

2017

ANNUAL REPORT



EXPERIENCE MATTERS

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
Total	4.3.29	596	706

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*.

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The contractual maturity of the trade payables is as follows:

Trade and other payables (contractual maturity of the trade payables)

	31 December 2017	31 December 2016
Within 1 month	88	117
Between 1 and 3 months	4	2
Between 3 months and 1 year	5	1
More than one year	1	-
Total	98	120

4.3.28 COMMITMENTS AND CONTINGENCIES

PARENT COMPANY GUARANTEES

In the ordinary course of business, the Company is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations).

As such, the Company has issued parent company guarantees for contractual obligations in respect of several Group companies, including equity-accounted joint ventures, with respect to long-term lease and operate contracts.

BANK GUARANTEES

As of December 31, 2017, the Company has provided bank guarantees to unrelated third parties for an amount of US \$ 342 million (2016: US\$ 336 million). No liability is expected to arise under these guarantees.

The Group holds in its favor US\$ 78 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

As at December 31, 2017, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US\$ 296 million (December 31, 2016: US\$ 2 million).

Investment commitments have increased principally due to investment commitments entered into for FPSO *Liza*.

The obligations in respect of operating lease, rental and leasehold obligations, are as follows:

Commitments

	2017			2016
	< 1 year	1-5 years	> 5years	Total
Operating lease ¹	16	63	61	141
Rental and leasehold	21	66	4	91
Total	37	129	65	231

¹ mainly consists of DSCV SBM Installer charter contract

The Company has overcapacity on rental and leasehold contracts of office buildings in some locations (refer to note 4.3.26). The Company has entered into sub-leasing arrangements on some of these rental and leasehold contracts in Houston and Monaco with total future minimum sublease payments amounting to US\$ 8 m.

CONTINGENT ASSET

In Q3 2017, the Company announced that it had entered into a binding settlement with an 83,6% majority group of the US\$ 500 million primary insurance layer relating to SBM Offshore's insurance claim arising from the Yme project. Pursuant to that agreement, the Company received the sum of US\$ 281 million in full and final settlement of its claim against those participating insurers.

The Company continues to pursue its claim against all remaining insurers including the two excess layers, the trial of which is scheduled to commence October 2018 to recover losses incurred in connection with the Yme development.