



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

4 FINANCIAL STATEMENTS 2018

Leased facilities included in the vessels and floating equipment

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Cost | 3,230 | 3,220 |
| Accumulated depreciation and impairment | (2,256) | (2,081) |
| Book value at 31 December | 974 | 1,139 |

The nominal values of the future expected bareboat receipts (undiscounted lease payments) in respect of those operating lease contracts are:

Nominal values of the future expected bareboat receipts

| | 31 December 2018 | 31 December 2017 |
|---------------|------------------|------------------|
| Within 1 year | 320 | 376 |
| 2 years | 324 | 328 |
| 3 years | 302 | 323 |
| 4 years | 141 | 301 |
| 5 years | 126 | 156 |
| After 5 years | 607 | 723 |
| Total | 1,820 | 2,207 |

A number of agreements have extension options, which have not been included in the above table.

Purchase and termination options in operating lease contracts

The operating lease contracts of FPSO *Espirito Santo* and MOPU Deep Panuke, where the Company is the lessor, include call options for the client to (i) purchase the underlying asset or (ii) terminate the contract early without obtaining the underlying asset. The operating lease contract of semi-submersible Thunder Hawk includes a call option for the client to purchase the underlying asset. The exercise of any of the purchase options would have resulted in a gain for the Company as of December 31, 2018, while exercising the options for early termination as of December 31, 2018 would have resulted in a gain or a near break-even result for the Company.

4.3.14 INTANGIBLE ASSETS

2018

| | Development costs | Goodwill | Software | Patents | Total |
|---|-------------------|-------------|----------|----------|-------------|
| Cost | 23 | 25 | 12 | 19 | 79 |
| Accumulated amortization and impairment | (9) | - | (8) | (19) | (36) |
| Book value at 1 January | 14 | 25 | 3 | - | 42 |
| Additions | 4 | - | 2 | - | 6 |
| Amortization | (4) | - | (1) | - | (5) |
| (Impairment)/impairment reversal | - | (25) | - | - | (25) |
| Foreign currency variations | - | - | 0 | - | 0 |
| Other movements | - | - | 0 | - | 0 |
| Total movements | 1 | (25) | 0 | - | (23) |
| Cost | 27 | 25 | 13 | 19 | 84 |
| Accumulated amortization and impairment | (12) | (25) | (9) | (19) | (65) |
| Book value at 31 December | 15 | - | 4 | 0 | 19 |

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 |

Amortization of development costs is included in 'Research and development expenses' in the income statement in 2018 for US\$ 4 million (2017: US\$ 4 million).

Goodwill related to the acquisition of the Houston based subsidiaries is tested for impairment on an annual basis or whenever there is an indication that the goodwill may be impaired. The recoverable amount of the goodwill 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 its perspective of awards in the Floating Production Unit (FPU) market (i.e. semi-TLP and semi-sub projects) and brownfield market supported by external sources of information. The discount rate used is pre-tax and reflects specific risks (9.8%).

Although SBM Offshore continues to pursue opportunities in the FPU market, the visibility of client activity in this segment remains subdued. Following this more pessimistic market outlook, and the fact that project awards included in prior forecasts did not fully materialize, goodwill related to the acquisition of Houston-based subsidiaries has been impaired in full. This results in an impairment charge of US\$ 25 million, recognized on the line item 'Other operating expenses' of the consolidated income statement over the period ended December 2018.

4.3.15 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 2018 | 31 December 2017 |
|-------------------------------|------------------|------------------|
| Gross receivable | 10,680 | 12,420 |
| Less: unearned finance income | (4,732) | (5,224) |
| Total | 5,947 | 7,196 |
| Of which | | |
| Current portion | 195 | 1,252 |
| Non-current portion | 5,753 | 5,945 |