SBM OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 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 also the subject of the Leniency Agreement signed on July 26, 2018 (refer to note 4.3.1 Financial Highlights). In the context of this lawsuit, MPF asked the court to impose a provisional measure as a means to secure payment of damages potentially awarded.

On July 4, 2018, the Company became aware of an interim decision by the judge handling the case. The judge has partially granted the request for a provisional measure. The provisional measure aims to order Petrobras to start withholding a percentage of monthly payments due to the Company's subsidiaries under certain charter contracts in escrow, as collateral in respect of the Improbity Lawsuit.

Before taking a decision on the amounts to be withheld, the judge requested more information from Petrobras and the Company. SBM Offshore's Brazilian subsidiary subsequently filed a Motion for Clarification, since certain elements of the interim decision are unclear.

Following the signature of the Leniency Agreement on July 26, 2018, the Company also signed an additional agreement with the MPF. The Agreement means that the Company has now reached a final settlement with the MPF over alleged improper sales practices before 2012, in addition to that with the Brazilian Authorities and Petrobras. The Agreement was approved by the Fifth Chamber of the MPF on December 18, 2018.

Following the Fifth Chamber approval, the MPF has made a court filing to terminate the improbity lawsuit filed in 2017, including the associated provisional measure to secure payment of potential damages. Upon closure of the lawsuit, the agreement with the MPF will become fully effective, after which SBM Offshore will pay the earlier announced fine of BRL 200 million.

4.3.29 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

This note presents information about the Company's exposure to risk resulting from its use of financial instruments, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The Company uses the following fair value hierarchy for financial instruments that are measured at fair value in the statement of financial position, which require disclosure of fair value measurements by level:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.