



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4 FINANCIAL STATEMENTS 2018

The previous year's expense relates to (i) the non-recurring penalty following signature of the Deferred Prosecution Agreement with the U.S. Department of Justice (US\$ 238 million) resolving the investigation into the Company's legacy issues, (ii) the US\$ 40 million impairment of the *Turritella* (FPSO) finance lease receivable and the compensation (US\$ 80 million) to the partners in the investee owning *Turritella* (FPSO) following the purchase option exercised by Shell and (iii) provisions for onerous contracts related to long-term offices rentals (US\$ 7 million).

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2018 and 2017:

	Note	2018	2017
Expenses on construction contracts		(469)	(164)
Employee benefit expenses	4.3.6	(519)	(514)
Vessels operating costs		(289)	(337)
Depreciation, amortization and impairment		(235)	(253)
Selling expenses		(22)	(17)
Other costs		(142)	(346)
Total expenses		(1,676)	(1,632)

Year-on-year, expenses on construction contracts sharply increased mainly as a result of higher activity on Turnkey projects. The main projects responsible for the increase of expenses are FPSO *Liza Destiny* and the *Johan Castberg* TMS EPC project.

The decrease of vessels operating costs of US\$ 48 million compared with 2017 relates mainly to *Turritella* (FPSO) which was sold to the client on January 16, 2018.

In 2018, depreciation, amortization and impairment was impacted by a US\$ 25 million impairment charge of goodwill related to the acquisition of the Houston based subsidiaries and early adoption of IFRS 16 where 2018 rental expenses have been replaced by US\$ 20 million additional depreciation. In 2017, depreciation, amortization and impairment was impacted by the US\$ 40 million impairment of the finance lease receivable of *Turritella* (FPSO).

In 2018, other costs included the additional provision of US\$ 43 million (200 million Brazilian Reais) for settlement with the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') (please refer to note 4.3.1 Financial Highlights). In 2017, other costs included i) US\$ 238 million of monetary penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') and ii) US\$ 80 million for the compensation to the partners in the *Turritella* (FPSO) investee following the purchase option exercised by Shell.

Expenses related to short-term leases and leases of low value assets amounted to US\$ 4 million in 2018.