2017
ANNUAL REPORT

SBM OFFSHORE

EXPERIENCE MATTERS

Underlying performance

Non-recurring items for 2017 are impacting the Directional profit attributable to shareholders by US$ (283) million as follows:

- US$ (210) million impact on EBITDA relating to (i) the penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') (US$ (238) million), (ii) the Yme project estimated net insurance claim income (US$ 125 million, net of claim-related costs incurred and accounted for in 2017) (iii) the compensation to the partners in the investee owning the *Turritella* (FPSO) following the purchase option exercised by Shell (US$ (80) million) and (iv) the net increase of the provision for the onerous long-term charter contract with the SBM Installer[1] (US$ (17) million).
- US$ (39) million impact on net financing costs, relating to (i) unwinding of the discount on the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ (18) million) and (ii) the hedge accounting discontinuance of the interest rate swap on the *Turritella* (FPSO) project loan (US$ (21) million).
- US$ (34) million impact on the line item 'Share of profit of equity-accounted investees' relating to the impairment of the Company's carrying amount of the net investment in the joint venture owning the Paenal construction yard.

In addition to the above items, IFRS results include a US$ (40) million impairment of the *Turritella* (FPSO) finance lease receivable, following the purchase option exercised by Shell. Given the Company's share in the investee owning the *Turritella* (FPSO) (55%), this impairment impacts the IFRS profit attributable to shareholders by US$ (22) million and the profit attributable to non-controlling interests by US$ (18) million. As a result, total non-recurring items for 2017 underlying performance are impacting the IFRS profit attributable to shareholders by US$ (306) million.

For reference, non-recurring items for 2016 were impacting the profit attributable to shareholders by US$ (126) million with the same impact in both IFRS and Directional as follows:

- US$ (53) million on EBITDA, related to (i) the provision for an onerous long-term charter contract with the SBM Installer[1] (US$ (31) million) and (ii) the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ (22) million).
- US$ (14) million on net financing costs for the unwinding of discount on the provision for contemplated settlement with Brazilian authorities and Petrobras.
- US$ (59) million impact on the line item 'Share of profit of equity-accounted investees' related to the impairment of the Company's carrying amount for the net investment in the joint venture owning the Paenal construction yard.

4.1.2 FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights (please refer to section 4.3.1 for more detail).

Awarded Turnkey and Lease and Operate Contracts for the ExxonMobil Liza FPSO

On June 22, 2017 the Company announced that ExxonMobil had formally confirmed the award of contracts for the next phase of the Liza project in Guyana. Under these contracts, the Company will construct, install and lease a floating production, storage and offloading vessel (FPSO). The operating and maintenance scope, agreed in principle, is subject to a final work order.

Turritella (FPSO) Purchase Option Exercised by Shell

On July 11, 2017 the Company announced that Shell E&P Offshore Services B.V. (Shell) notified the Company of the fact that Shell was exercising its right under the charter agreement to purchase the *Turritella* (FPSO). The purchase allows a Shell affiliate to assume operatorship of the Stones development in its entirety. The transaction closed on January 16, 2018 following a transition window which allowed for a safe and controlled handover of operations.

The total impact of the exercise of the purchase option on the result attributable to the shareholders of the Company recognized over 2017 is a loss of US$ (123) million under IFRS and a loss of US$ (101) million under Directional. Under Directional reporting, in accordance with the requirements of IFRS, the positive result on the sale of the vessel will be accounted for in 2018.

1 Diving Support and Construction Vessel (DSCV) – one of two units in SBM Offshore's installation fleet

Agreed Heads of Terms for Settlement with a Majority Group of Primary Layer Insurers on the Yme Insurance Claim

In Q3 2017, the Company announced that it had entered into a binding settlement with an 83.6% majority group of the US$ 500 million primary insurance layer relating to the Company's insurance claim arising from the Yme project. Pursuant to that agreement, the Company received the sum of US$ 281 million in full and final settlement of its claim against those participating insurers.

The funds received will first be used to cover legal fees and expenses incurred in the claim, with the balance then being shared equally with Repsol.

The Company continues to pursue its claim against all remaining insurers including the two excess layers, the trial of which is scheduled to commence in October 2018.

The impact on the consolidated income statement for the year ended December 31, 2017 is an estimated insurance income of US$ 125 million, net of the claim-related costs incurred and accounted for in 2017.

DSCV SBM Installer Charter Contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to still challenging conditions in the offshore oil and gas industry, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract expected to exceed the economic benefits to be received. As a result, the contract continues to be classified as onerous and the non-cash provision for onerous contract has been increased by US$ 33 million, recognized in the gross margin of the Turnkey segment as of December 31, 2017. Taking into account use of the provision already provided for at December 31, 2016, the net increase in the provision in 2017 is US$ 17 million.

Investment in JV holding Construction Yard Paenal

As the activity outlook for the Paenal construction yard operating in Angola has continued to deteriorate, the Company's investment in the joint venture owning the Paenal construction yard (30% ownership) has been fully impaired to a net book value of zero, resulting in an additional impairment charge of US$ 34 million accounted for in the consolidated income statement for the year ended December 31, 2017.

DoJ settlement penalties in United States

On November 30, 2017, the Company announced that it has signed a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the reopened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil.

As part of the overall resolution, SBM Offshore USA, Inc. a U.S. subsidiary of the Company, pleaded guilty to a single count of conspiracy to commit a violation of the U.S. Foreign Corrupt Practices Act. The Company agreed to pay monetary penalties in the total amount of US$ 238 million, paid out in cash in December 2017 and accounted for in the consolidated income statement for the year ended December 31, 2017.

Provision for Brazil settlement in Brazil

The discussions relating to the leniency agreement which was signed on July 16, 2016 but which was ultimately sent back for adjustment to the Public Prosecutor by the Brazilian Fifth Chamber for Coordination and Review and Anti-corruption remain complex. It has transpired that two leniency agreements are now required which necessitate agreement and coordination among the multiple parties involved. Consequently, a resolution has not yet been reached.

The Company confirmed its commitment to close out its legacy issues in Brazil and its willingness in principle to pay the previously agreed substantial amounts which remains the Company's best estimate for an eventual settlement.

A provision of US$ 281 million was included in the year ended December 31, 2016 consolidated financial statements and has been updated during 2017 to US$ 299 million, with the increase being due to the time value of money. In view of the current situation, which remains complex, the Company cannot guarantee that a satisfactory resolution will be reached. Given the range of options available, which could lead to a potential upside or downside related to the amount to settle, the Company has assessed that the provision in the financial statements is the most valid and substantiated outcome, as having previously been agreed to by the Brazilian authorities, Petrobras and the Company

Awarded Turnkey Contract for Statoil's Johan Castberg Turret Mooring System
On December 6, 2017 the Company announced that Statoil had formally confirmed the award of a contract related to the engineering, procurement and construction (EPC) work scope for a large-scale turret mooring system for its Johan Castberg development in Norway.

4.1.3 FINANCIAL REVIEW DIRECTIONAL

BACKLOG

Under Company policy, the backlog would not yet take the sale of *Turritella* (FPSO) into account with the closing of the transaction occuring only in January 2018. This also holds for the agreed FPSO *Liza* operating and maintenance scope, which is agreed in principle but pending a final work order. However, for the purpose of transparency and to better reflect the current reality, the pro-forma backlog represented in the table below takes both into account.

New orders for the year totaled to US$ 2,608 million as a result of the awards of the FPSO *Liza*, the Johan Castberg EPC contract for a large-scale turret mooring system, the five year operating and maintenance contract on FPSO *Serpentina* and various buoys and offshore terminal EPC contracts. This compares to US$ 110 million achieved in 2016. This increase is partially offset by the decrease in backlog resulting from the sale of *Turritella* (FPSO), effective early 2018.

Consequently, the proforma Directional backlog at the end of 2017 remains substantial at US$ 16.8 billion (US$ 17.1 billion at the end of 2016).

Proforma Backlog (in billions of US$)

in billion US$	Turnkey	Lease & Operate	Total
2018	0.2	1.3	1.5
2019	0.2	1.3	1.5
2020	0.2	1.5	1.7
Beyond 2020	0.0	12.1	12.1
Total Backlog	0.6	16.2	16.8

Proforma Backlog (in billions of US$)