SBM OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

The increase in the interest addition to provisions was primarily due to the time-passing effect of the provision for potential contemplated settlement with Brazilian authorities and Petrobras recognized in 2015.

The increase of the net foreign exchange loss is mainly due to the depreciation of the Nigerian Naira.

The interest expenses are disclosed net of US$ 37 million capitalized interest (2015: US$ 48 million) related to FPSO projects under construction.

5.3.8 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of US$ 29 million (2015: US$ 43 million) and mainly relate to Fast Forward and investments in new laboratory facilities.
The amortization of development costs recognized in the statement of financial position is allocated to the 'cost of sales'.

5.3.9 INCOME TAX

The relationship between the Company's income tax expense and profit before income tax (referred to as 'Effective tax rate') can vary significantly from period to period considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus profit before taxes and (b) the different statutory tax rates in the location of the Company's operations (c) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available. Consequently, income tax expense does not change proportionally with income before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the Effective Tax Rate is impacted by the unrecognized tax loss.

The components of the Company's (provision) benefit for income taxes were as follows:

Income tax recognised in the consolidated Income Statement

	Note	2016	2015
Corporation tax on profits for the year		(12)	(31)
Adjustments in respect of prior years		6	(1)
Total current income tax		**(5)**	**(32)**
Deferred tax	*5.3.16*	(22)	6
Total		**(28)**	**(26)**

The Company's operational activities are subject to taxation at rates which range up to 35% (2015: 35%).

For the year ended December 31, 2016, the respective tax rates, the change in the blend of income tax based on gross revenues versus income tax based on net profit, the unrecognized deferred tax asset on certain tax losses, tax-exempt profits and non-deductible costs and releases resulted in an effective tax on continuing operations of 9.6% (2015 : 41.4%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2016		2015	
	%		%	
Profit/(Loss) before tax		**275**		**137**
Share of profit of equity-accounted investees		(14)		73
Profit/(Loss) before tax and share of profit of equity-accounted investees		**288**		**64**
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(72)	25%	(16)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other juridictions	(19%)	55	(65%)	41
Withholding taxes and taxes based on deemed profits	2%	(5)	24%	(15)
Non-deductible expenses	17%	(49)	131%	(84)
Non-taxable income	(30%)	87	(110%)	70
Adjustments related to prior years	(2%)	6	1%	(1)
Adjustments recognized in the current year in relation to deferred income tax of previous year	6%	(18)	(2%)	1
Effects of unrecognized and unused current tax losses not recognized as DTA	13%	(36)	36%	(23)
Movements in tax risks provision	(1%)	3	0%	0
Total tax effects	**(15%)**	**44**	**16%**	**(10)**
Total of tax charge on the consolidated Income Statement	**10%**	**(28)**	**41%**	**(26)**

The 2016 Effective Tax Rate of the Company was primarily impacted by recognition of deferred tax liabilities and changes in the valuation of deferred tax assets concerning the Netherlands, Canada, Luxembourg and the U.S.
With respect to the annual effective tax rate calculation for the year 2016, the most significant portion of the current income tax expense of the Company was generated in countries in which income taxes are imposed on net profits including the Netherlands, Monaco, Switzerland, Equatorial Guinea and the U.S. The 2015 Effective Tax Rate was impacted by materially non-recurring expenses without tax effects in the profit and loss account.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes and taxes based on deemed profits

	2016			2015		
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Taxes based on deemed profit	Total	Withholding tax	Taxes based on deemed profit	Total
Angola	(4)	-	(4)	(14)	-	(14)
Equatorial Guinea	0	-	0	0	-	0
Malaysia	-	-	-	0	-	0
Brazil	0	-	0	-	0	0
Other[1]	0	(1)	(1)	0	(1)	(1)
Total withholding and overseas taxes	**(4)**	**(1)**	**(5)**	**(14)**	**(1)**	**(15)**

1 other includes Myanmar, Nigeria and the Republic of Congo

TAX RETURNS AND TAX CONTINGENCIES

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company is defending its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the ultimate liability to have a material adverse effect on its consolidated statement of financial position or results of operations, although it may have a material adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the conflict between the Company's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax decrease of US$ 3.9 million in respect of ongoing tax audits and in respect of the Company's review of its uncertain tax positions. This amount is in relation of uncertain tax position concerning corporate income tax with a positive net tax effect of US$ 3.2 million and in relation of uncertain tax position for various taxes other than corporate income tax with a positive net tax effect of US$ 0.7 million. It is possible that the ultimate resolution of the tax exposures could result in tax charges that are materially higher or lower than the amount provided.

The Company conducts operations through its various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, the Company may identify changes to previously evaluated tax positions that could result in adjustments to its recorded assets and liabilities. Although the Company is unable to predict the outcome of these changes, it does not expect the effect, if any, resulting from these adjustments to have a material adverse effect on its consolidated statement of financial position, results of operations or cash flows.

5.3.10 EARNINGS / (LOSS) PER SHARE

The basic earnings per share for the year amounts to US$ 0.87 (2015: US$ 0.14); the fully diluted earnings per share amounts to US$ 0.87 (2015: US$ 0.14).

Basic earnings / (loss) per share amounts are calculated by dividing net profit / (loss) for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the net profit / loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

The following reflects the share data used in the basic and diluted earnings per share computations:

Earnings per share

	2016	2015
Earnings attributable to shareholders (in thousands of US$)	182,307	29,313
Number of shares outstanding at January 1	211,694,950	209,695,094
Average number of new shares issued	1,118,829	1,155,957
Average number of shares repurchased	-2,245,363	0
Weighted average number of shares outstanding	**210,568,416**	**210,851,051**
Potential dilutive shares from stock option scheme and other share-based payments	1,747	150,332
Weighted average number of shares (diluted)	**210,570,163**	**211,001,383**
Basic earnings per share	US$ 0.87	US$ 0.14
Fully diluted earnings per share	US$ 0.87	US$ 0.14

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, except for issue of matching shares to the Management Board and other senior management.

5.3.11 DIVIDENDS PAID AND PROPOSED

The Company introduced a new dividend policy in 2015 which consists of paying out either in cash or in shares of SBM Offshore at the election of each shareholder between 25% and 35% of the directional net income, provided that positive free cash flows are expected to be generated during the year of payment. In accordance with this policy but taking into account the specific circumstances relating to 2016 including the nature of the non-recurring items, a dividend out of 2016 net income of US$ 0.23 (2015 : US$ 0.21) per share will be proposed to the Annual General Meeting on April 13, 2017, corresponding to approximately 31% of the Company's US$ 150 million Directional net income adjusted, this year, for non-recurring items.

The annual dividend will be calculated in US dollars, but will be payable in euros. The conversion into Euro will be effected on the basis of the exchange rate on April 13, 2017.