

# 2017

## ANNUAL REPORT



**EXPERIENCE MATTERS**



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) / Performance share unit (PSU)
- Performance shares
- 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.

## 4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4.3.1 FINANCIAL HIGHLIGHTS

#### **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). This follows completion of front-end engineering studies and the final investment decision on the project by ExxonMobil. The operating and maintenance scope, agreed in principle, is subject to a final work order.

The FPSO is designed to produce up to 120,000 barrels of oil per day, will have associated gas treatment capacity of circa 170 million cubic feet per day and water injection capacity of circa 200,000 barrels per day. The converted VLCC FPSO will be spread moored in water depth of 1,525 meters and will be able to store 1.6 million barrels of crude oil.

The lease contract is classified as a finance lease contract under IAS 17, in particular because at the inception of the lease, the present value of the minimum lease payment amounts to at least substantially all of the fair value of the leased asset.

#### **FPSO Turritella Purchase Option Exercised by Shell**

On July 11, 2017 the Company announced that Shell E&P Offshore Services B.V. (Shell) had 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 a safe and controlled handover of operations.

The Company owns 55% of the investee that owned the *Turritella* (FPSO). Nippon Yusen owns another 15% and Mitsubishi Corporation the remaining 30%.

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The transaction comprises a total cash consideration to the investee of US\$ 987 million. The net divestment proceeds, after taking into account the unwinding of the commitments to the partners in the investee, will primarily be used for project finance redemption.

The financial impact of the transaction in the Company's consolidated financial statements are the following:

- A provision of US\$ 80 million for the 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 has been recognized as of December 31, 2017, impacting the line 'Other operating expense' of the consolidated income statement;
- Impact of the hedge accounting discontinuance of the interest rate swap and amortization of the transaction costs related to the project loan to be repaid of US\$ (21) million, impacting the line 'Net financing costs' of the consolidated income statement over the period ended December 31, 2017;
- Under IFRS, as a result of the sale price to be received from the client on exercising the option to purchase being lower than the remaining net investment in the lease, an impairment of US\$ 40 million has been recognized in the line item 'Other operating expense' of the consolidated income statement as of December 31, 2017. The derecognition of the impaired finance lease receivable will be accounted for in the 2018 Company's financial statements upon effective completion of the transaction, without further impact on the consolidated income statement;
- Under Directional reporting, the 55% held in net book value of the FPSO recognized as property plant and equipment has been reclassified as asset held for sale, without any impairment, the sale price to be received from the client being higher than the remaining net book value of the vessel. The derecognition of the asset, and the booking of the related gain on disposal of US\$ 213 million, will be accounted for in the 2018 Company's financial statements.

### 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.

Following reimbursement first of legal fees and other claim-related expenses incurred to date (most of which being incurred by the Company), the balance of the settlement monies has to be shared equally with Repsol in accordance with the terms of their settlement agreement of March 11, 2013 which concluded the Yme project.

The impact on the result attributable to the Company is an estimated insurance income of US\$ 125 million, net of the claim-related costs incurred and accounted for in 2017, reported as 'Other operating income' in the consolidated income statement for the year ended December 31, 2017.

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.

### DSCV SBM Installer Charter Contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Conditions in the offshore oil and gas industry continue to be challenging as regards the over supply of construction vessels available on the market and recent lower activity in the offshore service industry compared with previous years. As a consequence, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract exceeding the economic benefits expected 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. The Company's investment (25% ownership) in the joint venture which owns the vessel is accounted for using the equity method (please refer to note 4.3.26).

### **Investment in JV holding Construction Yard Paenal**

The activity outlook for the Paenal construction yard operating in Angola has continued to deteriorate further, with no award in the Angolan FPSO market since 2014 and macro-economic constraints arising from the persistent downturn. The local construction capacity in Angola is therefore in excess of the activity generated by the oil & gas industry. As a consequence, 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. 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 2017 (please refer to note 4.3.15).

### **DoJ settlement penalties in United States**

On November 30, 2017, the Company announced that it had 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 on the line 'Other operating income/(expense)' of the consolidated income statement over the period ended December 2017.

The terms of the resolution reflect the Company's cooperation and confidence in the quality of the Company's compliance program and efforts by current management.

### **Provision for Brazil settlement in Brazil**

On July 15, 2016, the Company signed a Leniency Agreement with the Ministry of Transparency, Oversight and Control (Ministério da Transparência, Fiscalização e Controle – 'MTFC'), the Public Prosecutor's Office (Ministério Público Federal – 'MPF'), the Attorney General's Office (Advocacia-Geral da União – 'AGU') and Petrobras.

Discussions with relevant authorities have continued during the year 2017, following the decision by the Brazilian Fifth Chamber not to approve the agreement and to send the agreement back to the Public Prosecutor for adjustments. On November 6, 2017, the Company reported that the discussions relating to the leniency agreement remained complex and that two leniency agreements were now required which necessitate agreement and coordination among the multiple parties involved.

Further to this update, the Company reported the two following developments on December 22, 2017:

- The Company learned that following a review of the leniency agreement pending the injunction order suspending signing of the leniency agreement, the Federal Court of Accounts (Tribunal de Contas da União – 'TCU') decided to allow the MTFC, the AGU and Petrobras to move forward with the signing of the leniency agreement.
- The MPF has filed a damage claim based on the Brazilian Improbability Act with the Federal Court in Rio de Janeiro against a Brazilian subsidiary of the Company, an intermediate holding company in Switzerland and a number of individuals, including former employees of the SBM Offshore Group. The claim relates to the alleged improper sales practices before 2012 that are also the subject of the leniency agreements under discussion with the Brazilian authorities and Petrobras. The judge handling the case will now have to decide on the acceptance of the lawsuit before the Brazilian court, after which the defendants could be served with the court documents. In the context of this lawsuit, the MPF asked the court to impose a provisional measure as a means to secure damages potentially awarded.

Although the Fifth Chamber of the Brazilian Federal Prosecutor Service has not approved the leniency agreement signed by Brazilian authorities, Petrobras and the Company on July 15, 2016, the terms of this agreement remain the Company's best estimate for an eventual settlement. A provision of US\$ 281 million was included in the year ended

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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.

The Company confirms its commitment to close out its legacy issues in Brazil and its willingness in principle to pay the previously agreed substantial amounts. However, to enter into the proposed leniency agreements, the Company would need to be in a position to reach satisfactory closure with all Brazilian authorities and Petrobras on all outstanding leniency issues at the same time. In view of the current situation, 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.

The Company will await resolution before participating in Petrobras-operated tenders.

### 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.

The Johan Castberg (formerly Skrugard) development is situated in the Barents Sea in Norway, approximately 100 kilometers north of the Snøhvit-field. The turret is planned to be delivered in modules in early 2020, will be moored in c. 370 meter water depth and will have a capacity to accommodate 21 risers.

## 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 IAS 17. 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 and statement of financial positions 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.

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'. As a next step in providing transparency, the Company has decided to extend these reconciliation disclosures by providing a reconciliation of the statement of financial position and cash flow statement under IFRS and Directional reporting starting December 31, 2017. The statement of financial position and the cash flow statement under Directional reporting, the latter being prepared applying the indirect method, are evaluated