

# 2017

## ANNUAL REPORT



**EXPERIENCE MATTERS**

## 4 FINANCIAL STATEMENTS 2017

default needed to be remedied, or the terms of the loan arrangement renegotiated, before the financial statements were authorized for issue.

### 4.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2017	31 December 2016
Deferred income on operating lease contracts	249	247
Other	-	16
<b>Total</b>	<b>249</b>	<b>263</b>

The deferred income on operating lease contracts is mainly related to the revenue for one of the operating lease units, which reflects a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IAS 17 '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 contracts.

### 4.3.26 PROVISIONS

The movement and type of provisions during the year 2017 are summarized as follows:

Provisions (movements)

	Demobilisation	Onerous contracts	Warranty	Employee benefits	Other	Total
<b>Balance at 1 January 2017</b>	<b>103</b>	<b>42</b>	<b>104</b>	<b>26</b>	<b>330</b>	<b>604</b>
Arising during the year	-	40	43	2	253	338
Unwinding of interest	4	1	-	0	18	22
Utilised	-	(21)	(41)	(1)	(11)	(74)
Released to profit	-	0	(39)	0	(4)	(43)
Through OCI	-	-	-	(7)	-	(7)
Other	(14)	-	0	0	0	(14)
Foreign currency variations	-	1	0	2	0	3
<b>Balance at 31 December 2017</b>	<b>93</b>	<b>63</b>	<b>68</b>	<b>23</b>	<b>584</b>	<b>830</b>
of which :						
Non-current portion	93	41	-	23	86	242
Current portion	0	22	68	-	498	588

#### Demobilization

The provision for demobilization relates to the costs for demobilization of the vessels and floating equipment at the end of the respective operating lease periods. The obligations are valued at net present value, and a yearly basis interest is added to this provision. The recognized interest is included in financial expenses (please refer to note 4.3.7 'Net financing costs').

The 'Other' movement of the demobilization provision relates to updates of the estimated demobilization cost based on the latest available benchmarks where updates of the demobilization costs are recognized both impacting the provision and the asset.

Expected outflow within one year is nil and amounts to US\$ 29 million between one and five years and US\$ 63 million after five years.



### Onerous contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the still challenging conditions in the offshore oil and gas industry, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract exceeding the economic benefits expected to be received. As a result, the contract continues to be classified as onerous and the non-cash provision for onerous contract has been increased by US\$ 33 million, recognized in the gross margin of the Turnkey segment as of December 31, 2017. The calculations use cash flow projections approved by the Management Board of the Company. The discount rate used is the risk free rate (2.4% as of December 2017). If the vessel sales day rate varies by +/- 10% the impact on the onerous provision would be in a range of +/- US\$ 14 million. If the vessel days of utilization varies by +/- 10% the impact on the onerous provision would be in a range of +/- US\$ 16 million.

In light of previous year's restructuring programs, the Company has overcapacity in rented office space in various locations. The obligation for the discounted future unavoidable costs related to long-term office rental contracts has been provided for through a provision for onerous contracts. As a result of unforeseen lack of sublease of empty offices, an additional provision for onerous contract has been provided for amounting to US\$ 7 million over the period ended December 31, 2017. The discount rate used is the risk free rate (3.3% as of December 2017).

### Warranty

For most Turnkey sales, the Company gives warranties to its clients. Under the terms of the contracts, the Company undertakes to make good, by repair or replacement, defective items that become apparent within an agreed period starting from the final acceptance by the client.

The net decrease of the warranty provision compared to December 31, 2016 mainly consists of warranty costs effectively incurred over 2017 (US\$ 41 million).

### Other

The 'Other' provisions arising during the year mainly include estimated insurance income to be shared with Repsol in accordance with the terms of the settlement agreement of March 11, 2013 which concluded the Yme project (please refer to note 4.3.1) and US\$ 80 million for compensation to the partners in the investee owning the *Turritella* (FPSO) following the purchase option exercised by Shell and according to the guarantee provided by the Company in the joint venture agreements in case of early termination of the bareboat contract (please refer to note 4.3.1 Financial Highlights). The unwinding of interest mainly relate to the provision for potential contemplated settlement in Brazil (please refer to note 4.3.1 Financial Highlights).

## 4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2017	31 December 2016
Accruals on projects		189	193
Trade payables		98	120
Accruals regarding delivered orders		60	206
Other payables		73	54
Instalments exceeding cost incurred	4.3.19	21	14
Pension taxation		9	9
Taxation and social security costs		52	36
Other non-trade payables		95	74
<b>Total</b>	<b>4.3.29</b>	<b>596</b>	<b>706</b>

The decrease year-on-year of accruals on delivered orders is mainly related to finalization and project close-out on FPSOs *Turritella*, *Cidade de Marica* and *Cidade de Saquarema*.