SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2018	31 December 2017
Deferred income on operating lease contracts	200	249
Total	**200**	**249**

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 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 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 2018 are summarized as follows:

Provisions (movements)

	Demobilisation	Onerous contracts	Warranty	Employee benefits	Brazil investigation	Other	Total
Balance at 31 December 2017	**93**	**63**	**68**	**23**	**299**	**285**	**830**
Derecognition at 1 January following early application IFRS 16	-	(63)	-	-	-	-	(63)
Balance at 1 January 2018	**93**	**-**	**68**	**23**	**299**	**285**	**768**
Arising during the year	-	0	12	1	48	77	138
Unwinding of interest	3	-	-	0	0	-	4
Utilised	-	-	(11)	(1)	(196)	(84)	(292)
Released to profit	-	-	(35)	0	-	(14)	(49)
Through OCI	-	-	-	4	-	-	4
Other	-	-	0	0	(103)	0	(103)
Foreign currency variations	-	-	0	(1)	-	(3)	(4)
Balance at 31 December 2018	96	0	34	26	48	262	467
of which :							
Non-current portion	96	-	-	26	28	0	150
Current portion	0	0	34	-	21	262	317

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$ 31 million between one and five years, and US$ 65 million after five years.

Onerous contract

Onerous contract provisions related to lease contracts were derecognized following the adoption of IFRS 16 on January 1, 2018 (see note 4.2.7 Accounting Principles). As per IFRS 16, right-of-use assets will be subject to impairment, if applicable.

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 consists of warranty costs effectively incurred over the period as well as a release of the provision following the signature of agreements relating to warranty issues with customers.

Brazilian Investigation

Provision regarding the Brazilian investigation decreased during the year due to:

- Payment of US$ 196 million for the Leniency Agreement with the Brazilian authorities and Petrobras (see note 4.3.1 Financial Highlights);
- Reclassification of the future bonus reduction provided in the Leniency Agreement to 'Other non-current liabilities' and 'Other non-trade payables' for the remaining payment of US$ 103 million (see note 4.3.27 Trade and Other Payables).

The remaining balance of US$ 48 million as per December 31, 2018 relates to the agreement signed between the Company and the Brazilian Prosecutor for an amount of BRL 200 million which was approved by the Fifth Chamber of the MPF on the December 18, 2018 (see note 4.3.1 Financial Highlights).

Other

The 'Other' provisions utilized during the year mainly relate to a payment of US$ 80 million for the compensation payable to the partners in the investee owning *Turritella* (FPSO) following early termination of the lease contract (see note 4.3.1 Financial Highlights).

Provisions arised during the year mainly relate to additional 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 (see note 4.3.1 Financial Highlights). The Company has provisioned for a total cost of c.US$185 million as per December 31, 2018, covering payment to Repsol and other insurance related expenses, payable after signing of an agreement. The remainder of 'Other' provisions relate to commercial claims and regulatory fines related to operations.

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2018	31 December 2017
Trade payables		140	98
Accruals on projects		256	189
Accruals regarding delivered orders		39	60
Other payables		69	73
Contract liability	4.3.20	143	21
Advances received from customers		3	-
Pension taxation		8	9
Taxation and social security costs		55	52
Current portion of deferred income		62	9
Other non-trade payables		124	86
Total	4.3.29	**899**	**596**

The increase in trade payables, accruals on projects and contract liability incurred year-on-year is mainly related to higher Turnkey project activities during the year 2018.