SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4.2.6 GENERAL INFORMATION

SBM Offshore N.V. has its registered office in Amsterdam, the Netherlands and is located at Evert van de Beekstraat 1-77, 1118 CL in Schiphol, the Netherlands. SBM Offshore N.V. is the holding company of a group of international marine technology-oriented companies. The Company globally serves the offshore oil and gas industry by supplying engineered products, vessels and systems, as well as offshore oil and gas production services.

The Company is registered at the Dutch Chamber of Commerce under number 24233482 and is listed on the Euronext Amsterdam stock exchange.

The consolidated financial statements for the year ended December 31, 2018 comprise the financial statements of SBM Offshore N.V., its subsidiaries and interests in associates and joint ventures (together referred to as 'the Company'). They are presented in millions of US dollars, except when otherwise indicated. Figures may not add up due to rounding.

The consolidated financial statements were authorized for issue by the Supervisory Board on February 13, 2019.

4.2.7 ACCOUNTING PRINCIPLES

A. ACCOUNTING FRAMEWORK

The consolidated financial statements of the Company have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) and interpretations adopted by the EU, where effective, for financial years beginning January 1, 2018 and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

The Company financial statements included in section 4.4 are part of the 2018 financial statements of SBM Offshore N.V.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AS OF JANUARY 1, 2018

The Company has adopted the following new standards as of January 1, 2018:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers';
- IFRS 16 'Leases';
- IAS 28 Amendment 'Long-term Interests in Associates and Joint Ventures';
- IFRS 2 Amendment 'Share-based Payment';
- IAS 40 Amendment 'Investment Property';
- IFRIC 22 'Foreign Currency Transactions and Advance Considerations';
- Annual Improvements to IFRS Standards 2014-2016 Cycle.

IFRS 9 – Financial Instruments

IFRS 9 includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard is mandatory as of January 1, 2018. The adoption of IFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements of the Company as described below.

Classification and measurement

IFRS 9 includes amended guidance for the classification and measurement of financial assets. IFRS 9 classifies financial assets in the following measurement categories: i) those to be measured subsequently at fair value (either through Other Comprehensive Income ('OCI'), or through profit or loss), and ii) those to be measured at amortized cost. The classification under IFRS 9 for financial assets is driven by the entity's business model for managing financial assets and their contractual cash flow characteristics. The Company's financial assets consists of trade receivables, finance lease receivables and other financial assets. The Company has assessed the business models that apply to its financial assets and concluded that the adoption of IFRS 9 has no impact on the classification and initial measurement of the existing financial assets of the Company. Furthermore, IFRS 9 did not introduce any changes for the classification and measurement of financial liabilities.

Hedge accounting

The foreign currency forwards and interest rate swaps in place as at December 31, 2017 qualify as cash flow hedges under IFRS 9 and the Company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. The existing hedging relationships are therefore treated as continuing hedging relationships. As a consequence, the Company concludes that the adoption of IFRS 9 has no impact on the Company's hedge accounting. Furthermore, new rules for hedge accounting do not generate significant changes in the Company's accounting policy.

Impairment of financial assets

IFRS 9 introduces an impairment model based on 'expected credit losses' (ECL), using forward looking information, whereas its predecessor IAS 39 referred to incurred losses. The Company has the following types of assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables;
- Construction work-in-progress;
- Finance lease receivables;
- Other financial assets.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

Construction work-in-progress (excluding finance lease related) and trade receivables

The Company applies the simplified approach in measuring expected credit losses for construction work-in-progress and trade receivables. Construction work-in-progress relates to unbilled work-in-progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for construction work-in-progress. To measure the expected credit losses for significant construction work-in-progress balances and trade receivable balances, the Company uses the credit risk of individual debtors and days past due. Furthermore, the Company used historical credit loss experience to determine a 1% expected credit loss rate on individually insignificant construction work-in progress and trade receivable balances. Construction work-in-progress balances and trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to make contractual payments in line with an agreed-upon repayment plan or the failure to engage in a repayment plan with the Company at all.

Finance lease receivable (including related construction work-in-progress)

Based on the Company's historical and forward-looking analyzes it is concluded that the Company's finance lease receivables have a low credit risk profile as illustrated by the lack of a case of default over the past six years, and that the counterparties of the finance lease receivables have a strong capacity to meet their contractual cash flow obligations based on existing contractual arrangements, which include parent company guarantees. For the majority of the Company's finance lease receivables, the exposure is reduced by the related non-recourse debt. Given the low credit risk associated with them, the Company applies the low credit risk simplification of IFRS 9 for the computation of the expected credit loss on its finance lease receivables. The Company defines a default as a late (i.e. later than 90 days after the due date) or non-payment of receivables.

Other financial assets

Other financial assets mainly comprise funding loans to associates and joint ventures and the discounted value of bareboat fees that the Company invoices to the client during the demobilization phase. The expected credit loss on the latter financial asset is analyzed as part of the finance lease receivable as described above. To determine the impairment for funding loans to associates and joint ventures, the Company follows the general approach of IFRS 9 without applying the low credit risk simplification. In essence this means that the Company determines, at the reporting date, whether there has been a significant increase in credit risk since initial recognition. In case of a significant increase in credit risk since initial recognition, a lifetime expected credit loss is recognized, if not, a 12-month expected credit loss is recognized.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial, since the Company holds the majority of its cash with high credit quality financial institutions.

The Company did not restate the comparative figures of 2017 based on the adoption rules of IFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the comparative balance sheet as at December 31, 2017, but they are recognized in the opening balance sheet on January 1, 2018.

The total impact of IFRS 9 adoption on the Company's consolidated equity as at January 1, 2018 is as follows:

	Equity attributable to shareholder[1]	Non-controlling interests	Total Equity
Closing disclosed at 31 December 2017 under IAS 39	**2,501**	**1,058**	**3,559**
Increase in provision for trade receivables and construction work-in-progress (excluding finance lease related)	(3)	0	(4)
Increase in provision for finance lease receivables (including construction work-in-progress related)	-	-	-
Increase in provision for funding loans	-	-	-
Impact of IFRS 9 adoption by associates and joint ventures	(1)	-	(1)
Adjustment from adoption of IFRS 9 on 1 January 2018	**(4)**	**(1)**	**(5)**
Opening at 1 January 2018 under IFRS 9	**2,497**	**1,057**	**3,554**

1 Impacting the Retained earnings

Net impairment losses related to financial and contract assets are recognized in a separate line in the consolidated income statement. The Company has restated its 2017 consolidated income statement and presented the net result of bad debt that would have been recorded based on the requirements of IFRS 9 in a seperate line 'Net impairment gains/(losses) on financial and contract assets'. The change in the presentation results in an increase of cost of sales by US$ 1 million to US$ 1,063 million.

IFRS 15 – Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This standard replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. IFRS 15 specifies how and when an IFRS reporter recognizes revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principle-based five-step model, to be applied to contracts with customers to provide goods or services in the ordinary course of business. This standard is mandatory as of January 1, 2018.

The Company has analyzed the possible impacts and practical consequences of the standard's application. The Company's analysis has been focused on two specific steps in the five-step model being i) the potential unbundling of existing contracts into multiple performance obligations and to a lesser extent on the potential bundling of separate contracts into one performance obligation and ii) the recognition of the transaction price over time or at a certain point in time. The analysis of the existing Company's construction contracts demonstrates the following:

- The Company's usual construction contracts represent one performance obligation, given the significant level of integration and interrelation of the various components of each of the Company's products; and
- The Company should recognize revenue over time based on input methods which is in line with the previous policy to measure revenue based on the percentage of completion. The conclusion to recognize revenue over time is based on the fact that (i) the Company delivers customized products, specific to identified clients, and without alternative use to the Company and (ii) usual construction contracts provide the Company with an enforceable right of payment for performance completed to date.

For the operating and maintenance contracts, there is no change in revenue recognition due to applying the new standard. The revenue remains to be recognized over time based on input methods.

Based on the above analysis the Company's accounting policies applied for revenue recognition did not change significantly due to the adoption of IFRS 15.

The Company opted to apply the retrospective implementation as of January 1, 2018, with restatement of comparative figures for 2017. Based on the Company's analysis it is concluded that the retrospective implementation of IFRS 15 as per January 1, 2018 has no impact on the comparative figures for 2017.

The Company decided to apply the practical expedient to not disclose the amount of the transaction price allocated to the remaining performance obligations for reporting periods before the date of initial application.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is mandatory as of January 1, 2019. The Company elected to early adopt IFRS 16 as of January 1, 2018 to align with the adoption of IFRS 15 'Revenue from contracts with customers', since both standards are applicable to the Company's contracts with customers.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

SBM Offshore as lessor

The implementation of IFRS 16 has no significant impact on the measurement and recognition of lease contracts with customers where the Company is the lessor.

SBM Offshore as lessee

The Company leases buildings, cars and an installation vessel. For these contracts, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. The impact of the initial adoption of IFRS 16 on the opening balance of equity as of January 1, 2018 was nil. The Company recognized lease liabilities amounting to US$ 218 million and recognized right-of-use assets equal to the lease liabilities adjusted for (i) onerous contract provisions of US$ 63 million, (ii) derecognition of right of use of assets related to subleases of US$ 5 million and (iii) derecognition of outstanding balances related to prepaid or accrued rent of US$ 4 million at December 31, 2017. Furthermore due to the adoption of IFRS 16, the Company's operating cash flows over the period have increased and financing cash flows have decreased for approximately the same amount as EBITDA, as lease payments are no longer considered as operating cash flows but as financing cash flows.

In the transition to IFRS 16, the Company adopted the following practical expedients:

- The Company elected to not apply IFRS 16 to contracts that were not previously identified as containing a lease when applying IAS 17 and IFRIC 4.

- For those lease contracts that were identified as being onerous at the date of transition, the right-of-use assets recognized as of January 1, 2018 were adjusted by the amount of provision for onerous lease contracts recognized in the statement of financial position as of December 31, 2017.
- The weighted average of SBM Offshore's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 3.2%.
- The lease contracts ending in 2018 are accounted for as short-term leases.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- The Company used hindsight in determining the lease terms when contracts contained options to extend or terminate the lease.

A reconciliation of the operating lease commitments at December 31, 2017, disclosed in the Company's 2017 financial statements, to the lease liabilities recognized in the statement of financial position at January 1, 2018 is provided below:

Operating lease commitments disclosed as at 31 December 2017	**231**
(Less): short-term leases recognized on a straight-line basis as expense	(1)
(Less): low-value leases recognized on a straight-line basis as expense	0
(Less): components of contracts reassessed as service agreements	(9)
Add/(less): adjustments as a result of a different treatment of extension and termination options	26
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	1
Discounting using the Company's incremental borrowing rate	(29)
Lease liabilities recognized as at 1 January 2018	**218**

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
The issued amendment clarifies that entities have to first apply IFRS 9 in accounting for impairment of long term interests in associates and joint ventures which form part of the 'net investment' in the associate or joint ventures and then the guidance of IAS 28 should follow. The Company elected for earlier application of this amendment, aligning the adoption of the 'Amendment to IAS 28' with the adoption of IFRS 9.

Other standards, interpretations and amendments
The adoption of the remaining standards, interpretations and amendments had no effect on the financial statements for the period ended 31 December, 2018.

STANDARDS AND INTERPRETATIONS NOT MANDATORILY APPLICABLE TO THE COMPANY AS OF JANUARY 1, 2018
The following standards and amendments published by the IASB and endorsed by the European Commission are not mandatorily applicable as of January 1, 2018:
- IFRS 9 Amendment 'Prepayment Features with Negative Compensation';
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

Other new standards and amendments have been published by the IASB but have not been endorsed yet by the European Commission. Early adoption is not possible until European Commission endorsement. Those which may be relevant to the Company are set out below:
- IAS 1 and IAS 8 Amendment 'Definition of Material';
- IFRS 3 Amendment 'Business Combinations';
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- IAS 19 Amendment 'Plan Amendment, Curtailment or Settlement'.

The Company is in the process of finalization of the impact analysis of all the above accounting pronouncements and does not expect a significant effect on the financial statements due to adoption of these standards, amendments and improvements.

B. CRITICAL ACCOUNTING POLICIES

Critical accounting policies involving a high degree of judgement or complexity, or areas where assumptions and estimates are material, are disclosed in the paragraphs below.

(a) Use of estimates and judgement

When preparing the financial statements, it is necessary for the Management of the Company to make estimates and certain assumptions that can influence the valuation of the assets and liabilities and the outcome of the income statement. The actual outcome may differ from these estimates and assumptions, due to changes in facts and circumstances. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Estimates:

Significant areas of estimation and uncertainty in applying accounting policies that have the most significant impact on amounts recognized in the financial statements are:

The measurement of revenues and costs at completion, and margin recognition on construction contracts based on the input method:

Gross margin at completion and revenue at completion are reviewed periodically and regularly throughout the life of the contract. This requires a large number of estimates, especially of the total expected costs at completion, due to the complex nature of the Company's construction contracts. Judgement is also required for the recognition of variation orders, incentives and claims from clients where negotiations or discussions are at a sufficiently advanced stage. The gross margin at completion reflects at each reporting period the Management's current best estimate of the probable future benefits and obligations associated with the contract. Provisions for anticipated losses are made in full in the period in which they become known.

Impairments:

Assumptions and estimates used in the discounted cash flow model and the adjusted present value model to determine the value in use of assets or group of assets (e.g. discount rates, residual values and business plans) are subject to uncertainty. There is a possibility that changes in circumstances or in market conditions could impact the recoverable amount of the asset or group of assets.

The anticipated useful life of the leased facilities:

Management uses its experience to estimate the remaining useful life of an asset. The actual useful life of an asset may be impacted by an unexpected event that may result in an adjustment to the carrying amount of the asset.

The Company's taxation:

The Company is subject to income taxes in multiple jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. As per IAS 12, the income tax liabilities include any penalties and interest that could be associated with a tax audit issue. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will influence the income tax and deferred tax provisions in the period in which such determination is made.

The Company's exposure to litigation with third parties and non-compliance:

The Company identifies and provides analysis on a regular basis of current litigation and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligations, taking into account information available and different possible outcomes at the reporting period.

The warranty provision:
A warranty provision is accrued during the construction phase of projects, based on historical warranty expenditure per product type. At the completion of a project, a warranty provision (depending on the nature of the project) is therefore provided for and reported as provision in the statement of financial position. Following the acceptance of a project the warranty provision is released over the warranty period. For some specific claims formally notified by the customer and which can be reliably estimated, an amount is provided in full and without discounting. An overall review of the warranty provision is performed by Management at each reporting date. Nevertheless, considering the specificity of each asset, actual warranty expenditures could vary significantly from one project to another and therefore differ materially from initial statistical warranty provision provided at the completion of a said project.

The timing and estimated cost of demobilization:
The estimated future costs of demobilization are reviewed on a regular basis and adjusted when appropriate. Nevertheless, considering the long-term expiry date of the obligations, these costs are subject to uncertainty. Cost estimates can vary in response to many factors, including for example new demobilization techniques, the Company's own experience on demobilization operations, future changes in laws and regulations, and timing of demobilization operation.

Estimates and assumptions made in determining these obligations, can therefore lead to significant adjustments to the future financial results. Nevertheless, the cost of demobilization obligations at the reporting date represent Management's best estimate of the present value of the future costs required.

Several of the estimates included in the 2018 financial statements are disclosed in note 4.3.1 Financial Highlights and/or are detailed as follows:

- Impairment of the net investment in the Brazilian yard amounting to US$ 19 million due to deterioration in the activity outlook of the yard (detailed in note 4.3.31 Interest in Joint Ventures and Associates);
- Impairment of the goodwill related to the acquisition of the Houston based subsidiaries, amounting to US$ 25 million (detailed in note 4.3.14 Intangible Assets).

Judgments:
In addition to the above estimates, the Management exercises the following judgements:

Lease classification as Lessor:
When the Company enters into a new lease arrangement, the terms and conditions of the contract are analyzed in order to assess whether or not the Company retains the significant risks and rewards of ownership of the asset subject of the lease contract. To identify whether risks and rewards are retained, the Company systematically considers, amongst others, all the examples and indicators listed by IFRS 16.63 on a contract by contract basis. By performing such analysis, the Company makes significant judgement to determine whether the arrangement results in a finance lease or an operating lease. This judgement can have a significant effect on the amounts recognized in the consolidated financial statements and its recognition of profits in the future.

(b) Leases: accounting by lessor
A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Under an operating lease, the asset is included in the statement of financial position as property, plant and equipment. Lease income is recognized over the term of the lease on a straight-line basis. This implies the recognition of deferred income when the contractual day rates are not constant during the initial term of the lease contract.

When assets are leased under a finance lease, the present value of the lease payments is recognized as a finance lease receivable. Under a finance lease, the difference between the gross receivable and the present value of the receivable is recognized as revenue during the lease phase. Lease income is, as of the commencement date of the lease contract, recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. During the construction phase of the facility, the contract is accounted for as a construction contract.

(c) Impairment of non-financial assets

Under certain circumstances, impairment tests must be performed. Assets that have an indefinite useful life, for example goodwill, are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets that are subject to amortization or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount is the higher of an asset's Cash Generating Unit's ('CGU') fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. An impairment loss is recognized for the amount by which the assets or CGU's carrying amount exceeds its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and risks specific to the asset. The Company bases its future cash flows on detailed budgets and forecasts.

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each statement of financial position date.

(d) Impairment of financial assets

The Company assesses the impairment of financial assets based on the expected credit loss model. The Company has the following types of financial assets and contract assets that are subject to the expected credit loss model:

- Trade receivables and construction work-in-progress;
- Finance lease receivables;
- Other financial assets.

The detailed policy for impairment of financial assets and contract assets is disclosed in note 4.2.7 A. Accounting Framework – IFRS 9.

(e) Revenue

The Company provides design, supply, installation, operation, life extension and demobilization of Floating Production, Storage and Offloading (FPSO) vessels. The vessels are either owned and operated by SBM Offshore and leased to its clients (Lease and Operate arrangements) or supplied on a Turnkey sale basis (construction contracts). Even in the latter case, the vessels can be operated by the Company, under a separate operating and maintenance agreement, after transfer to the clients.

Other products of the Company include: semi-submersibles, Tension Leg Platforms (TLP), Liquified Natural Gas FPSOs, Turret Mooring Systems (TMS), brownfield and offshore (off)loading terminals. These products are mostly delivered as construction, lease or service type agreements.

Some contracts include multiple deliverables (such as Front-End Engineering Design ('FEED'), engineering, construction, procurement, installation, maintenance, operating services, demobilization). The Company assesses the level of integration between different deliverables and ability of the deliverable to be performed by another party. Based on this assessment the Company concludes whether the multiple deliverables are one, or separate, performance obligation(s).

The Company determines the transaction price for its performance obligations based on contractually agreed prices. If these prices are not directly observable from the contract, they are estimated based on expected cost plus margin. The Company has various arrangements with its customers in terms of pricing, but in principle i) the construction contracts have agreed fixed pricing terms, including fixed lump sums and reimbursable type of contracts, ii) the majority of the Company's lease arrangements have fixed lease rates and iii) the operating and service type of contracts can be based on fixed lump sums or reimbursable type of contracts. The Lease and Operate contracts generally include a variable component for which the treatment is described below under 'Lease and Operate contracts'.

The Company assesses for each performance obligation whether the revenue should be recognized over time or at point in time, this is explained more in detail under the below sections 'Construction contracts' and 'Lease and Operate contracts'.

The Company can agree on various payment arrangements which generally reflect the progress of delivered performance obligations. However, if the Company's delivered performance obligation exceeds instalments invoiced to the client, a 'Construction work-in-progress' (contract asset) is recognized (see note 4.3.20 Construction Work-In-Progress). If the instalments invoiced to the client exceed the work performed, a contract liability is recognized (see note 4.3.27 Trade and Other Payables).

Revenue policies related to specific arrangements with customers are described below.

Construction contracts:
The Company under its construction contracts usually provides Engineering, Procurement, Construction and Installation ('EPCI') of vessels. The Company assesses the contracts on an individual basis as per the policy described above. Based on the analysis performed for existing contracts:
- The construction contracts generally include one performance obligation due to significant integration of the activities involved; and
- Revenue is recognized over time as the Company has an enforceable right to payment for performance completed to date and the assets created have no direct alternative use.

Based on these requirements, the Company concludes that, in principle, construction contracts meet the criteria of revenue to be recognized over time. Revenue is recognized at each period based upon the advancement of the work-in-progress, using the input methods. The input method is based on the ratio of costs incurred to date to total estimated costs. Up to the moment that the Company can reasonably measure the outcome of the performance obligation, revenue is recognized to the extent of cost incurred.

Complex projects that present a high risk profile due to technical novelty, complexity or pricing arrangements agreed with the client are subject to independent project reviews at advanced degrees of completion in engineering. An independent project review is an internal but independent review of the status of a project based upon an assessment of a range of project management and company factors. Until this point, and when other significant uncertainties related to the cost at completion are mitigated, revenue is recognized to the extent of cost incurred.

Due to the nature of the services performed, variation orders and claims are commonly billed to clients in the normal course of business. The variation orders and claims are modifications of contracts that are usually not distinct and are therefore normally considered as part of the existing performance obligation. When the contract modification is initially approved by oral agreement or implied by customary business practise, the Company recognizes revenue only to the extent of contract costs incurred. The Company recognizes the gross margin related to the variation orders and claims only once they are formally approved in writing.

Generally, the payments related to the construction contracts are corresponding to the work-in-progress, therefore the Company does not adjust any of the transaction prices for the time value of money. However the time value of money is assessed on a contract basis and in case the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, the financing component is separated from other performance obligations.

Lease and Operate contracts:

The Company provides to its customers possibilities to lease the units under charter contracts. The charter contracts are multi-year contracts and most of them contain options to extend the term of the lease or terminate the lease earlier. Some of the contracts contain also purchase options that are exercisable throughout the lease term.

Charter rates

Charter rates received on long-term operating lease contracts are reported on a straight-line basis over the period of the contract once the facility has been brought into service. The difference between straight-line revenue and the contractual day-rates, which may not be constant throughout the charter, is accounted for as deferred income.

Revenue from finance lease contracts is, as of the commencement date of the lease contract, recognized over the term of the lease using the amortized cost method, which reflects a constant periodic rate of return.

Operating fees

Operating fees are received by the Company for facilitating receipt, processing and storage of petroleum services on board of the facilities which occur continuously through the term of the contract. As such they are a series of services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time based on input methods by reference to the stage of completion of the service rendered either on a straight-line basis for lump sum contracts or in line with cost incurred on reimbursable contracts.

Bonuses/penalties

On some contracts the Company is entitled to receive bonuses and incurs penalties depending on the level of interruption of production or processing of oil. Bonuses are recognized as revenue once it is highly probable that no significant reversal of revenue recognized will occur, which is generally the case only once the performance bonus is earned. Penalties are recognized as a deduction of revenue when they become probable.

Contract costs

The incremental costs of obtaining a contract with a customer (for example sales commissions) are recognized as an asset. The Company uses a practical expedient that permits to expense the costs to obtain a contract as incurred when the expected amortization period is one year or less. Costs of obtaining a contract that are not incremental are expensed as incurred unless those costs are explicitly chargeable to the customer. Bid, proposal, and selling and marketing costs, as well as legal costs incurred in connection with the pursuit of the contract, are not incremental, as the Company would have incurred those costs even if it did not obtain the contract.

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Company recognizes an asset for the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
- The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- The costs are expected to be recovered.

An asset recognized for contract costs is amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

(f) Operating segment information

As per IFRS 8, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose segmental operating results are regularly reviewed by the entity's chief operating decision maker, and for which distinct financial information is available.

The Management Board, as chief operating decision maker, monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, gross margin, EBIT and EBITDA.
The Company has two reportable segments:

- The Lease and Operate segment includes all earned day-rates on long-term operating lease and operate contracts.
- The Turnkey segment includes revenues from Turnkey supply contracts and after-sales services, which consist mainly of large production systems, large mooring systems, deep water export systems, fluid transfer systems, tanker loading and discharge terminals, design services and supply of special components and proprietary designs and equipment.

No operating segments have been aggregated to form the above reportable operating segments.

The Company's corporate overhead functions do not constitute an operating segment as defined by IFRS 8 'Operating segments' and are reported under the 'Other' section in note 4.3.2 Operating Segments and Directional Reporting.

Operating segment information is prepared and evaluated based on Directional reporting for which the main principles are explained in note 4.3.2 Operating Segments and Directional Reporting.

(g) Construction work-in-progress

Construction work-in-progress represents the Company's contract assets as defined in IFRS 15. Construction work-in-progress is the Company's right to consideration in exchange for goods and services that the Company has transferred to the customer. The Company's construction work-in-progress is measured as revenue recognizable to date, less any losses from onerous contracts and less invoiced instalments. The impairment of construction work-in-progress is measured, presented and disclosed on the same basis as financial assets that are within the scope of IFRS 9.

Where instalments received from the customers exceed the value of the performance obligation delivered to the customer, the excess is included in 'Trade and other payables' as 'Contract liability'.

(h) Demobilization obligations

The demobilization obligations of the Company are either stated in the lease contract or derived from the international conventions and the specific legislation applied in the countries where the Company operates assets. Demobilization costs will be incurred by the Company at the end of the operating life of the Company's facilities.

For operating leases, the net present value of the future obligations is included in property, plant and equipment with a corresponding amount included in the provision for demobilization. As the remaining duration of each lease reduces, and the discounting effect on the provision unwinds, accrued interest is recognized as part of financial expenses and added to the provision. The subsequent updates of the measurement of the demobilization costs are recognized both impacting the provision and the asset.

In some cases, when the contract includes a demobilization bareboat fee that the Company invoices to the client during the demobilization phase, a receivable is recognized at the beginning of the lease phase for the discounted value of the fee.

For finance leases, demobilization obligations are analyzed as a component of the sale recognized under IFRS 15. It is determined whether the demobilization obligation should be defined as a separate performance obligation. In that case, because the demobilization operation is performed at a later stage, the related revenue is deferred until the demobilization operations occur. Subsequent updates of the measurement of the demobilization costs are recognized immediately through deferred revenue, for the present value of the change.

C. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

(a) Distinction between current and non-current assets and liabilities

The Company classifies its assets as current when it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle. Inventory and construction work-in-progress are classified as current while the time when these assets are sold or consumed might be longer than twelve months. Financial assets are classified as current when they are realized within twelve months. Liabilities are classified as current when they are expected to be settled within less than twelve months and the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. All other assets and liabilities are classified as non-current.

(b) Consolidation

The Company's consolidated financial statements include the financial statements of all controlled subsidiaries.

In determining under IFRS 10 whether the Company controls an investee, the Company assesses whether it has i) power over the investee, ii) exposure or rights to variable returns from its involvement, and iii) the ability to use power over investees to affect the amount of return. To determine whether the Company has power over the investee, multiple contractual elements are analyzed, amongst which i) voting rights of the Company at the General Meeting, ii) voting rights of the Company at Board level and iii) the power of the Company to appoint, reassign or remove other key management personnel.

For investees whereby such contractual elements are not conclusive because all decisions about the relevant activities are taken on a mutual consent basis, the main deciding feature resides then in the deadlock clause existing in shareholders' agreements. In case a deadlock situation arises at the Board of Directors of an entity, whereby the Board is unable to conclude on a decision, the deadlock clause of the shareholders' agreements generally stipulates whether a substantive right is granted to the Company or to all the partners in the entity to buy its shares through a compensation mechanism that is fair enough for the Company or one of the partners to acquire these shares. In case such a substantive right resides with the Company, the entity will be defined under IFRS 10 as controlled by the Company. In case no such substantive right is held by any of the shareholders through the deadlock clause, the entity will be defined as a joint arrangement.

Subsidiaries:

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated using the full consolidation method.

All reciprocal transactions between two controlled subsidiaries, with no profit or loss impact at consolidation level, are fully eliminated for the preparation of the consolidated financial statements.

Interests in joint ventures:
The Company has applied IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11 investment in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. In determining under IFRS 11 the classification of a joint arrangement, the Company assessed that all joint arrangements were structured through private limited liability companies incorporated in various jurisdictions. As a result, assets and liabilities held in these separate vehicles were those of the separate vehicles and not those of the shareholders of these limited liability companies. Shareholders had therefore no direct rights to the assets, nor primary obligations for liabilities of these vehicles. The Company has considered the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Investments in associates:
Associates are all entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control over those policies. Investments in associates are accounted for using the equity method.

When losses of an equity-accounted entity are greater than the value of the Company's net investment in that entity, these losses are not recognized unless the Company has a constructive obligation to fund the entity. The share of the negative net equity of these is first accounted for against the loans held by the owner towards the equity-accounted company that forms part of the net investment. Any excess is accounted for under provisions.

Reciprocal transactions carried out between a subsidiary and an equity-accounted entity, are not eliminated for the preparation of the consolidated financial statements. Only transactions leading to an internal profit (e.g. for dividends or internal margin on asset sale) are eliminated applying the percentage owned in the equity-accounted entity.

The financial statements of the subsidiaries, associates and joint ventures are prepared for the same reporting period as the Company and the accounting policies are in line with those of the Company.

(c) Non-derivative financial assets
The Company's financial assets consist of finance lease receivables, loans to joint ventures and associates and trade and other receivables. The accounting policy on trade and other receivables is described separately.

Finance lease receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market.

Loans to joint ventures and associates relate primarily to interest-bearing loans to joint ventures. These financial assets are initially measured at fair value plus transaction costs (if any) and subsequently measured at amortized cost.

The Company classifies its financial assets at amortized cost only if both of the following criteria are met:
- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Details about the Company's impairment policies and the calculation of the credit loss allowance are provided in note 4.2.7 B. Critical Accounting Policies.

(d) Borrowings (bank and other loans) and lease liabilities

Borrowings are recognized on settlement date, being the date on which cash is paid or received. They are initially recognized at fair value, net of transaction costs incurred (transaction price), subsequently measured at amortized cost and classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized into the cost of the asset in the period in which they are incurred. Otherwise, borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowings are derecognized when the Company either discharges the borrowing by paying the creditor, or is legally released from primary responsibility for the borrowing either by process of law or by the creditor.

Lease liabilities, arising from lease contracts in which the Company is the lessee, are initially measured at the net present value of the following:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Each lease payment is allocated between the lease liability and finance cost. Finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(e) Foreign currency transactions and derivative financial instruments

Foreign currency transactions are translated into the functional currency, the US dollar, at the exchange rate applicable on the transaction date. At the closing date, monetary assets and liabilities stated in foreign currencies are translated into the functional currency at the exchange rate prevailing on that date. Resulting exchange gains or losses are directly recorded in the income statement. At the closing date, non-monetary assets and liabilities stated in foreign currency remain translated into the functional currency using the exchange rate at the date of the transaction.

Translation of foreign currency income statements of subsidiaries (except for foreign operations in hyperinflationary economies) into US dollars is converted at the average exchange rate prevailing during the year. Statements of financial position are translated at the exchange rate at the closing date. Differences arising in the translation of financial statements of foreign subsidiaries are recorded in other comprehensive income as foreign currency translation reserve. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and borrowings of such investments, are taken to Company equity.

Derivative financial instruments held by the Company are aimed at hedging risks associated with market risk fluctuations. The Company uses primarily forward currency contracts and interest rate swaps to hedge foreign currency risk and interest rate risk. Further information about the financial risk management objectives and policies is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

A derivative instrument (cash flow hedge) qualifies for hedge accounting when all relevant criteria are met. A cash flow hedge aims at reducing risks incurred by variations in the value of future cash flows that may impact net income. In order for a derivative to be eligible for hedge accounting, the following criteria must be met:

- There is an economic relationship between the hedging instrument and the hedged item.
- The effect of credit risk does not dominate the value changes resulting from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that used for risk management purposes.

All derivative instruments are recorded and disclosed in the statement of financial position at fair value. Purchases and sales of derivatives are accounted for at trade date. Where a portion of a financial derivative is expected to be realized within twelve months of the reporting date, that portion is presented as current; the remainder of the financial derivative as non-current.

Changes in fair value of derivatives designated as cash flow hedge relationships are recognized as follows:

- The effective portion of the gain or loss of the hedging instrument is recorded directly in other comprehensive income, and the ineffective portion of the gain or loss on the hedging instrument is recorded in the income statement. The gain or loss which is deferred in equity, is reclassified to the net income in the period(s) in which the specified hedged transaction affects the income statement.
- The changes in fair value of derivative financial instruments that do not qualify as hedging in accounting standards are directly recorded in the income statement.

The sources of hedge ineffectiveness are:

- The non-occurrence of the hedged item;
- The change in the principal terms of the hedged item;
- The severe deterioration of the credit risk of the Company and, or the derivative counterparty.

When measuring the fair value of a financial instrument, the Company uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. Further information about the fair value measurement of financial derivatives is included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

(f) Provisions

Provisions are recognized if and only if the following criteria are simultaneously met:

- The Company has an ongoing obligation (legal or constructive) as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- The amount of the obligation can be reliably estimated; provisions are measured according to the risk assessment or the exposed charge, based upon best-known facts.

Demobilization provisions relate to estimated costs for demobilization of leased facilities at the end of the respective lease period or operating life.

Warranty provisions relate to the Company's obligations to replace or repair defective items that become apparent within an agreed period starting from final acceptance of the delivered system. Such warranties are provided to customers on most Turnkey sales. These provisions are estimated on a statistical basis regarding the Company's past experience or on an individual basis in the case of any warranty claim already identified. These provisions are classified as current by nature as it coincides with the production cycle of the Company.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of such items. The capital value of a facility to be leased and operated for a client is the sum of external costs (such as shipyards, subcontractors and suppliers), internal costs (design, engineering, construction supervision, etc.), third party financial costs including interest paid during construction and attributable overhead.

Subsequent costs are included in an assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The costs of assets include the initial estimate of costs of demobilization of the asset net of reimbursement expected to be received by the client. Costs related to major overhaul which meet the criteria for capitalization are included in the assets carrying amount. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate line items of property, plant and equipment. The depreciation charge is calculated based on future anticipated economic benefits, e.g. based on the unit of production method or on a straight-line basis as follows:

- Converted tankers 10-20 years (included in vessels and floating equipment);
- Floating equipment 3-15 years (included in vessels and floating equipment);
- Buildings 30-50 years;
- Other assets 2-20 years;
- Land is not depreciated.

Useful lives and methods of depreciation are reviewed at least annually, and adjusted if appropriate.

The assets' residual values are reviewed and adjusted, if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains and losses arising on disposals or retirement of assets are determined by comparing any sales proceeds and the carrying amount of the asset. These are reflected in the income statement in the period that the asset is disposed of or retired.

Right-of-use assets related to the Company's lease contracts in which the Company is a lessee are included in Property, plant and equipment. Right-of-use assets and corresponding liabilities are recognized when the leased asset is available for use by the Company. Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date;
- Any initial direct costs; and
- Restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(h) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition, less accumulated impairment.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of the annual impairment testing.

Patents are recognized at historical cost and patents acquired in a business combination are recognized at fair value at the acquisition date when intangible assets criteria are met and amortized on a straight-line basis over their useful life, generally over fifteen years.

Research costs are expensed when incurred. In compliance with IAS 38, development costs are capitalized if all of the following criteria are met:
- The projects are clearly defined.
- The Company is able to reliably measure expenditures incurred by each project during its development.
- The Company is able to demonstrate the technical feasibility of the project.
- The Company has the financial and technical resources available to achieve the project.
- The Company can demonstrate its intention to complete, to use or to commercialize products resulting from the project.
- The Company is able to demonstrate the existence of a market for the output of the intangible asset, or, if it is used internally, the usefulness of the intangible asset.

When capitalized, development costs are carried at cost less any accumulated amortization. Amortization begins when the project is complete and available for use. It is amortized over the period of expected future benefit, which is generally between three and five years.

(i) Assets (or disposal groups) held for sale
The Company classifies assets or disposal groups as being held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification is performed when the following criteria are met:
- Management has committed to a plan to sell the asset or disposal group.
- The asset or disposal group is available for immediate sale in its present condition.
- An active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated.
- The sale of the asset or disposal group is highly probable.
- Transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year.
- The asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets or disposal groups classified as held for sale are measured at the lower of their carrying value or fair value less costs of disposal. Non-current assets are not depreciated once they meet the criteria to be held for sale and are shown separately on the face of the consolidated statement of financial position.

(j) Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Inventories comprise semi-finished, finished products and the Company's Fast4Ward™ Multi Purpose Floater ('MPF') valued at cost including attributable overheads and spare parts stated at the lower of purchase price or market value. MPFs under construction are accounted for as inventories until they are allocated to awarded projects.

(k) Trade and other receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within a maximum of 90 days and are therefore all classified

as current. Trade receivables are recognized initially at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest rate method. Interest income, together with gains and losses when the receivables are derecognized or impaired, is recognized in the income statement.

Details about the Company's impairment policies and the calculation of the expected credit loss allowance are provided in note 4.2.7 A. Accounting Framework.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash in bank and in hand fulfilling the following criteria: a maturity of usually less than three months, highly liquid, a fixed exchange value and an extremely low risk of loss of value.

(m) Share capital

Ordinary shares and protective preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the associated tax is also recognized in other comprehensive income or directly in equity.

Income tax expenses comprise corporate income tax due in countries of incorporation of the Company's main subsidiaries and levied on actual profits. Income tax expense also includes the corporate income taxes which are levied on a deemed profit basis and revenue basis (withholding taxes). This presentation adequately reflects the Company's global tax burden.

(o) Deferred income tax

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Employee benefits

Pension obligations: the Company operates various pension schemes that are generally funded through payments determined by periodic actuarial calculations to insurance companies or are defined as multi-employer plans. The Company has both defined benefit and defined contribution plans:

- a defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation
- a defined contribution plan is a pension plan under which the Company pays fixed contributions to public or private pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions to

defined contribution plans and multi-employer plans are recognized as an expense in the income statement as incurred.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

The expense recognized under the EBIT comprises the current service cost and the effects of any change, reduction or winding up of the plan. The accretion impact on actuarial debt and interest income on plan assets are recognized under the net financing cost.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in comprehensive income.

Share-based payments: within the Company there are three types of share based payment plans that qualify as equity settled:
- Restricted share unit (RSU);
- Long-term and Short-term Incentive Programs Management Board; and
- Matching bonus shares.

The estimated total amount to be expensed over the vesting period related to share based payments is determined by reference to the fair value of the instruments determined at the grant date, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that the employee will ultimately receive. Main assumptions for estimates are revised at statement of financial position date. Total cost for the period is charged or credited to the income statement, with a corresponding adjustment to equity.

When equity instruments vest, the Company issues new shares, unless the Company has Treasury shares in stock.