

2017

ANNUAL REPORT



EXPERIENCE MATTERS

4 FINANCIAL STATEMENTS 2017

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

in US\$ million	Directional		IFRS	
	FY 2017	FY 2016	FY 2017	FY 2016
Revenue	1,676	2,013	1,861	2,272
Lease and Operate	1,501	1,310	1,554	1,273
Turnkey	175	702	307	1,000
EBITDA	596	725	611	772
Lease and Operate	954	823	920	733
Turnkey	21	(14)	71	124
Other	(380)	(84)	(380)	(84)
Underlying EBITDA	806	778	822	825
Lease and Operate	954	823	920	733
Turnkey	(86)	18	(36)	155
Other	(62)	(62)	(62)	(62)
Profit/(loss) attributable to shareholders	(203)	(5)¹	(155)	182
Underlying profit attributable to shareholders	80	121	151	308

¹ Restated for comparison purpose, please refer to note 4.3.2

in US\$ billion	Directional		IFRS	
	FY 2017	FY 2016	FY 2017	FY 2016
Backlog	16.8	17.1	-	-
Net Debt	2.7	3.1	4.6	5.2

Segment information

The Company's primary business segments are Lease and Operate and Turnkey plus 'Other' non-allocated corporate income and expense items. Revenue, gross margin, EBIT and EBITDA are analyzed by segment but it should be recognized that business activities are closely related. For example, sales costs are incurred and allocated to the Turnkey segment even though a prospect may be ultimately a Lease and Operate contract.

In recent years, new lease contracts have shown 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. 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 relating to consolidation, 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 of the Company to monitor performance and business planning. Reference is made to note 4.3.2 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.

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 Installer¹ (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 Installer¹ (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