



OFFSHORE

ENERGY. COMMITTED.



ANNUAL REPORT 2019

4 FINANCIAL STATEMENTS 2019

4.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2019	31 December 2018
Deferred income on operating lease contracts	150	200
Total	150	200

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 revenue is shown in the income statement on a straight-line basis with reference to IFRS 16 '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 2019 are summarized as follows:

Provisions (movements)

	Demobilisation	Warranty	Employee benefits	Brazil investigation	Other	Total
Balance at 1 January 2019	96	34	26	48	262	467
Arising during the year	28	18	3	(2)	29	75
Unwinding of interest	1	-	0	1	-	2
Utilised	-	(2)	(1)	(0)	(182)	(185)
Released to profit	-	(1)	0	-	(26)	(27)
Other movement	-	(0)	(1)	(47)	(1)	(49)
Balance at 31 December 2019	124	49	28	-	82	283
of which :						
Non-current portion	124	-	28	-	13	165
Current portion	(0)	49	-	-	69	118

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 the line item 'Financial expenses' of the consolidated income statement (please refer to note 4.3.9 Net Financing Costs).

Expected outflow within one year is nil and amounts to US\$59 million between one and five years, and US\$65 million after five years.

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 increase of the warranty provision consists of new provisions accrued on projects under construction over the period.

Brazilian Investigation

Provision regarding the Brazilian investigation decreased during the year due to the reclassification of the payment agreed with the Brazilian Federal Prosecutor's Office ('MPF'), from provision to liabilities (refer to note 4.3.27 Trade and Other Payables), upon notification that the Federal Court has formally closed the Improbability Lawsuit (refer to note 4.3.1 Financial Highlights).

Other

The decrease of 'Other' provisions during the period mainly relates to the insurance income shared with Repsol in relation to the Yme insurance claim. During the first half of the year 2019, the Company paid the full amount due to Repsol.

The remainder of 'Other' provisions mainly relate to commercial claims, regulatory fines related to operations and local content penalty.

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2019	31 December 2018
Trade payables		143	140
Accruals on projects		288	256
Accruals regarding delivered orders		110	39
Other payables		68	69
Contract liability	4.3.20	42	143
Pension taxation		10	8
Taxation and social security costs		103	55
Current portion of deferred income		57	62
Other non-trade payables		75	127
Total	4.3.29	896	899

The total trade and other payables remained stable, despite the higher construction activities during 2019, due to the timing of payments made to suppliers.

Accruals regarding delivered orders increased in 2019 mainly due to the recognition of accruals related to the finalization of FPSO *Liza Destiny* following project completion in December 2019.

Decrease of the contract liability relates to progress of the work performed by the Company mainly in relation to Turret Mooring System EPC projects. The Company recognized revenue of US\$125 million during the period, which was included in the contract liability as per December 31, 2018.

Payables related to taxation and social security costs increased mainly due to the Company's updated assessment of uncertain tax positions related mainly to various taxes other than corporate income tax.

Current portion of deferred income is mainly related to the revenue of one operating lease contract which includes a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IFRS 16 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral is released through the income statement over the remaining duration of the relevant operating lease contract.

Other non-trade payables include mostly interest payable, dividends payable and the short-term portion of the outstanding payments related to the Leniency Agreement. The long-term portion of the liability for outstanding payments related to the Leniency Agreement and the settlement with Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') is presented in the line item 'Other non-current liabilities' in the Company's statement of financial position.