2017 ANNUAL REPORT

SBM OFFSHORE

EXPERIENCE MATTERS

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

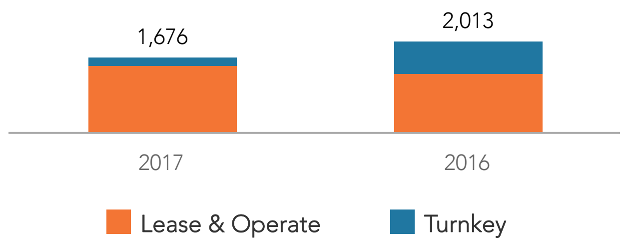
Proforma Backlog (in billions of US$)

PROFITABILITY

Revenue

Directional revenue decreased by 17% to US$ 1,676 million compared to US$ 2,013 million in the year-ago period. This was primarily attributable to lower Turnkey segment revenues.

Revenue Directional (in millions of US$)



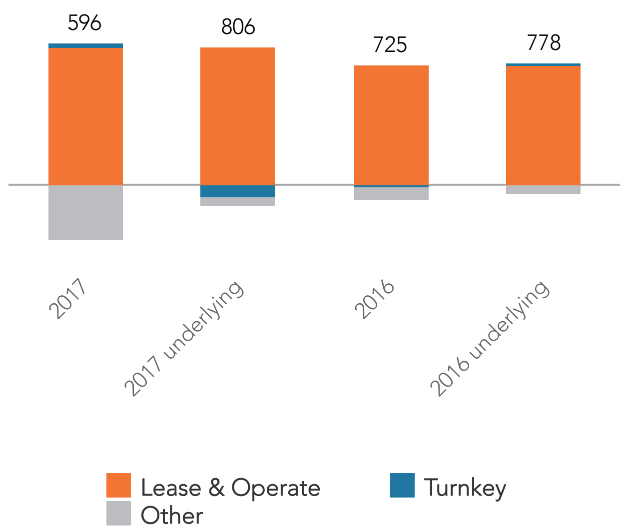
Directional Turnkey revenue decreased by 75% year-on-year to US$ 175 million, representing 10% of total 2017 revenue. This compares to US$ 702 million, or 35% of total revenue, in 2016. The decrease is mostly attributable to the completion stage reached in the course of 2016 on Ichthys turret and FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella* while new major awards won during 2017 are expected to materially contribute to Turnkey revenues in 2018.

Directional Lease and Operate revenue increased by 15% to US$ 1,501 million, representing 90% of total Directional revenue contribution in 2017, up from the 65% contribution in 2016. The increase in segment revenue is attributable to the full year operation of FPSO *Cidade de Maricá* (on hire as of February 7, 2016), FPSO *Cidade de Saquarema* (on hire as of July 8, 2016) and *Turritella* (FPSO) (on hire as of September 2, 2016) while no vessel has been decommissioned during 2017.

EBITDA

Directional EBITDA amounted to US$ 596 million, representing a 18% decrease compared to US$ 725 million in 2016. This figure includes non-recurring net costs totaling US$ 210 million (please refer to the detail provided in section 4.1.1).

EBITDA Directional (in millions of US$)



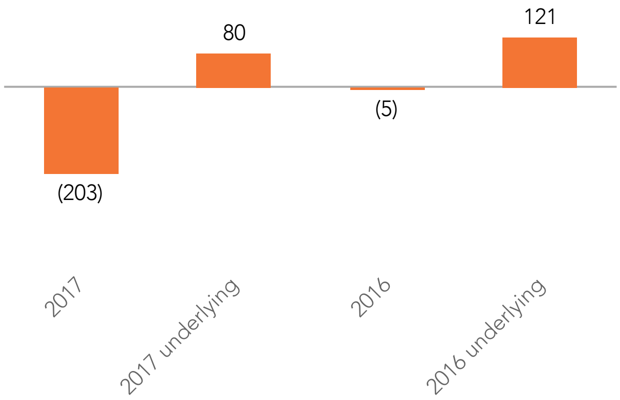
Adjusted for non-recurring items, underlying Directional EBITDA increased by 4% to US$ 806 million compared with US$ 778 million in 2016. This increase is primarily attributable to the Lease and Operate segment generating US$ 132 million additional EBITDA with full year contribution of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*. Despite the significant decline of Turnkey activity year-on-year, underlying Turnkey EBITDA has been held to a loss of US$ (86) million due to sound performance in project close out.

As a percentage of revenue, underlying Directional EBITDA was 48% (2016: 39%). Underlying Directional EBITDA margin for the Lease and Operate segment stood at 64%, an increase compared with 63% in 2016, while Turnkey segment underlying Directional EBITDA margin decreased to (49)% compared to 3% in 2016, as the level of project activity was not sufficient to absorb structural cost.

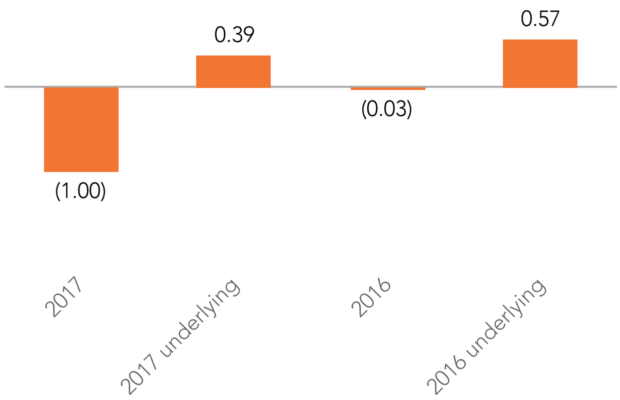
It should be noted that the start of the construction of the FPSO Liza did not contribute to Directional revenue and gross margin over the period. This is because the contract is 100% owned by the Company and classified as operating lease as per Directional accounting principles.

Net income

Net Income Directional (in millions of US$)



Weighted Average Earnings Per Share Directional (in US$)



Directional consolidated net income for 2017 decreased to a US$ (203) million loss compared to a US$ (5) million loss in 2016 (restated for comparison purposes due to change in accounting policy for Directional income tax computation, please refer to note 4.3.2). This result includes non-recurring items, which generated a net loss of US$ (283) million in 2017 compared to a net loss of US$ (126) million in 2016.

Excluding non-recurring items, 2017 underlying consolidated Directional net income attributable to shareholders stood at US$ 80 million, a decrease of US$ 41 million from the previous year. After considering depreciation and net financing cost (increasing year-on-year caused by the full year contribution of the additional three FPSOs delivered in 2016), the increased contribution of the Lease and Operate activity was not sufficient to absorb the decrease in Turnkey EBITDA and the negative contribution of the Company's share of profit of equity-accounted investees over the period. This follows the Company's strategy to maintain Turnkey capacity to a level which should enable it to benefit from the expected improvement in the offshore market in the coming years.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2017	2016
Total equity	1,097	1,159
Net debt	2,687	3,107
Net Cash	878	823
Total assets	6,915	7,296
Leverage ratio	3.0	2.8
Solvency ratio	32.5	32.4

Total assets decreased to US$ 6.9 billion as of December 31, 2017 compared to US$ 7.3 billion at year-end 2016. This decrease is mainly attributable to vessel depreciation over the period.

Shareholder's equity decreased from US$ 1,159 million to US$ 1,097 million mostly due to the 2017 net loss and dividends paid to shareholders, partially offset by increasing marked-to-market value of hedging instruments, mainly driven by the fall in the US$ exchange rate versus the hedged currencies.

Directional net debt was US$ 2,687 million at year-end 2017 compared with US$ 3,107 million in 2016. The strong operating cash flow from the Lease and Operate segment and the proceeds from the Yme insurance claim were more than sufficient to cover Turnkey cash consumption, corporate overheads, payment of the non-recurring penalty to the U.S. DoJ, investing activities, dividends and interest paid over the period. All of the Company's debt consists of non-recourse project financing in special purpose investees with no borrowing at corporate level as of December 31, 2017.

The relevant banking covenants (solvency ratio, leverage ratio (net debt/adjusted EBITDA) and interest cover ratio) were all met at December 31, 2017. As in previous years, the Company has no off-balance sheet financing.

Despite the market downturn, the Company's financial position has remained strong thanks to the growth of the cash flow generated by the fleet and the adaptation of the Turnkey segment to a slow market.

CASH FLOW / LIQUIDITIES

Cash and undrawn committed credit facilities amounted to US$ 1,878 million, of which US$ 254 million is considered as pledged to specific project debt servicing or otherwise restricted in its utilization.

The consolidated cash flow statement under Directional reporting is as follows:

in millions of US$	2017
EBITDA	**596**
Adjustments for non-cash and investing items	
Addition/(release) provision	292
(Gain)/loss on disposal of property, plant and equipment	0
Share-based payments	12
Changes in operating assets and liabilities	
Decrease in operating receivables	31
Increase in construction work-in-progress	7
Decrease in operating liabilities	(201)
Income taxes paid	(30)
Net cash from operating activities	**707**
Capital expenditures	(96)
Addition to and repayments of funding loans	38
Other investing activities	30
Net cash used in investing activities	**(28)**
Addition to and repayments of borrowings and loans	(381)
Dividends paid to shareholders	(47)
Interest paid	(192)
Net cash used in financing activities	**(620)**
Foreign currency variations	(3)
Net increase in cash and cash equivalents	**55**

4.1.4 FINANCIAL REVIEW IFRS

PROFITABILITY

Revenue

Total IFRS revenue decreased during the year, down by 18% to US$ 1,861 million versus US$ 2,272 million in 2016, despite an increase of 22% for the Lease and Operate segment. This was mainly attributable to significantly lower revenue generated by the Turnkey segment upon completion of major projects in the course of 2016 while awards won during 2017 will start to materially contribute to Turnkey revenues in 2018.

EBITDA

IFRS EBITDA amounted to US$ 611 million, representing a 21% decrease compared with US$ 772 million in 2016.

Adjusted for non-recurring items, 2017 underlying IFRS EBITDA is stable at US$ 822 million compared with US$ 825 million in 2016. This is primarily attributable to the Lease and Operate segment with full year contribution of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*. Despite the significant decline of Turnkey activity year-on-year, the underlying Turnkey EBITDA has been held to a loss of US$ (36) million due to sound performance in project close out.

It should be noted that the start of the construction of the FPSO *Liza* did not yet contribute to the IFRS gross margin given the Company policy of not recognizing margin before it could be estimated reliably thanks to substantial progress in engineering activity and the completion of an independent project review, typically at around 25% of project progress.