

# 2017

## ANNUAL REPORT



**EXPERIENCE MATTERS**

## 2 STRATEGY AND PERFORMANCE

### 2.1 GROUP STRATEGY

#### Management approach

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 analysis of the Company's capabilities to perform in its market and the elements in the materiality matrix.

The main aim of SBM Offshore is to grow and create value in the long-term in the areas of experience, track record, size, monetary value and development opportunities for its clients. The Company continues to focus on the offshore floating energy production market and to adhere to a defined risk appetite framework as it pursues potential projects; for example expanding into other areas.

Although core markets have slightly improved over the past year, opportunities remain limited and management believes the trend will continue until 2020. However, SBM Offshore is ready to exploit these few prospects and believes that it offers appropriate solutions to meet clients' needs within the cost constraints of today's market. The Company is also leveraging its key resources and capabilities to deliver value in new, evolving markets. The Company aims to continue to be a trusted partner to clients, by collaborating on innovative floating energy production solutions and ultimately delivering on its promises to stakeholders.

Objectives for the three strategic pillars for the Company are as follows:

- **Optimize** core business activities – ensuring targeted uptime, the highest safety rates and quality, delivered on time and on budget while continually aiming for better returns for clients. For example SBM Offshore provides Maintenance, Modification & Operation (MMO)<sup>2</sup> services; it has over 200 modification projects completed and with a pool of technologies at its disposal, the Company ensures improved and longer performance from its assets.
- **Transform** by bringing to market new, innovative ways of executing the Company's core solutions, which overcome the challenges and barriers inherent in this low oil price environment. Both SBM Offshore's Fast4Ward™ FPSO and its digital FPSO concept are believed to strengthen the competitive edge of the Company going forward.

<sup>2</sup> MMO refers to Operate and Maintenance Services as well as Brownfield projects, which include life extensions and upgrades to vessels.

- **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 transition in the energy mix, to Floating LNG and Renewable Energy solutions.

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

### 2.2 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 expanded to reflect management's view of the Company and how it monitors and assesses financial performance.

#### PROFITABILITY

Full-year 2017 Directional revenue is US\$ 1,676 million, a decrease of 17% compared to 2016 revenues of US\$ 2,013 million. This is mainly caused by lower revenues in the Turnkey segment, partially offset by an increase in Lease and Operate revenues from the additional three FPSOs that were delivered in 2016 and which have now contributed during the full year. Directional Turnkey revenue totaled US\$ 175 million, compared to US\$ 702 million in 2016. Directional Lease and Operate revenue totaled US\$ 1,501 million, compared to US\$ 1,310 million in the year before.

Excluding non-recurring items, Underlying Directional EBITDA increased 4% or US\$ 28 million when compared to 2016 and totals US\$ 806 million. This result is primarily attributable to the Lease and Operate segment, but also driven by good performance in Turnkey through successful project close-out. The average Underlying Directional EBITDA margin for the Lease and Operate segment remained stable at 64%.

2017 underlying consolidated Directional net income attributable to shareholders stood at US\$ 80 million, a decrease of US\$ 41 million compared to the previous year. This is because the year-on-year increase of underlying EBITDA is more than offset by increased depreciation and interest due to the full year contribution of the additional three FPSOs delivered in 2016 and the negative result on Construction yards.