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4.3.20 CONSTRUCTION WORK-IN-PROGRESS

The significant portion of the outstanding balance of construction work-in-progress as of December 31, 2021 (US$ 4,140 million) relates to the *Liza Unity* (FPSO), *Prosperity* (FPSO), *FPSO Sepetiba, FPSO Almirante Tamandaré*, *FPSO Alexandre de Gusmão* and initial limited scope of the FPSO for the Yellowtail development project finance lease projects since the Company will receive most of the payments for the construction of these assets only during the lease period through bareboat charter payments. The increase compared with the previous period balance (2020: US$2,248 million) in the construction work-in-progress is mainly driven by the progress made in 2021 on these projects.

Contract liabilities of US$64 million comprises the amounts of those individual contracts for which the total instalments invoiced exceed the total revenue recognized. Contract liabilities are reclassified to other current liabilities (see note 4.3.26 Trade and Other Payables).

Regarding information about expected credit losses recognized for construction work-in-progress, refer to note 4.3.28 Financial Instruments – Fair Values and Risk Management.

4.3.21 DERIVATIVE FINANCIAL INSTRUMENTS

Further information about the financial risk management objectives and policies, the fair value measurement and hedge accounting of financial derivative instruments is included in note 4.3.28 Financial Instruments – Fair Values and Risk Management.

In the ordinary course of business and in accordance with its hedging policies as of December 31, 2021, the Company held multiple forward exchange contracts designated as hedges of expected future transactions for which the Company has firm commitments or forecasts. Furthermore, the Company held several interest rate swap contracts designated as hedges of interest rate financing exposure. The most important floating rate is the US$ 3-month LIBOR. Details of interest percentages of the long-term debt are included in note 4.3.24 Borrowings and Lease Liabilities.

The fair value of the derivative financial instruments included in the statement of financial position is summarized as follows:

Derivative financial instruments

	31 December 2021			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps cash flow hedge	13	157	(144)	1	351	(351)
Forward currency contracts cash flow hedge	14	94	(80)	98	21	77
Forward currency contracts fair value through profit and loss	19	37	(18)	38	39	(1)
Total	**47**	**288**	**(242)**	**137**	**411**	**(274)**
Non-current portion	14	162	(148)	38	277	(240)
Current portion	32	126	(94)	99	134	(35)

The movement in the net balance of derivative assets and liabilities of US$31 million over the period is mostly related to (i) the significant increased marked-to-market value of interest rate swaps, which mainly arises from increasing US market interest rates and the settlements of interest rate swaps related to the financing of *FPSO Cidade de Ilhabela* and *FPSO Sepetiba* and (ii) the decreased marked-to-market value of forward currency contracts, which is mainly driven by the appreciation of the US$ exchange rate versus the hedged currencies (especially EUR).

No ineffective portion arising from cash flow hedges was recognized in the income statement in 2021 (2020: US$3 million loss, refer to note 4.3.9 Net Financing Costs). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

No ineffectiveness was recognized due to the IBOR transition, refer to note 4.3.28 Financial Instruments – Fair Values and Risk Management.