



OFFSHORE

ENERGY. COMMITTED.



ANNUAL REPORT 2019

4.3.9 NET FINANCING COSTS

	2019	2018
Interest income on loans & receivables	10	10
Interest income on investments	10	19
Net foreign exchange gain	10	17
Other financial income	1	0
Financial income	31	46
Interest expenses on financial liabilities at amortized cost	(247)	(223)
Interest expenses on hedging derivatives	(17)	(36)
Interest expenses on lease liabilities	(6)	(7)
Interest addition to provisions	(2)	(14)
Net loss on financial instruments at fair value through profit and loss	(0)	(0)
Net cash flow hedges ineffectiveness	(3)	-
Net foreign exchange loss	0	(0)
Financial expenses	(274)	(279)
Net financing costs	(243)	(233)

The increase in net financing costs is mainly due to the net foreign exchange gain compared to 2018. The 2018 gain resulted from an index-linked term deposit protecting the Company against Kwanza devaluation for its cash held in Angola.

The decrease in interest income on investments comes mainly from the lower amounts of cash available in 2019 at corporate level.

In 2019 the settlement with the Brazilian authorities and Petrobras is now recognized as a financial liability and impacts interest expenses on financial liabilities amortized at costs whereas it was a provision impacting interest addition to provisions in 2018. Its unwinding effect is lower in 2019.

4.3.10 INCOME TAX EXPENSE

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: (i) changes in the blend of income that is taxed based on revenues versus profit; (ii) the different statutory tax rates in the location of the Company's operations and (iii) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available.

Some of the taxes are withholding taxes (paid on revenues). The assessment of whether the withholding tax is in scope of IAS 12 is judgemental; the Company performed this assessment in the past and some of the withholding taxes that the Company pays in certain countries qualify as income taxes as it creates an income tax credit or it is considered as deemed profit taxation.

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.

4 FINANCIAL STATEMENTS 2019

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

Income tax recognized in the consolidated Income Statement

	Note	2019	2018
Corporation tax on profits for the year		(38)	(20)
Adjustments in respect of prior years		(2)	1
Total current income tax		(40)	(20)
Deferred tax	4.3.17	9	(20)
Total		(31)	(40)

The Company's operational activities are subject to taxation at rates which range up to 35% (2018: 35%).

For the year ended December 31, 2019, the respective tax rates, the change in the blend of income tax based on 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 6.2% (2018: 10.7%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2019	2018
	%	%
Profit/(Loss) before income tax	542	384
Share of profit of equity-accounted investees	43	13
Profit/(Loss) before income tax and share of profit of equity-accounted investees	500	370
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25% (125)	25% (92)
Tax effects of :		
Different statutory taxes related to subsidiaries operating in other jurisdictions	(10%) 52	6% (22)
Withholding taxes and taxes based on deemed profits	4% (21)	3% (11)
Non-deductible expenses	2% (10)	5% (17)
Non-taxable income	(18%) 88	(31%) 115
Adjustments related to prior years	0% (2)	(0%) 1
Adjustments recognized in the current year in relation to deferred income tax of previous year	(1%) 3	(2%) 9
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	3% (16)	6% (24)
Movements in uncertain tax positions	(0%) 0	0% -
Total tax effects	(19%) 94	(14%) 51
Total of tax charge on the Consolidated Income Statement	6% (31)	11% (40)

The 2019 effective tax rate of the Company was primarily impacted by updates to deferred tax liabilities during the period of construction for contracts in Guyana. Similar to last year, the effective tax was also impacted by unrecognized deferred tax assets concerning Brazil, Angola, USA, Luxembourg and the Netherlands.

With respect to the annual effective tax rate calculation for the year 2019, the most significant portion of the current income tax expense of the Company was generated in countries in which income taxes are imposed on net profits including Switzerland, United Kingdom, Equatorial Guinea and Canada.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes per country

	2019	2018
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Withholding tax
Angola	(1)	-
Equatorial Guinea	(0)	-
Brazil	(4)	(4)
Guyana	(15)	(5)
Other ¹	(2)	(2)
Total withholding and overseas taxes	(21)	(11)

¹ Mainly includes Nigeria and India

TAX RETURNS AND TAX CONTINGENCIES

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company believes there is a sound basis for its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the ultimate liability to have a material effect on its consolidated statement of financial position or results of operations, although it could have a material adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the difference in alignment between the Company's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax increase of US\$42 million in respect of ongoing tax audits and in respect of the Company's review of its uncertain tax positions. This amount is primarily in relation to uncertain tax positions concerning various taxes other than corporate income tax. However it is possible that the ultimate resolution of the tax exposures could result in tax charges that are materially higher or lower than the amount provided.

The Company conducts operations through its various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, the Company may identify changes to previously evaluated tax positions that could result in adjustments to its recorded assets and liabilities. Although the Company is unable to predict the outcome of these changes, it does not expect the effect, if any, resulting from these adjustments to have a material effect on its consolidated statement of financial position, results of operations or cash flows.

4.3.11 EARNINGS/(LOSS) PER SHARE

The basic earnings per share for the year amounted to US\$1.84 (2018: US\$1.04); the fully diluted earnings per share amounted to US\$1.84 (2018: US\$1.04).

Basic earnings / (loss) per share amounts are calculated by dividing net profit / (loss) for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the net profit / loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.