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# ANNUAL REPORT 2019

### **SBM Offshore orders two additional Fast4Ward® hulls**

On December 5, 2019, the Company announced that it has signed contracts for the construction of the Company's fourth and fifth hulls under its purchase program for Fast4Ward® new build multi-purpose hulls. The contracts were signed with Shanghai Waigaoqiao Shipbuilding and Offshore Co., Ltd. (SWS) and China Merchants Industry Holdings (CMIH).

### **SBM Offshore optimizes FPSO N'Goma project loan**

On December 9, 2019, the Company announced that it has closed a supplemental non-recourse project loan facility of US\$250 million related to Sonasing Xikomba Ltd., the entity that owns the FPSO N'Goma. The total outstanding loan amount increased to c.US\$450 million and the original maturity date of the loan was extended by c. 4.5 years to an expiration date of May 15, 2026, to match more closely the term of the underlying contract of the vessel.

### **SBM Offshore signs FPSO Sepetiba lease and operate contracts and sells down minority share**

On December 11, 2019, the Company announced that it has signed the contracts with Petróleo Brasileiro S.A. (Petrobras) for a 22.5 years lease and operate arrangement for FPSO *Sepetiba*. These contracts follow the signing of the binding Letter of Intent (LOI) as announced on June 11, 2019. The Company will design and construct the FPSO *Sepetiba* using the Fast4Ward® program. The contract is qualified and accounted for as a finance lease under IFRS 16.

On December 13, 2019, the Company announced that it had entered into an agreement with Mitsubishi Corporation (MC) and Nippon Yusen Kabushiki Kaisha (NYK) for the disposal of 35.5% of the Company's share in the entities, incorporated for the purpose of owning and operating FPSO *Sepetiba*, at the shares' nominal value. After the completion of this transaction, the Company has kept control of the related entities and the transaction has therefore been accounted for as an equity transaction under IFRS. The transaction had a non-material impact on the equity of the Company.

In the operating segments disclosure, as a result of this transaction and as per the principles of Directional reporting, the Company recognized the share of construction revenues made on the new partners' share.

### **FPSO Liza Destiny producing and on hire**

FPSO *Liza Destiny* has produced first oil as of December 20, 2019 and is formally on hire. Following the FPSO achieving first oil, the construction work-in-progress balance related to the construction of FPSO *Liza Destiny* has been transferred to the line item finance lease receivable in the IFRS Consolidated Statement of Financial Position.

Simultaneously, under Directional reporting, the asset-under-construction balance related to FPSO *Liza Destiny* has been transferred to property, plant and equipment in the Directional Consolidated Statement of Financial Position, triggering the start of depreciation of the FPSO.

## **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.

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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 also provides 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 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.

### SEGMENT HIGHLIGHTS

In 2019, the Turnkey segment was not impacted by any non-recurring material item and benefited from the progress made on the Johan Castberg Turret Mooring System EPC project, in addition to a general ramp-up of Turnkey activities. This includes (i) the construction activities on FPSO *Sepetiba*, which started to contribute to Directional revenue thanks to the disposal of the minority share of 35.5% to MC and NYK and ii) the contribution of upfront payments related to specific construction work before the commencement of the lease on the *Liza* projects.

The Lease and Operate segment was impacted by a total impairment of US\$(25) million in 2019 relating to two, individually not material, impairments of property, plant and equipment (please refer to note 4.3.13 Property, Plant and Equipment. Safe from any impact of impairment, Directional Lease and Operate revenue and EBITDA increased versus the year ago period. The impact of units leaving the fleet in 2018 (*Turritella* (FPSO), FSO *Yetagun* and FSO *N'Kossa II*) was indeed more than offset by a reduction in planned maintenance, an overall improvement in performance of the fleet and the first contribution of FPSO *Liza Destiny* after achieving first oil at the end of 2019.

The non-recurring gain of US\$90 million on the purchase of additional shares in the five Brazilian vessels is presented in 'Other'. Refer to note 4.3.1 Financial Highlights for the full details on the treatment of this transaction under Directional reporting.

2019 operating segments (Directional)

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
<b>Third party revenue</b>	<b>1,315</b>	<b>856</b>	<b>2,171</b>	-	<b>2,171</b>
Cost of sales	(921)	(726)	(1,647)	-	(1,647)
<b>Gross margin</b>	<b>394</b>	<b>130</b>	<b>524</b>	-	<b>524</b>
Other operating income/expense	1	6	6	88 <sup>1</sup>	<b>94</b>
Selling and marketing expenses	(1)	(47)	(48)	(0)	<b>(48)</b>
General and administrative expenses	(19)	(45)	(64)	(64)	<b>(128)</b>
Research and development expenses	(3)	(22)	(24)	(0)	<b>(24)</b>
Net impairment gains/(losses) on financial and contract assets	(3)	3	0	(0)	<b>(0)</b>
<b>Operating profit/(loss) (EBIT)</b>	<b>369</b>	<b>25</b>	<b>395</b>	<b>23</b>	<b>418</b>
Net financing costs					(142)
Share of profit of equity-accounted investees					1
Income tax expense					(42)
<b>Profit/(Loss)</b>					<b>235</b>
Operating profit/(loss) (EBIT)	369	25	395	23	<b>418</b>
Depreciation, amortization and impairment <sup>2</sup>	473	28	500	3	<b>503</b>
<b>EBITDA</b>	<b>842</b>	<b>53</b>	<b>895</b>	<b>26</b>	<b>921</b>
Other segment information :					
Impairment charge/(reversal)	25	-	25	(0)	<b>25</b>

1 Mainly includes a gain of US\$90 million on the purchase of additional shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

2 Includes net impairment losses on financial and contract assets.

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Reconciliation of 2019 operating segments (Directional to IFRS)

	Reported segments under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
<b>Revenue</b>				
Lease and Operate	1,315	(261)	273	1,327
Turnkey	856	1,202	6	2,064
<b>Total revenue</b>	<b>2,171</b>	<b>941</b>	<b>279</b>	<b>3,391</b>
<b>Gross margin</b>				
Lease and Operate	394	(4)	177	567
Turnkey	130	240	(3)	367
<b>Total gross margin</b>	<b>524</b>	<b>236</b>	<b>174</b>	<b>934</b>
<b>EBITDA</b>				
Lease and Operate	842	(257)	197	783
Turnkey	53	238	(1)	290
Other	26	-	(90) <sup>1</sup>	(63)
<b>Total EBITDA</b>	<b>921</b>	<b>(18)</b>	<b>107</b>	<b>1,010</b>
<b>EBIT</b>				
Lease and Operate	369	4	176	549
Turnkey	25	236	(2)	259
Other	23	-	(90)	(66)
<b>Total EBIT</b>	<b>418</b>	<b>240</b>	<b>84</b>	<b>742</b>
Net financing costs	(142)	(31)	(70)	(243)
Share of profit of equity-accounted investees	1	-	42	43
Income tax expense	(42)	6	5	(31)
<b>Profit/(loss)</b>	<b>235</b>	<b>216</b>	<b>60</b>	<b>511</b>
Impairment charge/(reversal)	25	2	1	28

<sup>1</sup> Includes the removal of a gain of US\$90 million on purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

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 2019 period:

- Revenue is reduced by US\$261 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\$257 million) for the same reasons.
- Gross margin decreased by US\$4 million and EBIT increased by US\$4 million. As the current Company's finance lease fleet is still relatively young, the amount of the (declining) interest recognized under IFRS is still in line with 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 2019 period:

- Revenue and gross margin increased by US\$1,202 million and US\$240 million respectively, mainly due to the accounting treatment of FPSO *Liza Destiny*, *Liza Unity* and *Sepetiba* 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 largely in line with the impact on gross margin.

As a result, the restatement from operating to finance lease accounting treatment results in an increase of net profit of US\$216 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.

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2018 operating segments (Directional)

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

Other segment information :

Impairment charge/(reversal)	(34)	28	(6)	(0)	<b>(6)</b>
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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.

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

<sup>1</sup> Includes the removal of a gain on disposal of Turritella (FPSO) for US\$217 million.



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Reconciliation of 2019 statement of financial position (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
<b>ASSETS</b>				
Property, plant and equipment and Intangible assets <sup>1</sup>	5,849 <sup>2</sup>	(4,896)	76	1,028
Investment in associates and joint ventures	14	-	312	325
Finance lease receivables	(0)	5,214	1,481	6,694
Other financial assets	290	(180)	23	134
Construction work-in-progress	125	803	44	973
Trade receivables and other assets	633	(0)	(50)	583
Derivative financial instruments	43	-	(0)	43
Cash and cash equivalents	458	-	48	506
Assets held for sale	1	-	-	1
<b>Total Assets</b>	<b>7,414</b>	<b>940</b>	<b>1,933</b>	<b>10,287</b>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to parent company	1,179	1,532	36	2,748
Non-controlling interests	0	0	864	865
<b>Equity</b>	<b>1,179</b>	<b>1,532</b>	<b>901</b>	<b>3,613</b>
Borrowings and lease liabilities	3,918 <sup>3</sup>	-	1,004	4,922
Provisions	428	(150)	5	283
Trade payable and other liabilities	1,213	(68)	(123)	1,022
Deferred income	486	(374)	95	207
Derivative financial instruments	190	-	51	241
<b>Total Equity and Liabilities</b>	<b>7,414</b>	<b>940</b>	<b>1,933</b>	<b>10,287</b>

<sup>1</sup> Under Directional, the cost related to the Brazilian local content penalty is capitalized in line with construction progress of related assets and presented in the statement of financial position under 'Property, plant and equipment and Intangible assets'.

<sup>2</sup> Includes US\$1,537 million related to (i) FPSO Liza Destiny (ii) units under construction (i.e. FPSO Liza Unity, Prosperity and Sepetiba) and (iii) Gene tanker.

<sup>3</sup> Includes US\$2,851 million non-recourse debt and US\$173 million lease liability

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, 2019 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\$4,896 million) and subsequent recognition of (i) finance lease receivables (US\$5,214 million) and (ii) construction work-in-progress (US\$803 million) 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\$374 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\$180 million) and provisions (US\$150 million).

As a result, the restatement from operating to finance lease accounting treatment gives rise to an increase of equity of US\$1,532 million under IFRS compared with Directional reporting. This primarily 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'.

#### Reconciliation of 2019 cash flow statement (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
<b>EBITDA</b>	<b>921</b>	(18)	107	<b>1,010</b>
Adjustments for non-cash and investing items	(71) <sup>1</sup>	21	87	37
Changes in operating assets and liabilities	(414)	(901)	(121)	(1,435)
Reimbursement finance lease assets	(0)	196	2	197
Income taxes paid	(35)	-	7	(29)
<b>Net cash flows from (used in) operating activities</b>	<b>401</b>	<b>(703)</b>	<b>81</b>	<b>(220)</b>
Capital expenditures	(764)	725	(0)	(39)
Acquisition of shares in co-owned entities	(125) <sup>2</sup>	-	125	(0)
Other investing activities	93	(0)	228	321
<b>Net cash flows from (used in) investing activities</b>	<b>(796)</b>	<b>725</b>	<b>353</b>	<b>282</b>
Equity payment from/(repayment to) partners	-	-	82	82
Additions and repayments of borrowings and lease liabilities	627	-	(276)	351
Dividends paid to shareholders and non-controlling interests	(74)	-	(34)	(108)
Interest paid	(150)	(23)	(71)	(244)
Share repurchase program	(196)	-	-	(196)
Payments to non-controlling interests for change in ownership	(0)	-	(149)	(149) <sup>3</sup>
<b>Net cash flows from (used in) financing activities</b>	<b>207</b>	<b>(23)</b>	<b>(448)</b>	<b>(264)</b>
Net cash and cash equivalents as at 1 January	657	-	62	718
Net increase/(decrease) in net cash and cash equivalents	(189)	0	(13)	(202)
Foreign currency variations	(10)	(0)	1	(9)
<b>Net cash and cash equivalents as at 31 December</b>	<b>458</b>	<b>-</b>	<b>48</b>	<b>506</b>

1 Includes a gain of US\$90 million on the purchase of additional shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

2 Includes US\$149 million for the purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba net of acquired cash.

3 Includes US\$149 million for the purchase of shares in Cidade de Paraty, Cidade de Ilhabela, Cidade de Marica, Cidade de Saquarema and Capixaba.

### 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 flow activities.

Capital expenditures (US\$725 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. Furthermore the interest expense which is capitalized under Directional as part of asset under construction (and therefore presented in investing activities) is reclassified to financing activities under IFRS.

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.

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### 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 repayments of borrowings under IFRS versus Directional.

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
<b>ASSETS</b>				
Property, plant and equipment and Intangible assets	4,799	(3,699)	117	1,217
Investment in associates and joint ventures	10	(0)	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	-	62	718
Assets held for sale	2	(0)	-	2
<b>Total Assets</b>	<b>6,535</b>	<b>800</b>	<b>2,656</b>	<b>9,992</b>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to parent company	1,317	1,334	(17)	2,634
Non-controlling interests	0	(0)	978	978
<b>Equity</b>	<b>1,317</b>	<b>1,334</b>	<b>961</b>	<b>3,612</b>
Loans and borrowings	3,010 <sup>1</sup>	-	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
<b>Total Equity and Liabilities</b>	<b>6,535</b>	<b>800</b>	<b>2,656</b>	<b>9,992</b>

<sup>1</sup> Including US\$2,821 million non-recourse debt and US\$189 million lease liabilities.

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

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.

## Deferred income (Directional)

	31 December 2019	31 December 2018
Within one year	98	100
Between 1 and 2 years	93	94
Between 2 and 5 years	188	241
More than 5 years	108	140
<b>Balance at 31 December</b>	<b>486</b>	<b>575</b>

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.

## 4 FINANCIAL STATEMENTS 2019

### 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:

2019 geographical information (revenue by country and segment)

	Directional			IFRS		
	Lease and Operate	Turnkey	Reported segments	Lease and Operate	Turnkey	Reported segments
Brazil	759	42	801	1,050	117	1,167
Guyana	8	293	300	5	1,417	1,422
Norway	-	246	246	-	246	246
Angola	178	8	186	0	13	13
Canada	135	1	136	135	1	136
The United States of America	41	71	112	41	71	112
Malaysia	85	18	103	0	22	22
China	-	95	95	-	95	95
Equatorial Guinea	88	1	89	74	0	75
Virgin Islands	-	13	13	-	13	13
Nigeria	-	23	23	-	23	23
Other	22	46	67	22	46	67
<b>Total revenue</b>	<b>1,315</b>	<b>856</b>	<b>2,171</b>	<b>1,327</b>	<b>2,064</b>	<b>3,391</b>

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
<b>Total revenue</b>	<b>1,298</b>	<b>406</b>	<b>1,703</b>	<b>1,302</b>	<b>938</b>	<b>2,240</b>

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

#### Geographical information (non-current assets by country)

	31 December 2019		31 December 2018	
	IFRS	DIR	IFRS	DIR
Brazil	6,050	3,656	6,343	3,311
Angola	242	323	412	435
Canada	182	182	245	245
The United States of America	87	65	130	109
Malaysia	93	61	128	84
Equatorial Guinea	106	160	121	181
Guyana	873	1,432	-	530
Monaco	66	67	78	78
Switzerland	49	50	-	-
Other	142	170	184	174
<b>Total</b>	<b>7,891</b>	<b>6,166</b>	<b>7,641</b>	<b>5,148</b>

### RELIANCE ON MAJOR CUSTOMERS

Under Directional, three customers each represent more than 10% of the consolidated revenue. Total revenue from these three major customers amounts to US\$1,339 million (US\$703 million, US\$385 million and US\$250 million, respectively). In 2018 the revenue related to the two major customers was US\$673 million (US\$454 million and US\$219 million, respectively). In 2019 and 2018, the revenue of these major customers was predominantly related to the Lease and Operate segment.

Under IFRS, two customers each represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US\$2,393 million (US\$1,450 million and US\$943 million respectively). In 2018 three customers accounted for more than 10% of the consolidated revenue (US\$1,254 million), respectively for US\$615 million, US\$334 million and US\$305 million.

### 4.3.3 REVENUE

The Company's revenue mainly originates from construction contracts and lease and operate 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 2019 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 (more than 95%) 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, 2019. 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).