

2022  
ANNUAL  
REPORT



TRUE.  
BLUE.  
TRANSITION.

The Company continued its evaluation of the impact of the IAS 12 Income Taxes amendment which was issued in May 2021 and is effective 1 January 2023. Balances affected by the amendment are the deferred tax assets and liabilities recognized in respect of right-of-use assets, lease liabilities and demobilization provisions.

In prior financial periods, the use of the initial recognition exemption was allowed and as of 1 January 2023 this will no longer be possible. The analysis performed would result in recognition of additional deferred tax assets and deferred liabilities on the balance sheet of US\$11 million each with an insignificant impact on the opening retained earning balance of less than US\$1 million. This assessment is performed based on the balance sheet positions affected by the amendment as per December 31, 2022 and current tax legislations.

Regarding the remaining amendments, the Company does not expect a material impact on the financial statements due to their future adoption.

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:

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback;
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current Deferral of Effective Date;

The Company does not expect a significant effect on the financial statements due to the adoption of the remaining amendments. Other standards and amendments are not relevant to the Company.

## **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 in 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 and recognition of revenues on construction contracts based on the input method:*

Revenue of the Company is measured and recognized based on the input method (i.e. costs incurred). Costs and revenue at completion are reviewed periodically 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 accounting of contract modifications and claims from clients where negotiations or discussions are at a sufficiently advanced stage. Costs and revenue (and the resulting gross margin) at completion reflect, at each reporting period, the Management's current best estimate of the probable future benefits and obligations associated with the contract. The policy for measurement of transaction price including variable considerations (i.e. claims, performance-based incentives) is included below in the point (d) Revenue.

In case a contract meets the definition of an onerous contract as per IAS 37, 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 net 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.

## 4 FINANCIAL INFORMATION 2022

### *The anticipated useful life of the leased facilities under an operating lease:*

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.

### *Uncertain income tax treatment:*

The Company is subject to income taxes in multiple jurisdictions. Significant judgement is required in determining the Company's overall income tax liability. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company takes into account the following considerations when determining the liabilities related to uncertain income tax treatment:

- When necessary, the Company engages with local tax advisers which provide advice on the expected view of tax authorities on the treatment of judgmental areas of income tax;
- The Company considers any changes in tax legislation and knowledge built based on prior cases to make an estimate/judgement on whether or not to provide for any tax payable; and
- The Company takes into account any dispute resolutions, case law and discussions between peer companies and the tax authorities on similar cases over an uncertain tax treatment.

The Company consistently monitors each issue around uncertain income tax treatments across the group in order to ensure that the Company applies sufficient judgement to the resolution of tax disputes that might arise from examination by relevant tax authorities of the Company's tax position.

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 and non-compliance:*

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

### *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 represents Management's best estimate of the present value of the future costs required.

### *Significant estimates and judgements in the context of the COVID-19 pandemic and the Russia-Ukraine war:*

During the 2022 financial year, the COVID-19 pandemic, the Russia-Ukraine war and current macroeconomic environment resulted in the Company reassessing significant estimates and judgments. The following key focus areas were identified by the regulator as potentially affected by the current global circumstances:

- Key assumptions used in the impairment test of assets or group of assets;

- Expected credit losses; and
- Additional costs in order to satisfy the performance obligations on some of the construction contracts mainly due to expected delay in the project delivery following lockdown periods in China, international travel restrictions, remote working, pressure on supply chain and general increase in global inflation.

The impact of COVID-19, the Russia-Ukraine war and current economic environment on the impairment of the tangible assets is disclosed in note 4.3.13 Property, Plant and Equipment. Regarding the Company's considerations for estimation of expected credit losses, refer to note 4.3.8 Net Impairment Gains/(Losses) on Financial and Contract Assets. In relation to the impact of additional costs incurred due to these current macroeconomic circumstances when satisfying the Company's performance obligations refer to note 4.3.3 Revenue.

Following the assessments, the company does not expect any significant impact in other areas.

### **Judgements:**

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, among 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. The most important judgement areas assessed by the Company are (i) determination of the fair value, (ii) determination of the useful life of the asset, (iii) highly specialized nature of an FPSO constructed on behalf of the client and (iv) the probability of the client exercising the purchase or termination option (if relevant).

#### **(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. The discount rate used to measure the net investment in the lease is the interest rate implicit in the lease. During the construction phase revenue is recognized over time as per IFRS 15 due to the fact the Company is acting as manufacturer lessor (refer to accounting policy (d) Revenue).

#### **(c) Impairment of non-financial assets**

Under certain circumstances, impairment tests must be performed. 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.