



EXPERIENCE **MATTERS**

**2016**

ANNUAL REPORT

## 5 FINANCIAL REPORT 2016

The utilized portion of the demobilization-provision relates to the demobilization of FPSO *Marlim Sul* which has been finalized in the course of 2016.

### Onerous contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the ongoing downturn which has created significant over-supply in offshore markets, the costs of the long-term chartering contract exceed the economic benefits expected to be received by the Company through the utilization of the vessel. As a result, a provision for onerous contract of US\$ 31 million has been accounted for as 'cost of sales' over the period ended December 31, 2016. The calculations use cash flow projections approved by the Management Board of the Company. The discount rate used is the risk free rate (2.6% as of December 2016).

If the vessel sales day rate varies by +/- 10% the impact on the onerous provision would be in a range of +/- US\$ 15 million.

The Company has also reviewed its long-term offices rental contracts, in light of its ongoing restructuring program. The immediate result of this program has led to a significant decrease in staffing levels, which created overcapacity in rented office space in various Regional Centers. As a result, the obligation for the discounted future unavoidable costs has been provided for through a provision for onerous contract of US\$ 11 million accounted for as 'Other operating expense' over the period ended December 31, 2016 (please refer to note 5.3.4). The discount rate used is the risk free rate (3.2% as of December 2016).

### 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 decrease of the warranty provision follows the signature of an agreement during the period relating to warranty issues with one customer (and for which the Company recorded an additional provision in 2014) and also to usual warranty consumptions.

### Other

The Other provision that arose during the year mainly relates to non-recurring provision for potential contemplated settlement with Brazilian authorities and Petrobras for US\$ 22 million, US\$ 24 million provision for restructuring and provisions related to various contractual disputes for US\$ 19 million .

## 5.3.27 TRADE AND OTHER PAYABLES

### Trade and other payables (summary)

	<i>Notes</i>	31 December 2016	31 December 2015
Accruals on projects		193	293
Trade payables		120	147
Accruals regarding delivered orders		206	142
Other payables		54	131
Instalments exceeding cost incurred	5.3.19	14	56
Pension taxation		9	14
Taxation and social security costs		36	29
Other non-trade payables		74	179
<b>Total</b>	5.3.29	<b>706</b>	<b>992</b>

The decrease year on year of accruals on projects is mainly related to the completion of construction activities on FPSOs *Turritella*, *Cidade de Marica* and *Cidade de Saquarema*.

The movement in the other non-trade payables mainly relates to the last US\$ 70 million remaining installment due, following the settlement with the Dutch Public Prosecutor's Office over the investigation into potentially improper sales payments. The decrease of other payable mainly relates to the discontinuation of a pension plan that existed for certain Offshore employees.

The contractual maturity of the trade payables is as follows:

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

	31 December 2016	31 December 2015
Within 1 month	117	146
Between 1 and 3 months	2	1
Between 3 months and 1 year	1	0
More than one year	-	0
<b>Total</b>	<b>120</b>	<b>147</b>

### 5.3.28 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, 2016, the Company has provided bank guarantees to unrelated third parties for an amount of US\$ 336 million (2015: US\$ 379 million). No liability is expected to arise.

The Group holds in its favour US\$ 99 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

#### COMMITMENTS

##### Contingent Liability

At the end of January 2016, the United States Department of Justice (DoJ) informed the Company that it has re-opened its past inquiry of the Company in relation to the alleged improper sales practices over the period 2007 to 2011 and has made information requests in connection with that inquiry.

During the period, the Company has cooperated with the DoJ and remains committed to close out discussions on this legacy issue which the Company self-reported to the authorities in 2012 and for which it reached a settlement with the Dutch Public Prosecutor in 2014.

During the period, the Company has also cooperated with the DoJ for its inquiry into Unaoil, a company that SBM Offshore had engaged as agent prior to 2012.