have been noted.

### Remuneration matters

During early 2018, extensive discussions with third parties (investor road show and remuneration consultants) have been conducted on Remuneration Policy 2018. The final text of RP 2018 was approved by the 2018 AGM. Other items discussed in the meetings were:

- Determination of the relevant Short-Term and Long-Term Incentive setting and realization and Value Creation Stake award in accordance with the applicable Remuneration Policy
- Share based incentives for senior management
- Supervisory Board Remuneration

### Selection and Appointment matters

- Succession planning
- Talent Management
- Management Board and Supervisory Board (re-)appointments and Supervisory Board committee composition
- The Company's organization and rightsizing actions presented by the Management Board.
- Further details on remuneration can be found in the remuneration report (section 3.4 of the Management Report).

### Technical and Commercial Committee

The Technical and Commercial Committee met five times in 2018. The attendance percentage of the Technical and Commercial Committee meetings was 100%. The Chairman of the Technical and Commercial Committee reported to the Supervisory Board on the principal issues discussed, on actions arising and the follow-up of such actions and made

recommendations on those matters requiring a decision. The meetings were attended by the Management Board, and mostly by the Managing Director Floating Production Solutions and the Managing Director Operations. Other senior managers gave presentations on specific topics within the remit of the Technical and Commercial Committee.

The main subjects discussed by the Technical and Commercial Committee were the following:

- Health, Safety, Security and Environment performance, including health and security management
- Project delivery
- Operational performance and strategy
- Commercial prospects and the international competitive environment
- Technology and innovation developments
- Gas/FLNG and Renewables
- Progress on Fast4Ward™ project
- Risk assessment

### INDUCTION, TRAINING AND PERFORMANCE ASSESSMENT

New members of the Supervisory Board have attended induction sessions with the Management Board and senior management during which they were informed on various relevant aspects of the Company. Furthermore, members of the Supervisory Board visited the Monaco Office and a Supervisory Board meeting took place at the Schiedam Office in 2018 in order to gain greater familiarity with the SBM Offshore organization and the activities of the respective sites. Both the Management Board and the Supervisory Board spent time on training on various relevant subjects.

In August 2018, the Supervisory Board assessed the profiles and the competencies of the individual Supervisory Board members. In addition, the Supervisory Board conducted a self-assessment in Q4 2018. The Supervisory Board assessed the performance of its committees and its individual members, as well as the performance of the Management Board and its individual members during an executive session. In general, it is concluded that the Supervisory Board and its committees work well, have a balanced composition and are complementary in competences and experience and is positive about the performance of

### 3 GOVERNANCE

the Management Board. The practice introduced in 2018 to spend more time outside the meetings to further develop as a team was appreciated and will be continued. In the light of the importance of the energy transition to gas and renewables, the Company's strategy on this subject was considered to be a subject for the Supervisory Board for frequent and ongoing future discussion. In the year, as in previous years, a number of one-to-one conversations took place between the Chairman of the Supervisory Board and the CEO, as well as other Management Board members. Furthermore, there were regular contacts between the committee Chairmen and their respective counterparts in the

Management Board on various topics. As done in previous years the Management Board performed a self-assessment on its functioning by means of a survey, the results of which were discussed in a meeting.

#### Remuneration

The current remuneration of the Supervisory Board was set at the Extraordinary General Meetings of July 6, 2010 and April 15, 2015. In 2018, no changes were made to the Supervisory Board remuneration policy.

The fee level and structure for the Supervisory Board is summarized as follows:

in EUR	Fee
Chairman Supervisory Board	120,000
Vice-Chairman Supervisory Board	80,000
Member Supervisory Board	75,000
Chairman Audit and Finance Committee	10,000
Member Audit and Finance Committee	8,000
Chairman of the Appointment and Remuneration Committee dealing with Appointment matters	9,000
Chairman of the Appointment and Remuneration Committee dealing with Remuneration matters	9,000
Member of the Appointment and Remuneration Committee	8,000
Chairman Technical and Commercial Committee	10,000
Member Technical and Commercial Committee	8,000
Lump sum for each intercontinental travel	5,000

None of the Supervisory Board members receives remuneration that is dependent on the financial performance of the Company as per best practice 3.3.2 of the Code. With the exception of Sietze Hepkema, none of the Supervisory Board members have reported holding shares (or other financial instruments) in SBM Offshore N.V. The reason for his shareholdings is the (share based) remuneration he has received as Management Board member in the past.

SBM Offshore does not provide loans or advances to Supervisory Board members and there are no loans or advances outstanding. SBM Offshore does not issue guarantees (and/or sureties) to the benefit of Supervisory Board members, nor have these been issued.

The total remuneration of the members of the Supervisory Board in 2018 amounted to EUR 761 (2017: EUR 769) thousand on a gross (i.e. before tax) basis. In note 4.3.6 to the consolidated financial statements the remuneration of individual Supervisory Board members is set out.

## CONCLUSION

The Financial Statements have been audited by the external auditors, PricewaterhouseCoopers Accountants N.V. Their findings have been discussed with the Audit and Finance Committee and the Supervisory Board in the presence of the Management Board. The External Auditors have expressed an unqualified opinion on the Financial Statements.

The Supervisory Directors have signed the 2018 Financial Statements pursuant to their statutory obligations under article 2:101 (2) of the Dutch Civil Code.

The members of the Management Board have signed the 2018 Financial Statements pursuant to their statutory obligations under article 2:101(2) of the Dutch Civil Code and article 5:25c (2) (c) of the Financial Market Supervision Act.

The Supervisory Board of SBM Offshore N.V. recommends that the Annual General Meeting of Shareholders adopts the Financial Statements for the year 2018.

### Supervisory Board

Floris Deckers, Chairman  
Thomas Ehret, Vice-Chairman  
Roeland Baan  
Bernard Bajolet  
Francis Gugen  
Sietze Hepkema  
Laurence Mulliez  
Cheryl Richard

Schiphol, the Netherlands  
February 13, 2019





### 3.4 REMUNERATION REPORT

This report consists of two parts. The first part 3.4.1, describes the remuneration policy for the Management Board. The second part 3.4.2 provides

insight into the actual remuneration paid and awarded to the Management Board members over 2018. Details on the fee structure for the Supervisory Board members are set out in section 3.3 Report of the Supervisory Board.

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#### Letter from the Chairman of the Appointment and Remuneration Committee dealing with Remuneration Matters

Dear reader,

Over the past few years, SBM Offshore has been fine-tuning its strategy, processes and technical abilities to take advantage of future market opportunities. Due to this foresight, the Company has been able to capture the opportunities in 2018 and is well positioned for the future.

Activity levels in Turnkey are growing, which bodes well for the pipeline of future opportunities. SBM Offshore is a leader in meeting lower cost requirements of the oil and gas services sector and is able to capitalize on evolving market opportunities. For example, in 2018, a second Fast4Ward™ hull was committed. 2018 also marks the end of the YME insurance claim and of the legacy issues in Brazil. The Management Board has well positioned the Company for the future.

A new Management Board Remuneration Policy ('RP 2018') was adopted by the 2018 Annual General Meeting of Shareholders. The new Policy became effective as of January 1, 2018. Key objectives of the new Remuneration Policy include alignment with shareholders, simplicity and transparency. The remuneration structure has been modified in the following manner:

- The Short-Term Incentive was simplified and the maximum payout was reduced.
- SBM Offshore also introduced the Value Creation Stake consisting of restricted shares. The Long-Term Incentive moved from a grant expressed as a percentage of a share pool to a percentage of salary while also reducing the maximum grant potential.

SBM Offshore's activities are linked to the global oil and gas industry. Consequently, its remuneration policies and practices must be competitive with both European and U.S. practices. This is reflected in the new Reference Group as part of RP 2018.

The Supervisory Board remains committed to relevant and clear remuneration in line with best practices. I look forward to discussing the remuneration policy, actual remuneration as well as any other questions arising from this report, at the Annual General Meeting on April 10, 2019.

Cheryl Richard

Chairman of the Appointment and Remuneration Committee dealing with Remuneration Matters

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#### 3.4.1 MANAGEMENT BOARD REMUNERATION POLICY

The Company aims at remunerating members of the Management Board for long-term value creation. A remuneration policy is in place that contributes to competitive and aligned remuneration with the long-term performance of SBM Offshore. The current version of the remuneration policy (called RP 2018) has been effective as per January 1, 2018, after approval by the 2018 Annual General Meeting. Full details on the principles and rationale for the RP 2018 are available on SBM Offshore's website in the Remuneration Policy section under Corporate Governance.

The RP 2018 consists of four components: (1) Base Salary, (2) Short-Term Incentive, (3) Value Creation Stake and (4) Pension and Benefits. These components are explained hereafter.

#### REMUNERATION POLICY STRUCTURE MANAGEMENT BOARD

	CEO	CFO	COO	CGCO
<b>BASE SALARY</b> (in EUR 1,000)	800	450	551	450
<b>VALUE CREATION STAKE</b> (% of base salary)	175%	175%	175%	175%
<b>STI TARGET</b> (% of base salary)	100%	75%	75%	75%
<b>TOTAL TARGET REMUNERATION</b> (in EUR 1,000)	3,000	1,575	1,929	1,575

### 3 GOVERNANCE

#### 1. BASE SALARY

The Management Board's Base Salary is a fixed component paid in cash. The Base Salary levels as set may be adjusted each year within reason, depending on market movements and remuneration adjustments of senior management.

In order to determine a competitive Base Salary level, the Supervisory Board uses the reference group of

##### Current Reference Group<sup>1</sup>

■ Amec Foster	■ IMI	■ RPS Group
■ Arcadis	■ McDermott International	■ Superior Energy Services
■ Boskalis	■ Noble Corporation	■ Transocean
■ Diamond Offshore Drilling	■ Oceaneering International	■ Volker Wessels
■ Ensco	■ Petrofac	■ Vopak
■ Fugro	■ Rowan Companies	■ Wood Group
■ Helmerich & Payne	■ RPC	

<sup>1</sup> Please note that in 2018 WS Atkins plc has been acquired by SNC Lavalin and is therefore no longer part of the Reference Group

#### 2. SHORT-TERM INCENTIVE

The Short-Term Incentive (STI) is a conditional variable component of the Management Board's remuneration, paid in cash to create rigorous pay-for-performance relation. The performance measures are focused on three key performance areas: (i) Profitability, (ii) Growth and (iii) Health, Safety, Social and Environment.

STI	
PERFORMANCE MEASURES	WEIGHTING
PROFITABILITY	40 - 60%
GROWTH	20 - 40%
HSSE	15 - 25%
TOTAL	100%
DISCRETIONARY JUDGEMENT SUPERVISORY BOARD	+/- 10%

The Supervisory Board, at the recommendation of the Appointment and Remuneration Committee

relevant companies in the industry (hereafter the Reference Group) to determine base salary levels and to monitor total remuneration levels of the Management Board. Base Salaries of the Management Board members and the Reference Group are reviewed annually. In the event any position cannot be benchmarked within the Reference Group, the Supervisory Board may benchmark a position to similar companies.

(hereafter A&RC), determines the specific performance targets for each of the performance measures in the beginning of the performance year. For each performance indicator, a scenario analysis is performed to determine a threshold, target and maximum level, considering market and investor expectations, as well as the economic environment. At the end of the performance year, the performance is reviewed by the Supervisory Board and the pay-out level is determined. Both the details and the results regarding the performance measures are published in the Remuneration Report following the performance period. As such, the performance indicators applicable in 2018 are mentioned in section 3.4.2 of this report.

The STI is payable in cash after the publication of the annual financial results for the performance year. The STI is set at a target level of 100% of the base salary for the CEO and 75% of the base salary for each of the other Management Board members. The threshold pay-out is at 0.5 times target and maximum pay-out will not exceed 1.5 times target. A linear pay-out line applies between threshold and maximum. Below threshold, the pay-out is zero.

#### 3. VALUE CREATION STAKE

The Value Creation Stake is a fixed component paid in restricted shares to create direct alignment with long-term shareholder value. It is an annual award of shares that must be held for at least five years. After



retirement or termination, the shares cannot be sold for the duration of two years.

The gross annual grant value for each of the Management Board members is 1.75 times base salary. The number of shares is determined by a four-year average share price (volume-weighted). The Supervisory Board retains the discretion not to award the Value Creation Stake in exceptional market or business circumstances.

All members of the Management Board are required to build up Company stock of at least 3.5 times their gross base salary. The value of the share ownership is determined at the date of grant.

#### 4. PENSION AND BENEFITS

The Management Board members are responsible to create their own pension arrangements. In order to facilitate the Management Board members, they receive a pension allowance equal to 25% of their Base Salary.

The Management Board members are entitled to a defined set of emoluments and benefits. A general benefit in this area is the provision of a company car allowance. Other benefits depend on the personal situation of the relevant Management Board members and may include medical and life insurance and a housing allowance.

#### KEY ELEMENTS EMPLOYMENT AGREEMENTS

Each of the Management Board members has entered into a, in principle four year, service contract with the Company, the terms of which have been disclosed in the explanatory notice for the General Meeting of Shareholders at which the Management Board member was appointed.

#### Adjustment of remuneration and claw-back

The service contracts with the Management Board members contain an adjustment clause giving discretionary authority to the Supervisory Board to adjust upwards or downwards the payment of the STI and LTI (as granted under RP 15), if a lack of adjustment would produce an unfair or unintended result as a consequence of extraordinary circumstances during the period in which the performance criteria have been, or should have been, achieved. In addition, a claw-back provision is included in the services contracts enabling the Company to recover the Value Creation Stake, STI

and/ or LTI (as granted under RP 15) on account of incorrect financial data.

#### Severance Arrangements

The Supervisory Board will determine the appropriate severance payment for Management Board members in accordance with the relevant service contracts and Dutch Corporate Governance Code. The current Dutch Corporate Governance Code provides that the severance payment will not exceed a sum equivalent to one times annual base salary. This also applies in a situation of a change in control.

#### Loans

SBM Offshore does not provide loans or advances to Management Board members and does not issue guarantees to the benefit of Management Board members.



## 3 GOVERNANCE

### 3.4.2 MANAGEMENT BOARD REMUNERATION IN 2018

The actual remuneration for 2018<sup>20</sup> is set out hereafter in five sections, namely 1. Base Salary, 2. Short-Term Incentive, 3. Value Creation Stake, 4. Long-Term

<sup>20</sup> SBM Offshore pays remuneration and benefits to the Management Board members in euros. For that reason, this report only mentions euros. Further information regarding the Management Board members' remuneration can be found in note 4.3.6 to the consolidated annual financial statements.

Incentive and 5. Pension and Benefits. After these sections more insight is provided into the pay ratio of the Management Board members against the rest of the organization. The actual remuneration for 2018 is combined in the table Remuneration of the Management Board by member.

In line with SBM Offshore's overall financial reporting, the remuneration elements described there are set out in US\$.

#### Remuneration of the Management Board by member

	Bruno Chabas		Douglas Wood		Philippe Barril		Erik Lagendijk		Total	
in thousands of EUR <sup>1</sup>	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Base salary	800	747	450	440	551	514	450	382	2,251	2,083
STI	1,165	1,489	491	642	601	803	491	597	2,748	3,532
LTI	1,470	1,665	836	709	740	1,004	712	833	3,758	4,210
Value Creation Stake <sup>2</sup>	1,508	0	848	0	1,038	0	848	0	4,244	0
Pensions	245	245	113	110	138	138	113	102	608	595
Other	165	284	39	41	146	147	38	37	389	510
<b>Total Remuneration</b>	<b>5,353</b>	<b>4,431</b>	<b>2,778</b>	<b>1,942</b>	<b>3,215</b>	<b>2,606</b>	<b>2,652</b>	<b>1,951</b>	<b>13,997</b>	<b>10,930</b>
in thousands of US\$	6,321	5,005	3,281	2,193	3,796	2,944	3,132	2,204	16,530	12,347

<sup>1</sup> 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. His total remuneration in 2018 amounts to EUR 19k.

<sup>2</sup> In 2018 a Value Creation Stake was granted under the new remuneration policy. Under the previous policy, RP 2015, the LTI is paid out after a three-year vesting period. This explains why both long term incentive plans are visible in the 2018 and 2019 Remuneration Reports.

#### 1. BASE SALARY

With the new RP 2018, Base Salary levels were updated in 2018. The 2018 and 2017 Base Salary levels are included in the table at the beginning of section 3.4.2.

#### 2. SHORT-TERM INCENTIVE

For 2018, the Supervisory Board set the following performance indicators for the STI.

- Underlying and directional EBITDA (weight: 50%)
- Order Intake (weight: 15%)
- Number of FEEDs (weight: 15%)
- Total Recordable Injury Frequency Rate (weight: 8%)
- Fleet Process Safety Management (weight: 10%)
- Sustainability (weight: 2%)

With regard to the STI performance indicators, the Supervisory Board, at recommendation of the A&RC, assessed the delivered results for each performance indicator. Realization levels per target ranged between 0% and maximum. The Supervisory Board applied a discretionary increase of the STI with 10%, considering the successful settlement of the YME case and the end of the legacy issues in Brazil. This resulted in an overall score for the STI of 146% for the CEO and 109% for the other Management Board

Members. In summary, the Supervisory Board regards the performance under the Company indicators robust.

#### 3. VALUE CREATION STAKE

After the adoption of the RP 2018, the Value Creation Stake for 2018 was granted to the Management Board. The gross annual grant value for each of the Management Board members is 1.75 times base salary. The number of shares was based on the four-year average share price (volume weighted) of EUR 12.34. The monetary value of the granted Value Creation Stake is included in the table at the top of this section. The number of shares vested under the Value Creation Stake can be found in the consolidated financial statements (see note 4.3.6 Employee Benefit Expenses).

#### 4. LONG-TERM INCENTIVE UNDER REMUNERATION POLICY 2015 (RP 2015)

Before the RP 2018 became effective, the RP 2015 applied, which included a Long-Term Incentive (LTI) scheme. Further details on the LTI, as granted under Remuneration Policy 2015, are available for review in the 2014 Annual General Meeting section on SBM Offshore's website and in the Remuneration Report 2017. Currently, only one LTI program is

outstanding: LTI 2017-2019 granted in 2017. The LTI program granted in 2016 ended in 2018 and has therefore been determined.

### LTI 2016-2018

The 2016-2018 LTI grant contained two Performance Indicators: Directional Underlying Earnings Per Share (relative weighting 60%) and Relative TSR (relative weighting 40%).

With regard to these performance indicators, the Supervisory Board, upon the recommendation of the A&RC, assessed the delivered results and has concluded that the results related to both the directional underlying EPS and to Relative TSR were realized close to maximum.

The pay-out details can be found in the table at the top of this section. The actual shareholdings of the Management Board members per the end of 2018, in which only common unconditional shares are taken into account, can be found at the end of this section in the Overview Share-Based Incentives. This overview also includes the number of conditionally granted and/or vested shares in the last few years. At the time of reporting, Bruno Chabas and Philippe Barril met the share ownership requirement which is set at an equivalent of 350% of base salary. Erik Lagendijk and Douglas Wood are still in the process of building up their share ownership requirement.

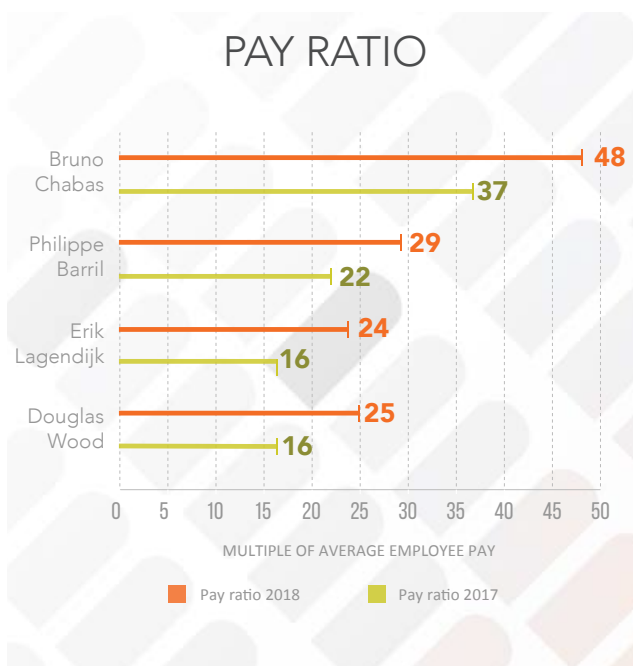
### 5. PENSIONS AND BENEFITS

Management Board members receive a pension allowance equal to 25% of their base salary for pension purposes. Since these payments are not made to a qualifying pension fund, but to the individuals, the Management Board members are individually responsible for investment of the contribution received and SBM Offshore withholds wage tax on these amounts. In addition to the above a supplementary pension arrangement is in place for the CEO. This arrangement is a defined contribution scheme and its costs are included in the table at the beginning of section 3.4.2.

The Management Board members received several allowances in 2017. This includes a car allowance which is received by all and a housing allowance for Bruno Chabas and Philippe Barril. The value of these elements is displayed in the table 'Remuneration of the Management Board by member', at the top of this section.

### 6. PAY RATIOS

In order to better understand the current internal pay relativities within the organization and to support future decisions on remuneration levels, the Supervisory Board reviewed several internal pay-ratios in 2018. The Supervisory Board decided that the chosen pay-ratio should be both relevant and reliable. As a result, the Supervisory Board, based on the recommendation made by the A&RC, determined the pay-ratio as the total remuneration for each of the Management Board members expressed as a multiple of the average overall employee benefit expenses (as derived from the tables in section 4.3.6 from our financial statements). The following graph displays the pay-ratios of each of the Management Board members over 2018 and 2017.



### 3 GOVERNANCE

#### OVERVIEW SHARE-BASED INCENTIVES

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 to the consolidated financial statements). 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 <sup>1</sup>	Outstanding at the beginning of 2018	Granted	Vested	Outstanding at the end of 2018	Status at the end of 2018	Vesting date	End of blocking period	Fair value of share at the grant date – €	Fair value of the TSR component – €
<b>Bruno Chabas – CEO</b>									
2014 STI Matching Shares	32,777	-	32,777	-	conditional	2018		9.76	
2015 LTI	83,878	-	125,817	-	conditional	2018	2020	11.51	14.78
2016 LTI	84,678	-	-	84,678	conditional	2019	2021	11.91	19.92
2017 LTI	80,817	-	-	80,817	conditional	2020	2022	14.31	19.62
	<b>282,150</b>	-	<b>158,594</b>	<b>165,495</b>					
<b>Erik Legendijk – CGCO</b>									
2015 LTI	55,919	-	69,899	-	conditional	2018	2020	11.51	11.31
2016 LTI	56,452	-	-	56,452	conditional	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	<b>166,249</b>	-	<b>69,899</b>	<b>110,330</b>					
<b>Philippe Barril – COO</b>									
Restricted shares <sup>2</sup>	50,000	-	50,000	-	conditional	2018	2020	10.50	
2015 LTI	55,919	-	69,899	-	conditional	2018	2020	11.51	11.31
2016 LTI	56,452	-	-	56,452	conditional	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	<b>216,249</b>	-	<b>119,899</b>	<b>110,330</b>					
<b>Douglas Wood – CFO</b>									
Restricted shares <sup>3</sup>	30,000	-	-	30,000	conditional	2019	2021	12.71	
2016 LTI	42,339	-	-	42,339	conditional	2019	2021	11.91	15.50
2017 LTI	53,878	-	-	53,878	conditional	2020	2022	14.31	15.54
	<b>126,217</b>	-	-	<b>126,217</b>					
<b>Peter van Rossum – Former CFO</b>									
2014 STI Matching Shares	15,134	-	11,561	-	conditional	2018		9.76	
2015 LTI	55,919	-	53,298	-	conditional	2018	2020	11.51	11.31
2016 LTI	56,452	-	-	56,452	conditional	2019	2021	11.91	15.50
2017 LTI	5,238	-	-	5,238	conditional	2020	2022	14.31	15.54
	<b>132,743</b>	-	<b>64,859</b>	<b>61,690</b>					

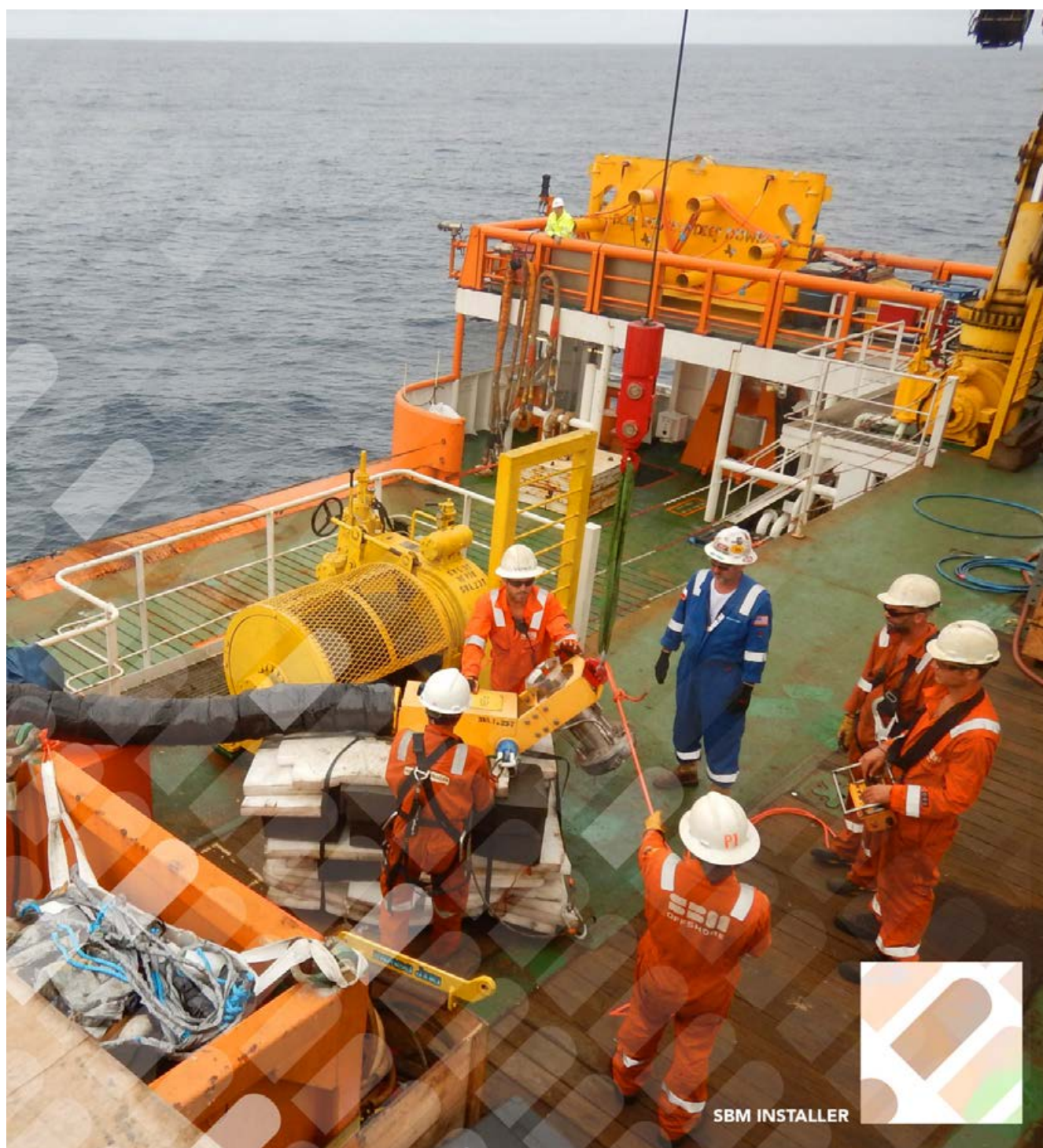
<sup>1</sup> The Value Creation Stake is not included in this table, since all shares do vest immediately

<sup>2</sup> These shares were awarded to Philippe Barril as compensation for the loss of share-based payments at his former employer, and have been reported to the AGM in April 2015 in Agenda item 11

<sup>3</sup> These shares were awarded to Douglas Wood as compensation for the loss of variable remuneration entitlements and other benefits in his previous employment, and have been reported to the EGM on 30 November 2016 in Agenda item 1

The following shares or other financial instruments are held by SBM Offshore N.V. by members of 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	-
<b>Total</b>	<b>622,883</b>	<b>439,027</b>	<b>1,061,910</b>	<b>574,685</b>



## 3 GOVERNANCE

### 3.5 CORPORATE GOVERNANCE

In this section, the broad outline of SBM Offshore's corporate governance structure is explained, partly by reference to the principles mentioned in the Dutch Corporate Governance Code. This chapter indicates to what extent SBM Offshore applies the principles and best practice provisions in the Dutch Corporate Governance Code. This chapter describes the role of the corporate bodies, the role of the External Auditor and of the Stichting Continuïteit SBM Offshore.

#### 3.5.1 CORPORATE GOVERNANCE STRUCTURE

SBM Offshore N.V. is a limited liability company ('Naamloze Vennootschap') incorporated under the laws of the Netherlands with its corporate seat in Amsterdam. The Company is listed on Euronext Amsterdam. The Company has a two-tier board consisting of a Supervisory Board and a Management Board. Each Board has its specific roles and tasks regulated by laws, the articles of association, the Corporate Governance Code, the Supervisory Board rules and Management Board rules. Further to the implementation of the revised Corporate Governance Code, the Supervisory Board rules and Management Board rules were amended in August 2017 and are published on the Company's website, together with the articles of association. The implementation of the Corporate Governance Code has not led to substantial changes in the corporate governance structure of the Company.

SBM Offshore complies with all applicable principles and best practice provisions of the Dutch Code, the full text of which can be found on [www.mccg.nl](http://www.mccg.nl). The details on compliance with the Dutch Corporate Governance Code can be found on SBM Offshore's corporate website under 'Rules governing the Supervisory Board'.

#### 3.5.2 MANAGEMENT BOARD

The Management Board currently consists of four members: the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Chief Governance and Compliance Officer. The members of the Management Board are appointed and can be suspended or dismissed at the General Meeting. Further information about the appointment

and dismissal of Management Board members can be found in SBM Offshore's articles of association.

The Management Board manages the Company. The Management Board is responsible for the continuity of the Company and its business. The Management Board establishes a position on the relevance of long-term value creation for the Company and its business and takes into account the relevant stakeholders' interests. In fulfilling its responsibilities, the Management Board is guided by the interests of the Company and its business.

Each year, the Management Board presents to the Supervisory Board the strategy of the Company, the Operational Plan and the financial objectives that allow quantification and progress measurement of the strategy implementation. The Company's Long-Term Strategic Plan has been discussed with and was approved by the Supervisory Board in December 2018. The Operating Plan for 2019 was formally adopted during the meeting of the Supervisory Board in February 2019.

The Management Board is responsible for determining the Company's risk profile and policy, designed to realize the Company's objectives, to assess and manage the Company's risks and to ensure that sound internal risk management and control systems are in place. The Management Board monitors the operation of the internal risk management and control systems and carries out a systematic assessment of their design and effectiveness at least once a year. This monitoring covers all material control measures relating to strategic, operational, compliance and reporting risks. Attention is given to observed weaknesses, instances of misconduct and irregularities, indications from whistle blowers.

The Management Board has adopted corporate core values for the Company that contribute to a culture focused on long-term value creation. These values are Integrity, Care, Entrepreneurship and Ownership and are regularly discussed with the Supervisory Board. The Management Board encourages behavior that is in keeping with the values and propagates these values through leading by example. The Management Board is responsible for the incorporation and maintenance of the values.

More information about the ways of working of the Management Board can be found in the Management Board rules, available on the Company's website.

### **3.5.3 SUPERVISORY BOARD AND COMMITTEES**

The Supervisory Board supervises the policies, the management of the Company and its businesses, the effectiveness and the integrity of the internal control and risk management systems and procedures implemented by the Management Board, as well as the general conduct of affairs of the Company and its businesses. The Supervisory Board also supervises the activities of the Management Board for creating a culture aimed at long-term value creation for the Company and its businesses. Furthermore the Supervisory Board assists the Management Board with advice in accordance with the Dutch Corporate Governance Code, the articles of association and the Supervisory Board rules. In the performance of its duties, the Supervisory Board is guided by the interests of the Company's various groups of stakeholders. In addition, certain (material) decisions of the Management Board, as stipulated in the Dutch Civil Code, articles of association or the Supervisory Board and Management Board rules, require the Supervisory Board's prior approval.

The Supervisory Board currently consists of eight members. Members of the Supervisory Board are appointed at the General Meeting following nomination by the Supervisory Board. Further information about the appointment and dismissal of Supervisory Board members can be found in SBM Offshore's articles of association.

Following the implementation of the 2017 Dutch Corporate Governance Code, the appointment and re-appointment periods of Supervisory Board members were amended. A Supervisory Board member is appointed for a period of four years and may then be re-appointed once for another four-year period. A Supervisory Board member may subsequently be re-appointed again for a third period of two years, which may be extended by at most two years.

The Supervisory Board has three subcommittees: the Audit and Finance Committee, the Appointment and Remuneration Committee and the Technical and

Commercial Committee. The Appointment and Remuneration Committee is a joint committee with two separate chairpersons and two separate tasks: the selection and appointment preparation of Management Board and Supervisory Board members and the preparation of decision-making regarding remuneration matters. SBM Offshore has an internal audit department with direct reporting to the Supervisory Board through the Audit and Finance Committee. More information about the ways of working of the Supervisory Board and its committees can be found in the Supervisory Board and Committee rules, as available on the Company's website. The Supervisory Board has drawn up a retirement schedule for its members, which is also available on the Company's website.

### **3.5.4 SHARES AND THE ANNUAL GENERAL MEETING**

The authorized share capital of the Company amounts to EUR 200 million and is divided into 400,000,000 ordinary shares with a nominal value of EUR 0.25 and 400,000,000 protective preference shares also with a nominal value of EUR 0.25. The preference shares can be issued as a protective measure, as explained below in the section on the Stichting Continuïteit SBM Offshore.

With reference to the articles of association, all shareholders are entitled to attend the General Meeting, to address the General Meeting and to vote. At the General Meeting each Ordinary Share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote. Each protective preference share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote, when issued. None of the protective preference shares have been issued to date. Unless otherwise required by law or the articles of association of the Company all resolutions shall be adopted by an absolute majority of votes. The General Meeting may adopt a resolution to amend the articles of association of the Company by an absolute majority of votes cast, but solely upon the proposal of the Management Board, subject to the approval of the Supervisory Board. The articles of association are reviewed on a regular basis and were last amended in April 2016.

In 2018, SBM Offshore did not enter into transactions with persons who hold at least ten percent of the

### 3 GOVERNANCE

shares in the Company where there were conflicts of interest of material significance to the Company.

As per December 31, 2018, 205,671,305 (2017: 205,671,305) ordinary shares are issued. No preference shares have been issued.

Every year the General Meeting is held within six months after the start of a new calendar year. The agenda for this meeting generally includes the following standard items:

- the report of the Management Board concerning the Company's affairs and the management as conducted during the previous financial year,
- the report of the Supervisory Board and its committees,
- the adoption of the Company's Financial Statements, the allocation of profits and the approval of the dividend,
- the discharge of the Management Board and of the Supervisory Board,
- Corporate Governance,
- the delegation of authority to issue shares and to restrict or exclude pre-emptive rights,
- the delegation of authority to purchase own shares
- the composition of the Supervisory Board and of the Management Board

In addition, certain specific topics may be added to the agenda by the Supervisory Board.

An Extraordinary General Meeting can be held whenever the Management Board and/or the Supervisory Board shall deem this necessary. The General Meetings can be held in Schiedam, Rotterdam, The Hague, Amsterdam, Hoofddorp, Amstelveen or Haarlemmermeer (Schiphol).

Proposals to the agenda of General Meetings can be made by persons who are entitled to attend General Meetings, solely or jointly representing shares amounting to at least 1% of the issued share capital. Proposals of persons who are entitled to attend the shareholders meetings will only be included in the agenda if such proposals are made in writing to the Management Board not later than sixty (60) days before that meeting.

The proxy voting system used at the General Meetings of SBM Offshore is provided through ABN Amro Bank N.V. and by SGG Financial Services

B.V. as independent third parties. The articles of association do not provide for any limitation of the transferability of the ordinary shares and the voting rights of shareholders is not subject to any limitation.

Analysts meetings, presentations to institutional or other investors and direct discussions with investors did not take place shortly before the publication of the regular financial information.

At the April 11, 2018 General Meeting, 131,287,110 ordinary shares participated in the voting, equal to 63.83% (2017: 62.23%) of the then total outstanding share capital of 205,671,305 ordinary shares. All the proposed resolutions were approved with a majority of the votes. The outcome of the voting of the meeting was posted on the Company's website on the day following the General Meeting.

#### 3.5.5 ISSUE AND REPURCHASE OF SHARES

The General Meeting or the Management Board, if authorized by the General Meeting and with the approval of the Supervisory Board, may resolve to issue shares.

The General Meeting or the Management Board, subject to the approval of the Supervisory Board, shall set the price and further conditions of issue, with due observance of the provisions contained in the articles of association. Shares shall never be issued below par, except in the case as referred to in article 2:80 (2) Dutch Civil Code. At the General Meeting of April 11, 2018, the shareholders have delegated to the Management Board for a period of eighteen months and subject to the approval of the Supervisory Board, the authority to issue ordinary shares up to 10% of the total outstanding shares at that time. In addition, authorization was granted to issue an additional 10% in case of mergers, acquisitions and/or strategic cooperation. In the same meeting, the shareholders have delegated the authority to the Management Board for a period of eighteen months as from April 11, 2018 and subject to the approval of the Supervisory Board to restrict or withdraw preferential rights of the shareholders in respect of ordinary shares when ordinary shares are being issued.





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The Management Board may, with the authorization of the General Meeting and the Supervisory Board and without prejudice to the provisions of article 2:98 Dutch Civil Code and the articles of association, cause the Company to acquire fully paid up shares in its own capital for valuable consideration. The Management Board may resolve, subject to the approval of the Supervisory Board, to dispose of shares acquired by the Company in its own capital. No pre-emption right shall exist in respect of such disposal. At the General Meeting of 2018, the shareholders have delegated the authority to the Management Board for a period of eighteen months as from April 11, 2018 and subject to approval of the Supervisory Board, to acquire up to 10% of the total outstanding shares at that time. The Management Board may resolve, with the approval of the Supervisory Board, to cancel shares repurchased up to the number of the aforementioned authorization.

#### 3.5.6 AUDITORS

The external auditor of SBM Offshore is appointed by the General Meeting on the proposal of the Supervisory Board. During the Annual General Meeting of 2014, PricewaterhouseCoopers Accountants N.V. ('PricewaterhouseCoopers') was appointed for a term of four years (for the audit of the financial years 2014-2017). The Audit and Finance Committee, together with the Supervisory Board and the Management Board, made an independent evaluation of the performance of PricewaterhouseCoopers. In view of the positive outcome of the evaluation, the Supervisory Board proposed to re-appoint PricewaterhouseCoopers as external auditor. During the Annual General Meeting of 2018, PricewaterhouseCoopers was re-appointed as external auditor for a period of three years (for the audit of the financial years 2018-2020).

The current lead auditor is Michael de Ridder of PricewaterhouseCoopers. The external auditor attends all meetings of the Audit and Finance Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. The external auditor receives the financial information and underlying reports of the quarterly figures and is given the opportunity to comment and respond to this information.

Based on auditor independence requirements, the lead auditor in charge of the SBM Offshore account is

changed every five years. Pursuant to the Dutch Audit Profession Act (Wet op het accountantsberoep), the audit firm of a so-called public interest entity (such as a listed company) will have to be replaced if the audit firm performed the statutory audits of the Company for a period of ten consecutive years, at the latest in 2024.

Pursuant to the Audit Profession Act, the auditors are prohibited from providing the Company with services in the Netherlands other than 'audit services aimed to provide reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board, as referred to in the reports mentioned'. During 2018, a small number of limited-scope non-audit services were provided by foreign member firms of the PricewaterhouseCoopers global network, taking into account the global independence rules and SBM Offshore's own policy in this regard.

#### 3.5.7 STICHTING CONTINUÏTEIT SBM OFFSHORE

In this paragraph, SBM Offshore's anti-takeover measures are described, as well as the circumstances under which it is expected that these measures may be used.

A Foundation 'Stichting Continuïteit SBM Offshore' (the Foundation), was established on March 15, 1988. In summary, the objectives of the Foundation are to represent the interests of SBM Offshore in such a way that the interests of the Company and of all parties involved in this are safeguarded, and that influences which could affect the independence, continuity and/or the identity of the Company in breach of those interests are deterred. The Foundation will perform its role, and take all actions required, at its sole discretion. In the exercise of its functions it will, however, be guided by the interests of the Company and the business enterprises connected with it, and all other stakeholders, including shareholders and employees.

The Foundation is managed by a Board, the composition of which is intended to ensure that an independent judgement may be made as to the interests of the Company. The Board consists of a number of experienced (former) senior executives of multinational companies. To be kept informed about

the business and interests of the Company, the Chairman of the Supervisory Board, CEO and the CGCO are invited to attend the Foundation Board meetings.

The Board of the Foundation consists of: Mr. A.W. Veenman, Chairman, former CEO of the Nederlandse Spoorwegen, Mr. B. Vree, Vice-Chairman, former CEO of APM Terminals, Mr. R.H. Berkvens, CEO of Damen Shipyard, Mrs. H.F.M. Defesche, former Company Secretary & Group Legal Counsel of Bosal Nederland B.V. and Mr. J.O. van Klinken, General Counsel & member of the Management Board at Aegon N.V.

The Management Board, with the approval of the Supervisory Board, has granted a call option to the Foundation to acquire a number of preference shares in the Company's share capital, carrying voting rights, equal to one half of the voting rights carried by the ordinary shares outstanding immediately prior to the exercise of the option, enabling it effectively to perform its functions as it, at its sole discretion and responsibility, as it deems useful or desirable.

The option agreement between SBM Offshore and the Foundation was lastly amended and restated in 2011, to reflect a waiver by the Company of its put option and the alignment of the nominal value of the protective preference shares with the nominal value of ordinary shares by reducing the nominal value of EUR 1 to EUR 0.25 and the related increase in the number of protective preference shares as per the amended articles of association of the Company. The Foundation is independent as stipulated in article 5:71 (1) (c) Financial Market Supervision Act.

### **3.5.8 OTHER REGULATORY MATTERS**

#### **CONFLICTS OF INTEREST**

The members of the Management Board have a services contract with SBM Offshore N.V. These contracts stipulate that members of the Management Board may not compete with the Company. A change of control clause is included in the service agreement between the Company and each of the members of the Management Board.

The Management Board Rules and the Code of Conduct of the Company regulate matters of conflict of interest. The Supervisory Board Rules also contain a regulation based on the Dutch Corporate

Governance Code that deals with reporting of conflict of interest of the Chairman and members of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with Management Board members that are of material significance to the Company and/or to the relevant Management Board members require the approval of the Supervisory Board. In 2018, there were no such transactions.

The Company's Code of Conduct does not permit employees and directors to accept gifts of value for themselves or their relatives, to provide advantages to third parties to the detriment of the Company or to take advantage of business opportunities to which SBM Offshore is entitled.

No loans or guarantees have been provided to members of the Management Board. The Company is compliant with best practice 2.7.3 to 2.7.4 of the Dutch Corporate Governance Code as no conflicts of interest in relation to the members of the Management Board or the Supervisory Board were reported during the year 2018.

#### **REGULATIONS CONCERNING OWNERSHIP OF AND TRANSACTIONS IN SHARES**

In addition to the Company's Insider Trading Rules, the Supervisory Board and Management Board rules contain a provision with regard to the ownership of and transactions in shares in the Company and in shares of Dutch listed companies other than SBM Offshore N.V. This provision stipulates that Supervisory Board and Management Board members will not trade in Company shares or other shares issued by entities other than the Company on the basis of share price sensitive information if this information has been obtained in the course of managing the Company's business.

For information about the shares (or other financial instruments) held in SBM Offshore N.V. by members of the Management Board, reference is made to note 4.3.23 to the consolidated financial statements.

#### **MANDATES WITH THIRD PARTIES**

Reference is made to the overview of the Management Board and Supervisory Board members in section 3.1 and 3.2 of this report in which their material mandates outside SBM Offshore are listed. Management Board and Supervisory Board members shall inform the Supervisory Board before accepting

### 3 GOVERNANCE

positions outside the Company. Positions may not be accepted without the Supervisory Boards' prior approval. The position can not be in conflict with the Company's interest. Mandates are discussed annually in the Supervisory Board meeting. The Company is fully compliant with best practice 2.4.2 of the Dutch Corporate Governance Code. Members of the Management Board may also be appointed to the statutory board of the Company's operational entities.

#### CODE OF CONDUCT AND REPORTING OF ALLEGED IRREGULARITIES

The Company has a Code of Conduct, which was updated in April 2018 and is posted on the Company's website. The Company also has a procedure allowing employees to report alleged irregularities with respect to the Code of Conduct without jeopardizing their employment position. A free-phone and web-based reporting facility (the SBM Offshore Integrity Line) is in place, which employees can use – anonymously if they wish – in their own language. The facility is operated by an external provider, People Intouch. For more details on SBM Offshore's compliance program reference is made to section 3.8.

#### DIVERSITY

The Company's diversity policy for the Supervisory Board and the Management Board is published on the Company website. The diversity policy addresses the aspects that have been identified as relevant for the Company when composing the Supervisory Board and the Management Board and selecting persons for (re-)appointment, namely nationality / cultural background, age, gender and (work) experience. The target is to have a minimum of 30% women and a minimum of 30% men on each of the Management Board and Supervisory Board. The members of the Supervisory Board have a diverse mix of knowledge, skills and expertise, in line with the required profile (see also Schedule 2 of the Supervisory Board Rules). Currently 25% of the Supervisory Board members are female and 100% of the Management Board is male. Two of the six members that complete the Executive Committee are female. The nationality /cultural background is diverse as each of the Management Board and Supervisory Board covers four nationalities. Two additional nationalities are represented in the Executive Committee.

In succession planning, the relevant diversity aspects are taken into consideration. Ultimately the most qualified candidate will be nominated for appointment. To reach the diversity targets for future (potential) internal candidates for the Management Board, the relevant diversity aspect shall be considered and taken into account for recruitment, talent management, appointment to roles, retention of employees, succession planning, training and development. The relevant diversity aspects will also be considered in case of (re-)appointments of Supervisory Board members.

#### EXECUTIVE COMMITTEE

Since the end of 2012, an Executive Committee is in place. The Executive Committee facilitates decision-making without detracting from the exercise of statutory responsibilities by the members of the Management Board and the internal company authority matrix. Currently the Executive Committee is comprised of the Management Board members, the Managing Directors of Floating Production Solutions, Global Resources & Services, Operations and China/Singapore, as well as the Group HR Director and the Chief Strategy Officer. The Executive Committee meets on a monthly basis. In the meetings both strategic and operational topics are discussed.

#### MISCELLANEOUS

SBM Offshore N.V. has a revolving credit facility agreement under which the agreement of the participating banks must be obtained in the event of a change in control of the Company after a public take-over bid has been made. Certain vessel charter contracts contain clauses to the effect that the prior consent of the client is required in case of a change of control or merger or where the company resulting from such change of control or merger would have a lower financial rating or where such change of control or merger would affect the proper execution of the contract. In addition, local bidding rules and regulations (e.g. in Brazil for Petrobras) may require client approval for changes in control.

#### FURTHER INFORMATION

The Investor Relations and the Corporate Governance sections of the Company website provide extensive information including the articles of association, the Company Code of Conduct, the Supervisory Board and Committee rules and the Management Board rules. The website also contains

the contact details of the Investor Relations department and of the Company Secretary for questions regarding corporate governance matters.

## 3.6 SHAREHOLDER INFORMATION

### LISTING

SBM Offshore has been listed on Euronext Amsterdam since 1965. The market capitalization as at year-end 2018 was US\$ 3.0 billion. The majority of the Company's shareholders are institutional long-term investors.

### FINANCIAL DISCLOSURES

SBM Offshore publishes audited full-year earnings results and unaudited half-year earnings results, which include financials, within sixty days after the close of the reporting period. For the first and third quarters, SBM Offshore publishes a trading update, which includes important Company news and financial highlights. The Company conducts a conference call and webcast for all earnings releases and a conference call only for all trading updates during which the Management team presents the results and answers questions. All earnings-related information, including press releases, presentations and conference call details are available on the SBM Offshore website. Please see the Financial Calendar of 2019 at the end of this section for details of the timing of publication of financial disclosures for the remainder of 2019.

In 2018, the Company expanded its 'Directional' reporting. In addition to the Directional income statement, reported since 2013, a Directional balance sheet and cash flow statement are also disclosed in section 4.3.2 Operating Segments and Directional Reporting of the Consolidated Financial Statements. Expanding Directional reporting aims to increase transparency in relation to SBM Offshore's cash flow generating capacity and to facilitate investor and analyst review and financial modeling. Furthermore, it also reflects how Management monitors and assesses financial performance of the Company. Directional reporting is reported as an integral component of the Company audited Consolidated Financial Statements under the section 4.3.2 Operating Segments and Directional Reporting. As such, Directional accounts are audited by the Company's external auditor.

### DIVIDEND POLICY & CAPITAL ALLOCATION

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 the underlying cash flow position and of 'Directional net income', where a target payout ratio of between 25% and 35% of 'Directional net income' will also be considered.

On May 4, 2018, SBM Offshore paid a cash dividend of US\$ 0.25 or EUR 0.2019 per share in relation to the 2017 results, 64% of underlying Directional net income, after adjustment for non-recurring exceptional items concerning compliance-related settlements.

In line 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, the Company proposes a dividend of US\$ 0.37 per share in respect of 2018, to be declared at the AGM on April 10, 2019. This represents a circa 50% increase per share compared to last year and represents a pay-out of circa 25% of Directional 2018 net result. The proposed ex-dividend date is April 12, 2019. The dividend is payable within 30 days following the AGM and will be calculated in US dollars, but payable in euros. The conversion into euros will be effected on the basis of the exchange rate on April 10, 2019. Given the Company's cash position, the dividend will be fully paid in cash.

The Company reviews its dividend policy on a regular basis. The Company plans to simplify the policy by focusing purely on cash flow and removing the additional reference to Directional net income in the policy. This results in the new policy 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 to the dividend policy will be presented for discussion at the AGM on April 10, 2019.

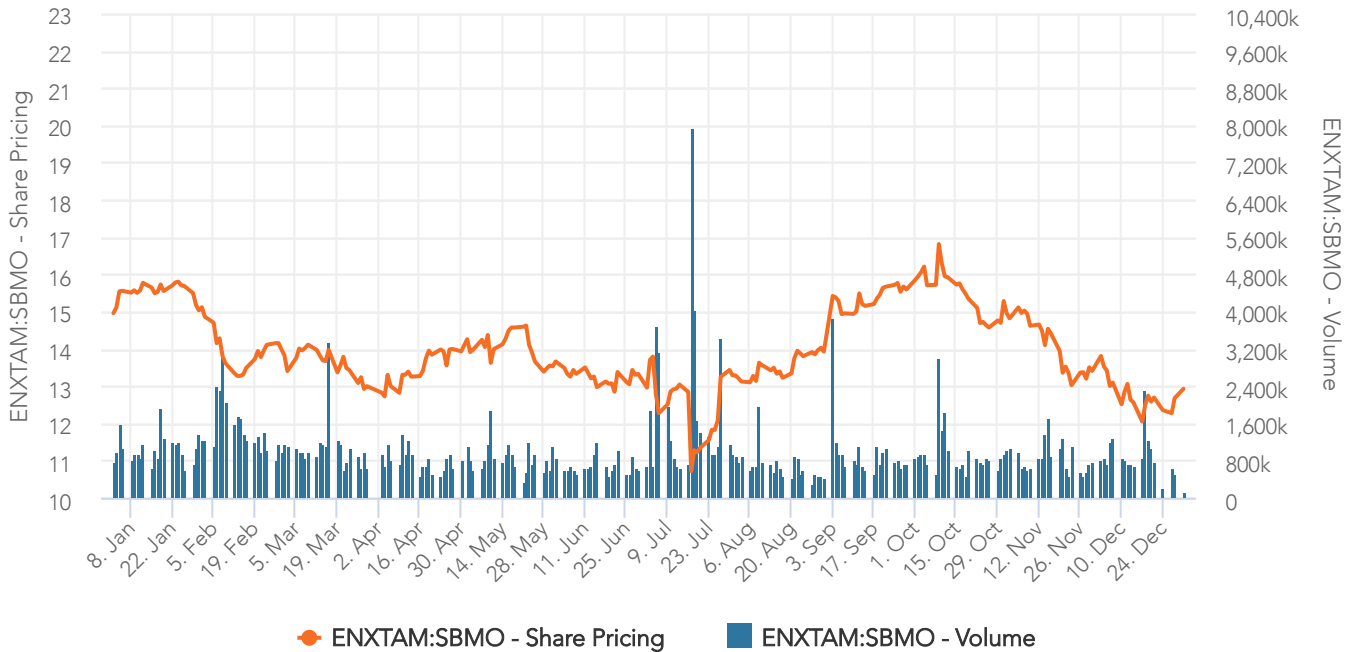
Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares, depending on residual financial capacity and cash flow outlook.

### 3 GOVERNANCE

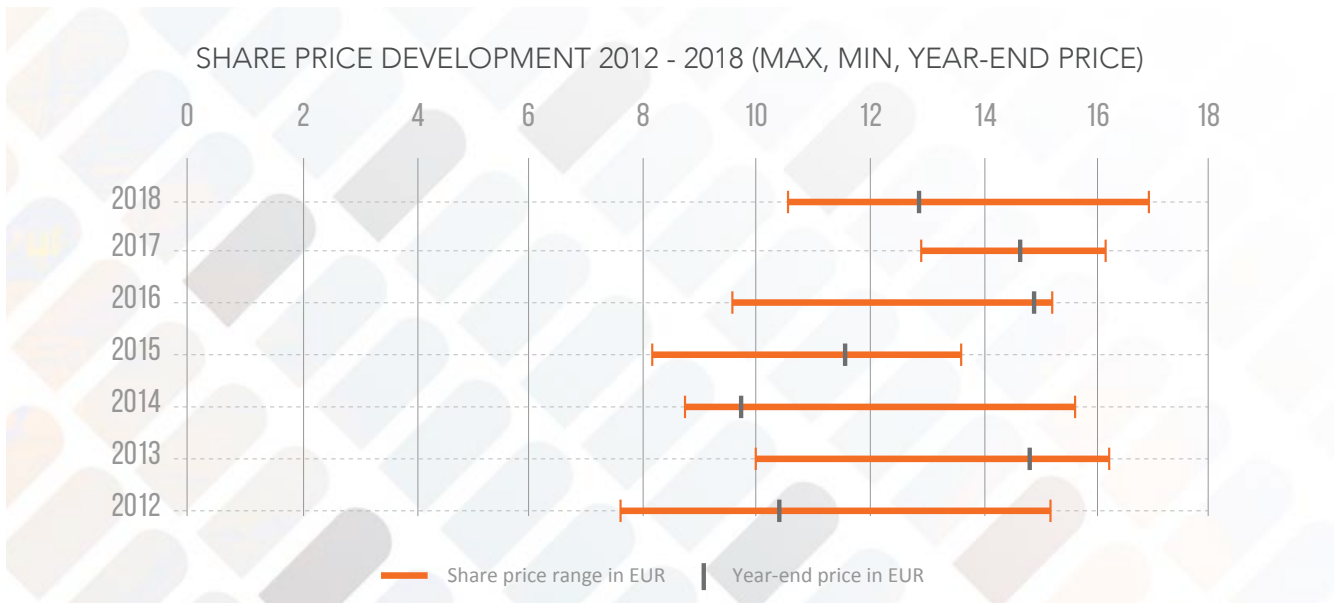
Having reviewed the current liquidity position and the resulting cash flow outlook, the Company has determined that it currently has the capacity to fund growth and repurchase shares for an amount of EUR

175 million (c. US\$ 200 million). For further details, reference is made to the separate press release on the matter on February 14, 2019.

Share price development in 2018



<b>Year-end price</b>	EUR 12.925	December 31, 2018
<b>Highest closing price</b>	EUR 16.81	October 9, 2018
<b>Lowest closing price</b>	EUR 10.715	July 17, 2018



For 2018 the press releases covering the key news items are listed below:

Date	Subject Press Release
16-01-18	Completion <i>Turritella</i> (FPSO) Handover and Transaction
08-02-18	2017 Full-Year Earnings
08-02-18	Roeland Baan and Bernard Bajolet Proposed as Members of the Supervisory Board
28-02-18	Annual General Meeting of Shareholders Announcement
11-04-18	Annual General Meeting of Shareholders – 2018 Resolutions
09-05-18	First Quarter Trading Update
03-07-18	Awarded Contracts for ExxonMobil's second Liza FPSO Based on Fast4Ward™ Program
05-07-18	Update on Legacy Issues in Brazil
26-07-18	Leniency Agreement Signed Between SBM Offshore, Brazilian Authorities and Petrobras
09-08-18	2018 Half-Year Earnings
01-09-18	Agreement Signed Between SBM Offshore and Brazilian Public Prosecutor
10-09-18	Final Settlement of Yme Insurance Claim
15-11-18	Third Quarter Trading Update
18-12-18	Brazilian Fifth Chamber Approved Agreement Between Brazilian Prosecutor and SBM Offshore

## MAJOR SHAREHOLDERS

As at December 31, 2018, the following investors holding ordinary shares had notified an interest of 3% or more of the Company's issued share capital to the Autoriteit Financiële Markten (AFM) (only notifications after July 1, 2013 are included):

Date	Investor	% of share capital
21 December 2018	FIL Limited	5.04%
15 November 2018	Invesco Limited	3.09%
9 May 2018	JO Hambro Capital Management Limited	4.92%
9 November 2015	Dimensional Fund	3.18%
18 November 2014	HAL Trust	15.01%

## INVESTOR RELATIONS

The Company maintains open and active engagement with its shareholders and aims to provide information to the market which is consistent, accurate and timely. Information is provided among other means through press releases, presentations, conference calls, investor conferences, meetings with investors and research analysts and the Company website. The website provides a constantly updated source of information about our core activities and latest developments. Press releases and presentations can be found there under the Investor Relations Center section.

## FINANCIAL CALENDAR

Event	Day	Year
Full-Year 2018 Earnings – Press Release	14 February	2019
Annual General Meeting of Shareholders	10 April	2019
Trading Update 1Q 2019 – Press Release	16 May	2019
Half-Year 2019 Earnings – Press Release	8 August	2019
Trading Update 3Q 2019 – Press Release	14 November	2019



JOHAN CASTBERG  
DUBAI





## 3.7 RISK MANAGEMENT

### 3.7.1 COMPANY APPETITE FOR RISKS

Based on the Company's activities and strategic pillars, Optimize, Transform and Innovate, the Company has identified the main risks associated with its activities and strategy. The Risk Appetite Statement 2018 describes the boundaries within which SBM Offshore is willing to take risks in pursuit of its strategic objectives. Both the Management and Supervisory Boards review the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities.

The underlying risk appetite metrics and boundary thresholds include sections on financial, strategic, operational and technological risks. The Management and Supervisory Board's Audit and Finance Committee reviews these every quarter.

The Company has two explicit 'zero tolerance' criteria:

#### 1. In relation to HSE and Process Safety Management:

SBM Offshore has zero tolerance for harm to people or for damage to its assets or the environment in the execution of its activities.

#### 2. In relation to Compliance:

SBM Offshore has zero tolerance for non-compliance with the SBM Offshore Code of Conduct, its anti-corruption policy and any related applicable laws and regulations. The Company will not work with business partners, contractors, vendors and clients:

- That are sanctioned from business by the World Bank and/or
- Whose decision makers/company executive leaders do not share the same (core) values and fundamental business principles as SBM Offshore and/or
- Which do not have an effective compliance governance and compliance program proportioned to its size/activities and in accordance with the FCPA guide.

The most significant elements of the Company's Risk Appetite Statement are:

- SBM Offshore has no appetite for excessive commercial risk taking in Turnkey, nor in its Lease

and Operate segment. Prospects within the acceptability range shall be subject to detailed risk analysis and an individual business case.

- SBM Offshore has limited appetite to engage with vendors which rate unsatisfactory as a result of detailed financial health checks
- SBM Offshore is cautious in managing risk in pursuit of any non-traditional FPSO-related commercial opportunities in the oil segment. Every proposal in this segment is subject to a detailed risk analysis and robust business case.
- SBM Offshore is cautious in managing risk related to pre-completion funding of its projects. The Company manages its financial risks in order to provide adequate shareholder returns whilst at the same time ensuring that it maintains sufficient liquidity to fund new investments to secure profitable growth.
- SBM Offshore is cautious in managing risk related to client counterparty.
- SBM Offshore is cautious in managing risk from operations, such as those related to its resource capacity to execute projects.
- SBM Offshore is cautious in managing risk related to adoption of new technologies.
- SBM Offshore is cautious in managing risk related to corporate acquisitions/investments.

### 3.7.2 DESIGN AND EFFECTIVENESS OF THE INTERNAL RISK MANAGEMENT AND CONTROL SYSTEM

#### MANAGEMENT APPROACH

The identification, assessment and management of risk are Management's responsibility and are carried out with the support of dedicated Risk Management resources integrated into the Company's main business pillars. Under the leadership of the Group Risk and Compliance Director (GRCD), the business risk and compliance officers bring the necessary skills in monitoring, challenging and advising the business on identifying and properly managing risks associated with businesses operations and core processes.

The Risk Assurance Committee (RAC), chaired by the GRCD reviews the most significant risks faced by the Company and the relevant control measures. The RAC meets regularly and includes the group directors of all assurance functions, such as HSSE, Quality assurance, Finance and Risk and Compliance as well as Internal Audit, representing the third line of

### 3 GOVERNANCE

defense. The RAC ensures an integrated risk management approach across the assurance functions. The primary duty of the Risk Management function is to ensure that risk factors are properly identified, evaluated and managed in order for the Company to achieve its strategic goals and objectives. The Risk Management function periodically assesses the effectiveness of SBM Offshore's risk management, control framework and the Risk Appetite Statement. At least once every year, the Risk framework's effectiveness is assessed and discussed with the Supervisory Board.

Every quarter a risk report is drawn up by the Risk Management function that contains information on the most significant risks and incidents. These reports are discussed with the Management Board, the Audit and Finance Committee and the entire Supervisory Board, whereby the Risk Appetite Statement is taken into account. The reports are built on information from the Company's risk registers maintained by the Company business pillars, interviews with key stakeholders and information from the Company's Integrity Line. Reported risks and incidents seldom come as a surprise to Management as the GRCD monitors those on a daily basis and severe and urgent matters are brought to the attention of the Group Governance and Compliance Officer and the full Management Board immediately if the situation so warrants.

#### 2018 PERFORMANCE

SBM Offshore applied various measures, amongst which:

- Quarterly Management Operational Review meetings of the Management Board with senior business leadership on financial performance and realization of operational objectives and responses to emerging issues;
- Quarterly financial reporting to the Management Board and Senior Management;
- Letters of representation signed by key Senior Management members on a quarterly basis in which they confirm that for their responsible area, the financial reports fairly present the position and results of the Company;
- Internal Control Over Financial Reporting (ICOFR) assessed by reference to an internationally recognized framework, within which the risk bearing financial processes are identified and the associated risks and controls are listed in the

ICOFR Risk and Control matrices. A periodic review of the matrices is performed to assess the effectiveness of the risk coverage amongst different geographical locations including a first level review by the Finance function and a second level review performed by Internal Audit;

- Internal Control Over Systems & IT (ICOSIT) – the IT function together with Group Internal Audit review the effectiveness of Control Matrices based on the international Control Objectives for Information & related Technology (COBIT) framework;
- Discussions on management letters and audit reports provided by the Company's internal and external auditors during SBM Offshore Management Board, Audit and Finance Committee and Supervisory Board meetings;
- The Risk and Compliance function facilitates a quarterly review by business pillar leadership and the RAC of the most significant risks and provides a consolidated quarterly risk report to the Management Board and the Audit and Finance Committee and the Supervisory Board.

#### Key Achievements

Strengthening risk management by:

- Further expanding the integrated Risk Management and Compliance function to ensure cross-Company consistency.
- The delivery of an integrated risk report from the RAC to the Management Board on a quarterly basis.
- The Company's Risk Appetite Statement was reviewed and updated during 2018 in agreement with the Management Board and Supervisory Board.

#### FUTURE

- Continue to enhance the quality and practical impact of the risk and control framework via increased efficiency of risk and control reporting.
- Continue to strengthen risk culture and associated behaviors via communication campaigns and training.

### 3.7.3 SIGNIFICANT RISKS FACING THE BUSINESS

The Offshore Energy industry and the execution of the Company's strategy expose SBM Offshore to a

number of business risks. The table below summarizes identified significant risks and the Company's response to them.

RISK	DEFINITION	RESPONSE MEASURES
<b>Business Risks</b>		
Crude oil price dependency of Turnkey business	Whilst the oil price has begun to recover steadily since 2017 onwards and signals of a turnaround of the industry are positive, dependency on the oil price remains an inherent Company risk. The Company continues to be mindful of this dependency over the long-term, where a negative development with delays or cancellations of planned investments could lead to a severe effect on SBM Offshore's new order intake.	Although SBM Offshore's business model allows for a stable cash flow from the Lease and Operate segment, cost optimization and de-risking remains a priority for the Company in order to offer highly competitive solutions to our clients. To drive better performance and faster, the Company is undertaking multiple initiatives in relation to digitalization and standardization, which are the basis for the Company's Fast4Ward™ principle-based approach, along with early engagement with clients and partnering in the supply chain combined with flawless execution.
<b>Strategic Risks</b>		
Energy transition	There is a requirement to have a strategy to address the potential impacts of the energy transition. The Company may lose its competitiveness if it does not succeed in (i) development of concrete and competitive technologies to enhance its product portfolio and (ii) enhance energy efficiency of its existing offerings.	SBM Offshore regularly updates its strategy in light of the evolution of the energy landscape. It is gradually diversifying its product portfolio through investments in R&D and innovation. Under separate Renewables and Floating Gas Solutions Product Lines, the Company is developing strategic execution models.
<b>Strategic Risks</b>		
Technological Developments	SBM Offshore is committed to pioneering new technologies including digitalization and maintaining a high level of technical expertise. Main risks include the possibility of employing immature new technologies and the risk of implementing proven technologies incorrectly causing potential damage to Company's business results and reputation.	SBM Offshore employs a rigorous Technology Readiness Level (TRL) assessment of new technologies, which are verified and controlled at several stages of their development phase by senior technical experts, before being adopted within projects. Furthermore, a strong technical assurance function ensures compliance with internal and external technical standards, regulations and guidelines.
<b>Strategic Risks</b>		
Different industry business models	Clients are exploring different business models that could influence the long-term validity of the operations business model as pursued by the Company today. This presents opportunities (different pricing models) as well as risks.	SBM Offshore is pro-actively engaging with its clients to develop value propositions for the traditional as well as newer business models and carefully monitors market trends.
<b>Strategic Risks</b>		
Portfolio / Client Risks	While the Company's project portfolio in 2018 is becoming more balanced, the Company's backlog has a limited geographical distribution. There is a particular concentration of business activities in Brazil and to a much lesser extent Angola. SBM Offshore thus has portfolio risks that may increase the impact of changes in local legislative and business environments, potentially affecting the Company's business results. In addition, such potential changes, among others, might negatively affect the Company's potential to acquire new business, as was seen in Brazil over the recent years.  The Company also recognizes its dependence on a limited number of current and potential clients as well as project execution challenges in new markets.	SBM Offshore aims to reach a more balanced regional portfolio, achievable by diversifying into new markets and products (Gas and Renewables - see above under 'Energy transition').  SBM Offshore values all existing clients and endeavors to continuously provide them with units that have high up time and operational efficiency. Understanding client requirements and expectations form an essential component of the Company's client relationship management. In addition, the Company conducts risk assessments for new country entries. The Company actively engages with its clients to monitor and mitigate the respective country related regulatory, commercial and technical risks.

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RISK	DEFINITION	RESPONSE MEASURES
<b>Operational Risks</b>		
Risks related to incidents involving strategic assets	SBM Offshore operates a large fleet of FPSOs worldwide for many clients. Given the long duration of Lease and Operate contracts, several factors such as HSSE incidents or accidents may have immediate and/or long-term effects on the operation of the assets and their capability to perform according to the design criteria, negatively affecting the Company's business results and financial condition.	The Company devotes considerable resources to ensure the fleet is performing safely and to high quality standards. Control and maintenance of all equipment are vital to daily activities on board, particularly for safety critical elements. Fleet performance is continuously monitored and feedback to the technology team helps to mitigate risk and ensure inherent safety at the design stage. Ongoing advances are incorporated into upgrades onboard, further enhancing safety. Specialist teams are in place in the event of any process safety incidents.
<b>Operational Risks</b>		
Project execution risks	Inherent Turnkey project execution risks require continuous oversight and control. This inherent risk exists due to a combination of geopolitical country(s) risk, challenging/immature regulatory environment, technical risk (such as related to technical specifications and harsh environments), asset integrity risks and third party management risks leading to potential negative impact on people, reputation, cost, schedule and environment.	Managing Turnkey project execution risk is part of SBM Offshore's DNA and embedded in SBM Offshore's core business processes and ways of working. Proper business case analysis, suitable Turnkey project management capabilities and capacities combined with SBM Offshore's professional ways of working, processes and procedures mitigate project execution risk. Additional risk mitigating measures are in place related to knowledge and understanding of the countries of Turnkey project execution and delivery. Technology and Business Readiness Level (TRL/BRL) mitigate specific technical development related execution risks.
<b>Operational Risks</b>		
Access to capital	<p>Access to multiple sources of debt and equity funding is necessary in order to entertain a sustainable growth of SBM Offshore's leased FPSO fleet and other Product Lines.</p> <p>Failure to obtain such financing could hamper growth for the Company and ultimately prevent it from taking on new projects that could adversely affect the Company's business results and financial condition.</p>	The Company maintains an adequate capital structure and cash at hand. The Company has access to a Revolving Credit Facility (RCF) and both the cash and the RCF can be used to finance investments in new projects. From a long-term perspective, adequate access to debt and equity funding is secured through selling equity to third parties and use of long-term project financing for each Lease and Operate contract. Debt funding is sourced from multiple markets such as international project finance banks, US Private Placement Investors (USPP) and Export Credit Agencies.
<b>Operational Risks</b>		
Covenants	Financial covenants need to be met with the Company's RCF lenders. Failure to maintain financial covenants may adversely affect the Company's ability to finance its activities.	The Revolving Credit Facility (RCF) contains a set of financial covenants. The Company aims to have sufficient headroom in relation to the financial ratios. The covenants are monitored continuously, with a short-term and a long-term horizon.
<b>Operational Risks</b>		
Cyber Security Risks and data protection	In order to carry out its activities, SBM Offshore relies on information and data, much of which is confidential or proprietary, that is stored and processed in electronic format. Potential intrusion into the Company's data systems hosted on servers and offshore equipment may affect office activities and offshore operations. Secondary risks include theft of proprietary and confidential information, with potential loss of competitiveness and business interruption.	Given the evolving nature of cyber security threats, this requires continuous focus. There is a dedicated ongoing improvement campaign, sponsored by a senior steering committee, in order to reduce the risk profile through investments in hardware, software and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognized standards is periodically subject to independent testing and audits.

RISK	DEFINITION	RESPONSE MEASURES
<b>Operational Risks</b>		
Human Capital	<p>The Company aims to maintain the resources in terms of capacity as well as capability to support its anticipated increased project activity levels as well as the ongoing operational fleet. Failure to attract and retain the right level of competences could ultimately have an adverse impact on the Company's operations and contractual relationships with clients.</p> <p>The Company also recognizes the reliance upon its supply chain and strategic contractors such as yards and the risk that inadequate capability and capacity could represent.</p>	<p>A talent-retention program is in place in order to specifically retain key personnel. This is particularly important in specialized areas such as design innovation in order to maintain our technology leadership position. The Company fosters an environment that holds leaders at all levels accountable for their projects' commercial success and rewards results.</p> <p>SBM Offshore continuously monitors the availability of adequate resources across the supply chain and contractors. The Company also assesses supplier and contractor capability and financial strength as part of the selection process when tendering sub-contract work.</p>
<b>Compliance Risks</b>		
Changes in applicable Laws and Regulations	<p>SBM Offshore's activities are carried out in compliance with Laws and Regulations valid in the relevant territory, including international protocols or conventions, which apply to the specific segment of operation. Changes to such regulatory frameworks, including changes in enforcement strategies by local regulators if not properly identified and implemented may expose the Company to fines, sanctions or penalties. Moreover, changes to the applicable 'local content' requirements may expose the Company to additional costs or delays and affect the proposed execution methods for projects.</p>	<p>Rigorous, continuous monitoring of applicable laws and regulations is constantly carried out by relevant functions within SBM Offshore and substantive changes are brought to the attention of Management. Compliance is enforced across all the various operating segments within the Company.</p>
<b>Compliance Risks</b>		
Failures of governance, transparency and integrity	<p>Integrity failure could severely harm the Company's reputation, finances and business results. It is of utmost importance across the Company's Management that such events shall be prevented. Previous failures to live up to the values before 2012 have led to financial penalties being imposed on the Company in the past in the Netherlands and last year by authorities (DoJ) in the USA. This year the Company entered into settlements (the Leniency Agreement and the Agreement with the Brazilian Federal Prosecutor's Office) with the Brazilian authorities.</p>	<p>The Company's Compliance Program provides policy, training, guidance and risk-based oversight and control on compliance risk, that [seek to] ensure ethical decision-making. The Company's Core Values and Code of Conduct guide employees and business partners on compliant behaviors in line with the Company's principles. For further details, see section 3.8 Compliance.</p>
<b>Compliance Risks</b>		
Change in Tax Laws	<p>Tax Regulations applicable in jurisdictions of operation may change resulting in an increase in the effective tax burden, which could adversely affect the Company's business, results and financial condition.</p> <p>Additionally, public perception of the ways that corporations manage their tax affairs continues to evolve with potential adverse impacts on the Company's reputation.</p>	<p>With the exception of some short-term contracts, all contracts entered into by the Company include some provisions to protect the Company against an increase in tax burden resulting from changes in tax regulations, or the interpretation thereof.</p> <p>The Company's approach to changes in tax regulations is that they should not result in a gain or a loss for the Company. As such, the Company aims at achieving a stable tax burden over the life of contracts and cooperates closely with clients' tax teams to this end.</p> <p>SBM Offshore values public perception, good relationships with tax authorities and is committed to act as a responsible stakeholder, in order to ensure that the Company's tax policy is in line with the expectations of society.</p>

## 3 GOVERNANCE

### 3.8 COMPLIANCE

#### MANAGEMENT APPROACH

SBM Offshore's reputation and license to operate depends on responsible business conduct. SBM Offshore is committed to complying with all applicable laws and regulations. SBM Offshore does not tolerate bribery, corruption, fraud, violations of trade sanctions, anti-money laundering or anti-competition laws, or any other illegal or unethical conduct in any form by anyone working for or on behalf of the Company. All employees and those working for or on behalf of SBM Offshore must embrace and act in accordance with the core values

of the Company (see section 1.3), the Code of Conduct and the Company's internal policies and procedures. SBM Offshore fosters a culture of trust and fairness where dilemmas are openly addressed enabling employees to make the right decisions, with commitment to integrity at all levels. This commitment is one of the foundations of the Company's license to operate and license to grow in support of SBM Offshore's vision. Building on the accomplishments of recent years, the Company will strive for continuous improvement in embedding compliance as an integral part of its business processes.



#### Governance

The Group Compliance function is, on behalf of the Management Board, responsible for ensuring that the entire SBM Offshore organization operates within its clearly defined Compliance Program. The Group Compliance function has a leadership role in proactively advising the Management Board and Management on acting in a compliant manner, both from a strategic and an operational perspective. An important part of its role includes the focus on the prevention of misconduct.

#### Governance Management

The Company's Management Board has overall accountability and the Chief Governance and Compliance Officer (CGCO) has the overall responsibility for compliance, risk and legal matters. Reporting to the CGCO, the Group Risk and Compliance Director (GRCD) leads the Compliance Program, drives its execution and regularly reports on its operating effectiveness to the Management Board and the Audit and Finance Committee of the

Supervisory Board, while also reporting on the Company's key compliance risks and incidents. The GRCD is chair of the Company's Validation Committee for the review and approval of third parties before engaging in a business relationship. Furthermore, the GRCD chairs the Company's Risk Assurance Committee, ensuring an integrated approach to risk management. The integrated Risk and Compliance department comprises a global team of fourteen Risk and/or Compliance professionals, reporting directly to the GRCD, located within the Company's worldwide locations and at corporate headquarters. Business leadership has accountability and responsibility to manage compliance and integrity risks within their fields of management control.

#### STRATEGY

SBM Offshore's Compliance Program aims to guide the Company's Management and employees in applying their moral compass as well as strengthening the management control system.

SBM Offshore has integrated the Compliance Program into its organizational structure and is promoting a culture of integrity and compliance in the day-to-day way of working of all employees. SBM Offshore maintains an effective compliance risk management and control system, which includes monitoring and reporting and upholds the Company's zero tolerance for bribery, corruption, fraud or any other form of misconduct. The Company maintains a global management control framework, while the Company's Management is responsible for embedding compliance in day-to-day business practice.

**The Compliance Program is built on three pillars:**

- Compliance governance and organization
- Hard and soft controls<sup>21</sup>
- Organizational culture and employee behavior



<sup>21</sup> Hard controls are the explicit, tangible controls that guide employee behavior through defined policies and procedures while on the other hand, soft controls are intangible factors that influence the behavior of employees and ensure compliance with procedures such as openness, discussability and enforcement. Soft controls can be strengthened by for instance, training, improving the speak-up culture and facilitating the discussion of ethical dilemmas.

**Key elements of the Compliance Program**

- Commitment of the Management Board and the Supervisory Board
- Responsibility and accountability for compliance implementation and management residing in line management and ultimately with the Management Board
- Oversight and autonomy of the GRCD and adequate, qualified resources in the department
- Company Code of Conduct and Compliance policies and procedures
- Regular communication, training and continued guidance and advice
- Regular monitoring of compliance risks, mitigating measures and risk-based controls as well as incident and action reporting
- A thorough third party management process, including an internal Validation Committee which reviews the due diligence outcome on high-risk third parties prior to engagement
- Independent verification (e.g. compliance audits)
- Compliance-related internal financial controls, following ICOFR principles
- Confidential reporting procedures, including an Integrity Line and internal investigations
- Annual compliance statements from employees in middle and senior management positions



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#### NOTABLE DEVELOPMENTS AND ACHIEVEMENTS IN 2018

<p><b>Updated Code of Conduct:</b> Development, communication and Company-wide deployment of an updated Code of Conduct entitled 'Building Trust'</p>	<p><b>Two-day Compliance Leadership Program:</b> Development and implementation of a two-day Compliance Leadership Program titled 'From rules to mindset' for Company senior leadership; Program held in April, July and October, aimed at Executive Committee members, top 50 business leaders and group function directors</p>	<p><b>New face-to-face training program for employees 'From rules to mindset':</b> Accompanying the updated Code of Conduct development and deployment of new face-to-face training program entitled 'From rules to mindset' aimed at promoting speaking up and openly discussing compliance-related matters</p>
<p><b>New e-learning:</b> Launch of new e-learning program on the Code of Conduct for all employees onshore and offshore leadership</p>	<p><b>Risk &amp; Compliance Charter:</b> Development and deployment of a Risk &amp; Compliance Charter for US-based group entities</p>	<p><b>Strengthening staffing Risk &amp; Compliance function:</b> Further to the organizational changes. Aligned R&amp;C function staffing to match the developments in the Product Lines</p>
<p><b>Compliance country risk assessment:</b> Compliance China strategy plan developed and deployed</p>	<p><b>GDPR deployment:</b> Initial GDPR project completed and continuous improvement effort undertaken to enhance maturity of the implementation. The Corporate Privacy Officer has been appointed.</p>	<p><b>Strengthening risk reviews:</b> Optimization of tender and project risk review process as joint effort with GEMS, Project Controls and Cost Control functions</p>
<p><b>Enhanced compliance third party monitoring:</b> Enhanced compliance monitoring and audit plan deployed combined with acquisition of a supporting tool GAN to optimize data analytics on third-party information and continuous monitoring</p>	<p><b>Embedding the Annual Risk Appetite:</b> Annual Risk Appetite, including compliance consideration now embedded in the Corporate Guidance for strategic planning purposes, further contributing to integrating compliance mindset in day-to-day business decision-making on compliance</p>	<p><b>Legacy Issues. For information on the Company's Legacy Issues see sections 1.1, 2.4, 4.1, 4.3.1, 4.3.5, 4.3.26, 4.3.27, 4.3.28 and 5.2.5.</b></p>

#### How SBM Offshore measures performance

- As part of performance management processes, the Company sets, monitors and reports on compliance KPIs for its Business Pillars, Product Lines and Operations
- Compliance training hours and completion ratios by employee target group
- Employee feedback surveys after each face-to-face training
- Annual Code of Conduct certification by staff in leadership positions
- Use of a Company-wide tool to approve, register and monitor giving and receiving of gifts, hospitality and entertainment
- Use of a Company-wide tool for continuous risk identification, assessment, registration and reporting
- Registration, review and monitoring of integrity reports through a Company-wide Compliance Case Management System
- Integrated quarterly Group Risk and Compliance reports to the Management Board and the Audit and Finance Committee of the Supervisory Board

expanded the training program. The number of Ethics and Compliance training hours for direct hires has increased from 2,397 hours in 2017 to 5,780 hours in 2018.

#### ANNUAL COMPLIANCE STATEMENTS AND TRAININGS OF DESIGNATED STAFF

Number of employees in Designated Staff <sup>1</sup> per year-end	886
Onshore completion ratio	99%
Offshore completion ratio	42%

<sup>1</sup> Designated Staff reflects all employees in Hay grade 11 or above.

#### COMPLIANCE TRAININGS TO DESIGNATED STAFF

Number of employees in Designated Staff <sup>1</sup> per year-end	2,711
Onshore Completion ratio	90%
Offshore Completion ratio	55%

<sup>1</sup> Designated staff reflects all Onshore staff and Offshore Leadership. Offshore Leadership represents <5% of designated staff.

#### Metrics

Following continuous improvement, this year's results have exceeded the Company's initial target. Compared to 2017, SBM Offshore has further



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**OVERALL NUMBER OF COMPLIANCE TRAININGS CONDUCTED IN 2018 WORLDWIDE:**

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Face-to-face trainings <sup>1</sup>	1,534
e-Learnings	3,858

Face to face training hours	3,490
e-Learning hours	2,785

<sup>1</sup> The number represents the overall number of compliance face-to-face trainings. Certain SBM Offshore employees have participated in multiple trainings.

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**INTEGRITY LINE REPORTS:**

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Integrity Line reports received under the Company's Integrity reporting policy	58
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The Company is promoting a Speak Up culture. The nature of the Integrity Line reports over 2018 was predominantly workplace related.

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The objectives for 2018 are to continuously strengthen compliance management and control, focusing on the importance of the right behavior and enhancing efficiencies in the management process.

### 3.9 COMPANY TAX POLICY

SBM Offshore's tax policy is summarized as follows:

- The Company aims to be a good corporate citizen in the countries where it operates, by complying with the law and by contributing to the countries' progress and prosperity through employment, training and development, local spending, and through payment of the various taxes it is subject to, including wage tax, personal income tax, withholding tax, sales tax and other state and national taxes as appropriate
- The Company aims to be tax efficient in order to be cost competitive, whilst fully complying with local and international tax laws

The Company operates in a global context, with competitors, clients, suppliers and a workforce based around the world. A typical FPSO project sees a hull conversion in Asia, topsides construction in Asia, Africa or South America, engineering in Europe, Asia or the USA and large scale procurement from dozens of companies in many countries across the globe. In each of these countries the Company complies with local regulations and pays direct and indirect taxes on local value added, labor and profits and in some cases pays a revenue based tax. To coordinate the international nature of its operations and its value

flows and to consolidate its global activities, in 1969 the Company created Single Buoy Moorings Inc, which continues to perform this function today from its offices in Marly, Switzerland.

The Company:

- Complies with the OECD transfer pricing guidelines
- The Company supports the OECD's commitment to enhance tax transparency and is committed to be in full compliance with applicable laws in countries where it operates. Consistent with this approach, the Company supports the initiatives on base erosion and profit shifting, including but not limited to the recent European Union Anti-Avoidance directives. The Company is required to file detailed reports and transfer pricing documentation in accordance with BEPS' action 13 as is now implemented in Dutch tax law. The disclosures contained in the country-by-country reporting (CbCR) have been prepared to meet the OECD requirements and have been filed with the Dutch tax authorities for the year 2017.
- Makes use of the availability of international tax treaties to avoid double taxation
- Does not use intellectual property as a means to shift profits, nor does it use digital sales. Furthermore, the Company does not apply aggressive intra-company financing structures such as hybrids. The Company treats tax as a cost, which needs to be managed and optimized in order to compete effectively in the global competitive arena. In 2018, the Company reported a current corporate income tax charge of US\$ 19.9 million under IFRS (compared to US\$ 16.6 million in 2017). Due to the large losses incurred on the legacy projects and the current industry downturn, some tax loss carry forward positions exist at the global contracting company, which are limiting the current tax payments in Switzerland and in jurisdictions of the Company's locations.

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### 3.10 OPERATIONAL GOVERNANCE

Operational Governance of the Company is supported by an independent and dedicated team under Group Execution Functions, which encompasses key operational and assurance functions involved in SBM Offshore's core business activities.

Such functions have a key role in ensuring a coordinated, consistent and controlled approach to core business over the Full Life Cycle i.e. Win, Execute and Operate phases, and across the Company's locations, Fleet Operations and Product Lines. Notably through:

- Functional leadership within the corresponding communities (distributed across entities) and vis-à-vis other functions;
- Ownership and governance of processes and systems, developed in response to known and anticipated risks in line with the strategic direction of the Company;
- Maintenance of a Global Enterprise Management System (GEMS) as introduced in section 3.10.1 ;
- Implementation of continuous improvement initiatives as introduced in section 2.7 led by a dedicated team;
- Improvement of reporting systems and setting key indicators to ensure effective oversight and performance monitoring;
- Coordination and harmonization of the Company's ways of working;
- Specific focus on the product lifecycle, notably based on a cross-functional gate process and internal arbitration if necessary;
- Coordinated assurance activities focusing on risk management, compliance, effectiveness and business performance;
- Coordinated assurance activities focusing on product conformity vis-à-vis applicable international and local Regulations, Rules, Technical Standards and other applicable requirements as introduced in section 2.8 ;
- Involvement of independent 3<sup>rd</sup> Parties as Certification, Verification or Classification Bodies.

A detailed Certification & Classification Table is provided in section 5.5, mapping compliance with International Certification Standards and Classification Rules.

### 3.10.1 GROUP ENTERPRISE MANAGEMENT SYSTEMS (GEMS)

SBM Offshore operates under a Global Enterprise Management System (GEMS), which is structured around three main process domains known as executive processes, core processes and support processes, with the core processes further modelled into the Win, Execute and Operate phases and is represented as shown in the illustration.

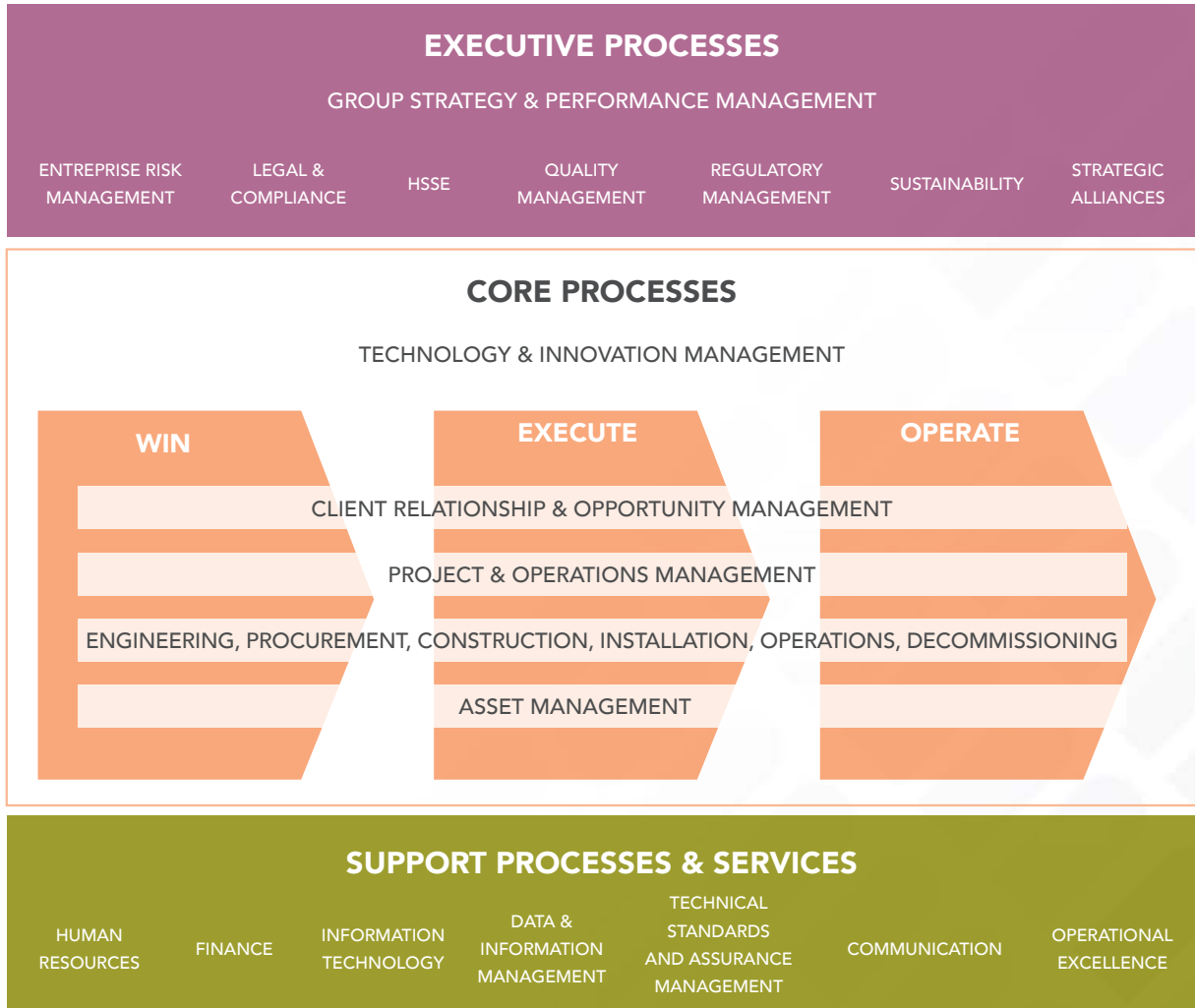
Group values (section 1.3 ) and policies are embedded to support the correct governance of SBM Offshore's organization and business activities. These form the foundation of GEMS and its processes, which are consistently applied throughout all regional centers and fleet operations (in-country offices and vessels).

GEMS allow an integrated end-to-end approach to all the business activities of SBM Offshore and of the joint venture operating companies, with clear and formal ownership of key processes and clear identification of key controls. It provides a cohesive framework for quality and regulatory compliance, health and safety, security of personnel and assets, protection of the environment as well as risk and opportunity management throughout the product lifecycle, ensuring the Company's sustainability.

GEMS can be accessed in its entirety via SBM Offshore's online intranet portal which ensures easy access by all employees. In order to support the identity and scope of our joint venture operating companies, dedicated web portals have also been set up with access to applicable information from the central GEMS database.



## GEMS ON A PAGE



## MANAGEMENT SYSTEM HIERARCHY



\*A swimlane, also referred to as a Process Diagram, is a cross-functional diagram that displays all the steps included in an Organizational Process

## 3 GOVERNANCE

### 3.11 IN CONTROL STATEMENT

The Management Board is responsible for establishing and maintaining adequate internal risk management and control systems. The implementation of the internal risk management and control framework at SBM Offshore focuses on managing both financial risks and operational risks as described in section 3.7 Risk Management of the Management report. As a key part of its scope, the Risk Management function is responsible for the design, monitoring and reporting on the internal control framework.

During 2018, various aspects of risk management were discussed by the Management Board, including the consolidated quarterly risk Report and the result of the yearly testing Internal Control Over Financial Reporting (ICOFR) campaign. The responsibilities concerning risk management, as well as the lines of defense, were also discussed with Senior Management of the Company. In addition, the result of the yearly testing campaign of controls covering financial reporting risks has been reviewed with the Audit and Finance Committee and Supervisory Board. This testing campaign did not highlight any major control deficiency and concluded to a stable level of conformity rate around the organization.

In line with the adoption of the Dutch Corporate Governance Code, SBM Offshore prepared the *In Control Statement* 2018 in accordance with the best practice provision 1.4.3. of the Dutch Corporate Governance Code. With due consideration to the above, the Company believes that its internal risk management and control systems provide reasonable assurance that the financial reporting does not contain any errors of material importance and that the internal risk management and control systems relating to financial reporting risks worked properly in 2018. Based on the current state of affairs, the Management Board states that it is justified that the financial reporting is prepared on a going concern basis and those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report have been included in the Management Report.

However, the Company cannot provide certainty that its business and financial strategic objectives will be

realized or that its approach to internal control over financial reporting can prevent or detect all misstatements, errors, fraud or violation of law or regulations. Financial reporting over 2018 was based upon the best operational information available throughout the year and the Company makes a conscious effort at all times to weigh the potential impact of risk and the cost of control in a balanced manner.

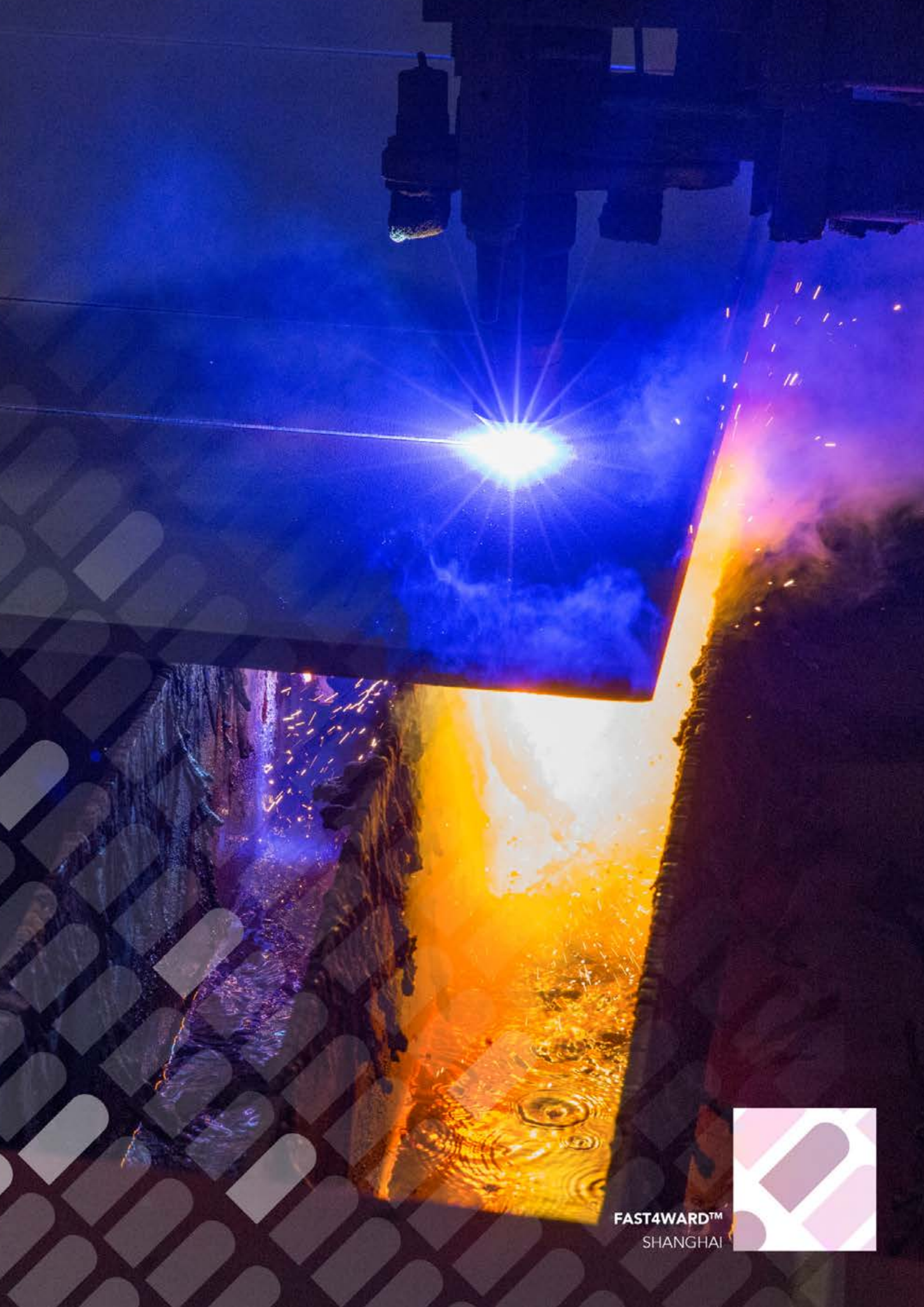
With reference to section 5.25c paragraph 2, sub c of the Financial Markets Supervision Act (*Wet op het financieel toezicht*), the Management Board states that, to the best of its knowledge:

- The financial statements for 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of SBM Offshore and its consolidated companies.
- The Management Report gives a true and fair view of the position as per December 31, 2018 and that SBM Offshore's development during 2018 and that of its affiliated companies is included in the financial statements, together with a description of the principal risks facing SBM Offshore.

Schiphol, the Netherlands  
February 13, 2019

#### Management Board

Bruno Chabas, CEO  
Philippe Barril, COO  
Erik Lagendijk, CGCO  
Douglas Wood, CFO



FAST4WARD™  
SHANGHAI





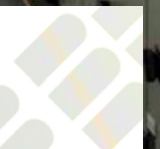
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FINANCIAL STATEMENTS  
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### 4.1 FINANCIAL REVIEW

#### 4.1.1 FINANCIAL OVERVIEW

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

#### 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.

## 4 FINANCIAL STATEMENTS 2018

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

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

### Impairment of the Brazilian yard

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

### 4.1.3 FINANCIAL REVIEW DIRECTIONAL

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

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

### UNDERLYING PERFORMANCE

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

- US\$ 211 million impact on EBITDA relating to (i) the realized gain on the sale of *Turritella* (FPSO) (US\$ 217 million), (ii) the Yme project estimated net insurance claim income (US\$ 37 million, net of claim-related costs incurred and accounted for in 2018) and (iii) the additional fine payable following the signature of the agreement with the Brazilian Federal Prosecutor's Office (Ministerio Publico Federal – 'MPF') (US\$ (43) million).
- A net impairment impact of US\$ (11) million comprising i) an impairment in full of the goodwill related to the acquisition of the Houston-based subsidiaries (US\$ (25) million), ii) an impairment in full of the net investment in the BRASA yard (US\$ (19) million), largely offset by partial reversals of impairments on iii) PP&E (US\$ 11 million) and iv) a loan to one of Angolan joint ventures (US\$ 21 million).
- US\$ (13) million impact on net financing costs, relating to the unwinding of the discount on the liability for the signed Leniency Agreement with Brazilian authorities and Petrobras.

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<sup>1</sup> (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).

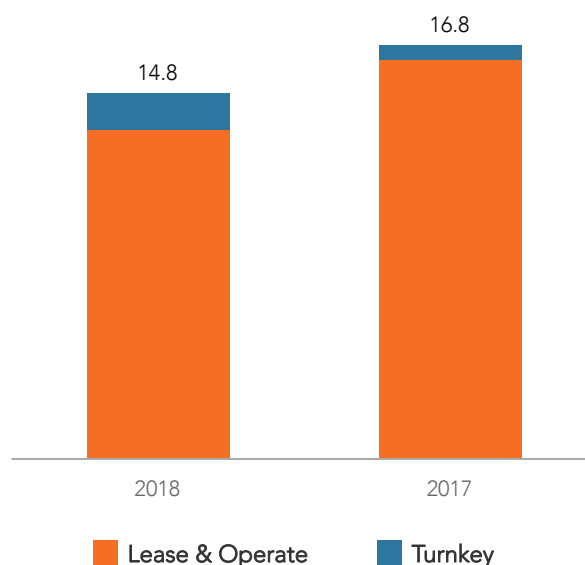
<sup>1</sup> Diving Support and Construction Vessel (DSCV) - one of the two units in SBM Offshore's installation fleet

## 4 FINANCIAL STATEMENTS 2018

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
<b>Total Backlog</b>	<b>1.4</b>	<b>13.4</b>	<b>14.8</b>

Pro-forma Backlog (in billions of US\$)

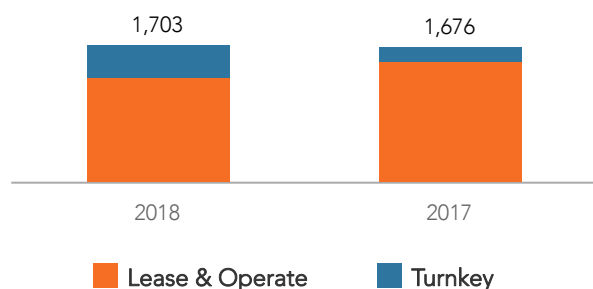


### PROFITABILITY

#### 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\$)



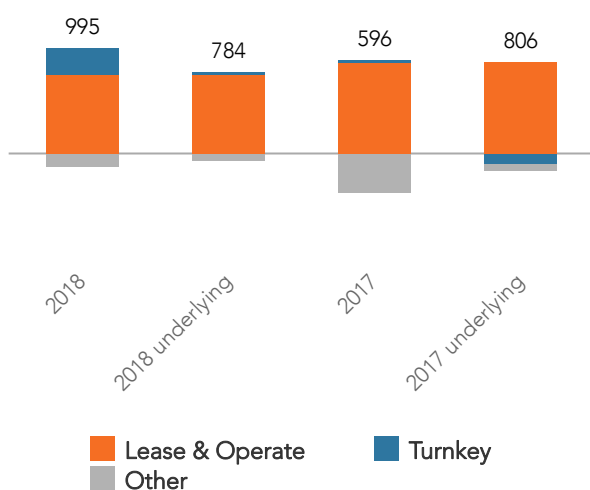
Directional Turnkey revenue increased to US\$ 406 million, representing 24% of total 2018 revenue. This compares with US\$ 175 million, or 10% of total revenue, in 2017. The increase was mostly attributable to the full-year contribution of the *Johan Castberg* Turret Mooring System EPC project, awarded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

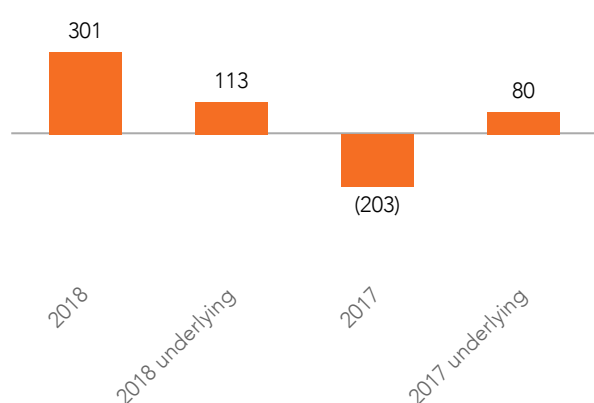
Following the early adoption of IFRS 16 as per January 1, 2018, lease payments that were previously presented as rental cost are now presented as depreciation and finance cost. This change in classification had a positive impact on the Company's reported Directional EBITDA of approximately US\$ 30 million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

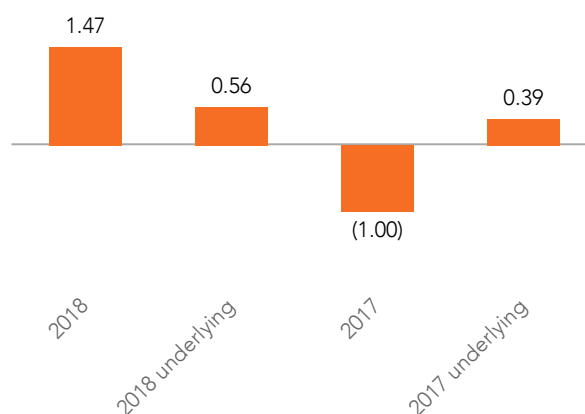
## 4 FINANCIAL STATEMENTS 2018

### 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 <sup>1</sup>	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

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

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

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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

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

#### 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 <sup>1</sup>	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

<sup>1</sup> 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.

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### 4.2 CONSOLIDATED FINANCIAL STATEMENTS

#### 4.2.1 CONSOLIDATED INCOME STATEMENT

in millions of US\$	Notes	2018	2017 <sup>1</sup>
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
<b>Total revenue</b>		<b>2,240</b>	<b>1,861</b>
Cost of sales	4.3.5	(1,437)	(1,063)
<b>Gross margin</b>	<b>4.3.2</b>	<b>802</b>	<b>798</b>
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)
<b>Operating profit/(loss) (EBIT)</b>	<b>4.3.2</b>	<b>603</b>	<b>358</b>
Financial income	4.3.9	46	27
Financial expenses	4.3.9	(279)	(358)
<b>Net financing costs</b>		<b>(233)</b>	<b>(331)</b>
Share of profit/(loss) of equity-accounted investees	4.3.31	13	(2)
<b>Profit/(loss) before tax</b>		<b>384</b>	<b>25</b>
Income tax expense	4.3.10	(40)	(26)
<b>Profit/(loss)</b>		<b>344</b>	<b>(1)</b>
Attributable to shareholders of the parent company		212	(155)
Attributable to non-controlling interests	4.3.32	132	154
<b>Profit/(loss)</b>		<b>344</b>	<b>(1)</b>

<sup>1</sup> 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
<b>Profit/(loss) for the period</b>	<b>344</b>	<b>(1)</b>
Cash flow hedges	4	200
Deferred tax on cash flow hedges	-	-
Foreign currency variations	(15)	(15)
<b>Items that are or may be reclassified to profit or loss</b>	<b>(11)</b>	<b>185</b>
Remeasurements of defined benefit liabilities	(4)	7
Deferred tax on remeasurement of defined benefit liabilities	-	0
<b>Items that will never be reclassified to profit or loss</b>	<b>(4)</b>	<b>7</b>
<b>Other comprehensive income/(expense) for the period, net of tax</b>	<b>(15)</b>	<b>192</b>
<b>Total comprehensive income/(expense) for the period, net of tax</b>	<b>329</b>	<b>191</b>
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
<b>Total comprehensive income/(expense) for the period, net of tax</b>	<b>329</b>	<b>191</b>

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### 4.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in millions of US\$	<i>Notes</i>	31 December 2018	31 December 2017
<b>ASSETS</b>			
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
<b>Total non-current assets</b>		<b>7,641</b>	<b>7,922</b>
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
<b>Total current assets</b>		<b>2,351</b>	<b>3,085</b>
<b>TOTAL ASSETS</b>		<b>9,992</b>	<b>11,007</b>
<b>EQUITY AND LIABILITIES</b>			
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)
<b>Equity attributable to shareholders of the parent company</b>		<b>2,634</b>	<b>2,501</b>
Non-controlling interests	4.3.32	978	1,058
<b>Total Equity</b>		<b>3,612</b>	<b>3,559</b>
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	-
<b>Total non-current liabilities</b>		<b>4,545</b>	<b>4,935</b>
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
<b>Total current liabilities</b>		<b>1,835</b>	<b>2,514</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,992</b>	<b>11,007</b>

## 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
<b>At 31 December 2017</b>	<b>205,671,305</b>	<b>62</b>	<b>1,163</b>	<b>(35)</b>	<b>1,376</b>	<b>(65)</b>	<b>2,501</b>	<b>1,058</b>	<b>3,559</b>
Change in accounting policy - IFRS 9		-	-	-	(4)	-	(4)	(1)	(5)
<b>At 1 January 2018<sup>1</sup></b>	<b>205,671,305</b>	<b>62</b>	<b>1,163</b>	<b>(35)</b>	<b>1,372</b>	<b>(65)</b>	<b>2,497</b>	<b>1,057</b>	<b>3,554</b>
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
<b>Total comprehensive income for the period</b>		<b>(3)</b>	<b>-</b>	<b>1</b>	<b>212</b>	<b>(46)</b>	<b>164</b>	<b>165</b>	<b>329</b>
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 <sup>2</sup>		-	-	-	-	-	-	(165)	(165)
Transaction with non-controlling interests		-	-	-	1	-	1	(6)	(5)
Other		-	-	-	3	-	3	-	3
<b>At 31 December 2018</b>	<b>205,671,305</b>	<b>59</b>	<b>1,163</b>	<b>(14)</b>	<b>1,533</b>	<b>(108)</b>	<b>2,634</b>	<b>978</b>	<b>3,612</b>

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
<b>At 1 January 2017</b>	<b>213,471,305</b>	<b>56</b>	<b>1,163</b>	<b>(166)</b>	<b>1,697</b>	<b>(235)</b>	<b>2,516</b>	<b>996</b>	<b>3,513</b>
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
<b>Total comprehensive income for the period</b>		<b>8</b>	<b>-</b>	<b>(5)</b>	<b>(155)</b>	<b>176</b>	<b>23</b>	<b>169</b>	<b>191</b>
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 <sup>1</sup>		-	-	-	-	-	-	(61)	(61)
Other		-	-	-	(4)	-	(4)	0	(4)
<b>At 31 December 2017</b>	<b>205,671,305</b>	<b>62</b>	<b>1,163</b>	<b>(35)</b>	<b>1,376</b>	<b>(65)</b>	<b>2,501</b>	<b>1,058</b>	<b>3,559</b>

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.

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### 4.2.5 CONSOLIDATED CASH FLOW STATEMENT

in millions of US\$	Notes	2018	2017
<b>Cash flow from operating activities</b>			
Receipts from customers		3,263 <sup>1</sup>	2,057
Payments for finance lease construction		(284)	(51)
Payments to suppliers and employees		(1,206) <sup>2</sup>	(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)
<b>Net cash flows from (used in) operating activities</b>		<b>1,647</b>	<b>955</b>
<b>Cash flow from investing activities</b>			
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)
<b>Net cash flows from (used in) investing activities</b>		<b>(61)</b>	<b>121</b>
<b>Cash flow from financing activities</b>			
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) <sup>3</sup>	(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)
<b>Net cash flows from (used in) financing activities</b>		<b>(1,797)</b>	<b>(1,019)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(211)</b>	<b>57</b>
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)
<b>Net cash and cash equivalents as at 31 December</b>		<b>718</b>	<b>957</b>

1 Includes US\$ 987 million purchase price acquisition of Turrítella (FPSO) by Shell.

2 Includes US\$ (80) million compensation paid to the partners in the investee owning the Turrítella (FPSO) before acquisition by Shell.

3 Includes US\$ (723) million redemption of Turrítella (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
<b>Net cash and cash equivalents</b>	<b>718</b>	<b>957</b>



## 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

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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 <sup>1</sup>	Non-controlling interests	Total Equity
<b>Closing disclosed at 31 December 2017 under IAS 39</b>	<b>2,501</b>	<b>1,058</b>	<b>3,559</b>
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)
<b>Adjustment from adoption of IFRS 9 on 1 January 2018</b>	<b>(4)</b>	<b>(1)</b>	<b>(5)</b>
<b>Opening at 1 January 2018 under IFRS 9</b>	<b>2,497</b>	<b>1,057</b>	<b>3,554</b>

<sup>1</sup> 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 separate 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:

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- 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:

<b>Operating lease commitments disclosed as at 31 December 2017</b>	<b>231</b>
(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)
<b>Lease liabilities recognized as at 1 January 2018</b>	<b>218</b>

#### 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.

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### 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.

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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), Liquefied 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

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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.

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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.

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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.

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### (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

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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.

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### 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.

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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.

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2018 operating segments (Directional)

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
<b>Third party revenue</b>	<b>1,298</b>	<b>406</b>	<b>1,703</b>	-	<b>1,703</b>
Cost of sales	(884)	(313)	(1,197)	-	(1,197)
<b>Gross margin</b>	<b>413</b>	<b>93</b>	<b>506</b>	-	<b>506</b>
Other operating income/expense	0	234 <sup>1</sup>	234	(45) <sup>2</sup>	<b>189</b>
Selling and marketing expenses	0	(36)	(36)	0	<b>(36)</b>
General and administrative expenses	(17)	(43)	(60)	(62)	<b>(122)</b>
Research and development expenses	(1)	(19)	(21)	(2)	<b>(23)</b>
Net impairment gains/(losses) on financial and contract assets	23	(3)	19	0	<b>19</b>
<b>Operating profit/(loss) (EBIT)</b>	<b>418</b>	<b>225</b>	<b>642</b>	<b>(109)</b>	<b>533</b>
Net financing costs					(166)
Share of profit of equity-accounted investees					(26)
Income tax expense					(40)
<b>Profit/(Loss)</b>					<b>301</b>
Operating profit/(loss) (EBIT)	418	225	642	(109)	<b>533</b>
Depreciation, amortization and impairment <sup>3</sup>	406	54	460	2	463
<b>EBITDA</b>	<b>824</b>	<b>278</b>	<b>1,102</b>	<b>(107)</b>	<b>995</b>
Other segment information :					
Impairment charge/(reversal)	(34)	28	(6)	0	<b>(6)</b>

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
<b>Revenue</b>				
Lease and Operate	1,298	(238)	242	1,302
Turnkey	406	528	4	938
<b>Total revenue</b>	<b>1,703</b>	<b>290</b>	<b>246</b>	<b>2,240</b>
<b>Gross margin</b>				
Lease and Operate	413	7	159	579
Turnkey	93	133	(3)	223
<b>Total gross margin</b>	<b>506</b>	<b>140</b>	<b>156</b>	<b>801</b>
<b>EBITDA</b>				
Lease and Operate	824	(248)	185	761
Turnkey	278	(86) <sup>1</sup>	(8)	184
Other	(107)	-	0	(107)
<b>Total EBITDA</b>	<b>995</b>	<b>(335)</b>	<b>178</b>	<b>838</b>
<b>EBIT</b>				
Lease and Operate	418	3	158	579
Turnkey	225	(85) <sup>1</sup>	(6)	134
Other	(109)	-	0	(109)
<b>Total EBIT</b>	<b>533</b>	<b>(82)</b>	<b>152</b>	<b>603</b>
Net financing costs	(166)	0	(67)	(233)
Share of profit of equity-accounted investees	(26)	-	40	13
Income tax expense	(40)	(8)	8	(40)
<b>Profit/(loss)</b>	<b>301</b>	<b>(90)</b>	<b>132</b>	<b>344</b>
Impairment charge/(reversal)	(6)	4	0	(2)

<sup>1</sup> 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

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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 <sup>1</sup>
<b>Third party revenue</b>	<b>1,501</b>	<b>175</b>	<b>1,676</b>	-	<b>1,676</b>
Cost of sales	(989)	(171)	(1,160)	-	(1,160)
<b>Gross margin</b>	<b>512</b>	<b>4</b>	<b>516</b>	-	<b>516</b>
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
<b>Operating profit/(loss) (EBIT)</b>	<b>487</b>	<b>11</b>	<b>498</b>	<b>(381)</b>	<b>117</b>
Net financing costs					(233)
Share of profit of equity-accounted investees					(54)
Income tax expense					(34)
<b>Profit/(Loss)</b>					<b>(203)</b>
Operating profit/(loss) (EBIT)	487	11	498	(381)	117
Depreciation, amortization and impairment	467	10	478	1	478
<b>EBITDA</b>	<b>954</b>	<b>21</b>	<b>975</b>	<b>(380)</b>	<b>596</b>
Other segment information :					
Impairment charge/(reversal)	(10)	-	(10)	-	(10)

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

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Reconciliation of 2017 operating segments (Directional to IFRS)

	Reported segments under Directional reporting <sup>1</sup>	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS <sup>1</sup>
<b>Revenue</b>				
Lease and Operate	1,501	(269)	322	1,554
Turnkey	175	130	2	307
<b>Total revenue</b>	<b>1,676</b>	<b>(139)</b>	<b>324</b>	<b>1,861</b>
<b>Gross margin</b>				
Lease and Operate	512	19	209	739
Turnkey	4	24	31	59
<b>Total gross margin</b>	<b>516</b>	<b>43</b>	<b>240</b>	<b>798</b>
<b>EBITDA</b>				
Lease and Operate	954	(269)	233	919
Turnkey	21	42	10	73
Other	(380)	-	0	(380)
<b>Total EBITDA</b>	<b>596</b>	<b>(226)</b>	<b>243</b>	<b>612</b>
<b>EBIT</b>				
Lease and Operate	487	19	207	713
Turnkey	11	23	(9)	25
Other	(381)	-	0	(381)
<b>Total EBIT</b>	<b>117</b>	<b>43</b>	<b>198</b>	<b>358</b>
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)
<b>Profit/(loss)</b>	<b>(203)</b>	<b>44</b>	<b>158</b>	<b>(1)</b>
Impairment charge/(reversal)	(10)	17	18	25

<sup>1</sup> 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
<b>ASSETS</b>				
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
<b>Total Assets</b>	<b>6,535</b>	<b>800</b>	<b>2,656</b>	<b>9,992</b>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to parent company	1,317	1,334	(17)	2,634
Non-controlling interests	0	0	978	978
<b>Equity</b>	<b>1,317</b>	<b>1,334</b>	<b>961</b>	<b>3,612</b>
Borrowings and lease liabilities	3,010 <sup>1</sup>	-	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
<b>Total Equity and Liabilities</b>	<b>6,535</b>	<b>800</b>	<b>2,656</b>	<b>9,992</b>

<sup>1</sup> 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.

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### 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
<b>EBITDA</b>	<b>995</b>	(335)	178	<b>838</b>
Adjustments for non-cash and investing items	(126) <sup>1</sup>	218	10	102
Changes in operating assets and liabilities	(209) <sup>2</sup>	(408)	102	(515)
Reimbursement finance lease assets	0	777 <sup>3</sup>	475	1,252 <sup>4</sup>
Income taxes paid	(35)	0	6	(30)
<b>Net cash flows from (used in) operating activities</b>	<b>625</b>	<b>252</b>	<b>770</b>	<b>1,647</b>
Capital expenditures	(332)	290	(6)	(48)
Other investing activities	524 <sup>5</sup>	(542)	5	(13)
<b>Net cash flows from (used in) investing activities</b>	<b>192</b>	<b>(252)</b>	<b>(1)</b>	<b>(61)</b>
Equity repayment to partners	-	-	(165)	(165)
Addition and repayments of borrowings and lease liabilities	(783) <sup>6</sup>	-	(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)
<b>Net cash flows from (used in) financing activities</b>	<b>(1,010)</b>	<b>-</b>	<b>(787)</b>	<b>(1,797)</b>
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)
<b>Net cash and cash equivalents as at 31 December</b>	<b>657</b>	<b>0</b>	<b>62</b>	<b>718</b>

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
<b>ASSETS</b>				
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
<b>Total Assets</b>	<b>6,915</b>	<b>875</b>	<b>3,217</b>	<b>11,007</b>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to parent company	1,097	1,424	(19)	2,501
Non-controlling interests	0	0	1,057	1,058
<b>Equity</b>	<b>1,097</b>	<b>1,424</b>	<b>1,038</b>	<b>3,559</b>
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
<b>Total Equity and Liabilities</b>	<b>6,915</b>	<b>875</b>	<b>3,217</b>	<b>11,007</b>

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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
<b>EBITDA</b>	<b>596</b>	(226)	243	<b>612</b>
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)
<b>Net cash flows from (used in) operating activities</b>	<b>707</b>	<b>(52)</b>	<b>299</b>	<b>955</b>
Capital expenditures	(96)	52	0	(44)
Other investing activities	68	0	98	165
<b>Net cash flows from (used in) investing activities</b>	<b>(28)</b>	<b>52</b>	<b>98</b>	<b>121</b>
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)
<b>Net cash flows from (used in) financing activities</b>	<b>(620)</b>	<b>-</b>	<b>(399)</b>	<b>(1,019)</b>
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)
<b>Net cash and cash equivalents as at 31 December</b>	<b>878</b>	<b>0</b>	<b>79</b>	<b>957</b>

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
<b>Balance at 31 December</b>	<b>575</b>	<b>587</b>

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
<b>Total revenue</b>	<b>1,298</b>	<b>406</b>	<b>1,703</b>	<b>1,302</b>	<b>938</b>	<b>2,240</b>

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
<b>Total revenue</b>	<b>1,501</b>	<b>175</b>	<b>1,676</b>	<b>1,554</b>	<b>307</b>	<b>1,861</b>

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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
<b>Total</b>	<b>7,641</b>	<b>5,148</b>	<b>7,922</b>	<b>5,009</b>

### 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 Operate 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
<b>Total</b>	<b>6.8</b>

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
<b>Total other operating income</b>	<b>40</b>	<b>130</b>
Settlement expenses	(45)	(238)
Impairment of goodwill	(25)	-
Restructuring expenses	(1)	(10)
Other operating expense	0	(121)
<b>Total other operating expense</b>	<b>(70)</b>	<b>(369)</b>
<b>Total</b>	<b>(30)</b>	<b>(239)</b>

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).

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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)
<b>Total expenses</b>		<b>(1,676)</b>	<b>(1,632)</b>

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:

	<i>Note</i>	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)
<b>Total employee benefits</b>	<b>4.3.5</b>	<b>(519)</b>	<b>(514)</b>

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 (MNOFF). The MNOFF is a defined benefit multi-employer plan which is closed to new members. The fund is managed by a corporate Trustee, MNOFF 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 MNOFF 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 MNOFF 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:

	<i>Note</i>	2018	2017
Pension plan		5	3
Lump sums on retirement		6	7
<b>Defined benefit plans</b>		<b>11</b>	<b>10</b>
Long-service awards		13	13
<b>Other long-term benefits</b>		<b>13</b>	<b>13</b>
<b>Employee benefits provisions</b>	<b>4.3.2b</b>	<b>24</b>	<b>23</b>

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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)
<b>Benefit (asset)/liability</b>	<b>5</b>	<b>6</b>	<b>11</b>	<b>3</b>	<b>7</b>	<b>10</b>

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

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

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### 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
<b>Total 2018</b>	<b>319,198</b>

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-weighted 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 Remuneration 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.

	Performance shares and RSU/ Value Creation Stake	Matching shares	Total
<b>2018</b>			
Instruments granted	11,575	1,442	13,017
Performance conditions	4,281		4,281
<b>Total expenses 2018</b>	<b>15,856</b>	<b>1,442</b>	<b>17,298</b>
<b>2017</b>			
Instruments granted	6,060	964	7,024
Performance conditions	4,831	134	4,965
<b>Total expenses 2017</b>	<b>10,891</b>	<b>1,098</b>	<b>11,989</b>

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:

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in thousands of EUR	2018			2017		
	Basic remuneration	Committees	Total	Basic remuneration	Committees	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 <sup>1</sup>	90	9	99	100	8	108
<b>Total</b>	<b>669</b>	<b>92</b>	<b>761</b>	<b>675</b>	<b>94</b>	<b>769</b>

<sup>1</sup> 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		2017	
	Average	Year-end	Average	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
<b>Total excluding employees working for JVs and associates</b>	<b>3,289</b>	<b>3,334</b>	<b>3,287</b>	<b>3,244</b>
Employees working for JVs and associates	814	745	864	882
<b>Total</b>	<b>4,103</b>	<b>4,079</b>	<b>4,150</b>	<b>4,126</b>

Number of employees (by geographical area)

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

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	-
<b>Net impairment gains/(losses) on financial and contract assets</b>	<b>13</b>	<b>(1)</b>

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
<b>Financial income</b>	<b>46</b>	<b>27</b>
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	-	-
<b>Financial expenses</b>	<b>(279)</b>	<b>(358)</b>
<b>Net financing costs</b>	<b>(233)</b>	<b>(331)</b>

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.

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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

	<i>Note</i>	<b>2018</b>	<b>2017</b>
Corporation tax on profits for the year		(20)	(18)
Adjustments in respect of prior years		1	1
<b>Total current income tax</b>		<b>(20)</b>	<b>(17)</b>
Deferred tax	<i>4.3.17</i>	(20)	(10)
<b>Total</b>		<b>(40)</b>	<b>(26)</b>

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	
	%		%	
<b>Profit/(Loss) before tax</b>		<b>384</b>		<b>25</b>
Share of profit of equity-accounted investees		13		(2)
<b>Profit/(Loss) before tax and share of profit of equity-accounted investees</b>		<b>370</b>		<b>27</b>
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(92)	25%	(7)
<b>Tax effects of :</b>				
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
<b>Total tax effects</b>	<b>(14%)</b>	<b>51</b>	<b>73%</b>	<b>(20)</b>
<b>Total of tax charge on the Consolidated Income Statement</b>	<b>11%</b>	<b>(40)</b>	<b>97%</b>	<b>(26)</b>

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

Withholding Tax and Overseas Taxes (per location)	2018			2017		
	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 <sup>1</sup>	(2)	-	(2)	(1)	0	(1)
<b>Total withholding and overseas taxes</b>	<b>(11)</b>	<b>-</b>	<b>(11)</b>	<b>(3)</b>	<b>1</b>	<b>(2)</b>

<sup>1</sup> 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

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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
<b>Weighted average number of shares outstanding</b>	<b>204,270,610</b>	<b>202,849,287</b>
Potential dilutive shares from stock option scheme and other share-based payments	34,813	-
<b>Weighted average number of shares (diluted)</b>	<b>204,305,423</b>	<b>202,849,287</b>
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	-
<b>Total</b>	<b>1,198</b>	<b>1,243</b>

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### 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)
<b>Book value at 1 January</b>	<b>41</b>	<b>1,170</b>	<b>13</b>	<b>19</b>	<b>1,243</b>
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
<b>Total movements</b>	<b>(7)</b>	<b>(166)</b>	<b>11</b>	<b>(8)</b>	<b>(170)</b>
Cost	58	3,266	75	11	3,410
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	(2,337)
<b>Book value at 31 December</b>	<b>34</b>	<b>1,004</b>	<b>23</b>	<b>11</b>	<b>1,072</b>

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)
<b>Book value at 1 January</b>	<b>41</b>	<b>1,415</b>	<b>14</b>	<b>4</b>	<b>1,474</b>
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)
<b>Total movements</b>	<b>0</b>	<b>(245)</b>	<b>(1)</b>	<b>16</b>	<b>(231)</b>
Cost	61	3,255	68	19	3,402
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	(2,160)
<b>Book value at 31 December</b>	<b>41</b>	<b>1,170</b>	<b>13</b>	<b>19</b>	<b>1,243</b>

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
<b>Book value recognized at 1 January following early adoption of IFRS 16</b>	<b>73</b>	<b>71</b>	<b>2</b>	<b>146</b>
Additions	3	-	0	3
Depreciation	(12)	(8)	0	(20)
Foreign currency variations	(3)	-	0	(3)
<b>Total movements</b>	<b>(12)</b>	<b>(8)</b>	<b>(1)</b>	<b>(21)</b>
Cost	73	71	2	146
Accumulated depreciation and impairment	(12)	(8)	(1)	(20)
<b>Book value at 31 December</b>	<b>61</b>	<b>63</b>	<b>1</b>	<b>126</b>

#### 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:

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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)
<b>Book value at 31 December</b>	<b>974</b>	<b>1,139</b>

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
<b>Total</b>	<b>1,820</b>	<b>2,207</b>

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)
<b>Book value at 1 January</b>	<b>14</b>	<b>25</b>	<b>3</b>	<b>-</b>	<b>42</b>
Additions	4	-	2	-	6
Amortization	(4)	-	(1)	-	(5)
(Impairment)/impairment reversal	-	(25)	-	-	(25)
Foreign currency variations	-	-	0	-	0
Other movements	-	-	0	-	0
<b>Total movements</b>	<b>1</b>	<b>(25)</b>	<b>0</b>	<b>-</b>	<b>(23)</b>
Cost	27	25	13	19	84
Accumulated amortization and impairment	(12)	(25)	(9)	(19)	(65)
<b>Book value at 31 December</b>	<b>15</b>	<b>-</b>	<b>4</b>	<b>0</b>	<b>19</b>

2017

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

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)
<b>Total</b>	<b>5,947</b>	<b>7,196</b>
Of which		
Current portion	195	1,252
Non-current portion	5,753	5,945

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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
<b>Total Gross receivable</b>	<b>10,680</b>	<b>12,420</b>

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)
<b>Current portion of finance lease receivable</b>	<b>195</b>	<b>1,252</b>

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
<b>Total</b>	<b>211</b>	<b>201</b>

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
<b>Total</b>	<b>4.3.33</b>	<b>234</b>	<b>110</b>

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
<b>Book value at 31 December</b>	<b>26</b>	<b>36</b>	<b>(10)</b>	<b>27</b>	<b>16</b>	<b>11</b>

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Movements in net deferred tax positions

		2018	2017
	<i>Note</i>	Net	Net
<b>Deferred tax at 1 January</b>		<b>11</b>	<b>19</b>
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
<b>Total movements</b>		<b>(21)</b>	<b>(9)</b>
<b>Deferred tax at 31 December</b>		<b>(10)</b>	<b>11</b>

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
<b>Book value at 31 December</b>	<b>26</b>	<b>36</b>	<b>(10)</b>	<b>27</b>	<b>16</b>	<b>11</b>

### 4.3.18 INVENTORIES

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

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)

	<i>Note</i>	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
<b>Total</b>		<b>596</b>	<b>635</b>

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
<b>Total</b>	<b>175</b>	<b>216</b>

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)
<b>Total</b>	<b>175</b>	<b>216</b>

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

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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)
<b>Total</b>	<b>188</b>	<b>(12)</b>	<b>224</b>	<b>(7)</b>

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
<b>Total construction work-in-progress</b>		<b>695</b>	<b>134</b>

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 fulfilling 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)
<b>Total</b>	<b>46</b>	<b>116</b>	<b>(70)</b>	<b>92</b>	<b>154</b>	<b>(61)</b>
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
<b>Cash and cash equivalent</b>	<b>718</b>	<b>957</b>
<b>Net cash and cash equivalent</b>	<b>718</b>	<b>957</b>

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.

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### 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
<b>Outstanding at 1 January</b>	<b>205,671,305</b>	<b>213,471,305</b>
Share-based payment remuneration	-	-
Treasury shares cancelled	-	(7,800,000)
<b>Outstanding 31 December</b>	<b>205,671,305</b>	<b>205,671,305</b>

#### 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	-
<b>Total</b>	<b>622,883</b>	<b>439,027</b>	<b>1,061,910</b>	<b>574,685</b>

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
<b>Balance at 1 January 2017</b>	<b>(84)</b>	<b>(128)</b>	<b>(1)</b>	<b>(45)</b>	<b>23</b>	<b>(235)</b>
<b>Cash flow hedges</b>						
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
<b>IFRS 2 share based payments</b>						
IFRS 2 vesting costs for the year	-	-	-	-	12	12
IFRS 2 vested share based payments	-	-	-	-	(17)	(17)
<b>Actuarial gain/(loss) on defined benefit provision</b>						
Change in defined benefit provision due to changes in actuarial assumptions	-	-	7	-	-	7
<b>Foreign currency variations</b>						
Foreign currency variations	-	-	-	(17)	-	(17)
<b>Balance at 31 December 2017</b>	<b>51</b>	<b>(77)</b>	<b>6</b>	<b>(62)</b>	<b>18</b>	<b>(65)</b>
<b>Cash flow hedges</b>						
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
<b>IFRS 2 share based payments</b>						
IFRS 2 vesting costs for the year	-	-	-	-	17	17
IFRS 2 vested share based payments	-	-	-	-	(14)	(14)
<b>Actuarial gain/(loss) on defined benefit provision</b>						
Change in defined benefit provision due to changes in actuarial assumptions	-	-	(4)	-	-	(4)
<b>Foreign currency variations</b>						
Foreign currency variations	-	-	-	(17)	-	(17)
<b>Balance at 31 December 2018</b>	<b>(19)</b>	<b>(33)</b>	<b>2</b>	<b>(79)</b>	<b>21</b>	<b>(108)</b>

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.

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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	-
<b>Total Non-current portion of Borrowings and lease liabilities</b>	<b>4,017</b>	<b>4,347</b>
Borrowings	492	1,223
Lease liabilities	27	-
<b>Total Current portion of Borrowings and lease liabilities</b>	<b>519</b>	<b>1,223</b>

### BORROWINGS

The movement in borrowings is as follows:

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

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
<b>Balance at 31 December</b>	<b>4,442</b>	<b>5,682</b>

The borrowings by entity are as follows:

Loans and borrowings per entity

Entity name	Project name or nature of loan	% Ownership	% Interest <sup>1</sup>	Maturity	Net book value at 31 December 2018			Net book value at 31 December 2017		
					Non-current	Current	Total	Non-current	Current	Total
<b>US\$ Project Finance facilities drawn:</b>										
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 Turrutella LLC	FPSO Turrutella	55.00	3.60%	16-Jan-18	-	-	-	-	724	724
<b>Revolving credit facility:</b>										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	-	(1)	(1)	(1)	(1)	(2)
<b>Other:</b>										
Other		100.00			1	0	1	0	33	33
<b>Net book value of loans and borrowings</b>					<b>3,856</b>	<b>492</b>	<b>4,348</b>	<b>4,347</b>	<b>1,223</b>	<b>5,571</b>

<sup>1</sup> % 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:

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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
<b>Total</b>	<b>1,820</b>	<b>1,100</b>

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 <sup>1</sup>	879 <sup>2</sup>
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
<b>Principal recognized at 1 January following early adoption of IFRS 16</b>	<b>217</b>
Additions	3
Redemptions	(28)
Foreign currency variations	(4)
<b>Total movements</b>	<b>(29)</b>
<b>Remaining principal at 31 December</b>	<b>189</b>
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
<b>Balance at 31 December</b>	<b>189</b>

The total cash outflow for leases in 2018 was US\$ 35 million, which includes redemptions of principal and interest payments.

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### 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
<b>Total</b>	<b>200</b>	<b>249</b>

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
<b>Balance at 31 December 2017</b>	<b>93</b>	<b>63</b>	<b>68</b>	<b>23</b>	<b>299</b>	<b>285</b>	<b>830</b>
Derecognition at 1 January following early application IFRS 16	-	(63)	-	-	-	-	(63)
<b>Balance at 1 January 2018</b>	<b>93</b>	<b>-</b>	<b>68</b>	<b>23</b>	<b>299</b>	<b>285</b>	<b>768</b>
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)
<b>Balance at 31 December 2018</b>	<b>96</b>	<b>0</b>	<b>34</b>	<b>26</b>	<b>48</b>	<b>262</b>	<b>467</b>
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
<b>Total</b>	<b>4.3.29</b>	<b>899</b>	<b>596</b>

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.

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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
<b>Total</b>	<b>140</b>	<b>98</b>

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 Improbability 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 Improbability 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.

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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
<b>Financial assets measured at fair value</b>									
Interest rate swaps	4.3.21	2	1	6	-	-	-	6	6
Forward currency contracts	4.3.21	2	22	18	-	-	-	40	40
<b>Total</b>			<b>23</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>46</b>	<b>46</b>
<b>Financial assets measured at amortized cost</b>									
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
<b>Total</b>			<b>-</b>	<b>-</b>	<b>807</b>	<b>5,947</b>	<b>-</b>	<b>6,755</b>	<b>5,932</b>
<b>Financial liabilities measured at fair value</b>									
Interest rate swaps	4.3.21	2	0	42	-	-	-	42	42
Forward currency contracts	4.3.21	2	32	41	-	-	-	74	74
<b>Total</b>			<b>32</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116</b>	<b>116</b>
<b>Financial liabilities at amortized cost</b>									
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
<b>Total</b>			<b>-</b>		<b>-</b>	<b>-</b>	<b>4,536</b>	<b>4,536</b>	<b>4,535</b>

### 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
<b>Financial assets measured at fair value</b>									
Forward currency contracts	4.3.21	2	23	69	-	-	-	92	92
<b>Total</b>			<b>23</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92</b>	<b>92</b>
<b>Financial assets measured at amortized cost</b>									
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
<b>Total</b>			<b>-</b>	<b>-</b>	<b>110</b>	<b>7,196</b>	<b>-</b>	<b>7,306</b>	<b>7,453</b>
<b>Financial liabilities measured at fair value</b>									
Interest rate swaps	4.3.21	2	-	109	-	-	-	109	109
Forward currency contracts	4.3.21	2	39	5	-	-	-	44	44
<b>Total</b>			<b>39</b>	<b>114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154</b>	<b>154</b>
<b>Financial liabilities at amortized cost</b>									
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
<b>Total</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,570</b>	<b>5,570</b>	<b>5,596</b>

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
<b>Foreign currency forwards</b>		
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)
<b>Interest rate swaps</b>		
Carrying 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)

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### 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.

Type	Level 2 and level 3 instruments		Level 3 instruments
	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<b>Financial instrument measured at fair value</b>			
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
<b>Financial instrument not measured at fair value</b>			
Loans to joint ventures and associates	Income approach – Present value technique	<ul style="list-style-type: none"> <li>■ Forecast revenues</li> <li>■ Risk-adjusted discount rate (3%-10%)</li> </ul>	The estimated fair value would increase (decrease) if : <ul style="list-style-type: none"> <li>■ the revenue was higher (lower)</li> <li>■ the risk-adjusted discount rate was lower (higher)</li> </ul>
Finance lease receivables	Income approach – Present value technique	<ul style="list-style-type: none"> <li>■ Forecast revenues</li> <li>■ Risk-adjusted discount rate (7%-10%)</li> </ul>	The estimated fair value would increase (decrease) if : <ul style="list-style-type: none"> <li>■ the revenue was higher (lower)</li> <li>■ the risk-adjusted discount rate was lower (higher)</li> </ul>
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
<b>31 December 2018</b>					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)
<b>31 December 2017</b>					
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
<b>31 December 2018</b>					
Interest rate swaps	(36)	(4)	(32)	(5)	(40)
Forward currency contracts	(23)	(30)	(14)	-	(44)
<b>31 December 2017</b>					
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	
<b>At 31 December 2018</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>(7)</b>	<b>(1)</b>	<b>(99)</b>	<b>(114)</b>

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### 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)

in millions of local currency	31 December 2018			31 December 2017		
	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)
<b>Gross balance sheet exposure</b>	<b>26</b>	<b>(10)</b>	<b>(19)</b>	<b>125</b>	<b>2</b>	<b>(1,054)</b>
Estimated forecast sales	110	-	-	155	-	-
Estimated forecast purchases	(937)	(171)	(734)	(672)	(297)	(528)
<b>Gross exposure</b>	<b>(801)</b>	<b>(181)</b>	<b>(753)</b>	<b>(392)</b>	<b>(295)</b>	<b>(1,582)</b>
Forward exchange contracts	795	179	811	391	294	411
<b>Net exposure</b>	<b>(6)</b>	<b>(2)</b>	<b>58</b>	<b>(1)</b>	<b>(1)</b>	<b>(1,171)</b>

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
<b>31 December 2018</b>				
EUR	1	(1)	(95)	95
SGD	0	0	(13)	13
BRL	0	0	(20)	20
<b>31 December 2017</b>				
EUR	-	-	(62)	62
SGD	-	-	(22)	22
BRL	-	-	19	(19)

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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
<b>Fixed rate instruments</b>		
Financial assets	6,026	7,196
Financial liabilities	(544)	(669)
<b>Total</b>	<b>5,482</b>	<b>6,527</b>
<b>Variable rate instruments</b>		
Financial assets	234	110
Financial liabilities	(3,898)	(5,013)
Financial liabilities (future)	(313) <sup>1</sup>	-
<b>Total</b>	<b>(3,977)</b>	<b>(4,902)</b>

<sup>1</sup> 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
<b>Exposure</b>	<b>86</b>	<b>(88)</b>

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
<b>31 December 2018</b>				
Variable rate instruments	1	(1)	-	-
Interest rate swap	0	0	159	(171)
<b>Sensitivity (net)</b>	<b>1</b>	<b>(1)</b>	<b>159</b>	<b>(171)</b>
<b>31 December 2017</b>				
Variable rate instruments	(1)	1	-	-
Interest rate swap	0	0	203	(218)
<b>Sensitivity (net)</b>	<b>(1)</b>	<b>1</b>	<b>203</b>	<b>(218)</b>

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

Rating	2018		2017	
	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)
<b>Derivative financial instruments</b>	<b>46</b>	<b>(116)</b>	<b>92</b>	<b>(154)</b>
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	-
<b>Cash and cash equivalents and bank overdrafts</b>	<b>718</b>	<b>-</b>	<b>957</b>	<b>-</b>

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.

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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
<b>31 December 2018</b>					
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
<b>Total</b>		<b>1,583</b>	<b>2,672</b>	<b>2,079</b>	<b>6,334</b>

## Liquidity risk 2017

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
<b>31 December 2017</b>					
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
<b>Total</b>		<b>2,037</b>	<b>2,813</b>	<b>2,643</b>	<b>7,493</b>

### 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
<b>Net debt</b>	<b>3,818</b>	<b>4,613</b>
Total equity	3,612	3,559
<b>Total capital</b>	<b>7,430</b>	<b>8,172</b>
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.

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### 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.	Sociedade 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-Serviços de Produção de Petróleos Ltd.	Sociedade Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & Operate	Angola operations
OPS-Serviços de Produção de Petróleos Ltd. Branch	Sociedade Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Angola	Lease & Operate	Angola operations
OPS Production Ltd.	Sociedade 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.	Sociedade 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.	Sociedade 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.	Sociedade 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.	Sociedade 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.	Sociedade 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.	Sociedade 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
<b>Investments in associates and joint ventures at 1 January</b>	<b>457</b>	<b>484</b>
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	-
<b>Investments in associates and joint ventures at 31 December</b>	<b>421</b>	<b>457</b>

### 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.

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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-Serviços 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 liabilities	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
<b>Total at 100%</b>		<b>1,883</b>	<b>1,282</b>	<b>119</b>	<b>1,159</b>	<b>997</b>	<b>514</b>	<b>124</b>	<b>408</b>

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 liabilities	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
<b>Total at 100%</b>		<b>2,140</b>	<b>1,483</b>	<b>154</b>	<b>1,121</b>	<b>1,063</b>	<b>605</b>	<b>158</b>	<b>436</b>

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			Net book value at 31 December 2017		
				Non-current	Current	Total	Non-current	Current	Total
<b>US\$ Project Finance facilities drawn:</b>									
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
<b>Loans from subsidiaries of SBM Offshore N.V.<sup>1</sup></b>				408	93	501	355	33	387
<b>Loans from other shareholders of the joint ventures and associates</b>				275	5	280	261	-	261
<b>Loans from other joint ventures<sup>2</sup></b>				258	3	261	252	1	253
<b>Net book value of loans and borrowings</b>				<b>1,181</b>	<b>234</b>	<b>1,415</b>	<b>1,240</b>	<b>134</b>	<b>1,374</b>

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
<b>Investments in associates and joint ventures</b>	<b>421</b>	<b>457</b>

## 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 <sup>1</sup>	Luxembourg	Turnkey	FPSO Turritella

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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 <sup>1</sup>	The United States of America	Turnkey	FPSO Turritella
SBM Stones Holding Operations B.V.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	100.00 <sup>1</sup>	The Netherlands	Lease & Operate	FPSO Turritella
SBM Stones Operations LLC	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	100.00 <sup>1</sup>	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

<sup>1</sup> 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 Turrítella	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
<b>Total 100%</b>		<b>6,793</b>	<b>6,158</b>	<b>234</b>	<b>3,893</b>	<b>3,761</b>	<b>747</b>	<b>73</b>	<b>1,018</b>

#### 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 Turrítella	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
<b>Total 100%</b>		<b>8,214</b>	<b>6,387</b>	<b>274</b>	<b>5,056</b>	<b>4,210</b>	<b>1,554</b>	<b>47</b>	<b>1,247</b>

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

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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)
<b>Accumulated amount of NCI</b>	<b>978</b>	<b>1,058</b>

### 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

	<i>Note</i>	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 <sup>1</sup>		109	-

<sup>1</sup> 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:

<i>in thousands of US\$</i>	2018	2017
Audit of financial statements	2,209	1,861
<i>Out of which:</i>		
- 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
<b>Total</b>	<b>2,399</b>	<b>2,009</b>

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<sup>2</sup>;
- 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:

<sup>2</sup> Sustainalytics is a provider of Environmental, Social and Governance and Corporate Governance research and ratings.

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- 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
<b>ASSETS</b>			
Investment in Group companies	4.5.1	2,657	2,523
Deferred tax asset	4.5.2	3	3
<b>Total non-current assets</b>		<b>2,660</b>	<b>2,526</b>
Other receivables	4.5.3	11	12
Cash and cash equivalents	4.5.4	0	0
<b>Total current assets</b>		<b>12</b>	<b>13</b>
<b>TOTAL ASSETS</b>		<b>2,672</b>	<b>2,539</b>
<b>EQUITY AND LIABILITIES</b>			
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)
<b>Shareholders' equity</b>	<b>4.5.5</b>	<b>2,634</b>	<b>2,501</b>
Other current liabilities	4.5.6	38	37
<b>Total current liabilities</b>		<b>38</b>	<b>37</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,672</b>	<b>2,539</b>

## 4 FINANCIAL STATEMENTS 2018

### 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)
<b>Operating profit/(loss) (EBIT)</b>		<b>(27)</b>	<b>(29)</b>
Financial expenses	4.5.9	0	(2)
<b>Net financing costs</b>		<b>0</b>	<b>(2)</b>
Result of Group companies	4.5.1	239	(125)
<b>Profit/(Loss) before tax</b>		<b>212</b>	<b>(156)</b>
Income tax (expense)/income	4.5.10	-	1
<b>Profit/(Loss)</b>		<b>212</b>	<b>(155)</b>



### 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 FINANCIAL STATEMENTS 2018

### 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 <sup>1</sup>	(4)	-
<b>Investments net value</b>	<b>2,518</b>	<b>2,814</b>
Result of Group companies	239	(125)
Investments	1	-
Divestments and capital repayments	-	(232)
Dividends received	(61)	(118)
Other changes (a.o. IFRS 9) <sup>2</sup>	(25)	189
Foreign currency variations	(14)	(9)
<b>Movements</b>	<b>141</b>	<b>(295)</b>
<b>Balance at 31 December</b>	<b>2,613</b>	<b>2,477</b>
Reclassification to other receivables <sup>3</sup>	44	46
<b>Investments net value at 31 December</b>	<b>2,657</b>	<b>2,523</b>

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
<b>Total</b>	<b>11</b>	<b>12</b>

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 <sup>1</sup>	1,232	1,124
Capitalized development expenditure <sup>2</sup>	15	14
Translation reserve	(79)	(62)
Cash flow hedges	(52)	(26)
<b>Total</b>	<b>1,116</b>	<b>1,051</b>

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
<b>At the disposal of the General Meeting of Shareholders</b>	<b>-</b>

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
<b>Total current liabilities</b>	<b>38</b>	<b>37</b>

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 FINANCIAL STATEMENTS 2018

### 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)
<b>Total</b>	<b>(34)</b>	<b>(33)</b>

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<sup>3</sup>;
- 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;

<sup>3</sup> Sustainalytics is a provider of Environmental, Social and Governance and Corporate Governance research and ratings.

## 4 FINANCIAL STATEMENTS 2018

- 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 FINANCIAL STATEMENTS 2018

### 4.6.2 INDEPENDENT AUDITOR'S REPORT

To: the general meeting and Supervisory Board of SBM Offshore N.V.

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#### *Report on the financial statements 2018*

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#### *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.

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#### *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).



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## 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.

## 4 FINANCIAL STATEMENTS 2018

### 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.

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<i>Overall group materiality</i>	USD 21.24 million (2017: USD 21.75 million).
<i>Basis for determining materiality</i>	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.
<i>Rationale for benchmark applied</i>	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.
<i>Component materiality</i>	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:

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<i>Revenue</i>	100%
<i>Total assets</i>	98%
<i>Profit before tax</i>	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.

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## ***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.

## 4 FINANCIAL STATEMENTS 2018

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.

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### *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

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**Key audit matter****Our audit work and observations**

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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.

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**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.

## 4 FINANCIAL STATEMENTS 2018

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### Key audit matter

### Our audit work and observations

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#### **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.

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### 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.

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### 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.

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### *Responsibilities for the financial statements and the audit*

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#### *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.

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#### *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

## 4 FINANCIAL STATEMENTS 2018

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### *Appendix to our auditor's report on the financial statements 2018 of SBM Offshore N.V.*

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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
<b>Results</b>					
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
<b>Ratios (%)</b>					
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
<b>Information per Share (US\$)</b>					
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
<b>Share price (€)</b>					
- 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

## 4 FINANCIAL STATEMENTS 2018

### Key Directional financial figures

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





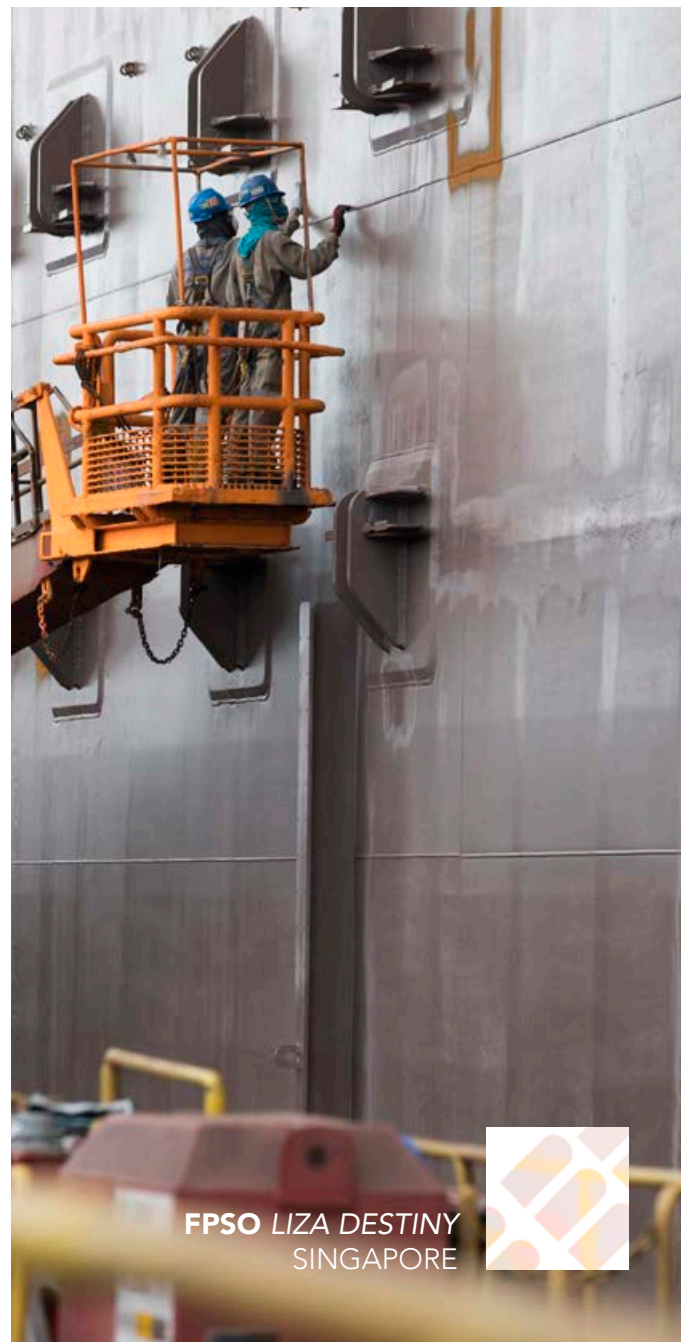
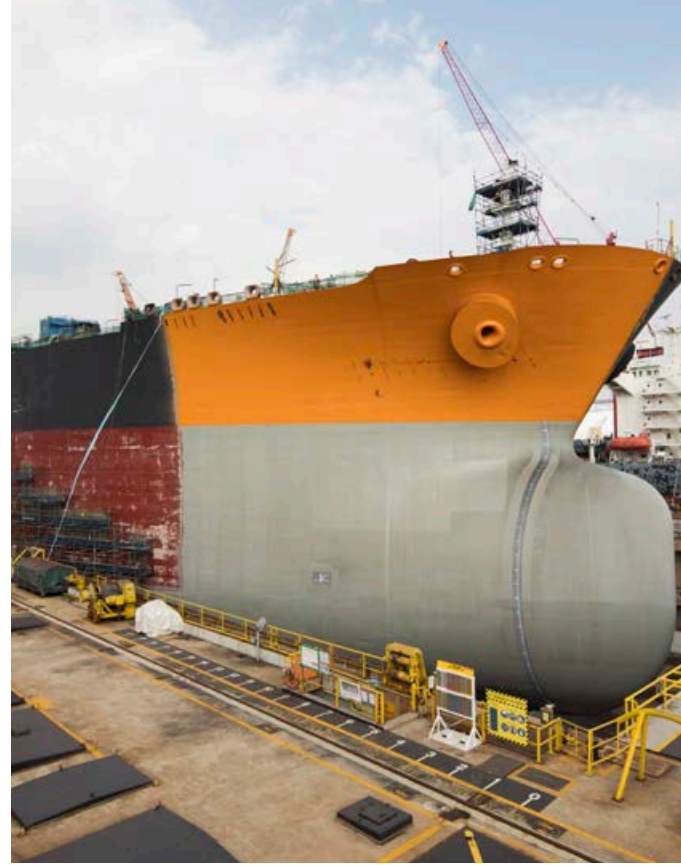
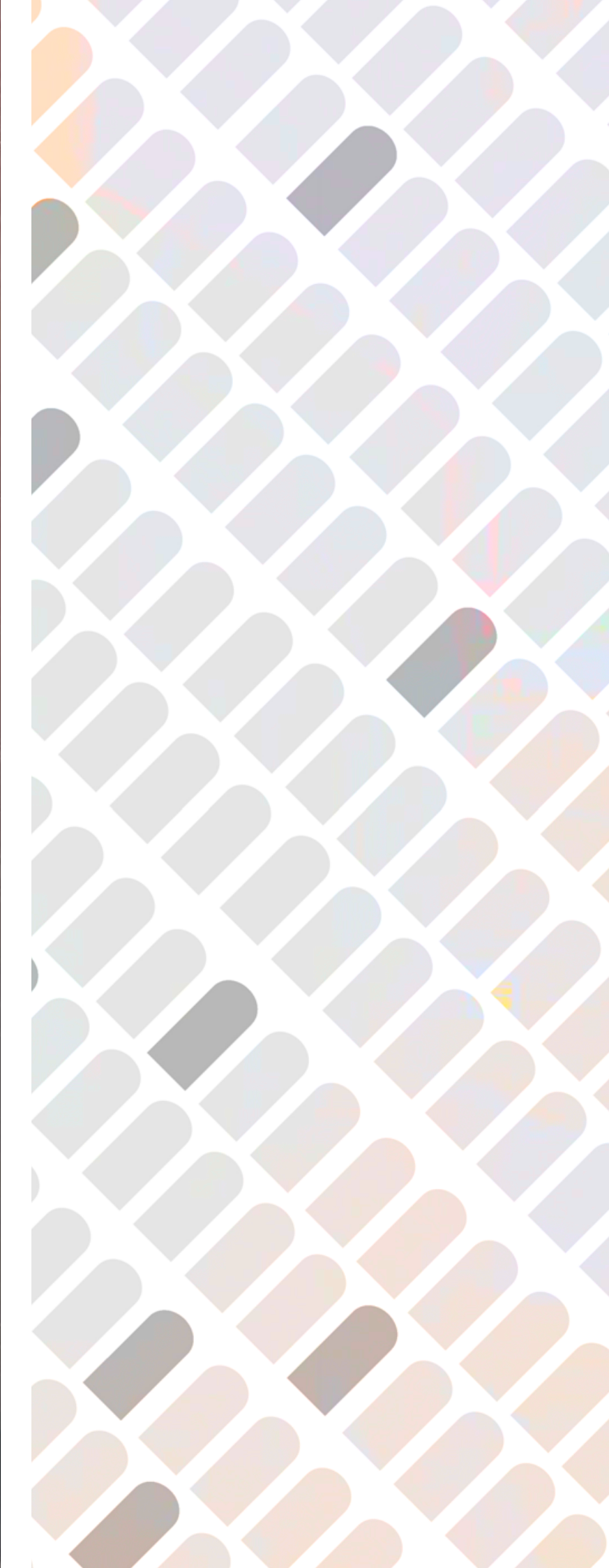
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NON-FINANCIAL DATA

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· ENTREPRENEURSHIP ·

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FPSO LIZA DESTINY  
SINGAPORE



## 5 NON-FINANCIAL DATA

### 5.1 SCOPE OF NON-FINANCIAL INFORMATION

#### 5.1.1 REPORTING ABOUT NON-FINANCIAL INFORMATION

This report has been prepared in accordance with the GRI standards: Core option. The Company has used the GRI Standards to determine material aspects for this year's report. For SBM Offshore, 'transparency, trust and reputation' are material topics and therefore we have assurance on non-financial as well as financial information. To obtain assurance on the reliability of information presented to its stakeholders, SBM Offshore has asked our auditors PwC to provide limited assurance on our non-financial information.

#### 5.1.2 MATERIALITY METHODOLOGY

SBM Offshore conducts materiality analysis according to the GRI Standards in order to include the topics in the Annual Report that can reasonably be considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders.

#### UPDATE MATERIAL TOPICS

SBM Offshore conducted the following steps to assess the material topics in order to ensure the Report contains the level of information required by stakeholders.

- Step 1: Update the list of potential material topics
- Step 2: Stakeholder engagement survey
- Step 3: Analysis of operating environment
- Step 4: Validation in Management Board meeting

For the material (important) topics of 2018 the Company chose to align material topics with the strategic pillars and SBM Offshore's values.

Compared to 2017, there are no new material topics in 2018, however, the names of several topics have been updated in the materiality matrix to better correspond to the Company's terminology and management structure.

#### 2018 MATERIAL TOPICS

The results of the materiality assessment can be found in the materiality matrix, which can be found in section 1.7 Materiality-based Value Creation. Details on how the matrix corresponds to GRI and reporting boundaries can be found in section 1.7. General

standard disclosure and aspects of lower priority are included in the GRI Content Index.

#### 5.1.3 STAKEHOLDER ENGAGEMENT

##### IDENTIFYING AND SELECTING OF STAKEHOLDERS

To shape stakeholder engagement, SBM Offshore identified key stakeholders by mapping the level of influence on and level of interest in the Company. The main stakeholders are the Company's employees, shareholders, the investor community, clients, business partners and suppliers. Other important stakeholders are lenders, export credit agencies, governments in operating areas, non-governmental organizations (NGOs), oil and gas industry associations, universities, researchers and potential investors. Throughout the year SBM Offshore engages with these stakeholders on a continuous basis as part of regular operations and captures that information.

Internally, SBM Offshore organizes regular Town Hall meetings where top management share business updates and establish a dialogue with staff, including participation in worldwide Company events such as Life Day. SBM Offshore also regularly shares information and updates on strategies, projects and people with its employees through the Company's intranet site and via its internal monthly newsletter.

The Company maintains open and active engagement with its external stakeholders through regular business interactions, including the annual shareholders meeting, analyst and investor road shows/meetings, a Capital Markets Day for financial analysts, analyst webcast presentations, Press Releases, Website updates, surveys and desktop research.

The feedback obtained forms the backbone of the Company's stakeholder engagement program. The program is complemented by other interactions with stakeholders, in order to validate findings and the feedback received feeds into management's approach to Materiality and long-term value creation.

##### SBM OFFSHORE VALUES YOUR OPINION

SBM Offshore would like to know more about which economic, social and environmental issues are important to its stakeholders.

Would you like to participate in SBM Offshore's 2018 Stakeholder Engagement or provide feedback for the 2019 Stakeholder Engagement? Please write to us at [sustainability@sbmoffshore.com](mailto:sustainability@sbmoffshore.com).

## 5.2 REPORTING BOUNDARIES

SBM Offshore not only reports on impacts it causes, but also on impacts it contributes to, and impacts that are linked to its activities. In each of the following paragraphs we elaborate in detail on the boundaries of our material topics. The boundary of a material topic relates to the parts of the organization and supply chain covered in the figures.

### 5.2.1 HEALTH, SAFETY AND SECURITY REPORTING

The Health, Safety and Security (HSS) performance indicators boundaries take into account:

- Employees which include all direct hires, part-time employees, locally-hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company
- Contractors which include any person employed by a contractor or contractor's subcontractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore.

HSS incidents are reported and managed through the Company's Single Reporting System (SRS) database. SRS is a web-based reporting system that is used to collect data on all incidents occurring in all locations where the Company operates. The SRS system records safety, environmental, security incidents, loss of containments, equipment failure and damage only incidents.

Safety incidents are reported based on the incident classifications as defined by the IOGP Report 2017 – June 2018. Health incidents are reported based on the occupational illnesses classification given in IOGP Report Number 393 – 2007.

The Company also reports incident data from contractor's construction facilities if the incident is related to an SBM Offshore project.

The Company uses records of exposure hours and SRS data to calculate Health and Safety performance indicators set by SBM Offshore.

## 5.2.2 ENVIRONMENTAL REPORTING

### OFFSHORE

The environmental and process safety offshore performance reporting scope is comprised of offshore units that use the following reporting boundaries:

- Units in the Company's fleet producing and/or storing hydrocarbons under Lease and Operate contracts in 2018
- Units in which the Company exercises full operational management control
- Units in which the Company has full ownership or units that are jointly owned and where the Company has at least 50% ownership

The environmental and process safety performance of the Company is reported by region or management area: Brazil, Angola, North America & Equatorial Guinea and Asia. Based on the criteria stated above, SBM Offshore reports on the environmental performance for the following 13 units:

- Brazil – *FPSO Espirito Santo*, *FPSO Capixaba*, *FPSO Cidade de Paraty*, *FPSO Cidade de Anchieta*, *FPSO Cidade de Ilhabela*, *FPSO Cidade de Marica*, *FPSO Cidade de Saquarema*
- Angola – *FPSO Mondo*, *FPSO Saxi Batuque* and *N'Goma FPSO*
- North America & Equatorial Guinea – *FPSO Aseng* and *MOPU Deep Panuke* (cessation of gas production in May)
- Asia – *FSO Yetagun* (terminated operations in April)

The environmental offshore performance reporting methodology was chosen according to the performance indicators relative to GRI Standards and IOGP guidelines. This includes:

- Greenhouse Gases, referred to as GHG which are N<sub>2</sub>O (Nitrous Oxide), CH<sub>4</sub> (Methane) and CO<sub>2</sub> (Carbon Dioxide)
- GHG emissions per hydrocarbon production from flaring and energy generation
- Non Greenhouse Gases which are CO (Carbon Monoxide), NO<sub>x</sub> (Nitrogen Oxides), SO<sub>2</sub> (Sulphur Dioxide) and VOCs (Volatile Organic Compounds)
- Gas flared per hydrocarbon production, including gas flared on SBM Offshore account
- Energy consumption per hydrocarbon production
- Oil in Produced Water per hydrocarbon production

## 5 NON-FINANCIAL DATA

SBM Offshore reports some of its indicators as a weighted average, calculated pro rata over the volume of hydrocarbon production per region. This is in line with the IOGP Environmental Performance Indicators.

### ONSHORE

SBM Offshore reports on its onshore scope 1 and 2 emissions<sup>25</sup> by operational control and discloses on all its locations with the exception of Africa (Angola office, yard and shorebase), the Kuala Lumpur Shorebase and the small offices in Singapore, China and Jakarta. Efforts are being made to extend the reporting scope to include all locations in operational control. SBM Offshore does not have absolute targets as the Company is focused on the maturity of its data collection.

SBM Offshore reports in this Annual Report for the second time on greenhouse gas emissions related to business flights (scope 3). The data consists of all flights invoiced via our standard travel system and the data covers all operating companies. The CO<sub>2</sub> emissions relating to business flights are based on third party documentation, each containing different calculation methods.

For the onshore electricity usage, the Company uses the World Resources Institute Greenhouse Gas Protocol (GHG Protocol) method and conversion factors to calculate CO<sub>2</sub> equivalents. For fuels the Company uses conversion factors published by the UK government's Department for Environment Food & Rural Affairs (DEFRA). CO<sub>2</sub> equivalency is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO<sub>2</sub> that would have the same global warming potential (GWP), when measured over a specified timescale (generally, 100 years).

Construction yards' environmental data, specifically emissions, energy and water usage have not been included in scope. SBM Offshore is aware that the construction yards may have a large impact on the environment and have identified this as part of its license to grow under the initiative 'Manage Environmental Impact'.

<sup>25</sup> The World Resources Institute GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

### ATMOSPHERIC EMISSIONS

The calculation of air emissions from offshore operations units uses the method as described in the EEMS-Atmospheric Emissions Calculations (Issue 1.810a) recommended by Oil & Gas UK.

SBM Offshore uses the GHG Global Warming Potentials from the Fourth Assessment Report issued by the Intergovernmental Panel on Climate Change (IPCC).

Emissions reported in the Company's emissions records include:

- GHG emissions for the production of energy. Records of GHG emissions from steam boilers, gas turbines and diesel engines used by the operating units.
- GHG emissions from gas flared. Flaring events accountability is split into either client or SBM Offshore: 'SBM Offshore Account' is flaring resulting from unplanned events. Whereas Client Account is flaring resulting from events caused by the client or planned by SBM Offshore in agreement with the client.

Identifying the causes of flaring for which SBM Offshore is responsible and acting on these events is part of the continuous improvement process.

### OFFSHORE ENERGY CONSUMPTION

The energy used to produce oil and gas covers a range of activities, including:

- Driving pumps producing the hydrocarbons or re-injecting produced water
- Heating produced oil for separation
- Producing steam
- Powering compressors to re-inject produced gas
- Driving turbines to generate electricity needed for operational activities.

The main source of energy consumption of offshore units is Fuel Gas and Marine Gas Oil.

### OIL IN PRODUCED WATER DISCHARGES

Produced water is a high volume liquid discharge generated during the production of oil and gas. After extraction, produced water is separated and treated (de-oiled) before discharge to surface water. The quality of produced water is most widely expressed in terms of its oil content. Limits are imposed on the concentration of oil in the effluent discharge stream (generally expressed in the range of 15-30 ppm) or



discharge is limited where re-injection is permitted back into the reservoir. The overall efficiency of the oil in water treatment and as applicable reinjection can be expressed as tonnes of oil discharged per million tonnes of hydrocarbon produced.

Incidental environmental releases to air, water or land from the offshore operations units are reported using the data recorded in the SRS database. SBM Offshore has embedded a methodology for calculating the estimated discharge and subsequent classification within the SRS tool.

## WASTE

In line with the GRI standards, SBM Offshore reports on hazardous and non-hazardous waste outputs. The reporting methodology is detailed in each unit's Waste Management procedure which is part of Environmental Management System Manual. Collected information is based on manifests issued by the installations in compliance with client requirements.

## DATA REVISIONS

### Onshore emissions

Unlike in 2017, this year the Company only reports Scope 1 emissions of buildings under operation control. To consistently implement this change, the gas usage for 2017 has been revised (and with that the energy usage and CO<sub>2</sub> emission in Scope 1) to meet the same criteria as in 2018.

## 5.2.3 PROCESS SAFETY REPORTING

A Loss of Primary Containment (LOPC) is defined as an unplanned or uncontrolled release of any material from primary containment, including non-toxic and non-flammable materials (e.g. steam, hot condensate, nitrogen, compressed CO<sub>2</sub> or compressed air).

A Process Safety Event (PSE) is defined as a LOPC from a process that meets the Tier 1 or Tier 2 definitions within API RP 754.

LOPC events are reported in the Company's Single Reporting System as highlighted in section 5.2.1. This system includes a built-in calculation tool to assist the user in determining the release quantity of LOPC events. All LOPCs are analysed to identify those considered to be PSEs as per API RP 754. Process

Safety KPIs used by the Company include the number of Tier 1 and the number of Tier 2 PSEs.

## 5.2.4 HUMAN RESOURCES REPORTING

The Company's Human Resources data covers the global workforce and is broken down by region (continents), employment type, gender and age. The performance indicators report on the workforce status at year-end December 31, 2018. They include all staff assigned on unlimited or fixed-term contracts, employee new hires and departures, total number of locally-employed staff from agencies, and all crew working on board the offshore operations units and shore bases.

## HEADCOUNT, TURNOVER & NATIONALIZATION

Human Resources considers:

- 'Direct Hire' employees as a staff member holding a labor contract for either an unlimited or a defined period (or an offer letter for an unlimited period in the USA). Direct hires are recorded on the payroll, directly paid by one entity of the SBM Offshore Group.
- 'Contractors' as an individual performing work for or on behalf of SBM Offshore, but not recognized as an employee under national law or practice (not part of SBM Offshore companies payroll, they issue invoices for services rendered).
- 'Subcontractors' are not considered as staff in the HR headcount breakdown structure. This population is managed as temporary service and are not covered by HR processes policies.

For reporting purposes certain performance indicators report on construction yard employees separately. Construction yard employees for Human Resources reporting purposes consist of employees for yards located in Brazil and Angola. These constitute a non-traditional type of SBM Offshore workforce who work in construction yards which SBM Offshore owns and/or operates via a joint venture and could be allocated to non-SBM Offshore projects. SBM Offshore includes the BRASA Yard in Brazil and the PAENAL Yard in Angola in its reporting scope based on partial ownership and operational control including human resource activities and social responsibility for the employees.

In principle, reporting on headcount, turnover, training and collective bargaining covers all SBM Offshore, including construction yards. For the

## 5 NON-FINANCIAL DATA

reporting on Appraisals and absenteeism, construction yard employees are not included, due to the limits on influence and impact that SBM Offshore has on JV partners in the PAENAL and BRASA yards.

SBM Offshore reports its Human Resources data in all the regions (Africa, Asia, Europe, North America, South America, Other) it is located. Starting from this year, we decided to no longer report per entity, but per location, for both sustainability reasons and due to the recent reorganization of SBM Offshore.

Certain differences may potentially arise between the headcount numbers reported by Finance, HSSE and HR. This is due to the difference in the reporting structure of the two departments. Turnover has been calculated as such; number of employees who have left the Company in 2018 (between January 1 and the December 31, 2018) compared with the headcount on January 1, 2018 and the number of newcomers in 2018.

For fleet operations, engagement and development of the local workforce is the main indicator for successful local content development. In this perspective, SBM Offshore monitors the percentage of local workforce – % of nationalization per vessel – and invests in training to increase or maintain the targeted level. For example, specific programs in both below countries focus on education and training of nationals to facilitate them entering the workforce with the required level of qualifications and knowledge.

- 88% of Brazilian direct hire workforce consists of Brazilian nationals
- 82% of Angolan direct hire workforce consists of Angolan nationals

### ABSENTEEISM

SBM Offshore considers absenteeism as the number of work days lost due to unplanned absence. This does not include permitted absences such as maternity/paternity leave, national holidays, vacation, or compassionate leave.

The absenteeism rate is calculated as follows: The total amount of sick days on Full Time Equivalent (FTE) basis divided by the total amount of scheduled work days on FTE basis.

Absenteeism has been monitored internally at a local level by SBM Offshore and in 2017 the Company started to report externally on a consolidated level. The Company started reports on the absenteeism rates per Region (Locations) and disclose absenteeism rates by Gender (Male/Female) and Age (less than 30 years old/between 30 and 50 years old/more than 50 years old). The scope for this indicator includes all office-based Direct Hire SBM Offshore employees. The reporting for this metric excludes all offshore and construction yard employees. Due to a change in the GRI reporting standard, the Company is most likely not reporting on absenteeism next year unless the topic becomes material as a separate topic in the materiality analysis.

### PERFORMANCE MANAGEMENT

In order to ensure personal development and optimal management of performance within the Company, SBM Offshore conducts annual performance reviews for all employees. Globally, the Company uses a common system to grade and evaluate all employees.

### TALENT MANAGEMENT

A talent management and succession planning program is in place to discuss the strengths, development needs and potential future career paths of SBM Offshore employees, taking into account certain criteria and identifies those who have the potential to take on greater leadership roles today and tomorrow.

### TRAINING

The training indicator is reported within SBM Offshore as the number of hours in total and per employee, breakdown per gender. SBM Offshore has also chosen to disclose training information in the employee categories onshore/offshore as a relevant breakdown method for the Company's stakeholders, as these are two very different types of populations with different training needs.

The Anti-corruption policies and procedure been communicated to all governance body members. All governance body members, situated in Amsterdam, have been trained accordingly.

### COLLECTIVE BARGAINING

Collective bargaining is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working

conditions, benefits, and other aspects of workers' compensation and rights for workers. Within SBM Offshore, it is considered as collective bargaining: all the employees of which the interests are commonly represented by external or internal representatives of a trade union to which the employees belong.

## 5.2.5 COMPLIANCE REPORTING

SBM Offshore reports on significant fines paid by SBM Offshore and all affiliate companies. To define a significant fine the following thresholds are considered (subject to final assessment by Management Board on a case by case basis):

### 1. Operational fines of a regulatory and/or administrative nature which exceed US\$ 500,000

No significant operational fine had to be paid in 2018.

### 2. Legal and compliance fines of a criminal nature which exceed US\$ 50,000:

During 2018, two cases brought through Brazilian dispute resolution mechanisms led to significant fines to be paid by the Company:

1. On July 26, 2018, the Company signed a Leniency Agreement with Brazilian Ministry of Transparency and Comptroller's General Office (Ministerio da Transparencia e Controladoria-Geral da Uniao – 'CGU'), the Attorney General's Office (Advocacia Geral da Uniao – 'AGU') and Petrobras. The Leniency Agreement provides for:
  - a. cash payment BRL 549 million (**approximately US\$ 146 million**), which consists of:
    - i. BRL 264 million (approximately US\$ 70 million) civil fine;
    - ii. BRL 285 million (approximately US\$ 76 million) compensation for alleged damages; and
  - b. a 95% reduction in future performance bonus payments related to FPSOs Lease and Operate contracts; representing approximately US\$ 180 million, as compensation for alleged damages to be paid by the Company; and

2. On September 1, 2018, the Company reached resolution with the Brazilian Federal Prosecutor's Office (Ministerio Publico Federal – 'MPF'), by means of an agreement that provides for a fine of BRL 200 million (**approximately \$48 million as per December 31, 2018**) to be paid by the Company to Petrobras. As with all such agreements signed by the MPF, this agreement is subject to approval by the Fifth Chamber of the MPF.

The legal fines and compensations for alleged damages amount to **US\$ 374 million**. With the signing of the agreements mentioned above, the Company is allowed to resume normal business activities with Petrobras.



## 5 NON-FINANCIAL DATA

### 5.3 NON-FINANCIAL INDICATORS

#### 5.3.1 HEALTH, SAFETY & SECURITY

##### Health, Safety & Security

	Year to Year		2018 – By Operating Segment	
	2018	2017	Offshore	Onshore
<b>Exposure Hours</b>				
Employee <sup>1</sup>	12,038,253	12,640,875	8,040,307	3,997,946
Contractor <sup>2</sup>	15,282,127	742,280		15,282,127
<b>Total Exposure hours</b>	<b>27,320,380</b>	<b>13,383,155</b>	<b>8,040,307</b>	<b>19,280,073</b>
<b>Fatalities (work related)</b>				
Employee	0	0	0	0
Contractor	1	0	0	1
<b>Total Fatalities</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Injuries</b>				
Lost Time Injury Frequency Rate Employee	0.10	0.05	0.15	0.00
Lost Time Injury Frequency Rate Contractor	0.10	0.27	0.00	0.10
<b>Lost Time Injury Frequency Rate (Total)<sup>3</sup></b>	<b>0.10</b>	<b>0.06</b>	<b>0.32</b>	<b>0.01</b>
Total Recordable Injury Frequency Rate Employee	0.23	0.17	0.32	0.05
Total Recordable Injury Frequency Rate Contractor	0.14	0.54	0.00	0.14
<b>Total Recordable Injury Frequency Rate (Total)<sup>4</sup></b>	<b>0.18</b>	<b>0.19</b>	<b>0.32</b>	<b>0.12</b>
<b>Occupational Illnesses</b>				
Employee	20	1	20	0
Contractor	0	2	0	0
<b>Total recordable Occupational Illness Frequency Rate (employees only)<sup>5</sup></b>	<b>0.33</b>	<b>0.02</b>	<b>0.50</b>	<b>0.00</b>
<b>Security</b>				
Work-related security incidents	7	11	5	2
Work-related security incident resulting in physical harm to employees (number)	0	0	0	0

1 Direct hires, part-time employees, locally hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company

2 Any person employed by a contractor or contractor's sub-contractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore

3 Lost time injuries per 200,000 exposure hours

4 Recordable injuries per 200,000 exposure hours

5 Occupational illnesses per 200,000 exposure hours

##### Process Safety

	Year to Year		2018 – Regional Breakdown			
	2018	2017	Brazil	Angola	Africa / North America	Asia
<b>Loss of Containment - Process</b>						
Total	344	353	227	39	30	48
API 754 Classified Materials	181	227	115	28	15	23
<b>API 754 Classified Materials (by TIER)</b>						
Tier 1 incidents (number)	4	5	3	1	0	0
Tier 2 incidents (number)	5	7	0	3	2	0

## 5.3.2 ENVIRONMENT

### Emissions & Energy

	Year to Year		2018 – Regional Breakdown			
	2018	2017	Brazil	Angola	North America & Equatorial Guinea	Asia
Number of offshore units (vessels)	13	14	7	3	2	1
<b>SBM Offshore Production</b>						
Hydrocarbon Production (tonnes)	52,207,616	55,914,824	41,000,528	9,233,984	1,929,401	43,702
<b>Energy Consumption</b>						
Offshore Energy Consumption – Scope 1 in GJ <sup>1</sup>	57,993,254	62,746,663	39,316,180	14,907,625	3,717,660	51,789
Offshore Energy consumption per production <sup>2</sup>	1.11	1.12	0.96	1.61	1.93	1.19
Onshore Energy Consumption – Scope 1 + Scope 2 in GJ <sup>1</sup>	40,538	34,397				
<b>Total Energy Consumption – Scope 1 + Scope 2 in GJ<sup>3</sup></b>	<b>58,033,793</b>	<b>62,781,060</b>				
<b>Emissions – Offshore</b>						
<b>GHG Scope 1</b>						
Carbon dioxide (CO <sub>2</sub> ) in tonnes	4,764,227	5,193,405	2,634,046	1,874,043	252,481	3,658
Methane (CH <sub>4</sub> ) in tonnes	10,132	11,917	2,736	7,012	383	0.02
Nitrous oxide (N <sub>2</sub> O) in tonnes	295	314	184	93	17	0.25
<b>Volume of GHG<sup>4</sup></b>	<b>5,105,292</b>	<b>5,584,850</b>	<b>2,757,337</b>	<b>2,077,107</b>	<b>267,115</b>	<b>3,734</b>
<b>GHG per production offshore – Scope 1<sup>5</sup></b>	<b>97.79</b>	<b>99.88</b>	<b>67.25</b>	<b>224.94</b>	<b>138.44</b>	<b>85.44</b>
<b>Flaring</b>						
Total Gas Flared per production <sup>6</sup>	9.81	10.92	2.84	40.90	9.46	-
Gas Flared on SBM Offshore account per production <sup>6</sup>	3.70	5.68	2.62	8.56	3.56	-
Proportion of Gas Flared on SBM Offshore account	38%	52%	92%	21%	38%	n.a.
<b>Other/Air Pollution – Non Greenhouse Gas Emissions</b>						
Carbon monoxide (CO) in tonnes	6,491	7,220	2,925	3,257	309	0.88
Nitrogen oxides (NOx)	7,184	7,578	4,719	2,030	428	6.76
Sulphur dioxides (SO <sub>2</sub> )	1,448	7,735	49	44	1,350	4.57
Volatile organic compounds (VOCs)	1,068	1,268	262	766	39	0.12

1 GJ = gigajoule

2 gigajoule of energy per tonnes of hydrocarbon production

3 GJ = gigajoule, energy from fuel gas and marine gas oil

4 GHG = Greenhouse Gas Emissions; in tonnes of CO<sub>2</sub> equivalents

5 tonnes of Greenhouse Gas Emissions per thousand tonnes of hydrocarbon production

6 tonnes of gas flared per thousand tonnes of hydrocarbon production

## 5 NON-FINANCIAL DATA

### Emissions & Energy (continued)

	Year to Year		2018 – Regional Breakdown				
	2018	2017	Brazil	Angola	North America & Equatorial Guinea	Asia	Europe
<b>GHG – Scope 1 (from buildings)</b>							
Onshore Scope 1 energy consumption <sup>1</sup>	988,918	827,221	148,353	n.a. <sup>2</sup>	0 <sup>3</sup>	0 <sup>3</sup>	840,565
Onshore Scope 1 emissions <sup>4</sup>	194	190	3	n.a. <sup>2</sup>	0 <sup>3</sup>	0 <sup>3</sup>	191
<b>GHG – Scope 2 (from buildings)</b>							
Onshore Scope 2 energy consumption <sup>5</sup>	10,271,774	8,727,549	1,231,097	n.a. <sup>2</sup>	4,270,089	611,783	4,158,805
Onshore Scope 2 emissions <sup>4</sup>	3,880	3,608	121	n.a. <sup>2</sup>	2,584	411	765
<b>GHG – Scope 3 (from air travel)</b>							
Air travel emissions	17,529	12,343					
<b>Emissions Total (Onshore + Offshore)</b>							
Total Scope 1 Emissions <sup>4</sup>	5,105,486	5,585,040	2,757,340	2,077,107	267,115	3,734	191
Total Scope 2 Emissions <sup>4</sup>	3,880	3,608	121	n.a. <sup>2</sup>	2,584	411	765
Total Scope 3 Emissions <sup>4</sup>	17,529	12,343	3,822	n.a. <sup>2</sup>	2,665	679	10,363
<b>Total Emissions (Scope 1 + Scope 2 + Scope 3)<sup>4</sup></b>	<b>5,126,895</b>	<b>5,600,992</b>	<b>2,761,283</b>	<b>2,077,107</b>	<b>272,364</b>	<b>4,824</b>	<b>11,319</b>

1 kWh, energy from fuel

2 Data not available because Angola shorebase is not in scope. See section 5.2.2. for details.

3 The data represents the office and not the shorebase as it is out of scope. See section 5.2.2. for details.

4 tonnes of CO<sub>2</sub> equivalents

5 kWh, energy from purchased electricity

### Discharges

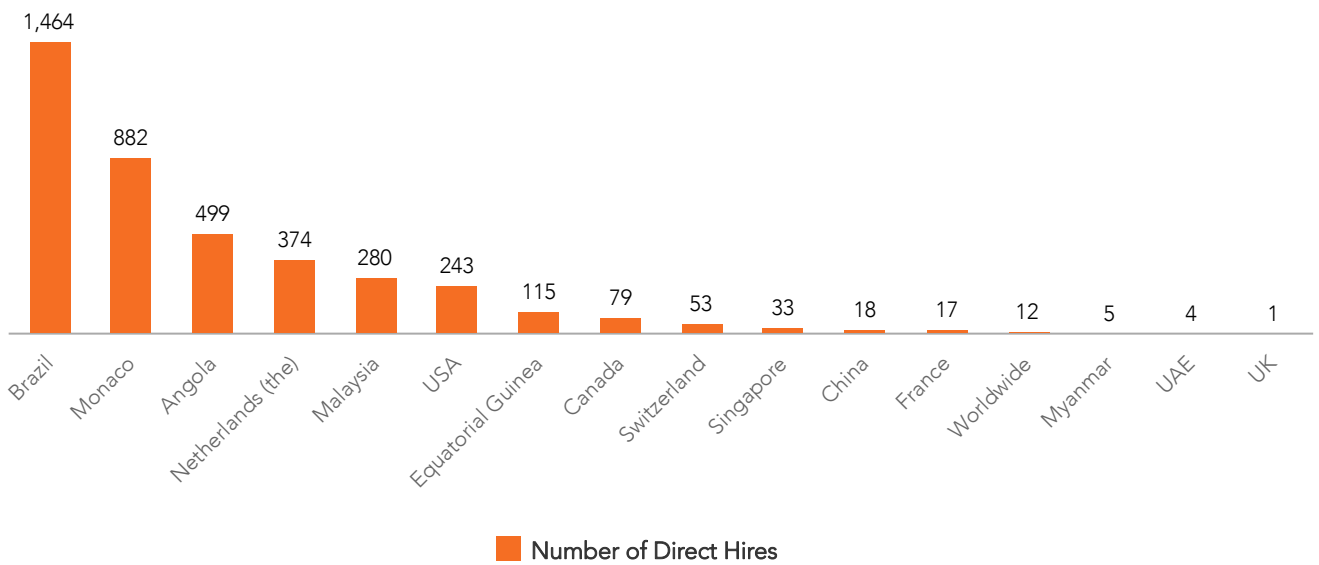
	Year to Year		2018 – Regional Breakdown				
	2018	2017	Brazil	Angola	North America & Equatorial Guinea	Asia	
Number of offshore units (vessels)	13	14	7	3	2	1	
<b>Discharges</b>							
Quantity of oil in produced water discharges in tonnes per million tonnes of hydrocarbon production	3.50	2.55	0.85	12.88	15.18	N.A	
<b>Spills</b>							
Spills (oil and chemicals) with release to sea (number)	6	13	4	1	1	-	
Oil spills with release to sea (number)	2	12	1	1	-	-	
Volume of Oil spills (m <sup>3</sup> )	0.325	0.006	0.16500	0.15890	0.0015	-	
Number of Oil spills > 1 barrel (159 L)	-	-	-	-	-	-	
Number of Oil spills > 1 barrel (159 L) per million tonnes of hydrocarbon production	-	-	-	-	-	-	
<b>Waste</b>							
Restricted Waste (kg)	2,026,018	2,706,168	1,460,706	100,779	463,233	1,300	
Non Restricted Waste (kg)	1,406,838	1,573,654	913,416	344,970	139,852	8,600	
<b>Total Waste (kg)</b>	<b>3,432,856</b>	<b>4,279,822</b>	<b>2,374,122</b>	<b>445,749</b>	<b>603,085</b>	<b>9,900</b>	

### 5.3.3 HUMAN RESOURCES

#### Headcount by Employee Type

	Total			Ratios
	Grand Total	Direct Hire	Contractor	% of Contractor Employees
Africa	694	499	195	28%
Asia	414	340	74	18%
Europe	1,549	1,327	222	14%
North America	345	322	23	7%
South America	1,307	1,192	115	9%
Other	36	12	24	67%
<b>Total</b>	<b>4,345</b>	<b>3,692</b>	<b>653</b>	<b>15%</b>
Construction yards (BRASA & PAENAL)	395	387	8	2%
<b>Grand Total</b>	<b>4,740</b>	<b>4,079</b>	<b>661</b>	<b>14%</b>

#### Direct Hires Headcount by Location

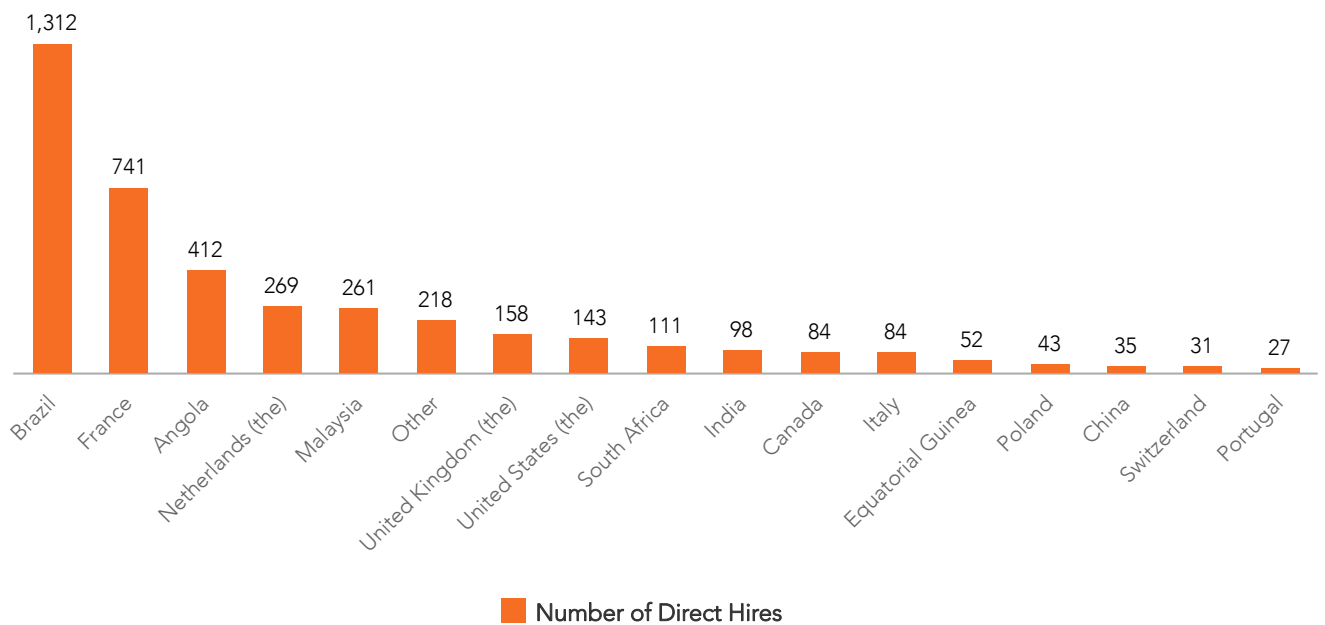


## 5 NON-FINANCIAL DATA

Direct Hires Headcount by Gender and by Age

	Direct Hire		Ratio by Gender	Headcount by Age		
	Male	Female	% of Direct Hire Female Employees	Headcount Direct Hire Under 30	Headcount Direct Hire between 30-50	Headcount Direct Hire Over 50
Africa	465	34	7%	13	384	102
Asia	260	80	24%	13	281	46
Europe	976	351	26%	113	1,001	213
North America	248	74	23%	4	221	97
South America	1,035	157	13%	146	844	202
Other	12	-	0%	0	6	6
<b>Total</b>	<b>2,996</b>	<b>696</b>	<b>19%</b>	<b>289</b>	<b>2,737</b>	<b>666</b>
Construction yards (BRASA & PAENAL)	349	38	10%	34	316	37
<b>Grand Total</b>	<b>3,345</b>	<b>734</b>	<b>18%</b>	<b>323</b>	<b>3,053</b>	<b>703</b>

Direct Hires Headcount by Nationality





## Direct Hires Part-Time Headcount

	Total Part-Time Employees	Part-Time Male Employees	Part-Time Female Employees	% of Part-Time Employees
Africa	0	0	0	0%
Asia	0	0	0	0%
Europe	113	43	70	9%
North America	11	4	7	3%
South America	4	2	2	0%
Other	0	0	0	0%
<b>Total</b>	<b>128</b>	<b>49</b>	<b>79</b>	<b>3%</b>
Construction yards (BRASA & PAENAL)	0	0	0	0%
<b>Grand Total</b>	<b>128</b>	<b>49</b>	<b>79</b>	<b>3%</b>

## Direct Hires Turnover Headcount by Age and by Gender

	Total Turnover		Total Turnover by Gender		Total Turnover by Age		
	Total Turnover Headcount	Total Turnover Rate	Male Turnover	Female Turnover	Under 30	30-50	Over 50
Africa	61	11%	52	9	1	50	10
Asia	44	11%	28	16	9	31	4
Europe	110	8%	74	36	29	60	21
North America	54	14%	43	11	2	28	24
South America	113	9%	84	29	14	84	15
Other	16	57%	12	4	0	9	7
<b>Total</b>	<b>398</b>	<b>10%</b>	<b>293</b>	<b>105</b>	<b>55</b>	<b>262</b>	<b>81</b>
Construction yards (BRASA & PAENAL)	202	34%	186	16	13	155	34
<b>Grand Total</b>	<b>600</b>	<b>13%</b>	<b>479</b>	<b>121</b>	<b>68</b>	<b>417</b>	<b>115</b>

## Direct Hires Turnover Reasons

	Turnover excluding Construction yards		Construction yards Staff Turnover	
	Turnover	Turnover rate	Turnover	Turnover Rate
Resignation	177	4%	1	0%
Dismissal	151	4%	195	33%
<b>Net Turnover</b>	<b>328</b>	<b>8%</b>	<b>196</b>	<b>33%</b>
End of Contract	51	0%	5	0%
Retirement	16	0%	0	0%
Fatalities non-work related	3	0%	1	0%
Fatalities work related <sup>1</sup>	0	0%	0	0%
<b>Total</b>	<b>398</b>	<b>10%</b>	<b>202</b>	<b>34%</b>

<sup>1</sup> Includes non accidental fatalities which occurred during active employment

## 5 NON-FINANCIAL DATA

### Direct Hires New Hire Headcount by Gender and by Age

	Total		Gender		Total New Hires by Age		
	Total New Hire Headcount	New Hire Ratio	Male New Hire	Female New Hire	Under 30	30-50	Over 50
Africa	60	12%	56	4	2	47	11
Asia	39	10%	17	22	12	26	1
Europe	198	14%	133	65	74	116	8
North America	12	3%	9	3	0	6	6
South America	169	13%	122	47	47	117	5
Other	4	4%	4	0	0	3	1
<b>Total</b>	<b>482</b>	<b>12%</b>	<b>341</b>	<b>141</b>	<b>135</b>	<b>315</b>	<b>32</b>
Construction yards (BRASA & PAENAL)	84	14%	78	6	13	68	3
<b>Grand Total</b>	<b>566</b>	<b>12%</b>	<b>419</b>	<b>147</b>	<b>148</b>	<b>383</b>	<b>35</b>

### Direct Hires Absenteeism Rates by Gender

	Grand Total / Global Average		Male Total / Average		Female Total / Average	
	Total days	Average days in % (per employee) <sup>1</sup>	Total days	Average ABS % (per employee)	Total days	Average ABS % (per employee)
Africa <sup>2</sup>	0	0%	0	0%	0	0%
Asia	860.88	1.46%	650.88	1.53%	210.00	1.27%
Europe	5,723.33	2.12%	3,004.84	1.51%	2,718.49	3.87%
North America	435.13	0.81%	300.94	0.77%	134.19	0.92%
South America	160.00	0.57%	52.00	0.35%	108.00	0.81%
Other	1.50	0%	1.50	0%	0	0%
<b>Total</b>	<b>7,180.83</b>	<b>1.74%</b>	<b>4,010.16</b>	<b>1.34%</b>	<b>3,170.67</b>	<b>2.76%</b>

1 The reported data covers all onshore direct hires only (excluding JVs)

2 Africa Area is out of scope (this population is represented by offshore staff and shorebase JVs staff only)

## Direct Hires Absenteeism Rates by Age

	Grand Total/ Global Average		<30 Total/ Average		≥ 30 <50 Total/ Average		≥50 Total/ Average	
	Total Sickness Days	Average ABS % (per employee) <sup>1</sup>	Total Sickness Days	Average ABS % (per employee)	Total Sickness Days	Average ABS % (per employee)	Total Sickness Days	Average ABS % (per employee)
Africa <sup>2</sup>	0	0%	0	0%	0	0%	0	0%
Asia	860.88	1.46%	17.00	0.69%	664.63	1.31%	179.25	1.97%
Europe	5,723.33	2.12%	298.90	1.50%	3,834.20	1.91%	1,590.24	3.22%
North America	435.13	0.81%	0	0%	302.25	0.82%	132.88	0.81%
South America	160.00	0.57%	16.50	0.33%	118.50	0.56%	25.00	1.22%
Other	1.50	0%	0	0%	0	0%	1.50	0%
<b>Total</b>	<b>7,180.83</b>	<b>1.74%</b>	<b>332.40</b>	<b>1.21%</b>	<b>4,919.57</b>	<b>1.60%</b>	<b>1,928.86</b>	<b>2.44%</b>

1 The reported data covers all onshore direct hires only (excluding JVs)

2 Africa Area is out of scope (this population is represented by offshore staff and shorebase JVs staff only)

## Employee Training Hours by Categories

	Direct Hires		Construction yards Direct Hires	
	Total Number of Training Hours	Training Hours per Employee	Total Number of Training Hours	Training Hours per Employee
HSSE Training	72,993		8,181	
Ethics & Compliance Training	5,780		-	
Leadership and Management Training	8,926		40	
Project Management Training	2,945		192	
Non-Technical Training	17,039		290	
Technical Training	21,112		4,567	
<b>Total number of Training hours</b>	<b>128,795</b>	<b>35</b>	<b>13,270</b>	<b>34</b>

## Direct Hires Training hours by Gender

	Total Training Hours	Training Hours per Direct Hire	Male Training Hours	Female Training Hours
Africa	7,868	16	7,364	505
Asia	7,538	22	6,511	1,027
Europe	31,835	24	24,817	7,018
North America	5,595	17	4,560	1,035
South America	75,812	64	69,467	6,345
Other	147	12	147	-
<b>Total number of Training hours</b>	<b>128,795</b>	<b>35</b>	<b>112,866</b>	<b>15,929</b>
Construction yards (BRASA & PAENAL)	13,270	34	12,774	496
<b>Grand Total</b>	<b>142,065</b>	<b>35</b>	<b>125,640</b>	<b>16,425</b>

## Direct Hires Training Hours

	Total Training Hours	Training Hours per Direct Hire
Onshore	66,801	25
Offshore	75,264	53
<b>Total</b>	<b>142,065</b>	<b>35</b>

## 5 NON-FINANCIAL DATA

### Number of Ethics and Compliance Trainings

	Total number of trainings
Africa	145
Asia	540
Europe	2,835
North America	603
South America	793
Other	10
<b>Total</b>	<b>4,926</b>
Construction yards (BRASA & PAENAL)	-
<b>Grand Total</b>	<b>4,926</b>

### Total hours of Ethics and Compliance Trainings – Onshore / Offshore

	Total training hours
Onshore	5,589
Offshore	191
<b>Total</b>	<b>5,780</b>
Construction yards (BRASA & PAENAL)	-
<b>Grand Total</b>	<b>5,780</b>

### Annual Compliance Statements of designated staff

	Designated Staff <sup>1</sup>
Number of employees in Designated Staff per year-end	886
Onshore Completion ratio	99%
Offshore Completion ratio	42%

<sup>1</sup> Designated Staff reflects all employees in Hay-Grade 11 or above

### Compliance Trainings to designated staff

	Designated Staff <sup>1</sup>
Number of employees in Designated Staff per year-end	2,711
Onshore Completion ratio	90%
Offshore Completion ratio	55%

<sup>1</sup> Designated Staff reflects all Onshore and Offshore Leadership (<5%)

### Overall number of Compliance Trainings conducted in 2018 worldwide

	Total number of trainings
Face-to-face trainings	1,534
e-Learnings	3,858
Face-to-face trainings hours	3,490
e-Learnings hours	2,785

## Integrity Line Reports

	Total
Integrity Line Reports received under the Company's Integrity Reporting Policy	58

The company is promoting a Speak Up culture.

The nature of the Integrity Line reports over 2018 was predominantly workplace related.

## Direct Hires Talent Development Process

	Percentage of development progress
Overall Development Progress Completion	81%

## Direct Hires Performance Appraisals

	Male %	Female %	Total % <sup>1</sup>
Performance Appraisals Completed - Onshore (2017)	96%	94%	95%
Performance Appraisals Completed - Offshore (2017)	96%	97%	96%

<sup>1</sup> An appraisal is considered completed when it has been validated by the Line Manager

## Collective Bargaining

	%
Percentage of Employees covered by Collective Bargaining Agreements	89%

## 5 NON-FINANCIAL DATA

### 5.3.4 5-YEAR KEY SUSTAINABILITY FIGURES

	2018	2017	2016	2015	2014
<b>Health, Safety and Security</b>					
LTIFR (rate)	0.10	0.06	0.11	0.03	0.05
TRIFR (rate)	0.18	0.19	0.31	0.22	0.22
Fatalities work related (number)	1	0	0	0	2
Total consolidated exposure hours	27.32	13.38	14.63	31.36	64.02
<b>Environment</b>					
Total GHG Emissions Offshore <sup>1</sup>	5,105	5,585	6,317	5,456	
Total GHG Emissions Offshore per production <sup>2</sup>	97.79	99.88	141.58	160.34	
Offshore energy consumption <sup>3</sup>	57,993,254	62,746,663	55,486,649	38,298,297	
Offshore energy Consumption per production <sup>4</sup>	1.11	1.12	1.24	1.13	
Number of Oil Spills > 1 Barrel per Production	0	0	0	0	1
<b>Human Resources<sup>5</sup></b>					
Total Employees <sup>6</sup>	4,740	4,810	4,748	7,020	10,215
Contractors / Direct Hires Ratio <sup>6</sup>	14%	14%	12%	10%	19%
Total Direct Hires <sup>6</sup>	4,079	4,126	4,174	6,342	8,234
Total Contractors <sup>6</sup>	661	684	574	678	1,981
Total of Females in Direct Hire Workforce	19%	18%	20%	21%	16%
Part-time Workforce	3%	4%	4%	3%	3%
Part-time Females	62%	56%	57%	66%	75%
Part-time Males	38%	44%	43%	34%	25%
<b>Employee Rates<sup>5</sup></b>					
Turnover	10%	10%	19%	22%	14%
Resignation	4%	4%	2%	6%	8%
Dismissal	4%	5%	16%	14%	4%
Retirement	0%	0%	0%	1%	0%
Fatalities Non Work Related	0%	0%	0%	0%	0%
<b>Appraisals</b>					
Performance Appraisals Completed	96%	94%	94%	96%	96%
<b>Competency Training Indicators</b>					
Offshore Training Hours per Eligible Employee	53	58	54	60	66
Onshore Training Hours per Eligible Employee	25	26	25	26	30

1 thousand tonnes of CO<sub>2</sub> equivalents

2 tonnes of GHG emissions per thousand tonnes of hydrocarbon production

3 in Gigajoules

4 Gigajoule of energy per tonnes of hydrocarbon production

5 does not include construction yards except if specified otherwise

6 including construction yards

## 5.4 GRI CONTENT INDEX

This report has been prepared in accordance with the Global Reporting Initiative standards: Core option (General Disclosures and information linked to our Material Topics from version 2016 of the GRI standards – except G4-OG5, G4-OG6 and G4-OG13 and own indicators).

Standard	Disclosure	Reference /direct answer
<b>1. Organizational profile</b>		
102-1	Name of the organization	SBM Offshore N.V
102-2	Activities, brands, products, and services	1.2, 1.6
102-3	Location of the organization's headquarters	6.2
102-4	Location of operations	1.2
102-5	Ownership and legal form	3.5
102-6	Markets served	1.4
102-7	Scale of the organization	1.1, 1.2
102-8	Information on employees and other workers	2.9, 5.3.3
102-9	Supply chain	1.6
102-10	Significant changes to the organization and its supply chain	No significant changes
102-11	Precautionary Principle or approach	Sustainability policy
102-12	External initiatives	2.3, 2.7.2, 2.12
102-13	Memberships of associations	2.12
<b>2. Strategy</b>		
102-14	Statement from senior decision-maker	1.1
<b>3. Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behavior	1.3
<b>4. Governance</b>		
102-18	Governance structure	3.5
<b>5. Stakeholder Engagement</b>		
102-40	List of stakeholder groups	5.1.3
102-41	Collective bargaining agreements	5.3.3
102-42	Identifying and selecting stakeholders	5.1.3
102-43	Approach to stakeholder engagement	5.1.3
102-44	Key topics and concerns raised	1.7, 5.1.2
<b>6. Reporting practise</b>		
102-45	Entities included in the consolidated financial statements	4.3.31
102-46	Defining report content and topic Boundaries	1.7, 5.2
102-47	List of material topics	1.7
102-48	Restatements of information	none
102-49	Changes in reporting	none
102-50	Reporting period	calendar year 2018
102-51	Date of most recent report	February 8, 2018
102-52	Reporting cycle	annual
102-53	Contact point for questions regarding the report	6.2
102-54	Claims of reporting in accordance with the GRI Standards	5.1
102-55	GRI content index	5.4
102-56	External assurance	5.6, 5.1.1

## 5 NON-FINANCIAL DATA

### MATERIAL TOPICS

Reporting standard	Disclosure	Reference/omission
<i>Material topic: Economic Performance and Cost of ownership</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.4, 2.5
	103-2 The management approach and its components	2.4, 2.5
	103-3 Evaluation of the management approach	2.4, 2.5
GRI 201: Economic Performance	Direct economic value generated or distributed	4.2
<i>Material topic: Fleet management &amp; Project Performance</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.5, 2.6
	103-2 The management approach and its components	2.5, 2.6,
	103-3 Evaluation of the management approach	2.5, 2.6,
GRI 302-1 Energy	Energy consumption within the organization	5.3.2, SBM Offshore does not report energy consumption by the categories: electricity, heating, cooling and steam consumption.
GRI 302-3 Energy	Energy intensity	5.3.2
<i>Material topic: Pollution to Air &amp; Sea and Environmental Impact</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.6
	103-2 The management approach and its components	2.6
	103-3 Evaluation of the management approach	2.6
GRI 305-1 Emissions	Direct greenhouse gas (GHG) emissions (Scope 1)	5.3.2
GRI 305-2 Emissions	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	5.3.2
GRI 305-7 Emissions	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions	5.3.2
GRI 306-3 Effluents and waste	Significant spills	5.3.2
G4-OG5	Volume and disposal of formation or produced water	5.3.2
G4-OG6	Volume of flared and vented hydrocarbon	5.3.2
<i>Material topic: Employee Health, Safety and Security and Process Safety</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.6, 2.7.1
	103-2 The management approach and its components	2.6, 2.7.1
	103-3 Evaluation of the management approach	2.6, 2.7.1
GRI 403-2 Occupational Health and Safety	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	5.3.1, 5.3.3, SBM Offshore does not report on HSSE metrics by region or gender. SBM Offshore distinguishes between onshore and offshore instead and considers gender and region as not applicable. For absenteeism; reporting for this metric excludes all offshore and construction yard employees (see 5.2.4 for further details) .
G4-OG13	Number of process safety events by business activity	5.3.1
<i>Material topic: Human rights</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.12
	103-2 The management approach and its components	2.12
	103-3 Evaluation of the management approach	2.12
GRI 412-3 Human Rights Assessment	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	2.11



Reporting standard	Disclosure	Reference/omission
<b>Material topics which SBM Offshore reports according to GRI and own indicators</b>		
<i>Material topic: Human Capital Development &amp; Retention</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.9
	103-2 The management approach and its components	2.9
	103-3 Evaluation of the management approach	2.9
GRI 401-1 Employment	New employee hires and employee turnover	5.3.3
GRI 404-1 Training and Education	Average hours of training per year per employee	5.3.3 SBM Offshore does not report this KPI by employee category. SBM Offshore distinguishes between onshore and offshore instead and considers employee category as not applicable.
GRI 404-3 Training and Education	Percentage of employees receiving regular performance and career development reviews	5.3.3
<b>Own indicator</b>	The percentage of overall development progress compared to expected development.	5.3.3
<i>Material topic: Ethics &amp; Compliance and Transparency, trust and reputation</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	1.3, 3.8
	103-2 The management approach and its components	3.8
	103-3 Evaluation of the management approach	3.8
GRI 205-2: Anti-corruption	Communication and training about anti-corruption policies and procedures	2.11, 3.8, 5.3.3
GRI 205-3: Anti-corruption	Confirmed incidents of corruption and actions taken	3.8. There were no confirmed incidents of corruption in 2018, however during 2018 actions were taken related to previously reported incidents.
GRI 419-1: Socioeconomic Compliance	Non-compliance with laws and regulations in the social and economic area	5.2.5, 3.8,
<b>Own Indicator</b>	Publication of benchmark results	2.3
<b>Material topics which SBM Offshore reports according to own indicators</b>		
<i>Material topics: Innovation &amp; Technology and Renewable Energy and Energy Transition</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.1
	103-2 The management approach and its components	2.10
	103-3 Evaluation of the management approach	2.10
<b>Own indicator</b>	The quantity of TRL stage gates passed	2.10
<i>Material topic: Operational Excellence / Quality and Digitalization &amp; Standardization</i>		
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	2.7
	103-2 The management approach and its components	2.7
	103-3 Evaluation of the management approach	2.7, 2.8
<b>Own indicator</b>	Certification and classification performance on; ISO 9001, ISO 14001, OHSAS 18001 & ISM	5.5

## 5 NON-FINANCIAL DATA

### 5.5 CERTIFICATION AND CLASSIFICATION TABLES

Complementing sections 2.8 Quality and Regulatory and 3.10 Operational Governance, the below tables map the compliance and certification of SBM Offshore entities and (onshore and offshore) sites with the following international certification standards and codes:

- ISO 9001 – International Standard related to Quality Management Systems
- ISO 14001 – International Standard related to Environmental Management Systems
- OHSAS 18001 – International Standard related to Occupational Health & Safety Management Systems
- 'Class' – Marine Certification by Classification Societies (e.g. ABS – American Bureau of Shipping)
- ISM – International Safety Management Code (from IMO – International Maritime Organization)
- ISPS – International Ship & Port Facility Security Code (from IMO)

OFFICES & WORKSITES	ISO 9001	ISO 14001	OHSAS 18001	ISM
<b>Corporate Offices</b>				
Amsterdam (NL)	Certified			
Monaco (MC)	Certified			
<b>Locations</b>				
Houston (US)	Certified			
Rio de Janeiro (Brazil)	Certified			
Monaco (MC)	Certified			
Schiedam (NL)	Certified			
Kuala Lumpur (Malaysia)	Certified			
<b>Imodco</b>				
Monaco (MC)	Certified			
<b>Construction Sites</b>				
PAENAL (Angola)	Certified		Certified	
BRASA (Brazil)	Certified	Certified	Certified	
<b>Operations Offices</b>				
Monaco	Certified	Compliant	Compliant	Certified
Angola		Compliant	Compliant	Certified
Brazil		Compliant	Compliant	Certified
Canada		Compliant	Compliant	N/A
Equatorial Guinea		Compliant	Compliant	Certified
Malaysia		Compliant	Compliant	Certified

Certified: certified by accredited 3<sup>rd</sup> Party  
 Compliant: verified as compliant by independent, qualified 3<sup>rd</sup> Party  
 Classed: certified by classification society

OFFSHORE PRODUCTION FLEET	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
<b>Angola</b>					
<i>FPSO Mondo</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Saxi Batuque</i>	Compliant	Compliant	Classed	Certified	Certified
<i>N'Goma FPSO</i>	Compliant	Compliant	Classed	Certified	Certified
<b>Brazil</b>					
<i>FPSO Capixaba</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Espirito Santo</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Cidade de Anchieta</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Cidade de Paraty</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Cidade de Ilhabela</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Cidade de Maricá</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Cidade de Saquarema</i>	Compliant	Compliant	Classed	Certified	Certified
<b>Canada</b>					
<i>Deep Panuke (MOPU)</i>	Certified	Certified	N/A	N/A	N/A
<b>Equatorial Guinea</b>					
<i>FPSO Aseng</i>	Compliant	Compliant	Classed	Certified	Certified
<i>FPSO Serpentina</i>	Compliant	Compliant	Classed	Certified	Certified
<b>Malaysia</b>					
<i>FPSO Kikeh</i>	Certified	Compliant	Classed	Certified	Certified

OFFSHORE INSTALLATION FLEET	ISO 9001	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
SBM Installer	Certified	Certified	Certified	Classed	Certified	Certified
Normand Installer	Certified	Certified	Certified	Classed	Certified	Certified

Certified: certified by accredited 3<sup>rd</sup> Party  
 Compliant: verified as compliant by independent, qualified 3<sup>rd</sup> Party  
 Classed: certified by classification society

## 5 NON-FINANCIAL DATA

### 5.6 ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: the Management Board and Supervisory Board of SBM Offshore N.V.

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#### *Assurance report on the sustainability information 2018*

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#### *Our conclusion*

Based on our procedures performed, nothing has come to our attention that causes us to believe that the sustainability information included in the annual report of SBM Offshore N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December 2018 in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria as included in the section 'Reporting Criteria' below.

#### *What we have reviewed*

We have reviewed the sustainability information for the year ended 31 December 2018, as included in the following sections in the annual report of SBM Offshore N.V.:

- Chapter 1: At a Glance ;
- Chapter 2: Strategy and Performance ;
- Chapter 3.8: section ' Compliance ' ; and
- Chapter 5: Non-financial data.

This review is aimed at obtaining a limited level of assurance.

The sustainability information comprises a representation of the policy and business operations of SBM Offshore N.V., Amsterdam with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2018.

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#### *The basis for our conclusion*

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance engagements on corporate social responsibility reports' ('Assurance-opdrachten inzake maatschappelijke verslagen'), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000: 'Assurance Engagements other than Audits or Reviews of Historical Financial Information. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of this assurance report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### *Independence and quality control*

We are independent of SBM Offshore N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement 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').

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – 'Regulations for quality systems') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

#### *Reporting criteria*

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The Management Board of SBM Offshore N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in section 5.1 'Scope of non-financial information' of the Annual Report. The absence of a significant body of established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

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### *Limitations to the scope of our review*

We have reviewed the sustainability information taking into account the reporting boundaries set by SBM Offshore N.V., as disclosed in section 5.2 'Reporting boundaries'.

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites included in the sustainability information are not part of the sustainability information itself, reviewed by us. We do not provide assurance over the information outside of this annual report.

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### *Review approach*

#### *Overview and context*

SBM Offshore N.V. states that sustainability is an important value driver for SBM Offshore N.V.'s business and operations. SBM Offshore N.V. believes its licence to grow is dependent on developing sustainable solutions for the offshore oil and gas industry. SBM Offshore N.V. uses the United Nations Sustainable Development Goals (SDGs) as target guidelines and the GRI standards as the reporting standard to report on non-financial performance.

SBM Offshore N.V. recognized 31 important topics and based on their materiality assessment 16 topics can reasonably be considered important for reflecting SBM Offshore N.V.'s economic, environmental, and social impacts, or influencing the decisions of stakeholders. Based on our review procedures performed we have determined two of these topics to be key review matters.

Employee Health and Safety is an important topic for SBM Offshore N.V. and is amongst others measured by a metric on absenteeism. As in prior year the calculations and consolidation of the data is complex due to the different ways of registering data in the individual companies of the group. In addition, SBM Offshore has worked towards presenting data on more employees. We therefore determined this a key review matter.

Talent development is an important topic for SBM Offshore N.V. as talent is necessary to develop sustainable solutions for the offshore oil and gas industry. SBM Offshore has worked on developing talent and defining metrics to measure this. SBM Offshore has put significant effort in talent development and introduced the metric for the first time in 2018. Considering the subjectivity in the determination of talent development progress and the time spent as part of our review we determined this as a key review matter.

Other important topics that were part of the review, but not considered key review matters, were Ethics & Compliance and Environmental Impact.

#### *Materiality*

Based on our professional judgement we determined specific materiality levels for each relevant part of the sustainability information and the sustainability report as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative aspects and the relevance of information for both stakeholders and the organization.

Based on our professional judgment, we determined materiality levels for specific quantitative information within a bandwidth of 5% to 10% of the value of the indicator. The determination for either the lower or higher end of the range is based on how material the topic is considered for the user of the sustainability information and SBM Offshore N.V.

We have agreed with the Management Board that we report any deviations observed during the course of our assessment that, in our opinion, are relevant for quantitative or qualitative reasons.

#### *Scope of the review*

SBM Offshore N.V. reports on the sustainability information on a consolidated level. For more details reference is made to section 5.1 'Scope of non-financial information' of the Annual Report.

All procedures were performed by the review team. The review team visited the local offices in Monaco and Amsterdam.

#### *Key review matters*

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the sustainability information. We have communicated the key review matters to the Management Board. Key review matters are not a comprehensive reflection of all matters identified by our review and that we discussed. In this section, we described the key review matters and included a summary of the review procedures we performed on those matters.

The key review matters are addressed in the context of our review of the sustainability information as a whole, and in forming our conclusion thereon. We do not provide a separate conclusion on these matters or on specific elements of the sustainability information. Any comments or observations we made on the results of our procedures should be read in this context.

## 5 NON-FINANCIAL DATA

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### Key review matter

#### Development of information on absenteeism

*See section 5.2.4 Scope of non-financial information – Human Resources Reporting, 5.3.3 Non-financial indicators – Human Resources and 5.4 GRI Content Index*

In 2017, SBM Offshore N.V. developed company-wide reporting definitions and started consolidating data on absenteeism in order to obtain more relevant management information on group level.

SBM Offshore N.V. concluded that the absenteeism rate can only be reported for onshore locations and employees that have been directly employed by SBM Offshore N.V. The reported data covers a part of the employees and therefore does not represent the entire performance of SBM Offshore N.V. SBM Offshore N.V. disclosed a reason for omission from GRI in the GRI Content Index.

SBM Offshore N.V. considers absenteeism as the number of work days lost due to unplanned absence. This does not include permitted absences such as maternity/paternity leave, national holidays, vacation, or compassionate leave. The absenteeism rate is calculated as follows: The total amount of sick days on Full Time Equivalent (FTE) basis divided by the total amount of scheduled working days on FTE basis.

Due to a change in the GRI reporting standard SBM Offshore N.V. is most likely not reporting on absenteeism next year unless the topic becomes material as separate topic in the materiality analysis.

We consider this a key review matter because the data is complex by nature given the different variables used to calculate the absenteeism rate and in combination with the fact that registration of absence and scheduled working days differ between reporting entities.

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### Our review and observations

We performed inquiries to gain an understanding of the definitions (and whether these are in line with GRI), the scope and the processes of the reporting of the absenteeism rate. We observed how time is recorded in the different systems of SBM Offshore N.V. to validate our understanding.

We discussed with management the feasibility of reporting the absenteeism rate and we discussed whether the reporting scope is representative, since it covers only the onshore employees that were directly employed by SBM Offshore N.V.

We obtained an extract of absent time reported through the different systems for all reporting entities. We reviewed the calculation of the absenteeism rate and reviewed whether absence days due to maternity/paternity leave, national holidays, vacation and compassionate leave were appropriately excluded.

We performed detailed testing with a limited test basis for each different source system.

We evaluated whether SBM Offshore N.V. included appropriate disclosures about absenteeism in the annual report, including a sufficiently articulated limitation in scope of for the absenteeism rates to only include directly employed onshore staff.

Based on our review procedures nothing came to our attention with respect to the information on absenteeism and the disclosures thereto.

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### Key review matter

#### Introduction of information on talent development

*See section 2.9 Talented People, 5.2.4 Scope of non-financial information – Human Resources Reporting, 5.3.3 Non-financial indicators – Human Resources and 5.4 GRI Content Index*

A talent management and succession planning program is in place to track the strengths, development needs and potential future career paths of employees who are seen as having potential for future leadership roles. In 2018 SBM Offshore N.V. developed an approach to measure the overall development progress of the identified employees.

The progress for talents is expressed as a percentage, the number of identified employees making progress compared to total identified employees. Based on a talent matrix employees who are seen as having potential for future leadership roles are identified and approved by an executive committee. The manager of the identified employees indicates the overall development progress compared to expected development needed for the future role by choosing a development category (not making progress, slight delay in progress or overall good progress). The development categories as indicated by the managers are challenged by their HR Business Partner, based on a group wide approach and quality check.

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### Our review and observations

We performed inquiries to gain an understanding of the definitions, the scope and the processes of the reporting of talent development.

We challenged management about the approach to measure the overall development progress, the definitions and the disclosures. We discussed whether the indicator is representative to report on talent management related to the material topic Human Capital Development & Retention.

We obtained the report with the development progress category per employee as identified by the managers and their assessment, including the quality check of HR. We agreed the employees in this report to the approved list with employees who are seen as having potential for future leadership roles. We reviewed if all manager assessments have been checked by HR and if all changes from HR have been adjusted in the report. In addition we reviewed, for a limited sample, the reasonableness of the development

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#### *Key review matter*

The indicator is based on assessments of the managers and therefore subjective in nature. Managers' judgement should be taken into consideration when determining development categories. The risk of bias is mitigated by the quality check of HR.

We consider this a key review matter because it is a new indicator in the annual report on which SBM Offshore N.V. reports. SBM Offshore considers talent development important to develop sustainable solutions for the offshore oil and gas industry. Also subjectivity is involved in determining the development progress.

#### *Our review and observations*

categories based on the input from the managers and whether an appropriate conclusion has been reached.

We also reviewed whether SBM Offshore N.V. adequately applied the reporting definition and we recalculated the percentage.

We evaluated whether SBM Offshore N.V. included appropriate disclosures about talent development in the annual report.

Based on our review procedures nothing came to our attention with respect to the information on talent development and the disclosures thereto.

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### *Responsibilities for the sustainability information and the review*

#### *Responsibilities of the Management Board*

The Management Board of SBM Offshore N.V. is responsible for the preparation of the sustainability information in accordance with the reporting criteria as included in the section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the Management Board regarding the scope of the sustainability information and the reporting policy are summarized in section 5.1 'Scope of non-financial information'. The Management Board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Management Board is also responsible for such internal control as it determines necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing SBM Offshore N.V.'s reporting process on the sustainability information.

#### *Our responsibilities for the review of the sustainability information*

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance information to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered 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 sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

#### *Procedures performed*

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of SBM Offshore N.V.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Management Board.
- Obtaining and understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability's strategy and, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information;
  - Determining the nature and extent of the review procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. The visits to locations in Monaco and the Netherlands are aimed at, on a local level, validating source data and evaluating the design of internal controls and validation procedures;

## 5 NON-FINANCIAL DATA

- Obtaining assurance information that the sustainability information reconciles with underlying records of SBM Offshore N.V.;
- Reviewing, on a limited test basis, relevant internal and external documentation;
- Performing an analytical review of the data and trends;
- Reconciling the relevant financial information with the financial statements;
- Evaluating the presentation, structure and content of the sustainability information;
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicated with the Supervisory Board on the planned scope and timing of the engagement and on the significant findings that result from our engagement.

Amsterdam, 13 February 2019

PricewaterhouseCoopers Accountants N.V.

A.A. Meijer RA





A photograph of an offshore oil rig deck. In the foreground, a large orange cylindrical structure is visible. Several workers in orange safety gear and white hard hats are positioned around the deck. A yellow crane arm is extended over the side of the rig, and a yellow buoy is suspended from a cable. The background shows the blue ocean and a cloudy sky.

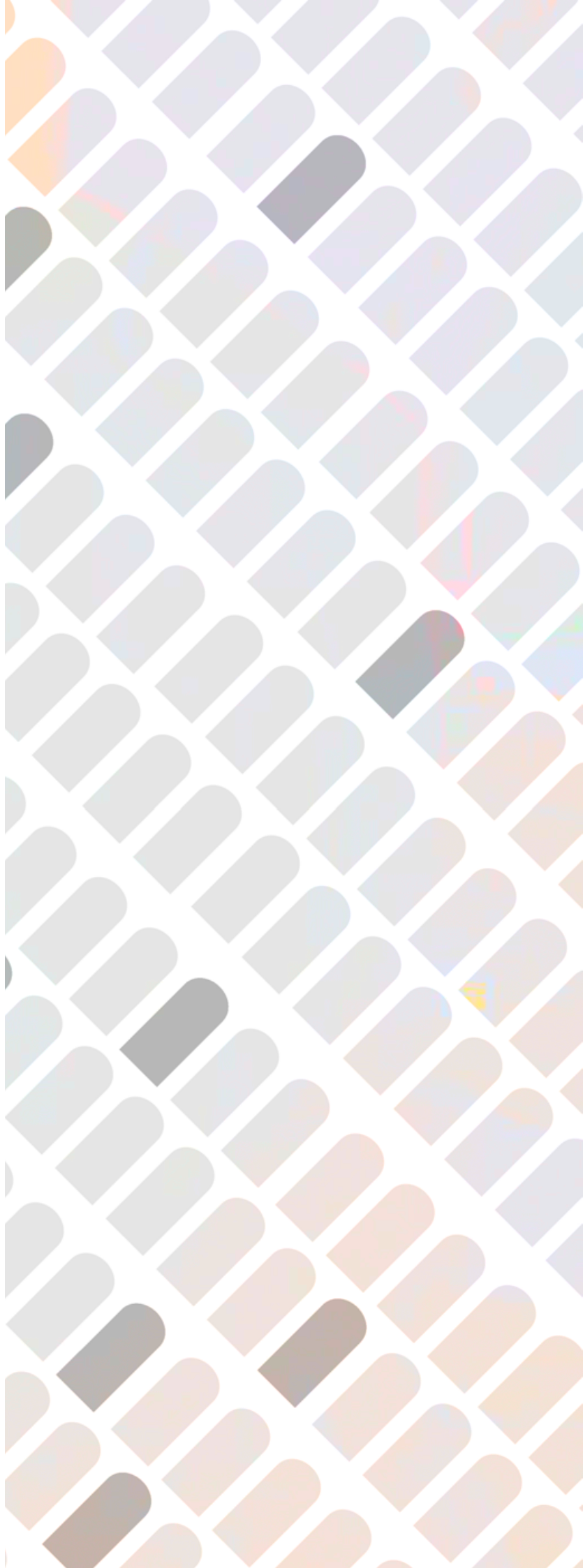
6.

OTHER INFORMATION

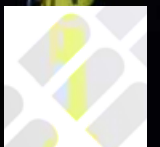
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#SBM OFFSHORE

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SBM INSTALLER



## 6 OTHER INFORMATION

### 6.1 Glossary

Term	Definition	Term	Definition
<b>A&amp;RC</b>	Appointment and Remuneration Committee	<b>GRI</b>	Global Reporting Initiative
<b>AGM</b>	Annual General Meeting of Shareholders	<b>GTS</b>	Group Technical Standards
<b>AGU</b>	Advocacia Geral da Uniao – Attorney General’s Office	<b>GWP</b>	Global Warming Potential
<b>API</b>	American Petroleum Institute	<b>HPHT</b>	High Pressure High Temperature
<b>BEPS</b>	Base Erosion and Profit Shifting	<b>HR</b>	Human Resources
<b>boepd</b>	Barrels of Oil Equivalent Per Day	<b>HSS</b>	Health, Safety & Security
<b>bopd</b>	Barrels of Oil Per Day	<b>HSSE</b>	Health, Safety, Security & Environment
<b>CALM</b>	Catenary Anchor Leg Mooring	<b>IASB</b>	International Accounting Standards Board
<b>CAPEX</b>	Capital Expenditure	<b>ICOFR</b>	Internal Control Over Financial Reporting
<b>CGCO</b>	Chief Governance and Compliance Officer	<b>ICOSIT</b>	Internal Control Over Systems and IT
<b>CGU</b>	Controladoria Geral da Uniao – Comptroller General’s Office	<b>IFRS</b>	International Financial Reporting Standards
<b>DoJ</b>	U.S. Department of Justice	<b>IOGP</b>	International Association of Oil and Gas Producers
<b>DSCV</b>	Diving Support and Construction Vessel	<b>IP</b>	Intellectual Property
<b>EBIT</b>	Earnings before Interest and Tax	<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>EBITDA</b>	Earnings before Interest, Taxes, Depreciation and Amortization	<b>ISM</b>	International Safety Management
<b>EGM</b>	Extraordinary General Meeting of Shareholders	<b>ISPS</b>	International Ship and Port Facility Security
<b>EPC</b>	Engineering Procurement and Construction	<b>ISRS</b>	International Sustainability Rating System™
<b>EPCI</b>	Engineering Procurement Construction and Installation	<b>JV</b>	Joint Venture
<b>EPS</b>	Earnings per Share	<b>KPI</b>	Key Performance Indicator
<b>Euribor</b>	Euro Interbank Offered Rate	<b>LBCR</b>	Lease Backlog Cover Ratio
<b>FEED</b>	Front-End Engineering and Design	<b>LIBOR</b>	London Interbank Offered Rate
<b>FID</b>	Final Investment Decision	<b>LNG</b>	Liquefied Natural Gas
<b>FLNG</b>	Floating Liquefied Natural Gas	<b>LOPC</b>	Loss of Primary Containment
<b>FOW</b>	Floating Offshore Wind	<b>LPG</b>	Liquefied Petroleum Gas
<b>FPSO</b>	Floating Production Storage and Offloading	<b>LTI</b>	Long-Term Incentive
<b>FPU</b>	Floating Production Unit	<b>LTIFR</b>	Lost Time Injury Frequency Rate
<b>FSO</b>	Floating Storage and Offloading	<b>MNOPF</b>	Merchant Navy Officers Pension Fund
<b>FTE</b>	Full Time Equivalent	<b>MOPU</b>	Mobile Offshore Production Unit
<b>GDPR</b>	General Data Protection Regulation	<b>MPF</b>	Ministério Público Federal
<b>GEMS</b>	Global Enterprise Management System	<b>MTFC</b>	Ministério da Transparência, Fiscalização e Controle – Ministry of Transparency, Oversight and Control
<b>GHG</b>	Greenhouse Gases	<b>mtpa</b>	Million Tonnes per Annum
<b>GRCD</b>	Group Risk and Compliance Director	<b>NO<sub>x</sub></b>	Nitrous Oxides
		<b>NPV</b>	Net Present Value
		<b>OECD</b>	Organization for Economic Co-operation and Development

Term	Definition
<b>OHSAS</b>	Occupational Health and Safety Assessment Series
<b>OIFR</b>	Occupational Illness Frequency Rate
<b>OPEX</b>	Operating Expenditure
<b>PFC</b>	Production Field Center
<b>PP&amp;E</b>	Property, Plant & Equipment
<b>ppm</b>	Parts Per Million
<b>PSE</b>	Process Safety Events
<b>PSF</b>	Process Safety Fundamentals
<b>PSM</b>	Process Safety Management
<b>PwC</b>	PricewaterhouseCoopers
<b>R&amp;D</b>	Research and Development
<b>RAC</b>	Risk Assurance Committee
<b>RCF</b>	Revolving Credit Facility
<b>RP</b>	Remuneration Policy
<b>RSU</b>	Restricted Share Unit
<b>SDG</b>	United Nations Sustainable Development Goals
<b>SO<sub>x</sub></b>	Sulphur Oxides
<b>SRS</b>	Single Reporting System
<b>STI</b>	Short-Term Incentive
<b>TLP</b>	Tension-Leg Platform
<b>TMS</b>	Turret Mooring System
<b>TRIFR</b>	Total Recordable Injury Frequency Rate
<b>TRL</b>	Technology Readiness Level
<b>TSR</b>	Total Shareholder Return
<b>UN</b>	United Nations
<b>VLCC</b>	Very Large Crude Carriers
<b>WEC</b>	Wave Energy Converter

## 6 OTHER INFORMATION

### 6.2 ADDRESSES & CONTACT DETAILS

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#### COLOPHON

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**[www.sbmoffshore.com](http://www.sbmoffshore.com)**

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This report contains the Management Report in the meaning of the Dutch Civil Code. The Management Report consists of Chapters 1, 2, and 3. The Financial Statements in the meaning of the Dutch Civil Code are included in Chapter 4.

Some of the statements contained in this report that are not historical facts are statements of future expectations and other forward-looking statements based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those in such statements. These statements may be identified by words such as 'expect', 'should', 'could', 'shall' and similar expressions. Such forward-looking statements are subject to various risks and uncertainties.

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