2017 ANNUAL REPORT

SBM OFFSHORE

EXPERIENCE MATTERS

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 though 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:

Finance lease receivables (part of the net investment included as part of the current assets)

	31 December 2017	31 December 2016
Gross receivable	1,747	942
Less: unearned finance income	(495)	(614)
Current portion of finance lease receivable	**1,252**	**328**

The maximum exposure to credit risk at the reporting date is the carrying amount of the finance lease receivables taking into account the risk of recoverability. The Company does not hold any collateral as security.

Purchase Options in Finance Lease Contracts

The finance lease contracts of the FPSOs *Aseng* and *Turritella*, where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. Exercising of the purchase option for *FPSO Aseng* as of December 31, 2017 would have resulted in a gain for the Company while exercising of the early termination option, in which case the Company would retain the vessel, would have resulted in an insignificant loss. Please refer to note 4.3.1 for the detailed impact of Shell exercising the purchase option on *Turritella* (FPSO).

4.3.15 OTHER FINANCIAL ASSETS

The breakdown of the non-current portion of other financial assets is as follows:

	31 December 2017	31 December 2016
Non-current portion of other receivables	124	60
Non-current portion of loans to joint ventures and associates	77	189
Total	**201**	**249**

The increase in the non-current portion of other receivables is mainly related to a reclassification of a receivable on a joint venture previously classified under trade receivables and a revision of the long-term receivable related to demobilization fees on operating leases.

The maximum exposure to credit risk at the reporting date is the carrying amount of the interest-bearing loans taking into account the risk of recoverability. The Company does not hold any collateral as security.

LOANS TO JOINT VENTURES AND ASSOCIATES

	Notes	31 December 2017	31 December 2016
Current portion of loans to joint ventures and associates	4.3.18	33	25
Non-current portion of loans to joint ventures and associates		77	189
Total	4.3.33	**110**	**215**

The activity outlook for the Company's investment (30% ownership) in the joint venture owning the Paenal construction yard operating in Angola has continued to deteriorate, with no award in the Angolan FPSO market since 2014 and macro-economic constraints arising from the persistent downturn. The local construction capacity in Angola is therefore in excess of the activity generated by the oil & gas industry. As a result, the Company's carrying amount for the net investment, including shareholder loans, in this joint venture has been fully impaired to a net book value of zero with an additional impairment charge of US$ 34 million accounted for in the second half of 2017. Because this investment is accounted for using the equity method, this non-cash impairment is recognized in the Company's consolidated income statement on the line item 'Share of profit of equity-accounted investees'.

The impairment recognized in 2017 has been determined based on the net investment position considered as the loans plus the shares in losses in the associates.

The recoverable amount of the net investment is determined based on a value-in-use calculation which requires the use of assumptions. The cash flow projections used for the value-in-use calculation, as approved by the Management