OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

5.3.6 EMPLOYEE BENEFIT EXPENSES

Information with respect to employee benefits expenses are detailed as follows:

Employee benefit expenses

	Note	2016	2015
Wages and salaries		(302)	(428)
Social security costs		(39)	(53)
Contributions to defined contribution plans		(33)	(32)
(Increase)/decrease in liability for defined benefit plans		(2)	(3)
(Increase)/decrease in liability for other long term benefits		1	1
Share-based payment cost		(15)	(20)
Contractors costs		(52)	(101)
Other employee benefits		(70)	(69)
Total employee benefits	*5.3.5*	**(512)**	**(704)**

Contractors costs include expenses related to contractors staff, not on the Company's payroll. Other employee benefits mainly include commuting, training, expatriate and other non-wage compensation costs.

DEFINED CONTRIBUTION PLAN

The contributions to defined contribution plans includes the Company participation in the *Merchant Navy Officers Pension Fund* (MNOPF). The MNOPF is a defined benefit multi-employer plan which is closed to new members. The fund is managed by a corporate Trustee, MNOPF Trustees Limited, and provides defined benefits for nearly 27,000 Merchant Navy Officers and their dependents out of which approximately 100 SBM Offshore former employees.

The Trustee apportions its funding deficit between Participating Employers, based on the portions of the Fund's liabilities which were originally accrued by members in service with each employer. When the Trustee determined that contributions are unlikely to be recovered from a Participating Employer, it can re-apportion the deficit contributions to other Participating Employers.

Entities participating in the MNOPF are exposed to the actuarial risk associated with the current and former employees of other entities through exposure to their share of the deficit those other entities default. As there is only a notional allocation of assets and liabilities to any employer, the Company is accounting for the MNOPF in its financial statements as if it was a defined contribution scheme. A contribution in respect of the section 75 debt certified as at February 28, 2014 of GBP 2,366,650 was settled in 2016. Other than this, there are no further contributions agreed at present.

DEFINED BENEFIT PLANS AND OTHER LONG-TERM BENEFITS

The employee benefits provisions recognized in accordance with accounting principles, relate to:

	Note	2016	2015
Pension plan		9	12
Lump sums on retirement		6	6
Defined benefit plans		**15**	**18**
Long-service awards		11	11
Other long term benefits		**11**	**11**
Employee benefits provisions	*5.3.26*	**26**	**29**

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2016			31 December 2015		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	43	6	48	59	6	**66**
Fair value of plan assets	(34)	-	(34)	(48)	-	**(48)**
Benefit (asset)/liability	**9**	**6**	**15**	**12**	**6**	**18**

The main assumptions used in determining employee benefit obligations for the Company's plans are shown below:

Main assumptions used in determining employee benefit obligations

in %	2016	2015
Discount rate	0.25 - 1.75	0.75 - 2.08
Inflation rate	1.75	2.00
Discount rate of return on plan assets during financial year	0.75	1.00
Future salary increases	3.00	3.00
Future pension increases	-	-

The overall expected rate of return on assets is determined on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The following table summarizes the components of net benefit expense recognized in the consolidated income statement regarding the defined benefits provisions.

Net benefit expense recognised within employee benefits

	2016	2015
Current service cost	(1)	(2)
Interest cost on benefit obligation	(1)	(1)
Interest income on plan assets	0	0
Other	(1)	-
Net benefit expense	**(2)**	**(3)**

Changes in the present value of the defined benefit obligations and the plan assets are as follows:

Changes in the defined benefit obligation

	2016	2015
Opening defined benefit obligation	66	73
Current service cost	1	2
Interest cost	1	1
Benefits paid	(12)	(3)
Actuarial (gains)/losses	(5)	2
Other movements	(2)	(2)
Exchange differences on foreign plans	0	(8)
Closing defined benefit obligation at 31 December	**48**	**66**

Changes in the fair value of plan assets

	2016	2015
Opening fair value of plan assets	(48)	(53)
Interest income	0	-
Contributions by employer	0	0
Contribution by employee	0	0
Benefits paid	12	3
Actuarial (gains)/losses arising from experience adjustment	1	(2)
Other movements	2	0
Exchange differences on foreign plans	-	5
Closing fair value of plan assets at 31 December	**(34)**	**(48)**

The actual return on plan assets is US$ (1.2) million (2015 : US$ 2.9 million).

The breakdown of plan assets by type of investments is as follows:

Breakdown of plan asset by type of investment

in %	2016	2015
Cash	16	7
Real estate	8	5
Alternative investments	15	15
Equities	22	25
Bonds	39	48
	100	**100**

Reasonably possible changes at the reporting date of one of the relevant actuarial assumptions holding other assumptions constant would have affected the defined benefit obligation by the amounts shown below:

Sensitivity analysis on the defined benefit obligation due to a change in the discount rate

in % of the year-end defined benefit obligation	Pension plans	Lump sums on retirement
+0.5% movement	(3.0)	(1.0)
-0.5% movement	3.0	0.0

REMUNERATION KEY MANAGEMENT PERSONNEL OF THE COMPANY

The remuneration of key management personnel of the Company paid during the year, including pension costs and performance related Short-Term Incentives (STI), amounted to US$ 15 million (2015: US$ 19 million).

The performance-related part of the remuneration, comprising both STI and LTI components, equals 53% (2015: 59%). The remuneration (including the Management Board's remuneration which is euro denominated), was affected by 10% voluntary cut in fixed income from September 2016 and 50% voluntary cut in 2016 STI whereas the impact of the fluctuation in the exchange of the US$ dollar was negligible (0.2% lower average rate compared to 2015).

The total remuneration and associated costs of the Management Board and other key management personnel (management of the main subsidiaries) is specified as follows:

2016 remuneration key management personnel (on accrual basis)

in thousands of US$	Base salary	STI[1]	Sharebased compensation[2]	Other[3]	Pensions[4]	Total remuneration
Bruno Chabas						
2016	856	784	1,380	175	272	3,467
2015	888	1,664	1,791	455	247	5,045
Peter van Rossum						
2016	594	420	781	292	167	2,254
2015	579	888	744	260	145	2,616
Douglas Wood						
2016 (from 01/10)	122	80	102	9	30	343
2015	-	-	-	-	-	-
Sietze Hepkema						
2016	-	-	- 131	-	-	- 131
2015 (till 15/4)	191	264	1,008	8	38	1,509
Philippe Barril						
2016	589	420	684	158	152	2,003
2015 (from 1/3)	509	738	358	398	127	2,130
Erik Lagendijk						
2016	438	312	495	35	113	1,394
2015	454	638	200	17	113	1,422
Other key personnel						
2016	2,156	1,821	1,108	1,015	67	6,168
2015	2,370	1,381	1,631	907	111	6,400
Total 2016	**4,756**	**3,836**	**4,419**	**1,685**	**802**	**15,497**
Total 2015	**4,991**	**5,573**	**5,732**	**2,045**	**781**	**19,122**

1 for the Management Board this represents the actual STI approved by the Supervisory Board, which has been accrued over the calendar year, payment of which will be made in the following year (for other key personnel this represents STI paid in the year).

2 this amount represents the period allocation to the calendar year of vesting costs of all unvested share-based incentives (notably 'LTI' - Long Term Incentive -, matching 'STI' -Short Term Incentive - shares and RSUs COO and CFO), in accordance with IFRS2 rules.

3 consisting of social charges, lease car expenses, and other allowances, a.o. in connection with the headquarter move, such as housing allowance, settling-in allowance.

4 representing company contributions to Board member pensions; in the absence of a qualifying pension scheme such contribution is paid gross, withholding wage tax at source borne by the individuals.

The table above represents the total remuneration in US$, being the reporting currency of the Company. For underlying total remuneration in € (currency of payment), reference is made to Remuneration Report (section 3.4 of the Annual Report).

SHORT-TERM INCENTIVE PROGRAM MANAGEMENT BOARD

The Short-Term Incentive program includes three sets of Performance Indicators as noted below.

- Company performance, which determines 50% to 75% of any potential reward;
- The individual performance of the Management Board member, which determines the remaining 25% to 50%; and
- A Corporate Social Responsibility & Quality Multiplier consisting of safety and quality performance measures and the Dow Jones Sustainability Index score. This factor can cause a 10% uplift or reduction of the total Short-Term Incentive. However, in case 100% of the company and personal indicators have been realized, the multiplier will not provide an additional uplift.

For 2016, the Supervisory Board concluded that the Management Board members for their individual performance indicators as set for 2016 dealt with the difficult market circumstances in a capable manner. The Company's performance indicator against the net debt indicator was in between Target and Maximum and performance indicators against costs base target was at maximum. The personal and the company performance together resulted in performance of 177% of salary for the CEO and between 131-138% for the other Management Board members. As for the safety/quality/sustainability multiplier, the Supervisory Board assessed this to have a neutral outcome. The Management Board and the Executive Committee reduced their potential 2016 short-term cash incentive by 50%, resulting in a similar reduction in the Short-Term Incentive pay-out. The total performance under the STI, included this reduction, resulted in 89% for the CEO and 66-69% for the other Management Board members.

PERFORMANCE SHARES (PS) MANAGEMENT BOARD

Under the Remuneration Policy 2011, the LTI for the members of the former Board of Management and current Management Board consists of shares which are subject to performance conditions. Performance indicators are EPS growth, and relative Total Shareholder Return (TSR); under the amended Remuneration Policy (RP 2011 aa) a special incentive based on the achievement of specific pre-defined objectives as determined by the Supervisory Board was added, within the absolute maximum award level. Performance shares vest three years after the provisional award date, and must be retained for two years from the vesting date.

For the performance period 2014-2016 the EPS performance indicator came in at maximum and the Relative TSR performance indicator between target and maximum. The Supervisory Board decided that the achieved results on both EPS growth and Relative TSR insufficiently reflected the value that the Management Board members added to SBM Offshore since 2014 with regard to the turn-around of company. Therefore the Supervisory Board applied the Special Incentive in order to award maximum vesting of the LTI grant 2014.

From 2015 onwards, the number of conditional performance shares awarded is based upon the principles of the Share Pool, introduced in the Remuneration Policy 2015, and adopted by the AGM in 2014. The conditional awards in 2016, assuming 'At target' performance, were 84,678 shares for the CEO, and 56,452 for each of the other Managing Directors.

The main assumptions included in the value calculation for the LTI 2016 award are:

2016 awards – Fair values

	2016
PS - TSR - CEO	€ 19.92
PS - TSR - other MB	€ 15.50
PS - EPS	€ 11.91

The parameters underlying the 2016 PS fair values are: a share price at the grant date of € 11.91 (February 9, 2016), volatility of 38%, risk free interest rate 0.0% (negative Dutch governance bond rate) and a dividend yield of 0.0%.

RESTRICTED SHARE UNIT (RSU) PLANS

The number of shares granted under the regular RSU plan in 2016 was 736,000 (2015: 977,500). A further 30,000 RSUs were granted to Mr. D.H.M. Wood. This award aims at compensating Mr. Wood for a loss in his variable income at his previous employer.

The annual RSU award is based on individual performance. The RSU plans themselves have no performance condition, only a service condition, and will vest as follows:

- regular RSU: from the 2016 grant onwards, these vest at the end of three year continuing service;
- additional RSU: at the end of three year continuing service. Upon vesting these shares are subject to a further two year lock-up period.
- relocation and skills retention: at the end of two year continuing service;
- sign-on RSU awarded in 2016: at the end of three year continuing service.

Main assumptions included in the calculation for the PSU and RSU plans are:

2016 awards – Fair values

	2016
Regular, relocation and skills retention RSU (share price as at July 1, 2016)	€ 10.57
RSU Mr. Wood (share price as at October 1, 2016)	€ 12.71

RSU are valued at a share price at grant date, applying the Black & Scholes model. For Regular, relocation and skills retention RSU an average annual forfeiture of 2.5% is assumed.

MATCHING SHARES

Under the STI plans for the management and senior staff of Group companies, 20% of the STI is or can be paid in shares. Subject to a vesting period of three years, an identical number of shares (matching shares) will be issued to participants. Assumed probability of vesting amounts to 95% for senior staff.

Main assumptions included in the calculation for the matching shares are:

2016 awards – Fair values

	2016
STI matching shares	€ 10.52

TOTAL SHARE-BASED PAYMENT COSTS

The amounts recognized in EBIT for all share-based payment transactions are summarized as follows, taking into account both the provisional awards for the current year and the additional awards related to prior years, as well as true-up (in thousands of US$):

2016	Performance shares and RSU/PSU	Matching shares	Total
Instruments granted	10,643	1,365	**12,007**
Performance conditions	2,419	266	**2,685**
Total expenses 2016	**13,062**	**1,631**	**14,692**

2015	Performance shares and RSU/PSU	Matching shares	Total
Instruments granted	13,864	1,613	**15,477**
Performance conditions	3,572	545	**4,117**
Total expenses 2015	**17,436**	**2,158**	**19,594**

Rules of conduct with regard to inside information are in place to ensure compliance with the Act on Financial Supervision. These rules forbid e.g. the exercise of options or other financial instruments during certain periods defined in the rules and more specifically when the employee is in possession of price sensitive information.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to US$ 849,000 (2015: US$ 822,000) and can be specified as follows:

	2016			2015		
in thousands of US$	Basic remuneration[1]	Committees	Total	Basic remuneration	Committees	Total
F.J.G.M. Cremers - Chairman (from April 15, 2015)	133	19	**152**	120	17	**137**
T.M.E. Ehret - Vice-chairman (from April 15, 2015)	89	11	**100**	87	11	**98**
L.A. Armstrong	83	18	**101**	83	15	**98**
F.G.H. Deckers	83	19	**102**	83	19	**102**
F.R. Gugen	83	11	**94**	83	13	**96**
S. Hepkema (from April 15, 2015)	83	9	**92**	59	6	**65**
L.B.L.E. Mulliez (from April 15, 2015)	83	7	**90**	59	-	**59**
K.A. Rethy (until April 15, 2015)	-	-	**-**	35	3	**38**
C.D. Richard (from April 15, 2015)	111	7	**118**	87	-	**87**
H.C. Rothermund - Chairman (until April 15, 2015)	-	-	**-**	39	3	**42**
Total	**748**	**101**	**849**	**735**	**87**	**822**

1 Including intercontinental travel allowance

There are no share-based incentives granted and no assets available to the members of the Supervisory Board. There are neither loans outstanding to the members of the Supervisory Board nor guarantees given on behalf of members of the Supervisory Board.

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

	2016		2015	
By operating segment:	Average	Year-end	Average	Year-end
Lease and operate	1,529	1,498	1,624	1,560
Turnkey	1,809	1,548	2,262	2,069
Other	285	283	361	286
Total excluding employees working for JVs and associates	**3,622**	**3,329**	**4,247**	**3,915**
Employees working for JVs and associates	1,615	845	3,053	2,385
Total	**5,237**	**4,174**	**7,300**	**6,300**

Number of employees (by geographical area)

	2016		2015	
By geographical area:	Average	Year-end	Average	Year-end
The Netherlands	349	324	390	373
Worldwide	3,274	3,005	3,857	3,542
Total excluding employees working for JVs and associates	**3,622**	**3,329**	**4,247**	**3,915**
Employees working for JVs and associates	1,615	845	3,053	2,385
Total	**5,237**	**4,174**	**7,300**	**6,300**

The figures exclude fleet personnel hired through crewing agencies as well as other agency and freelance staff for whom expenses are included within other employee benefits.

5.3.7 NET FINANCING COSTS

	2016	2015
Interest income on loans & receivables	14	23
Interest income on investments	11	1
Interest income on Held-to-Maturity investments	0	1
Net foreign exchange gain	-	-
Other financial income	1	0
Financial income	**26**	**25**
Interest expenses on financial liabilities at amortised cost	(181)	(132)
Interest expenses on hedging derivatives	(95)	(61)
Interest addition to provisions	(17)	(2)
Net loss on financial instruments at fair value through profit and loss	(2)	-
Net cash flow hedges ineffectiveness	(2)	(5)
Net foreign exchange loss	(6)	-
Other financial expenses	0	-
Financial expenses	**(301)**	**(200)**
Net financing costs	**(275)**	**(175)**

The increase in interest expenses is primarily due to the interest costs related to the FPSOs *Cidade de Marica*, *Cidade de Saquarema* and *Turitella* project loans as the units commenced production in 2016.