



OFFSHORE

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ANNUAL REPORT 2020

4 CORPORATE STATEMENTS 2020

Construction Work-in-Progress and Trade Receivables

As for the finance leases, there was no payment default (including overdue of more than 90 days) on any material trade receivables over the period. The Company performed as usual a detailed analysis of the credit risks associated with material trade receivables balances as at the reporting date. This did not result in any significant impairment losses over the period.

Other Financial Assets

Overall, the reassessment of the expected credit losses of other financial assets resulted in a limited impact, except for the impairment of one long-term receivable amounting to US\$11 million. This was the result of a significant downgrade in the credit rating of the main producer of one of the units, resulting in a full impairment of the main producer's contribution to the long-term receivable.

Impairments of financial assets and contract assets which relate to credit risk as per IFRS 9 requirements are recognized in a dedicated line of the income statement: 'Net impairment losses on financial and contract assets'. Impairments resulting from commercial disputes and other business decisions are not included in this dedicated line of the income statement.

During the year, the following gains/(losses) related to credit risks were recognized:

	2020	2019
Impairment losses		
- Movement in loss allowance for trade receivables	(1)	3
- Movement in loss allowance for construction work-in-progress	(4)	0
- Movement in loss allowance for finance lease receivables	(1)	0
- Movement in loss allowance for other assets	(18)	(1)
Net impairment gains/(losses) on financial and contract assets	(24)	3

During the year 2020, the Company recognized US\$(24) million net impairment loss on financial and contract assets.

The limited amount of loss allowance recognized by the Company over 2020 reflects the creditworthiness of the Company's client portfolio.

4.3.9 NET FINANCING COSTS

	2020	2019
Interest income on loans & receivables	3	10
Interest income on investments	3	10
Net foreign exchange gain	2	10
Other financial income	1	1
Financial income	9	31
Interest expenses on financial liabilities at amortized cost	(181)	(247)
Interest expenses on hedging derivatives	(76)	(17)
Interest expenses on lease liabilities	(5)	(6)
Interest addition to provisions	(1)	(2)
Net loss on financial instruments at fair value through profit and loss	0	(0)
Net cash flow hedges ineffectiveness	(3)	(3)
Net foreign exchange loss	0	0
Financial expenses	(265)	(274)
Net financing costs	(257)	(243)

The increase in net financing costs is mainly due to: (i) the decrease of interest income on investments due to lower interest rates (US\$ LIBOR) in 2020; (ii) the decrease of interest income on loans and receivables resulting from the repayment of loans from Sonasing Xikomba Ltd (the entity that owns the *N'Goma FPSO*), following optimization of the non-recourse project loan in 2019 and; (iii) the decrease of the net foreign exchange gain related to the reduction of index-linked term deposits protecting the Company against Kwanza devaluation for its cash held in Angola.

As a result of the Company's hedging policy, the decrease of Libor 3M in 2020 had a limited impact on Financial expenses as it led both to a decrease of Interest expenses on financial liabilities at amortized costs and to an increase of interest expenses on hedging derivatives.

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 judgmental; 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.

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

Income tax recognized in the consolidated Income Statement

	<i>Note</i>	2020	2019
Corporation tax on profits for the year		(47)	(38)
Adjustments in respect of prior years		(1)	(2)
Total current income tax		(48)	(40)
Deferred tax	<i>4.3.17</i>	10	9
Total		(38)	(31)

The Company's operational activities are subject to taxation at rates, which range up to 35% (2019: 35%).

For the year ended December 31, 2020, the respective tax rates, the change in the blend of income tax based on income withholding tax and deemed profit assessment 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 11% (2019: 6.2%).