

2017

ANNUAL REPORT



EXPERIENCE MATTERS

terminate the contract early without obtaining the underlying asset. Exercising of any of the purchase options would have resulted in a gain for the Company as of December 31, 2017 while exercising of the options for early termination as of December 31, 2017 would have resulted in a gain or, in one case, a near break-even result for the Company.

4.3.13 INTANGIBLE ASSETS

2017

	Development costs	Goodwill	Software	Patents	Total
Cost	23	25	11	19	77
Accumulated amortization and impairment	(5)	-	(7)	(19)	(31)
Book value at 1 January	18	25	4	-	46
Additions	0	-	1	-	1
Amortization	(4)	-	(2)	-	(5)
(Impairment)/impairment reversal	-	-	-	-	-
Foreign currency variations	-	-	0	-	0
Other movements	-	-	0	-	0
Total movements	(3)	-	(1)	-	(4)
Cost	23	25	12	19	79
Accumulated amortization and impairment	(9)	-	(8)	(19)	(36)
Book value at 31 December	14	25	3	-	42

2016

	Development costs	Goodwill	Software	Patents	Total
Cost	19	25	9	19	71
Accumulated amortization and impairment	(4)	-	(3)	(19)	(26)
Book value at 1 January	15	25	5	1	45
Additions	5	-	0	-	5
Amortization	(1)	-	(2)	(1)	(3)
(Impairment)/impairment reversal	-	-	-	-	-
Foreign currency variations	(1)	-	0	-	(1)
Other movements	-	-	0	-	0
Total movements	3	-	(1)	(1)	1
Cost	23	25	11	19	77
Accumulated amortization and impairment	(5)	-	(7)	(19)	(31)
Book value at 31 December	18	25	4	-	46

Amortization of development costs is included in 'Research and development expenses' in the income statement in 2017 for US\$ 4 million (2016: US\$ 1 million).

Goodwill relates to the acquisition of the Houston based subsidiaries (i.e. the Houston Regional Center). The recoverable amount is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management which cover a six-year period, in line with the Company's internal forecasting horizon. Cash flows beyond the six-year period are extrapolated using an estimated growth rate of 2%. Management determined budgeted gross margin based on past performance and its expectations of market development and award perspective on brownfield, semi-TLP and semi-sub projects supported by external sources of information. Budgeted gross margin is based on a gradual recovery of the market for brownfield, semi-TLP and semi-sub projects over the next five years. The discount rate used is pre-tax and reflects specific risks (8.3%). The most significant assumption included in the financial budget used for the determination of the recoverable amount of the goodwill is the award of a semi-sub EPC contract in the next three years period (i.e.

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before 31 December 2020). The use of more pessimistic market assumptions, with no award of semi-sub EPC contract within the next 5 years, would lead to a full impairment of the goodwill as of December 31, 2017.

4.3.14 FINANCE LEASE RECEIVABLES

The reconciliation between the total gross investment in the lease and the net investment in the lease at the statement of financial position date is as follows:

Finance lease receivables (reconciliation gross / net investment)

	31 December 2017	31 December 2016
Gross receivable	12,420	13,878
Less: unearned finance income	(5,224)	(6,318)
Total	7,196	7,560
Of which		
Current portion	1,252	328
Non-current portion	5,945	7,232

As of December 31, 2017, finance lease receivables relate to the finance lease of:

- FPSO *Cidade de Marica*, which started production in February 2016 for a charter of 20 years;
- FPSO *Cidade de Saquarema*, which started production in July 2016 for a charter of 20 years;
- *Turritella* (FPSO), which started production in September 2016 with an initial lease charter of 10 years. Following the exercise of a purchase option by Shell on July 11, 2017, the finance lease will mainly be recovered through a selling price at the effective purchase option closing date, being January 16, 2018, resulting in a classification in current portion of the total net book value of the finance lease receivable as of December 31, 2017 (please refer to note 4.3.1).
- FPSO *Cidade de Ilhabela*, which started production in November 2014 for a charter of 20 years;
- FPSO *Cidade de Paraty*, which started production in June 2013 for a charter of 20 years;
- FPSO *Aseng*, which started production in November 2011 for a charter of 20 years;
- FSO *Yetagun* life extension, started in May 2015 for a charter of 3 years.

The decrease in the finance lease receivables is driven by the invoicing of bareboat charter rates in 2017 as per redemption plan and US\$ 40 million impairment of *Turritella* (FPSO) for the difference between net investment in the finance lease and purchase price payment (please refer to note 4.3.1). This non-cash impairment is recognized in the Company's consolidated income statement on the line item 'Other operating income/(expense)'.

Included in the gross receivable is an amount related to unguaranteed residual values. The total amount of unguaranteed residual values at the end of the lease term amounts to US\$ 57 million as of December 31, 2017. Allowances for uncollectible minimum lease payments are nil.

Gross receivables are expected to be invoiced to the lessee within the following periods:

Finance lease receivables (gross receivables invoiced to the lessee within the following periods)

	31 December 2017	31 December 2016
Within 1 year	1,747	942
Between 1 and 5 years	2,677	3,459
After 5 years	7,995	9,477
Total Gross receivable	12,420	13,878

The following part of the net investment in the lease is included as part of the current assets within the statement of financial position: