

Annual REPORT

S&B
OFFSHORE

2015



Whilst these discussions, which now also include the Public Prosecutor's Office (Ministério Público Federal – 'MPF') and Petrobras, are presently still ongoing, it has become sufficiently clear that a resolution of the issues will have a financial component. Consequently, based on information currently available to it, the Company has recorded a non-recurring provision of US\$ 245 million in the year-end financial results of 2015.

Although no assurance can be given that a settlement will actually be reached, or for what amount, and until the matter is concluded, the Company has considered it more likely than not that an outflow of resources embodying economic benefit of US\$ 245 million will be required to settle the Company's obligation in Brazil within the foreseeable future.

Release of accruals for sales consultancy fees

Although all payments to sales consultants were suspended from February 2012 onwards, the Company continued to accrue over the period 2012 to 2014 for potential liabilities under contracts with those sales consultants that were under internal investigation. Most of these accruals relate to Equatorial Guinea, Angola and Brazil. In 2014, the Company reviewed the contractual situation of these sales consultants in light of the findings of its own internal investigation and those from the Dutch Public Prosecutor ('OM'). In 2015, the Company took the necessary steps to terminate the consultancy contracts relating to Equatorial Guinea and Angola. More recently, it reviewed the contractual situation in relation to its former main consultant in Brazil in light of the developments in Brazil in relation to that consultant, including the recent criminal charges filed by the Brazilian Public Prosecutor's Office (*Ministério Público Federal* – 'MPF') against that consultant.

Based on the various reviews referenced above, the Company has come to the conclusion that there is sufficient evidence to conclude that the consultants that represented the Group in Equatorial Guinea and Angola in the period 2007-2011 and the main consultant that represented the Group in Brazil in that period acted in breach of applicable laws, and thus, in contravention of their obligations. As a result, the Company concluded that it is no more a liability to these sales consultants. In 2015, the amount of US\$ 51.8 million was accordingly released to the gross margin of the Turnkey segment and US\$ 36.7 million was released to the Gross margin of the Lease and Operate segment.

6.3.2 Operating Segments

The Company's reportable operating segments as defined by IFRS 8 'Operating segments' are:

- Lease and Operate;
- Turnkey.

The operating segments are measured under Directional Reporting accounting principles, as described under Section 6.2.7.C.(e) 'Significant accounting policies' of the consolidated financial statements as of and for the year ended 31 December 2015.

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2015 operating segments

Period ending 31 December 2015	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	1,105	1,512	2,618	-	2,618
Gross margin	342	447	789	-	789
Other operating income/expense	(5)	(34)	(38)	(260)	(298)
Selling and marketing expense	(5)	(56)	(61)	0	(60)
General and administrative expense	(18)	(83)	(101)	(95)	(196)
Research and development expense	-	(43)	(43)	0	(43)
Operating profit/(loss) (EBIT)	315	231	545	(354)	191
Net financing costs					(137)
Share of profit of equity-accounted investees					(8)
Income tax expense					(22)
Profit/(Loss)					24
Operating profit/(loss) (EBIT)	315	231	545	(354)	191
Depreciation, amortisation and impairment	352	8	360	10	370
EBITDA	667	239	906	(345)	561
Other segment information :					
Impairment charge/(reversal)	13	2	15	-	15

Reconciliation of 2015 operating segments

Period ending 31 December 2015	Reported segments under Directional reporting	Impact of consolidation methods	Impact of lease accounting treatment	Impact of business segment that does not meet the definition of an operating segment	Total Consolidated IFRS
Revenue					
Lease and Operate	1,105	65	(151)	-	1,020
Turnkey	1,512	(9)	181	-	1,685
Total revenue	2,618	57	31	-	2,705
Gross margin					
Lease and Operate	342	54	30	-	426
Turnkey	447	(21)	(11)	-	414
Total gross margin	789	33	18	-	841
EBIT					
Lease and Operate	315	51	30	-	395
Turnkey	231	(21)	(11)	-	198
Other	-	0	-	(354)	(354)
Total EBIT	545	29	18	(354)	239
EBITDA					
Lease and Operate	667	76	(151)	-	592
Turnkey	239	(22)	(2)	-	215
Other	-	-	-	(345)	(345)
Total EBITDA	906	53	(152)	(345)	462

2014 operating segments

Period ending 31 December 2014	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	1,059	2,487	3,545	-	3,545
Gross margin	304	390	694	-	694
Other operating income/expense	0	(2)	(2)	(184)	(186)
Selling and marketing expense	(3)	(43)	(46)	0	(46)
General and administrative expense	(25)	(111)	(136)	(85)	(221)
Research and development expense	(2)	(38)	(40)		(40)
Operating profit/(loss) (EBIT)	274	195	469	(268)	201
Net financing costs					(127)
Share of profit of equity-accounted investees					13
Income tax expense					(3)
Profit/(Loss)					84
Operating profit/(loss) (EBIT)	274	195	469	(268)	201
Depreciation, amortisation and impairment	261	15	275	9	284
EBITDA	535	210	745	(259)	486
Other segment information :					
Impairment charge/(reversal)	(17)	-	(17)	-	(17)

Reconciliation of 2014 operating segments

Period ending 31 December 2014	Reported segments under Directional reporting	Impact of consolidation methods	Impact of lease accounting treatment	Impact of business segment that does not meet the definition of an operating segment	Total Consolidated IFRS
Revenue					
Lease and Operate	1,059	34	(82)	-	1,011
Turnkey	2,487	(164)	2,148	-	4,471
Total revenue	3,545	(130)	2,067	-	5,482
Gross margin					
Lease and Operate	304	39	35	-	378
Turnkey	390	(42)	491	-	838
Total gross margin	694	(3)	526	-	1,217
EBIT					
Lease and Operate	274	38	35	-	347
Turnkey	195	(39)	491	-	647
Other	-	-	-	(268)	(268)
Total EBIT	469	(1)	527	(268)	726
EBITDA					
Lease and Operate	535	65	(79)	-	522
Turnkey	210	(38)	491	-	662
Other	-	-	-	(259)	(259)
Total EBITDA	745	27	412	(259)	925

6.3.3 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)

	2015	2014
Brazil	1,491	3,130
USA	360	847
Australia	233	479
Angola	187	467
Canada	141	136
Equatorial Guinea	110	136
Myanmar	41	23
United Kingdom	32	98
Nigeria	15	13
Malaysia	12	25
Other	83	127
Total revenue	2,705	5,482

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

Geographical information (non-current assets by country)

	2015	2014
Brazil	3,714	3,895
Angola	454	457
Canada	446	511
Equatorial Guinea	308	399
USA	245	258
Malaysia	207	253
Netherlands	11	10
Norway	-	11
Other	207	191
Total non-current assets	5,591	5,985

Reliance on major customers

Two customers represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US\$ 1,794 million (2014 : US\$ 3,909 million).