



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

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

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As of December 31, 2018, 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;
- 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;

The decrease in finance lease receivable is driven by the *Turritella* (FPSO) purchase price payment of US\$ 987 million received from Shell on January 16, 2018 (please refer to note 4.3.1 Financial Highlights), redemptions of other finance lease receivables as per the payment plans and to a lesser extent by the end of the contract term for FSO Yetagun (ended in May 2018).

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\$ 61 million as of December 31, 2018. Credit losses related to finance lease receivables based on an expected credit loss model are less than US\$ 1 million for 2018.

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 2018	31 December 2017
Less than 1 year	669	1,747
Between 1 and 2 years	671	669
Between 2 and 5 years	2,007	2,008
More than 5 years	7,334	7,995
Total Gross receivable	10,680	12,420

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 2018	31 December 2017
Gross receivable	669	1,747
Less: unearned finance income	(474)	(495)
Current portion of finance lease receivable	195	1,252

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 and termination options

The finance lease contract of FPSO *Aseng*, where the Company is the lessor, includes call options for the client to purchase the underlying asset or to terminate the contract early. The exercise of the purchase option for FPSO *Aseng* as of December 31, 2018 would have resulted in a gain for the Company while the exercise of the early termination option, in which case the Company would retain the vessel, would have resulted in a break-even result.

The finance lease contract of FPSO *Liza Destiny* (under construction as per December 31, 2018) also contains call options for the client to purchase the underlying asset or to terminate the contract early. These options are exercisable at any time starting from the delivery date of the vessel.

Please refer to note 4.3.1 Financial Highlights for the impact of Shell exercising the purchase option on the finance lease contract of the *Turritella* (FPSO) in 2017.

4.3.16 OTHER FINANCIAL ASSETS

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

	31 December 2018	31 December 2017
Non-current portion of other receivables	79	124
Non-current portion of loans to joint ventures and associates	133	77
Total	211	201

The decrease in the non-current portion of other receivables and the increase in the non-current portion of loans to joint ventures and associates are both mainly explained by a new loan between the Company and one of its joint ventures. This loan to the joint venture was used to repay the Company's outstanding non-current other receivables.

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 (for expected credit losses refer to note 4.3.8 Net Impairment Gains/(Losses) on Financial and Contract Assets and note 4.3.29 Financial Instruments – Fair Values and Risk Management). The Company does not hold any collateral as security.

LOANS TO JOINT VENTURES AND ASSOCIATES

	<i>Notes</i>	31 December 2018	31 December 2017
Current portion of loans to joint ventures and associates	4.3.19	101	33
Non-current portion of loans to joint ventures and associates		133	77
Total	4.3.33	234	110

The increase in the current portion of loans to joint ventures and associates addresses the temporary working capital needs of some of joint ventures, mostly located in Angola.

The carrying amount of funding loans is reduced by an amount of US\$ 168 million as of December 31, 2018 (December 31, 2017: US\$ 166 million) due to cumulative losses and impairment charges recognized in two joint ventures.

The maximum exposure to credit risk at the reporting date is the carrying amount of the loans to joint ventures and associates, taking into account the risk of recoverability. The Company does not hold any collateral as security.

4.3.17 DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax assets and liabilities and associated offsets are summarized as follows:

Deferred tax positions (summary)

	31 December 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	26	(26)	-	16	(16)
Tax losses	11	-	11	12	-	12
Other	15	10	5	15	-	15
Book value at 31 December	26	36	(10)	27	16	11