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ANNUAL REPORT 2019

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 2019	31 December 2018
Gross receivable	11,209	10,680
Less: unearned finance income	(4,516)	(4,732)
Total	6,694	5,947
Of which		
Current portion	287	195
Non-current portion	6,407	5,753

As of December 31, 2019, finance lease receivables relate to the finance lease of:

- FPSO *Liza Destiny*, which started production in December 2019 for a charter of 10 years with the expectation of a purchase option to be exercised by the client after a period of up to 2 years of operations;
- 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 15 years.

The increase in finance lease receivable is driven by the recognition of the finance lease receivable of FPSO *Liza Destiny*, less the redemptions as per the payment plans.

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\$69 million as of December 31, 2019. Credit losses related to finance lease receivables based on an expected credit loss model are less than US\$1 million for 2019.

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 2019	31 December 2018
Less than 1 year	790	669
Between 1 and 2 years	788	671
Between 2 and 5 years	2,367	2,007
More than 5 years	7,264	7,334
Total Gross receivable	11,209	10,680

It should be noted that the above table reflects the 10-years contractual term of the lease contract related to FPSO *Liza Destiny*. However, based on discussions with the client, it is expected that the client will purchase the unit after a period of up to two years of operations.

4 FINANCIAL STATEMENTS 2019

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 2019	31 December 2018
Gross receivable	790	669
Less: unearned finance income	(503)	(474)
Current portion of finance lease receivable	287	195

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 FPSO *Liza Destiny*, where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. The exercise of the purchase option as of December 31, 2019 would have resulted in a gain or a near break-even result for the Company. The exercise of the early termination option, in which case the Company would retain the vessels, would have resulted in a gain for FPSO *Liza Destiny* and break even for FPSO *Aseng*.

The finance lease contract of FPSO *Liza Unity* (under construction as per December 31, 2019) also contains 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 2019	31 December 2018
Non-current portion of other receivables	76	79
Sublease receivable	4	-
Non-current portion of loans to joint ventures and associates	25	133
Total	104	211

The decrease in the non-current portion of loans to joint ventures and associates is mainly explained by the repayment of loans from Sonasing Xikomba Ltd., the entity that owns the FPSO *N'Goma*, to the Company following optimization of the non-recourse project loan in 2019 (see note 4.3.1 Financial Highlights).

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 2019	31 December 2018
Current portion of loans to joint ventures and associates	4.3.19	30	101
Non-current portion of loans to joint ventures and associates		25	133
Total	4.3.33	55	234

The decrease in the current portion of loans to joint ventures and associates is also linked to the repayment from joint ventures to the Company following their external refinancing.

The carrying amount of funding loans is reduced by an amount of US\$168 million as of December 31, 2019 (December 31, 2018: US\$168 million) due to cumulative losses in two joint ventures.