SBM OFFSHORE

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ANNUAL REPORT 2018

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

4.3.24 BORROWINGS AND LEASE LIABILITIES

The line item 'Borrowings and lease liabilities' in the consolidated statement of financial position is further detailed as follows:

Borrowings and lease liabilities (summary)

	31 December 2018	31 December 2017
Borrowings	3,856	4,347
Lease liabilities	161	-
Total Non-current portion of Borrowings and lease liabilities	**4,017**	**4,347**
Borrowings	492	1,223
Lease liabilities	27	-
Total Current portion of Borrowings and lease liabilities	**519**	**1,223**

BORROWINGS

The movement in borrowings is as follows:

	2018	2017
Non-current portion	4,347	5,564
Add: current portion	1,223	557
Remaining principal at 1 January	**5,571**	**6,120**
Additions	1	-
Redemptions	(1,241)	(576)
Transaction and amortized costs	17	26
Other movements	0	0
Total movements	**(1,223)**	**(550)**
Remaining principal at 31 December	**4,348**	**5,571**
Less: Current portion	(492)	(1,223)
Non-current portion	**3,856**	**4,347**
Transaction and amortized costs	94	112
Remaining principal at 31 December (excluding transaction and amortized costs)	**4,442**	**5,682**
Less: Current portion	(508)	(1,240)
Non-current portion	**3,934**	**4,442**

The Company has no 'off-balance sheet' financing through special purpose entities. All long-term debt is included in the consolidated statement of financial position.

Further disclosures about the fair value measurement are included in note 4.3.29 Financial Instruments – Fair Values and Risk Management.

The borrowings, excluding transaction costs and amortized costs amounting to US$ 94 million (2017: US$ 112 million), have the following forecast repayment schedule:

	31 December 2018	31 December 2017
Within one year	508	1,240
Between 1 and 2 years	535	508
Between 2 and 5 years	1,567	1,614
More than 5 years	1,831	2,319
Balance at 31 December	**4,442**	**5,682**

The borrowings by entity are as follows:

Loans and borrowings per entity

					Net book value at 31 December 2018			Net book value at 31 December 2017		
Entity name	Project name or nature of loan	% Ownership	% Interest[1]	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:										
SBM Deep Panuke SA	MOPU Deep Panuke	100.00	3.52%	15-Dec-21	137	65	202	202	62	264
Tupi Nordeste Sarl	FPSO Cidade de Paraty	50.50	5.30%	15-Jun-23	421	103	524	524	98	622
Guara Norte Sarl	FPSO Cidade de Ilhabela	62.25	5.20%	15-Oct-24	677	115	792	792	109	901
SBM Baleia Azul Sarl	FPSO Cidade de Anchieta	100.00	5.50%	15-Sep-27	307	31	339	339	30	368
Alfa Lula Alto Sarl	FPSO Cidade de Marica	56.00	5.30%	15-Dec-29	1,119	97	1,216	1,216	92	1,307
Beta Lula Central Sarl	FPSO Cidade de Saquarema	56.00	4.10%	15-Jun-30	1,195	81	1,276	1,276	77	1,353
SBM Turritella LLC	FPSO Turritella	55.00	3.60%	16-Jan-18	-	-	-	-	724	724
Revolving credit facility:										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	-	(1)	(1)	(1)	(1)	(2)
Other:										
Other		100.00			1	0	1	0	33	33
Net book value of loans and borrowings					**3,856**	**492**	**4,348**	**4,347**	**1,223**	**5,571**

1 % interest per annum on the remaining loan balance.

The 'Other debt' mainly includes loans received from partners in subsidiaries.

For the project finance facilities, the respective vessels are mortgaged to the banks or to note holders.

The Company has available borrowing facilities being the (i) undrawn revolving credit facility (RCF), (ii) the undrawn FPSO *Liza Destiny* project facility and (iii) short-term credit lines. As per December 31, 2018, the undrawn FPSO *Liza Destiny* project facility of US$ 720 million required the fulfillment of specific lenders conditions precedent.

The expiry date of the undrawn facilities and unused credit lines are:

Expiry date of the undrawn facilities and unused credit lines

	2018	2017
Expiring within one year	100	100
Expiring beyond one year	1,720	1,000
Total	**1,820**	**1,100**

The revolving credit facility (RCF) in place as of December 31, 2018 has a maturity date of December 16, 2021. The US$ 1 billion facility was secured with a selected group of 13 core relationship banks and replaces the previous facility of US$ 750 million. In the last year of its term (from December 17, 2020 to December 16, 2021) the RCF will be reduced by US$ 50 million. The RCF can be increased by US$ 250 million on three occasions up to a total amount of US$ 1,250 million (US$ 1,200 million in the last year), subject to the approval of the RCF lenders. The RCF commercial conditions are based on LIBOR and a margin adjusted in accordance with the applicable leverage ratio ranging from a bottom level of 0.50% p.a. to a maximum of 1.90% p.a.

COVENANTS

The following key financial covenants apply to the RCF as agreed with the respective lenders, and, unless stated otherwise, relate to the Company's consolidated financial statements:

- **Solvency ratio:** tangible net worth divided by total tangible assets > 25%
- **Leverage Ratio:** consolidated net borrowings divided by adjusted EBITDA < 3.75
- **Interest Cover Ratio:** adjusted EBITDA divided by net interest payable > 4.0

For the purpose of covenants calculations, the following simplified definitions apply:

- **Tangible Net Worth:** Total equity (including non-controlling interests) of the Company in accordance with IFRS, excluding the mark to market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income
- **Total Tangible Assets:** The Company total assets (excluding intangible assets) in accordance with IFRS consolidated statement of financial position less the mark to market valuation of currency and interest derivatives undertaken for hedging purposes by the Company through other comprehensive income
- **Adjusted EBITDA:** Consolidated earnings before interest, tax and depreciation of assets and impairments of the Company in accordance with IFRS except for all Lease and Operate co-owned investees being then proportionally consolidated, adjusted for any exceptional or extraordinary items, and by adding back the capital portion of any finance lease received by the Company during the period
- **Consolidated Net Borrowings:** Outstanding principal amount of any moneys borrowed or element of indebtedness aggregated on a proportional basis for the Company's share of interest less the consolidated cash and cash equivalents available
- **Net Interest Payable:** All interest and other financing charges paid up, payable (other than capitalized interest during a construction period and interest paid or payable between wholly owned members of the Company) by the Company less all interest and other financing charges received or receivable by the Company, as per IFRS and on a proportional basis for the Company's share of interests in all Lease and Operate co-owned investees.

Covenants

	2018	2017
Tangible net worth	3,585	3,537
Total tangible assets	9,927	10,872
Solvency ratio	36.1%	32.5%
Consolidated net borrowings	2,150	2,657
Adjusted EBITDA (SBM Offshore N.V.)	870[1]	879[2]
Leverage ratio	2.5	3.0
Net interest payable	134	171
Interest cover ratio	6.5	5.2

1 Exceptional items restated from 2018 Adjusted EBITDA are mainly related to the settlement with the MPF, the impact of IFRS 16 early adoption and the estimated insurance income related to the Yme insurance claim (net of claim related expenses incurred up to December 31, 2018) and restructuring costs.

2 Exceptional items restated from 2017 Adjusted EBITDA are mainly related to the settlement with the DoJ, the unwinding of the commitments to the partners in the investee owning the Turritella (FPSO), the estimated insurance income related to the Yme insurance claim (net of claim related expenses incurred up to December 31, 2017) and restructuring costs.

None of the borrowings in the statement of financial position were in default as at the reporting date or at any time during the year. During 2018 and 2017 there were no breaches of the loan arrangement terms and hence no default needed to be remedied, or the terms of the loan arrangement renegotiated, before the financial statements were authorized for issue.

The Company entered into a new RCF agreement with the respective lenders on February 13, 2019, refer to note 4.3.35 Events After End of Reporting Period for further details.

LEASE LIABILITIES

The movement in the lease liabilities is as follows:

	2018
Principal recognized at 1 January following early adoption of IFRS 16	**217**
Additions	3
Redemptions	(28)
Foreign currency variations	(4)
Total movements	**(29)**
Remaining principal at 31 December	**189**
Of which	
Current portion	27
Non-current portion	161

Maturity of the lease liabilities is analyzed as follows:

	31 December 2018
Within one year	27
Between 1 and 2 years	29
Between 2 and 5 years	76
More than 5 years	56
Balance at 31 December	**189**

The total cash outflow for leases in 2018 was US$ 35 million, which includes redemptions of principal and interest payments.