SBM OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

Actuarial gain/(loss) on defined benefits provisions includes the impact of the remeasurement of defined benefit provisions.

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

5.3.24 LOANS AND BORROWINGS

BANK INTEREST-BEARING LOANS AND OTHER BORROWINGS

The movement in the bank interest bearing loans and other borrowings is as follows:

	2016	2015
Non-current portion	4,959	4,332
Add: current portion	763	895
Remaining principal at 1 January	**5,722**	**5,227**
Additions	1,157	2,013
Redemptions	(780)	(1,411)
Transaction and amortised costs	21	(95)
Other movements/deconsolidation	0	(12)
Total movements	**398**	**495**
Remaining principal at 31 December	**6,120**	**5,722**
Less: Current portion	(557)	(763)
Non-current portion	**5,564**	**4,959**
Transaction and amortised costs	137	158
Remaining principal at 31 December (excluding transaction and amortised costs)	**6,258**	**5,880**
Less: Current portion	(576)	(784)
Non-current portion	**5,682**	**5,096**

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 5.3.29 'Financial Instruments – Fair values and risk management'.

The bank interest-bearing loans and other borrowings, excluding transaction costs and amortised costs amounting to US$ 137 million (2015: US$ 158 million), have the following forecasted repayment schedule:

	31 December 2016	31 December 2015
Within one year	576	784
Between 1 and 2 years	592	503
Between 2 and 5 years	1,847	1,553
More than 5 years	3,243	3,041
Balance at 31 December	**6,258**	**5,880**

The bank interest-bearing loans and other borrowings by entity are as follows:

Loans and borrowings per entity

Entity name	Project name or nature of loan	% Ownership	% Interest[1]	Maturity	Net book value at 31 December 2016 Non-current	Current	Total	Net book value at 31 December 2015 Non-current	Current	Total
US$ Project Finance facilities drawn:										
SBM Espirito do Mar BV	FPSO Capixaba	100.00	2.84%	15-Jun-16	-	-	-	-	31	31
Brazilian Deepwater Prod. Ltd	FPSO Espirito Santo	51.00	5.01%	30-Jun-16	-	-	-	-	42	42
SBM Deep Panuke SA	MOPU Deep Panuke	100.00	3.59%	15-Dec-21	264	60	324	324	58	382
Tupi Nordeste Sarl	FPSO Cidade de Paraty	50.50	5.26%	15-Jun-23	622	92	714	714	87	801
Guara Norte Sarl	FPSO Cidade de Ilhabela	62.25	5.56%	15-Oct-24	901	103	1,005	1,005	98	1,103
SBM Baleia Azul Sarl	FPSO Cidade de Anchieta	100.00	5.70%	15-Sep-27	368	28	396	396	26	423
Alfa Lula Alto Sarl	FPSO Cidade de Marica	56.00	5.14%	15-Dec-29	1,307	87	1,394	1,161	17	1,178
SBM Turritella LLC	FPSO Turritella	55.00	3.60%	15-May-26	718	72	791	-	-	-
US$ Guaranteed project finance facilities drawn:										
Beta Lula Central Sarl	FPSO Cidade de Saquarema	56.00	4.19%	15-Jun-30	1,352	75	1,426	1,290	47	1,337
Revolving credit facility:										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	(2)	(1)	(3)	(3)	(1)	(4)
Other:										
Other		100.00			33	40	73	72	356	429
Net book value of loans and borrowings					**5,564**	**557**	**6,120**	**4,959**	**763**	**5,722**

1 % interest per annum on the remaining loan balance

Annual interest rates include the interest rate impact of hedging financial derivatives. 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. Interest expense on long-term debt during 2016 amounted to US$ 254 million (2015: US$ 184 million) and interest capitalized amounted to US$ 37 million (2015 : US$ 48 million). The average cost of debt was 4.6% in 2016 (2015: 4.0%).

On January 12, 2017, the pre-completion guarantees and undertakings related to FPSO Cidade de Saquarema project finance facility have been released.

The Company has available short-term credit lines and borrowing facilities resulting from the undrawn part of the Revolving Credit Facility (RCF). The expiry date of the undrawn facilities and unused credit lines are:

Expiry date of the undrawn facilities and unused credit lines

	2016	2015
Expiring within one year	100	100
Expiring beyond one year	1,000	2,166
Total	**1,100**	**2,266**

The Revolving Credit Facility (RCF) was renewed on December 16, 2014 and will mature on December 16, 2021 after the last one-year extension option was exercised in December 2016. The US$ 1 billion facility was secured with a select 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 is 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 Company, together with its core relationship banks, has signed an amendment of its Revolving Credit Facility (RCF) on April 18, 2016, providing headroom improvements to the leverage and interest coverage ratios. The interest coverage ratio threshold has been lowered from 5.0x to 4.0x from December 31, 2016 through maturity of the RCF at the end of 2021. The leverage covenant is temporarily being adjusted upwards to 4.25x in December 2016, 4.50x in June 2017 and 4.25x in December 2017 before reverting back to the originally agreed level of 3.75x through to maturity of the facility.

The agreed upon amendments, combined with a strong cash position, provide the Company with a larger degree of flexibility given the current industry downturn.

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 < 4.25 in December 2016, 4.5 in June 2017, 4.25 in December 2017 and 3.75 onwards
- **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 joint ventures 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 joint ventures

Covenants

	2016	2015
Tangible Net Worth	3,691	3,637
Total Tangible Assets	11,403	11,274
Solvency Ratio	32.4%	32.3%
Consolidated Net Borrowings	3,063	3,194
Adjusted EBITDA (SBM Offshore N.V.)	1,077	863
Leverage Ratio	2.84	3.70
Net Interest Payable	159	121
Interest Cover Ratio	5.97	7.10

None of the loans and borrowings in the statement of financial position were in default as at the reporting date or at any time during the year. During 2016 and 2015 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.

5.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2016	31 December 2015
Deferred income on operating lease contracts	247	245
Other	16	15
Total	**263**	**260**

The deferred income on operating lease contracts is mainly related to the revenue for one of the operating lease units, which reflects a degressive day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to IAS 17 'Leases', the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral will be released through the income statement over the remaining duration of the relevant contracts.