



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2020

4 CORPORATE STATEMENTS 2020

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 2020	31 December 2019
Gross receivable	10,511	11,209
Less: unearned finance income	(4,023)	(4,516)
Total	6,488	6,694
Of which		
Current portion	317	287
Non-current portion	6,171	6,407

As of December 31, 2020, finance lease receivables relate to the finance lease of:

- *Liza Destiny* (FPSO), which started production in December 2019 for a charter of 10 years;
- *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 Aseg*, which started production in November 2011 for a charter of 15 years;
- *FPSO Espirito Santo*, which started production in January 2009 for a charter of 15 years until December 2023, and which was extended in December 2020 until December 2028.

The decrease in finance lease receivable is driven by the redemptions as per the payment plans partially compensated by the recognition of the finance lease receivable of *FPSO Espirito Santo*.

Classification of the FPSO Espirito Santo lease contract as finance lease

In December 2020, the Company entered into a new contract with the client on the *FPSO Espirito Santo* and agreed with the client new terms and conditions including the extension of the contract from the year 2023 to 2028 and additional annual extension options up to 2033.

As a result of the revised terms and conditions as per the new Time Charter and Operate & Maintenance agreement, the Company has concluded that the new agreements need to be accounted for as a finance lease, while the previous arrangements were accounted for as an operating lease. This classification is mainly due to the extension of the contract and the related additional future cash flows to be received, which result in the present value of the lease payments amount to at least substantially all of the fair value of the leased asset.

Due to the finance lease classification, the Company has accounted for the transaction as if it was a sale of the vessel to the client as per IFRS 16 for an amount of US\$249 million and a related finance lease receivable of US\$249 million. In relation to the derecognition of the operating lease, the Company's property, plant and equipment has been derecognized for an amount of US\$126 million based on the net book value of the vessel (please refer to note 4.3.13 Property, Plant and Equipment), which has been recorded as Cost of Sales. Further, deferred income on the previous operating lease contract of US\$154 million has been reversed against the finance lease receivable of US\$249 million, because it is seen as a direct repayment on this finance lease receivable leaving a net balance of US\$95 million at the transaction date. The impact of the transaction has resulted in an increase of US\$123 million in the Company's gross margin in the Lease & Operate segment.

As there was no exchange of cash in connection with transaction, the net gain of US\$123 million has been adjusted as a non-cash adjustment to Profit before income tax on the line item 'Other adjustments for non-cash items' in the Company's 2020 cash flow statement.

Unguaranteed residual values

Included in the gross receivable is an amount related to unguaranteed residual values (i.e. scrap value of units). The total amount of unguaranteed residual values at the end of the lease term amounts to US\$49 million as of December 31, 2020

(2019: US\$69 million). Credit losses related to finance lease receivables based on an expected credit loss model are approximately US\$1 million for 2020. The 2020 residual value assessment led to a US\$14 million impairment on finance lease receivables.

As per the contractual terms, gross receivables should be invoiced to the lessee within the following periods:

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

	31 December 2020	31 December 2019
Less than 1 year	803	790
Between 1 and 2 years	802	788
Between 2 and 5 years	2,408	2,367
More than 5 years	6,498	7,264
Total Gross receivable	10,511	11,209

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 2020	31 December 2019
Gross receivable	803	790
Less: unearned finance income	(486)	(503)
Current portion of finance lease receivable	317	287

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 performed an assessment, which concluded that the credit risk for these receivables has not increased significantly since the initial recognition. The Company does not hold any collateral as security.

Purchase and termination options

The finance lease contracts of *FPSO Aseng* and *Liza Destiny* (FPSO), where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. If the client would have exercised the purchase option for *FPSO Aseng* as of December 31, 2020 this would have resulted in a gain for the Company, while the exercise of the early termination option under which the Company would retain the vessel, would have resulted in a breakeven result. If the client would have exercised the purchase option for *Liza Destiny* (FPSO) as of December 31, 2020 this would have resulted in a breakeven result for the Company while the exercise of the early termination option under which the Company would retain the vessel would have resulted in a gain.

The finance lease contract of *FPSO Espirito Santo* includes a call option for the client to terminate the contract early without obtaining the underlying asset. The exercise of the early termination option would have resulted in a non-material loss for the Company as of December 31, 2020.

The finance lease contracts of *Liza Unity* (FPSO) and *Liza Prosperity* (FPSO) (both under construction as per December 31, 2020) contain options for the client to purchase the underlying asset or terminate the contract early. These options are exercisable at any time starting from the delivery date of the vessel.

4.3.16 OTHER FINANCIAL ASSETS

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

	31 December 2020	31 December 2019
Non-current portion of other receivables	80	76
Sublease receivable	2	4
Non-current portion of loans to joint ventures and associates	32	25
Total	114	104