

# 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)
<b>Book value at 1 January</b>	<b>18</b>	<b>25</b>	<b>4</b>	<b>-</b>	<b>46</b>
Additions	0	-	1	-	1
Amortization	(4)	-	(2)	-	(5)
(Impairment)/impairment reversal	-	-	-	-	-
Foreign currency variations	-	-	0	-	0
Other movements	-	-	0	-	0
<b>Total movements</b>	<b>(3)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(4)</b>
Cost	23	25	12	19	79
Accumulated amortization and impairment	(9)	-	(8)	(19)	(36)
<b>Book value at 31 December</b>	<b>14</b>	<b>25</b>	<b>3</b>	<b>-</b>	<b>42</b>

2016

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

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.

## 4 FINANCIAL STATEMENTS 2017

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)
<b>Total</b>	<b>7,196</b>	<b>7,560</b>
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
<b>Total Gross receivable</b>	<b>12,420</b>	<b>13,878</b>

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