SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

Warranty

For most Turnkey sales, the Company gives warranties to its clients. Under the terms of the contracts, the Company undertakes to make good, by repair or replacement, defective items that become apparent within an agreed period starting from the final acceptance by the client.

The decrease of the warranty provision consists of warranty costs effectively incurred over the period as well as a release of the provision following the signature of agreements relating to warranty issues with customers.

Brazilian Investigation

Provision regarding the Brazilian investigation decreased during the year due to:

- Payment of US$ 196 million for the Leniency Agreement with the Brazilian authorities and Petrobras (see note 4.3.1 Financial Highlights);
- Reclassification of the future bonus reduction provided in the Leniency Agreement to 'Other non-current liabilities' and 'Other non-trade payables' for the remaining payment of US$ 103 million (see note 4.3.27 Trade and Other Payables).

The remaining balance of US$ 48 million as per December 31, 2018 relates to the agreement signed between the Company and the Brazilian Prosecutor for an amount of BRL 200 million which was approved by the Fifth Chamber of the MPF on the December 18, 2018 (see note 4.3.1 Financial Highlights).

Other

The 'Other' provisions utilized during the year mainly relate to a payment of US$ 80 million for the compensation payable to the partners in the investee owning *Turritella* (FPSO) following early termination of the lease contract (see note 4.3.1 Financial Highlights).

Provisions arised during the year mainly relate to additional estimated insurance income to be shared with Repsol in accordance with the terms of the settlement agreement of March 11, 2013 which concluded the Yme project (see note 4.3.1 Financial Highlights). The Company has provisioned for a total cost of c.US$185 million as per December 31, 2018, covering payment to Repsol and other insurance related expenses, payable after signing of an agreement. The remainder of 'Other' provisions relate to commercial claims and regulatory fines related to operations.

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2018	31 December 2017
Trade payables		140	98
Accruals on projects		256	189
Accruals regarding delivered orders		39	60
Other payables		69	73
Contract liability	4.3.20	143	21
Advances received from customers		3	-
Pension taxation		8	9
Taxation and social security costs		55	52
Current portion of deferred income		62	9
Other non-trade payables		124	86
Total	4.3.29	**899**	**596**

The increase in trade payables, accruals on projects and contract liability incurred year-on-year is mainly related to higher Turnkey project activities during the year 2018.

Current portion of deferred income is mainly related to the revenue of one operating lease contract which includes a decreasing day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IFRS 16 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral is released through the income statement over the remaining duration of the relevant operating lease contract.

Other non-trade payables increased in 2018 mainly due to recognition of a short-term liability for the outstanding payments related to the Leniency Agreement which were classified as provision at December 31, 2017 (see note 4.3.26 Provisions). The long-term portion of the liability for outstanding payments related to the Leniency Agreement is presented on the line item 'Other non-current liabilities' in the Company's statement of financial position.

The contractual maturity of the trade payables is as follows:

Trade and other payables (contractual maturity of the trade payables)

	31 December 2018	31 December 2017
Within 1 month	134	88
Between 1 and 3 months	6	4
Between 3 months and 1 year	0	5
More than one year	0	1
Total	**140**	**98**

The Company recognized revenue of US$ 10 million during the period, which was included in the contract liability as per December 31, 2017.

4.3.28 COMMITMENTS AND CONTINGENCIES

PARENT COMPANY GUARANTEES

In the ordinary course of business, the Company is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations).

As such, the Company has issued parent company guarantees for contractual obligations in respect of several Group companies, including equity-accounted joint ventures, with respect to long-term Lease and Operate contracts.

BANK GUARANTEES

As of December 31, 2018, the Company has provided bank guarantees to unrelated third parties for an amount of US$ 358 million (2017: US$ 342 million). No liability is expected to arise under these guarantees.

The Company holds in its favor US$ 187 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

As at December 31, 2018, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US$ 135 million (December 31, 2017: US$ 296 million). Investment commitments have decreased principally due to progress achieved over the period on the construction of the FPSO *Liza Destiny*.

CONTINGENT LIABILITY

As announced by the Company on December 22, 2017 and July 5, 2018, the Brazilian Federal Prosecutor's Office (Ministério Público Federal – 'MPF') filed a claim based on the Improbity Law with the Federal Court in Rio de Janeiro against the Company. The claim related to the alleged improper sales practices before 2012 that are