

2017

ANNUAL REPORT



EXPERIENCE MATTERS

4 FINANCIAL STATEMENTS 2017

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

	2017		2016	
	Average	Year-end	Average	Year-end
By operating segment:				
Lease and Operate	1,506	1,513	1,529	1,498
Turnkey	1,489	1,429	1,809	1,548
Other	293	302	285	283
Total excluding employees working for JVs and associates	3,287	3,244	3,622	3,329
Employees working for JVs and associates	864	882	1,615	845
Total	4,150	4,126	5,237	4,174

Number of employees (by geographical area)

	2017		2016	
	Average	Year-end	Average	Year-end
By geographical area:				
The Netherlands	317	309	349	324
Worldwide	2,970	2,935	3,274	3,005
Total excluding employees working for JVs and associates	3,287	3,244	3,622	3,329
Employees working for JVs and associates	864	882	1,615	845
Total	4,150	4,126	5,237	4,174

The figures exclude fleet personnel hired through crewing agencies as well as other agency and freelance staff for whom expenses are included within other employee benefits.

4.3.7 NET FINANCING COSTS

	2017	2016
Interest income on loans & receivables	9	14
Interest income on investments	13	11
Interest income on Held-to-Maturity investments	-	0
Net foreign exchange gain	3	-
Other financial income	2	1
Financial income	27	26
Interest expenses on financial liabilities at amortized cost	(231)	(181)
Interest expenses on hedging derivatives	(88)	(95)
Interest addition to provisions	(23)	(17)
Net loss on financial instruments at fair value through profit and loss	-	(2)
Net cash flow hedges ineffectiveness	(17)	(2)
Net foreign exchange loss	0	(6)
Other financial expenses	-	0
Financial expenses	(358)	(301)
Net financing costs	(331)	(275)

The increase in net financing cost is mainly due to the interest expenses related to FPSO Cidade de Marica (on hire as of February 7, 2016), FPSO Cidade de Saquarema (on hire as of July 8, 2016) and *Turritella* (FPSO) (on hire as of September 2, 2016).

The loss on net cash flow hedges ineffectiveness is due to the hedge accounting discontinuance of the interest rate swap on *Turritella* (FPSO) project loan which was repaid on January 16, 2018 after the receipt of the purchase price from Shell (please refer to note 4.3.1).

The interest addition to provisions is mainly due to the unwinding of the discounting impact on the provision for potential contemplated settlement with Brazilian authorities and Petrobras recognized in 2015.

4.3.8 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of US\$ 33 million (2016: US\$ 29 million) and mainly relate to Digital FPSO, Renewables and FLNG product line development costs and investments in new laboratory facilities.

The amortization of development costs recognized in the statement of financial position is allocated to the 'cost of sales' when the developed technology is used through one or several projects. Otherwise, it is allocated to the 'Research and development expenses'.

4.3.9 INCOME TAX

The relationship between the Company's income tax expense and profit before income tax (referred to as 'effective tax rate') can vary significantly from period to period considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus profit before taxes and (b) the different statutory tax rates in the location of the Company's operations (c) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available. Consequently, income tax expense does not change proportionally with profit before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the effective tax rate is impacted by the unrecognized tax loss.

The components of the Company's income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	2017	2016
Corporation tax on profits for the year		(18)	(12)
Adjustments in respect of prior years		1	6
Total current income tax		(17)	(5)
Deferred tax	4.3.16	(10)	(22)
Total		(26)	(28)

The Company's operational activities are subject to taxation at rates which range up to 35% (2016: 35%).

For the year ended December 31, 2017, the respective tax rates, the change in the blend of income tax based on gross revenues versus income tax based on net profit, the unrecognized deferred tax asset on certain tax losses, tax-exempt profits and non-deductible costs resulted in an effective tax on continuing operations of 96.8% (2016: 9.6%).