SBM OFFSHORE

ENERGY. COMMITTED.

# ANNUAL REPORT 2018

The impact on the result attributable to the Company for the period ended December 31, 2018 is an insurance income of US$ 37 million, net of the claim-related costs incurred and accounted for in 2018, reported as 'Other operating income' in the consolidated income statement for the year ended December 31, 2018.

As a result of this settlement the litigation against insurers and the associated trial which was due to commence on October 1, 2018 has been fully concluded.

**Impairment of the goodwill related to the acquisition of the Houston based subsidiaries**
Although the Company will continue to seek opportunities in the Floating Production Unit (FPU) market, the visibility of client activity in this segment remains subdued. Following this more pessimistic market outlook, and the fact that project awards included in prior forecasts did not fully materialize, goodwill related to the acquisition of Houston-based subsidiaries has been impaired in full. This results in an impairment charge of US$ 25 million, recognized on the line item 'Other operating (expense)' of the consolidated income statement over the period ended December 2018 (please refer to note 4.3.14 Intangible Assets ). The establishment of a global resource pool for engineering, announced in February 2018, has facilitated the deployment of Houston-based resources towards other Product Lines, including FPSO.

**Impairment of the Brazilian yard**
Brazil is a key market for SBM Offshore, where a number of opportunities are being actively pursued. However, given the lead time for opportunities to mature in terms of construction activities, combined with the uncertainty regarding the evolution of local content regulations, SBM Offshore, together with its joint venture partner, has decided to take steps to close the BRASA construction yard for at least the coming few years with an option to reopen thereafter.

As a consequence, the assets of the joint venture (50% owned by the Company) were fully impaired, resulting in an impairment charge of US$ 19 million under both Directional and IFRS reporting. 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 31, 2018 (please refer to note  4.3.31 Interest in Joint Ventures and Associates ) bringing the value of the net investment in the joint venture to nil.

## 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 IFRS 16. 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, statement of financial position and cash flow statement 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.

Principally, the impact of the (early) adoption of IFRS 9, 15 and 16 as per January 1, 2018 is the same under Directional and IFRS reporting. The adoption of the standards does not change the methodology of the Company's Directional reporting and does not result in significant differences between the net result and equity attributable to shareholders under both reporting methods.

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'. The Company provides also the reconciliation of the statement of financial position and cash flow statement under IFRS and Directional reporting. 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 should be 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.

### SEGMENT HIGHLIGHTS

In 2018, the Turnkey segment was impacted by the net gain on disposal of the *Turritella* (FPSO) amounting to US$ 217 million (please refer to note 4.3.1 Financial Highlights ) and additional settlement reached with insurers related to the Company's insurance claim arising from the Yme project with a net impact of US$ 37 million (please refer to note 4.3.4 Other Operating Income and Expense ). The Lease and Operate segment was negatively impacted by *Turritella* (FPSO) leaving the fleet as per January 2018 (please refer to note 4.3.1 Financial Highlights ).

It should be noted that under Directional, FPSO *Liza Destiny* does not yet contribute to revenue and/or margin in 2018, which will remain the case until the completion of the project, as the contract is 100% owned by the Company. After the delivery of the vessel to the client, revenue and margin will be recognized during the Lease and Operate phase, in line with the operating cash flow generation.

2018 operating segments (Directional)

| | Lease and Operate | Turnkey | **Reported segments** | Other | **Total Directional reporting** |
|---|---|---|---|---|---|
| **Third party revenue** | **1,298** | **406** | **1,703** | - | **1,703** |
| Cost of sales | (884) | (313) | (1,197) | - | (1,197) |
| **Gross margin** | **413** | **93** | **506** | - | **506** |
| Other operating income/expense | 0 | 234[1] | 234 | (45)[2] | **189** |
| Selling and marketing expenses | 0 | (36) | (36) | 0 | **(36)** |
| General and administrative expenses | (17) | (43) | (60) | (62) | **(122)** |
| Research and development expenses | (1) | (19) | (21) | (2) | **(23)** |
| Net impairment gains/(losses) on financial and contract assets | 23 | (3) | 19 | 0 | **19** |
| **Operating profit/(loss) (EBIT)** | **418** | **225** | **642** | **(109)** | **533** |
| Net financing costs | | | | | (166) |
| Share of profit of equity-accounted investees | | | | | (26) |
| Income tax expense | | | | | (40) |
| **Profit/(Loss)** | | | | | **301** |
| | | | | | |
| Operating profit/(loss) (EBIT) | 418 | 225 | 642 | (109) | **533** |
| Depreciation, amortization and impairment[3] | 406 | 54 | 460 | 2 | 463 |
| **EBITDA** | **824** | **278** | **1,102** | **(107)** | **995** |
| | | | | | |
| Other segment information : | | | | | |
| Impairment charge/(reversal) | (34) | 28 | (6) | 0 | **(6)** |

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$ 217 million and net impact of additional settlement reached with insurers on Yme project claim for US$ 37 million.

2 Mainly relates to the additional provision of US$ 43 million (200 million Brazilian Reais) for settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – "MPF") approved by the Fifth Chamber of the MPF.

3 Includes net impairment losses on financial and contract assets.

Reconciliation of 2018 operating segments (Directional to IFRS)

| | Reported segments under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS |
|---|---|---|---|---|
| **Revenue** | | | | |
| Lease and Operate | 1,298 | (238) | 242 | 1,302 |
| Turnkey | 406 | 528 | 4 | 938 |
| **Total revenue** | **1,703** | 290 | 246 | **2,240** |
| **Gross margin** | | | | |
| Lease and Operate | 413 | 7 | 159 | 579 |
| Turnkey | 93 | 133 | (3) | 223 |
| **Total gross margin** | **506** | 140 | 156 | **801** |
| | | | | |
| **EBITDA** | | | | |
| Lease and Operate | 824 | (248) | 185 | 761 |
| Turnkey | 278 | (86)[1] | (8) | 184 |
| Other | (107) | - | 0 | (107) |
| **Total EBITDA** | 995 | (335) | 178 | **838** |
| | | | | |
| **EBIT** | | | | |
| Lease and Operate | 418 | 3 | 158 | 579 |
| Turnkey | 225 | (85)[1] | (6) | 134 |
| Other | (109) | - | 0 | (109) |
| **Total EBIT** | **533** | (82) | 152 | **603** |
| Net financing costs | (166) | 0 | (67) | (233) |
| Share of profit of equity-accounted investees | (26) | - | 40 | 13 |
| Income tax expense | (40) | (8) | 8 | (40) |
| **Profit/(loss)** | 301 | (90) | 132 | 344 |
| | | | | |
| Impairment charge/(reversal) | (6) | 4 | 0 | (2) |

1 Includes the removal of a gain on disposal of Turritella (FPSO) for US$ 217 million.

The reconciliation from Directional reporting to IFRS comprises two main steps:
- In the first step, those lease contracts that are classified and accounted for as finance lease contracts under IFRS are restated from an operating lease accounting treatment to a finance lease accounting treatment.
- In the second step, the consolidation method is changed i) from proportional consolidation to full consolidation for those Lease and Operate related subsidiaries over which the Company has control and ii) from proportional consolidation to the equity method for those Lease and Operate related investees that are classified as joint ventures in accordance with IFRS 11.

## Impact of lease accounting treatment

For the Lease and Operate segment, the restatement from an operating to a finance lease accounting treatment has the main following impacts for the 2018 period:
- Revenue is reduced by US$ 238 million. During the lease period, under IFRS, the revenue from finance leases is limited to that portion of charter rates that is recognized as interest using the interest effective method. Under Directional reporting, in accordance with the operating lease treatment, the full charter rate is recognized as revenue, on a straight-line basis. Lease and Operate EBITDA is similarly impacted (reduction of US$ 248 million) for the same reasons.
- Gross margin and EBIT increased by US$ 7 million and US$ 3 million respectively. As the current Company's finance lease fleet is still relatively young, the amount of the (declining) interests recognized under IFRS is higher than the linear gross margin recognized under Directional for the related vessels. Under IFRS, gross

margin and EBIT from finance leases equal the recognized revenue, therefore following the declining profile of the interest recognized using the interest effective method. On the other side, under the operating lease treatment applied under Directional, the gross margin and the EBIT correspond to the revenue and depreciation of the recognized PP&E, both accounted for on a straight-line basis over the lease period.

For the Turnkey segment, the restatement from operating to finance lease accounting treatment had the following impacts over the 2018 period:

- Revenue and gross margin increased by US$ 528 million and US$ 133 million respectively, mainly due to the accounting treatment of FPSO *Liza Destiny* as a finance lease under IFRS: under IFRS, a finance lease is considered as a virtual sale of the asset leading to recognition of revenue during the construction of the asset corresponding to the present value of the future lease payments. This (non-cash) revenue is recognized within the Turnkey segment.
- The basic impact on Turnkey EBIT and EBITDA is equal to the impact on gross margin, but also included here is the removal of the US$ 217 million net gain on the disposal of *Turritella* (FPSO) in January 2018. This gain was only recognized under Directional over the period (note that this profit has already been recognized years ago during the construction of the asset under IFRS finance lease treatment).

As a result, the restatement from operating to finance lease accounting treatment results in a reduction of net profit of US$ 90 million under IFRS when compared with Directional reporting.

### Impact of consolidation methods

The impact of consolidation methods in the above table describes the net impact from:

- Proportional consolidation to full consolidation for those Lease and Operate related subsidiaries over which the Company has control, resulting in an increase of revenue, gross margin, EBIT and EBITDA;
- Proportionate consolidation to the equity accounting method for those Lease and Operate related investees that are classified as joint ventures in accordance with IFRS 11, resulting in a decrease of revenue, gross margin, EBIT and EBITDA.

The impact of the changes in consolidation methods results in a net increase of revenue, gross margin, EBIT, EBITDA and net profit under IFRS when compared Directional reporting. This reflects the fact that the majority of the Company's FPSOs, that are leased under finance lease contracts, are owned by subsidiaries over which the Company has control and which are consolidated using the full consolidation method under IFRS. Note that the net profit impact of changes in consolidation methods (increase of US$ 132 million) is equal to the amount of 'Profit attributable to non-controlling interests', as reported in the 2018 IFRS Income Statement.

2017 operating segments (Directional)

| | Lease and Operate | Turnkey | Reported segments | Other | Total Directional reporting[1] |
|---|---|---|---|---|---|
| **Third party revenue** | **1,501** | **175** | **1,676** | **-** | **1,676** |
| Cost of sales | (989) | (171) | (1,160) | - | (1,160) |
| **Gross margin** | **512** | **4** | **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)** |
| Net impairment gains/(losses) on financial and contract assets | 2 | (2) | 0 | 0 | **0** |
| **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)** |

1 Restated to separately present net impairment losses on financial and contract assets following IFRS 9 implementation.

Reconciliation of 2017 operating segments (Directional to IFRS)

| | Reported segments under Directional reporting[1] | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS[1] |
|---|---|---|---|---|
| **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 | 512 | 19 | 209 | 739 |
| Turnkey | 4 | 24 | 31 | 59 |
| **Total gross margin** | **516** | 43 | 240 | **798** |
| | | | | |
| **EBITDA** | | | | |
| Lease and Operate | 954 | (269) | 233 | 919 |
| Turnkey | 21 | 42 | 10 | 73 |
| Other | (380) | - | 0 | (380) |
| **Total EBITDA** | 596 | (226) | 243 | **612** |
| | | | | |
| **EBIT** | | | | |
| Lease and Operate | 487 | 19 | 207 | 713 |
| Turnkey | 11 | 23 | (9) | 25 |
| Other | (381) | - | 0 | (381) |
| **Total EBIT** | **117** | 43 | 198 | **358** |
| Net financing costs | (233) | 0 | (98) | (331) |
| Share of profit of equity-accounted investees | (54) | 0 | 52 | (2) |
| Income tax expense | (34) | 2 | 5 | (26) |
| **Profit/(loss)** | (203) | 44 | 158 | (1) |
| | | | | |
| Impairment charge/(reversal) | (10) | 17 | 18 | 25 |

1 Restated to separately present net impairment losses on financial and contract assets following IFRS 9 implementation.

Reconciliation of 2018 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 | 4,799 | (3,699) | 117 | 1,217 |
| Investment in associates and joint ventures | 10 | - | 411 | 421 |
| Finance lease receivables | 0 | 3,993 | 1,954 | 5,947 |
| Other financial assets | 356 | (146) | 102 | 312 |
| Construction work-in-progress | 43 | 652 | 0 | 695 |
| Trade receivables and other assets | 626 | 0 | 7 | 633 |
| Derivative financial instruments | 44 | - | 2 | 46 |
| Cash and cash equivalents | 657 | 0 | 62 | 718 |
| Assets held for sale | 2 | 0 | - | 2 |
| **Total Assets** | **6,535** | 800 | 2,656 | **9,992** |
| **EQUITY AND LIABILITIES** | | | | |
| Equity attributable to parent company | 1,317 | 1,334 | (17) | 2,634 |
| Non-controlling interests | 0 | 0 | 978 | 978 |
| **Equity** | **1,317** | 1,334 | 961 | **3,612** |
| Borrowings and lease liabilities | 3,010[1] | - | 1,527 | 4,536 |
| Provisions | 601 | (145) | 11 | 467 |
| Trade payable and other liabilities | 935 | 45 | 18 | 998 |
| Deferred income | 575 | (433) | 121 | 263 |
| Derivative financial instruments | 98 | - | 18 | 116 |
| **Total Equity and Liabilities** | **6,535** | 800 | 2,656 | **9,992** |

1 Including US$ 2,821 million non-recourse debt and US$ 189 million lease liabilities.

Consistent with the reconciliation of the key income statement line items, the above table details:

- The restatement from the operating lease accounting treatment to the finance lease accounting treatment for those lease contracts that are classified and accounted for as finance lease contracts under IFRS; and
- The change from proportional consolidation to either full consolidation or equity accounting for investees related to Lease and Operate contracts.

## Impact of lease accounting treatment

For the statement of financial position, the main adjustments from Directional reporting to IFRS as of December 31, 2018 are:

- For those lease contracts that are classified and accounted for as finance lease contracts under IFRS, de-recognition of property, plant and equipment recognized under Directional reporting (US$ 3,699 million) and subsequent recognition of (i) finance lease receivables (US$ 3,993 million) and (ii) construction work-in-progress (US$ 652 millions) for those assets still under construction.
- For operating lease contracts with non-linear bareboat day rates, a deferred income provision is recognized to show linear revenues under Directional reporting. This balance (US$ 433 million) is derecognized for the contracts that are classified and accounted for as finance lease contracts under IFRS.
- Restatement of the provisions for demobilization and associated non-current receivable assets, mainly impacting other financial assets (US$ 146 million) and provisions (US$ 145 million).

As a result, the restatement from operating to finance lease accounting treatment gives rise to an increase of equity of US$ 1,334 million under IFRS compared with Directional reporting. This primary reflects the earlier margin recognition on finance lease contracts under IFRS compared to Directional reporting.

### Impact of consolidation methods

The above table also describes the net impact of moving from proportionate consolidation to either full consolidation, for those lease related investees in which the Company has control, or equity accounting, for those investees that are classified as joint ventures under IFRS 11. The two main impacts are:

- Full consolidation of asset specific entities that mainly comprise finance lease receivables (representing the net present value of the future lease payments to be received) and non-recourse project debts.
- Derecognition of the individual line items from the statement of financial positions for those entities that are equity accounted under IFRS, rolling up in the line item 'Investment in associates and joint ventures'.

The net impact of the changes in consolidation methods at equity level (increase of US$ 961 million as of December 31, 2018) largely equals the equity attributable to non-controlling interests (US$ 978 million) as reported in the 2018 IFRS Statement of Financial Position.

Reconciliation of 2018 cash flow statement (Directional to IFRS)

| | Reported under Directional reporting | Impact of lease accounting treatment | Impact of consolidation methods | Total Consolidated IFRS |
|---|---|---|---|---|
| **EBITDA** | **995** | (335) | 178 | **838** |
| Adjustments for non-cash and investing items | (126)[1] | 218 | 10 | 102 |
| Changes in operating assets and liabilities | (209)[2] | (408) | 102 | (515) |
| Reimbursement finance lease assets | 0 | 777[3] | 475 | 1,252[4] |
| Income taxes paid | (35) | 0 | 6 | (30) |
| **Net cash flows from (used in) operating activities** | **625** | 252 | 770 | **1,647** |
| Capital expenditures | (332) | 290 | (6) | (48) |
| Other investing activities | 524[5] | (542) | 5 | (13) |
| **Net cash flows from (used in) investing activities** | **192** | (252) | (1) | **(61)** |
| Equity repayment to partners | - | - | (165) | (165) |
| Addition and repayments of borrowings and lease liabilities | (783)[6] | - | (485) | (1,268) |
| Dividends paid to shareholders and non-controlling interests | (51) | - | (52) | (103) |
| Interests paid | (176) | - | (81) | (257) |
| Payments to non-controlling interests for change in ownership | 0 | - | (5) | (5) |
| **Net cash flows from (used in) financing activities** | **(1,010)** | - | (787) | **(1,797)** |
| | | | | |
| Net cash and cash equivalents as at 1 January | 878 | - | 79 | 957 |
| Net increase/(decrease) in net cash and cash equivalents | (193) | 0 | (18) | (211) |
| Foreign currency variations | (29) | 0 | 1 | (28) |
| **Net cash and cash equivalents as at 31 December** | **657** | 0 | 62 | **718** |

1 Mainly includes net gain on disposal of Turritella (FPSO) for US$ (217) million.
2 Includes US$ (196) million payment for the settlement with Brazilian authorities and Petrobras and US$ (80) million compensation paid to the partners in the investee owning the Turritella (FPSO) before acquisition by Shell.
3 Includes the Company 55% share in purchase price acquisition of Turritella (FPSO) by Shell for US$ 543 million reclassified from investing activities.
4 Includes US$ 987 million purchase price acquisition of Turritella (FPSO) by Shell.
5 Mainly includes the Company 55% share in the proceeds from the sale of Turritella (FPSO) for US$ 544 million.
6 Includes the Company 55% share in the redemption of Turritella (FPSO) project financing loan for US$ (398) million.

### Impact of lease accounting treatment

At net cash level, the difference in lease accounting treatment is neutral. The impact of the different lease accounting treatment under Directional reporting versus IFRS is limited to reclassifications between cash flows from operating activities and investing activities.

Capital expenditures and proceeds from the disposal of finance leases (US$ 252 million) are reclassified from investing activities under Directional, to net cash flows from operating activity under IFRS, where finance lease contracts are accounted for as construction contracts.

The impact of the change of lease accounting treatment at EBITDA level is described in further detail in the earlier reconciliation of the Company's income statement. Note that the impact of the higher lease revenue, and the proceeds from disposal of *Turritella* (FPSO), recognized within EBITDA under Directional, are presented on the line item 'Reimbursement from finance lease assets' under IFRS.

### Impact of consolidation methods

The impact of the consolidation method on the cash flow statement is in line with the impact described for the statement of financial position. The full consolidation of asset specific entities, mainly comprising finance lease receivables and the related non-recourse project debts, results in increased reimbursements of finance lease assets and increased repayments of borrowings under IFRS versus Directional.

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 | 0 | 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 | 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) | 243 | **612** |
| Adjustments for non-cash and investing items | 304 | 0 | 1 | 306 |
| Changes in operating assets and liabilities | (162) | (91) | (17) | (270) |
| 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 | 0 | (2) | 57 |
| Foreign currency variations | (3) | - | 0 | (4) |
| **Net cash and cash equivalents as at 31 December** | **878** | 0 | 79 | **957** |

Deferred income (Directional)

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Within one year | 100 | 42 |
| Between 1 and 2 years | 94 | 84 |
| Between 2 and 5 years | 241 | 274 |
| More than 5 years | 140 | 186 |
| **Balance at 31 December** | **575** | **587** |

The deferred income is mainly related to the revenue of those lease contracts which include a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IFRS 16 '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 lease contracts.

## 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:

2018 geographical information (revenue by country and segment)

| | Directional | | | IFRS | | |
|---|---|---|---|---|---|---|
| | Lease and Operate | Turnkey | Reported segments | Lease and Operate | Turnkey | Reported segments |
| Brazil | 716 | 7 | 723 | 1,019 | 0 | 1,019 |
| Angola | 200 | 11 | 211 | 1 | 17 | 18 |
| Canada | 127 | 8 | 135 | 127 | 8 | 135 |
| The United States of America | 61 | 31 | 92 | 63 | 31 | 94 |
| Norway | - | 88 | 88 | - | 88 | 88 |
| Guyana | - | 88 | 88 | - | 616 | 616 |
| Equatorial Guinea | 87 | 0 | 87 | 76 | - | 76 |
| Malaysia | 77 | 8 | 86 | 1 | 14 | 15 |
| Great Britain | - | 32 | 32 | - | 32 | 32 |
| China | - | 31 | 31 | - | 31 | 31 |
| Nigeria | - | 24 | 24 | - | 24 | 24 |
| Congo | 15 | 3 | 18 | - | 3 | 3 |
| Australia | - | 12 | 12 | - | 12 | 12 |
| Myanmar | 11 | 0 | 11 | 12 | 0 | 12 |
| Other | 3 | 62 | 65 | 3 | 61 | 64 |
| **Total revenue** | **1,298** | **406** | **1,703** | **1,302** | **938** | **2,240** |

2017 geographical information (revenue by country and segment)

| | Directional | | | IFRS | | |
|---|---|---|---|---|---|---|
| | Lease and Operate | Turnkey | Reported segments | Lease and Operate | Turnkey | Reported segments |
| Brazil | 762 | 14 | 776 | 1,084 | 6 | 1,090 |
| Angola | 191 | 10 | 201 | 1 | 21 | 22 |
| The United States of America | 188 | 11 | 199 | 226 | 11 | 237 |
| Canada | 132 | 2 | 134 | 132 | 2 | 134 |
| Equatorial Guinea | 94 | 0 | 95 | 87 | 9 | 95 |
| Malaysia | 82 | 7 | 89 | 0 | 7 | 8 |
| Guyana | - | 28 | 28 | - | 147 | 147 |
| Myanmar | 22 | 1 | 23 | 8 | 4 | 12 |
| Australia | 0 | 20 | 20 | 0 | 20 | 20 |
| Congo | 14 | 4 | 18 | 0 | 4 | 4 |
| Norway | - | 11 | 11 | - | 11 | 11 |
| Egypt | - | 10 | 10 | - | 10 | 10 |
| Nigeria | - | 8 | 8 | - | 8 | 8 |
| Other | 16 | 48 | 64 | 16 | 47 | 63 |
| **Total revenue** | **1,501** | **175** | **1,676** | **1,554** | **307** | **1,861** |

The non-current assets by country are analyzed as follows:

Geographical information (non-current assets by country)

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | IFRS | DIR | IFRS | DIR |
| Brazil | 6,343 | 3,311 | 6,617 | 3,534 |
| Angola | 412 | 435 | 387 | 446 |
| Canada | 245 | 245 | 308 | 308 |
| The United States of America | 130 | 109 | 175 | 154 |
| Malaysia | 128 | 84 | 162 | 99 |
| Equatorial Guinea | 121 | 181 | 130 | 203 |
| Guyana | - | 530 | - | 116 |
| Monaco | 78 | 78 | 47 | 47 |
| Other | 184 | 174 | 96 | 102 |
| **Total** | **7,641** | **5,148** | **7,922** | **5,009** |

### RELIANCE ON MAJOR CUSTOMERS

Under Directional, two customers each represent more than 10% of the consolidated revenue. Total revenue from these two major customers amounts to US$ 673 million (US$ 454 million and US$ 219 million, respectively). In 2017 the revenue related to the two major customers was US$ 834 million (US$ 492 million and US$ 342 million, respectively). In 2018 and 2017, the revenue of these major customers was predominantly related to the Lease and Operate segment.

Under IFRS, three customers each represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US$ 1,254 million (US$ 615 million, US$ 334 million and US$ 305 million respectively). In 2017 two customers accounted for more than 10% of the consolidated revenue (US$ 1,273 million), respectively for US$ 975 million and US$ 298 million.

## 4.3.3 REVENUE

The Company's revenue mainly originates from construction contracts and Lease and oOperate contracts. Revenue originating from construction contracts is presented in the Turnkey segment while revenue from Lease and Operate contracts is presented in the Lease and Operate segment. Around 60% of the Company's 2018 Lease and Operate revenue is made of charter rates related to lease contracts while the remaining amount originates from operating contracts.

The Company's policy regarding revenue recognition is described in further detail in note 4.2.7 B. Critical Accounting Policies – (e) Revenue. For the disaggregation of total revenue by country and by segment, please refer to Geographical Information under note 4.3.2 Operating Segments and Directional Reporting.

The Company recognizes most of its revenue over time. The Company's construction contracts can last for multiple years depending on the type of product, scope and complexity of the project while the Company's Lease and Operate contracts are generally multiple-year contracts. As a result, the Company has (partially) outstanding performance obligations to its clients (unsatisfied performance obligations) at December 31, 2018. These unsatisfied performance obligations relate to:

- Ongoing construction contracts, including the construction of vessels under finance lease that still need to be completed.
- Ongoing multiple-year operating contracts. Note that for the specific disclosure on unsatisfied performance obligations, the lease component of the Lease and Operate contracts is excluded (this component being described in further detail in notes 4.3.13 Property, Plant and Equipment and 4.3.15 Finance Lease Receivables ).