

2017

ANNUAL REPORT



EXPERIENCE MATTERS

4 FINANCIAL STATEMENTS 2017

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

regularly by the Management Board in assessing the financial position and cash generation of the Company. The Company believes that these additional disclosures should enable users of its financial statements to better evaluate the nature and financial effects of the business activities in which it engages, while facilitating the understanding of the Directional reporting by providing a straightforward reconciliation with IFRS for all key financial metrics.

It is noted that for finance lease contracts, under IFRS, commencing before January 1, 2013 (i.e. the introduction date of Directional reporting) and accounted for as if they were operating lease contracts under Directional reporting, the Company has assumed that no subsequent costs have been added to the initial Directional capex value since commencement date of these lease contracts until January 1, 2013. In accordance with Company and IFRS policy related to property, plant and equipment, the initial Directional capex value equals to the sum of external costs, internal costs and third party financial costs incurred by the Company during construction. Starting January 1, 2013, subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Until December 31, 2016, the income tax expense reported under Directional reporting, but not allocated by segment, was determined by applying the IFRS effective tax rate of the relevant period to the Directional profit before tax. In order to align Directional reporting as much as possible to IFRS standards, starting from the period ending December 31, 2017, the Company decided to discontinue this practical expedient and to strictly apply IAS 12 for the computation of the income tax to be accounted for under Directional reporting. The comparative data related to the period ending December 31, 2016 and presented in this note has been restated for comparison purposes, resulting in an additional tax charge of US\$ 29 million. As a result, the previously reported Directional income tax charge for the year ending December 31, 2016 of US\$ 9 million is restated to a Directional income tax charge of US\$ 38 million. If for the year ending December 31, 2017 the Company would have applied the practical expedient of applying the IFRS effective tax rate to the Directional profit before tax, the Directional income tax for the year ending December 31, 2017 would have been a tax charge of US\$ 12 million compared to a current Directional tax charge of US\$ 34 million.

SEGMENT HIGHLIGHTS

In 2017, the Turnkey segment is impacted by the insurance claim payouts of Yme project insurance claim (please refer to note 4.3.4), while in 2017 and 2016 the Turnkey segment is impacted by the onerous contract provision related to DSCV SBM Installer and the long-term office rental contracts (please refer to note 4.3.26).

'Other' is impacted by the compensation paid to the partners in the investee owning *Turritella* (FPSO) and the penalty paid following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') (please refer to note 4.3.4).

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2017 operating segments (Directional)

| | Lease and Operate | Turnkey | Reported segments | Other | Total Directional reporting |
|---|-------------------|------------|-------------------|--------------|-----------------------------|
| Third party revenue | 1,501 | 175 | 1,676 | - | 1,676 |
| Gross margin | 514 | 2 | 516 | - | 516 |
| Other operating income/expense | (4) | 123 | 119 | (317) | (199) |
| Selling and marketing expenses | (2) | (33) | (36) | 0 | (36) |
| General and administrative expenses | (18) | (50) | (68) | (63) | (132) |
| Research and development expenses | (2) | (31) | (33) | 0 | (33) |
| Operating profit/(loss) (EBIT) | 487 | 11 | 498 | (381) | 117 |
| Net financing costs | | | | | (233) |
| Share of profit of equity-accounted investees | | | | | (54) |
| Income tax expense | | | | | (34) |
| Profit/(Loss) | | | | | (203) |
| Operating profit/(loss) (EBIT) | 487 | 11 | 498 | (381) | 117 |
| Depreciation, amortization and impairment | 467 | 10 | 478 | 1 | 478 |
| EBITDA | 954 | 21 | 975 | (380) | 596 |
| Other segment information : | | | | | |
| Impairment charge/(reversal) | (10) | - | (10) | - | (10) |

Reconciliation of 2017 operating segments (Directional to IFRS)

| | Reported segments under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Impact of Other ¹ | Total Consolidated IFRS |
|---------------------------|---|--------------------------------------|---------------------------------|------------------------------|-------------------------|
| Revenue | | | | | |
| Lease and Operate | 1,501 | (269) | 322 | - | 1,554 |
| Turnkey | 175 | 130 | 2 | - | 307 |
| Total revenue | 1,676 | (139) | 324 | - | 1,861 |
| Gross margin | | | | | |
| Lease and Operate | 514 | 19 | 207 | - | 740 |
| Turnkey | 2 | 24 | 31 | - | 57 |
| Total gross margin | 516 | 43 | 238 | - | 797 |
| EBIT | | | | | |
| Lease and Operate | 487 | 19 | 207 | - | 713 |
| Turnkey | 11 | 23 | (9) | - | 25 |
| Other | - | 0 | 0 | (381) | (381) |
| Total EBIT | 498 | 43 | 198 | (381) | 358 |
| EBITDA | | | | | |
| Lease and Operate | 954 | (269) | 234 | - | 920 |
| Turnkey | 21 | 42 | 8 | - | 71 |
| Other | - | - | - | (380) | (380) |
| Total EBITDA | 975 | (226) | 242 | (380) | 611 |

¹ Impact of business segment that does not meet the definition of an operating segment

2016 operating segments (Directional)

| | Lease and Operate | Turnkey | Reported segments | Other | Total Directional reporting |
|---|-------------------|-------------|-------------------|-------------|-----------------------------|
| Third party revenue | 1,310 | 702 | 2,013 | - | 2,013 |
| Gross margin | 423 | 142 | 565 | - | 565 |
| Other operating income/expense | (3) | (39) | (42) | (24) | (66) |
| Selling and marketing expenses | (3) | (35) | (37) | 0 | (37) |
| General and administrative expenses | (19) | (61) | (81) | (61) | (142) |
| Research and development expenses | 0 | (29) | (29) | 0 | (29) |
| Operating profit/(loss) (EBIT) | 398 | (22) | 376 | (86) | 290 |
| Net financing costs | | | | | (196) |
| Share of profit of equity-accounted investees | | | | | (61) |
| Income tax expense ¹ | | | | | (38) |
| Profit/(Loss) | | | | | (5) |
| Operating profit/(loss) (EBIT) | 398 | (22) | 376 | (86) | 290 |
| Depreciation, amortization and impairment | 425 | 9 | 433 | 2 | 435 |
| EBITDA | 823 | (14) | 809 | (84) | 725 |
| Other segment information : | | | | | |
| Impairment charge/(reversal) | (8) | 0 | (8) | - | (8) |

¹ Restated for comparison purpose

Reconciliation of 2016 operating segments (Directional to IFRS)

| | Reported segments under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Impact of Other ¹ | Total Consolidated IFRS |
|---------------------------|---|--------------------------------------|---------------------------------|------------------------------|-------------------------|
| Revenue | | | | | |
| Lease and Operate | 1,310 | (210) | 172 | - | 1,273 |
| Turnkey | 702 | 314 | (17) | - | 1,000 |
| Total revenue | 2,013 | 105 | 155 | - | 2,272 |
| Gross margin | | | | | |
| Lease and Operate | 423 | 38 | 94 | - | 555 |
| Turnkey | 142 | 144 | (3) | - | 283 |
| Total gross margin | 565 | 182 | 91 | - | 838 |
| EBIT | | | | | |
| Lease and Operate | 398 | 39 | 93 | - | 531 |
| Turnkey | (22) | 143 | (2) | - | 119 |
| Other | - | 0 | 0 | (86) | (86) |
| Total EBIT | 376 | 182 | 91 | (86) | 564 |
| EBITDA | | | | | |
| Lease and Operate | 823 | (208) | 118 | - | 733 |
| Turnkey | (14) | 138 | (1) | - | 124 |
| Other | - | - | - | (84) | (84) |
| Total EBITDA | 809 | (70) | 117 | (84) | 772 |

¹ Impact of business segment that does not meet the definition of an operating segment

4 FINANCIAL STATEMENTS 2017

For the purposes of this note, a reconciliation of the Directional statement of financial position to IFRS is provided as of and for each reporting ended period. A reconciliation of cash flow statement to IFRS is provided for the year ended December 31, 2017.

Reconciliation of 2017 statement of financial position (Directional to IFRS)

| | Reported under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS |
|---|--|--|---------------------------------------|----------------------------|
| ASSETS | | | | |
| Property, plant and equipment and Intangible assets | 4,692 | (3,545) | 138 | 1,285 |
| Investment in associates and joint ventures | 36 | - | 421 | 457 |
| Finance lease receivables | - | 4,767 | 2,429 | 7,196 |
| Other financial assets | 268 | (134) | 100 | 234 |
| Construction work-in-progress | 18 | 116 | 0 | 134 |
| Trade receivables and other assets | 599 | 0 | 51 | 649 |
| Derivative financial instruments | 92 | - | 0 | 92 |
| Cash and cash equivalents | 878 | - | 79 | 957 |
| Assets held for sale | 332 | (330) | - | 2 |
| Total Assets | 6,915 | 875 | 3,217 | 11,007 |
| EQUITY AND LIABILITIES | | | | |
| Equity attributable to parent company | 1,097 | 1,424 | (19) | 2,501 |
| Non-controlling interests | 0 | - | 1,057 | 1,058 |
| Equity | 1,097 | 1,424 | 1,038 | 3,559 |
| Loans and borrowings | 3,565 | - | 2,005 | 5,571 |
| Provisions | 971 | (142) | 1 | 830 |
| Trade payable and other liabilities | 584 | 37 | 15 | 636 |
| Deferred income | 587 | (443) | 114 | 257 |
| Derivative financial instruments | 110 | - | 43 | 154 |
| Total Equity and Liabilities | 6,915 | 875 | 3,217 | 11,007 |

Reconciliation of 2017 cash flow statement (Directional to IFRS)

| | Reported under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS |
|---|--|--|---------------------------------------|----------------------------|
| EBITDA | 596 | (226) | 242 | 611 |
| Adjustments for non-cash and investing items | 304 | 0 | 1 | 306 |
| Changes in operating assets and liabilities | (162) | (91) | (16) | (269) |
| Reimbursement finance lease assets | 0 | 266 | 63 | 329 |
| Income taxes paid | (30) | - | 8 | (22) |
| Net cash flows from (used in) operating activities | 707 | (52) | 299 | 955 |
| Capital expenditures | (96) | 52 | 0 | (44) |
| Other investing activities | 68 | 0 | 98 | 165 |
| Net cash flows from (used in) investing activities | (28) | 52 | 98 | 121 |
| Equity repayment to partners | - | - | (61) | (61) |
| Addition and repayments of borrowings and loans | (381) | - | (194) | (576) |
| Dividends paid to shareholders non-controlling interests | (47) | - | (47) | (93) |
| Interests paid | (192) | - | (97) | (290) |
| Net cash flows from (used in) financing activities | (620) | - | (399) | (1,019) |
| Net cash and cash equivalents as at 1 January | 823 | - | 81 | 904 |
| Net increase/(decrease) in net cash and cash equivalents | 59 | - | (2) | 57 |
| Foreign currency variations | (3) | - | 0 | (4) |
| Net cash and cash equivalents as at 31 December | 878 | - | 79 | 957 |

Reconciliation of 2016 statement of financial position (Directional to IFRS)

| | Reported under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS |
|---|--|--|---------------------------------------|----------------------------|
| ASSETS | | | | |
| Property, plant and equipment and Intangible assets | 5,447 | (4,097) | 170 | 1,520 |
| Investment in associates and joint ventures | 48 | - | 436 | 484 |
| Finance lease receivables | 0 | 5,050 | 2,510 | 7,560 |
| Other financial assets | 280 | (75) | 69 | 274 |
| Construction work-in-progress | 15 | 0 | 0 | 15 |
| Trade receivables and other assets | 647 | 0 | 44 | 690 |
| Derivative financial instruments | 36 | - | 3 | 38 |
| Cash and cash equivalents | 823 | - | 81 | 904 |
| Assets held for sale | 1 | - | - | 1 |
| Total Assets | 7,296 | 878 | 3,313 | 11,488 |
| EQUITY AND LIABILITIES | | | | |
| Equity attributable to parent company | 1,159 | 1,379 | (22) | 2,516 |
| Non-controlling interests | 0 | 0 | 996 | 996 |
| Equity | 1,159 | 1,379 | 975 | 3,513 |
| Loans and borrowings | 3,930 | - | 2,190 | 6,120 |
| Provisions | 701 | (103) | 7 | 604 |
| Trade payable and other liabilities | 731 | 40 | (25) | 746 |
| Deferred income | 597 | (438) | 109 | 268 |
| Derivative financial instruments | 179 | - | 57 | 236 |
| Total Equity and Liabilities | 7,296 | 878 | 3,313 | 11,488 |

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Deferred income (Directional)

| | 31 December 2017 | 31 December 2016 |
|-------------------------------|------------------|------------------|
| Within one year | 42 | 32 |
| Between 1 and 2 years | 84 | 33 |
| Between 2 and 5 years | 274 | 263 |
| More than 5 years | 186 | 270 |
| Balance at 31 December | 587 | 597 |

The deferred income is mainly related to the revenue of lease contracts, which reflects a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IAS 17 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral will be released through the income statement over the remaining duration of the relevant contracts.

4.3.3 GEOGRAPHICAL INFORMATION AND RELIANCE ON MAJOR CUSTOMERS

GEOGRAPHICAL INFORMATION

The classification by country is determined by the final destination of the product for both revenues and non-current assets.

The revenue by country is analyzed as follows:

Geographical information (revenue by country)

| | 2017 | 2016 |
|------------------------------|--------------|--------------|
| Brazil | 1,090 | 1,323 |
| The United States of America | 237 | 368 |
| Guyana | 147 | 3 |
| Canada | 134 | 134 |
| Equatorial Guinea | 95 | 103 |
| Angola | 22 | 45 |
| Australia | 20 | 80 |
| Myanmar | 12 | 15 |
| Egypt | 10 | 2 |
| Malaysia | 8 | 6 |
| Nigeria | 8 | 16 |
| South Africa | 7 | 12 |
| Other | 71 | 165 |
| Total revenue | 1,861 | 2,272 |