OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

CHAPTER 5

FINANCIAL REPORT 2016

In a strategic move to focus on sales and after sales service of buoys and to facilitate closer engagement with clients, the Board of IHC approved the set-up of a separate company. On February 27, 1969, Single Buoy Moorings Inc. was registered in Switzerland. By mid-1969, the Company had grown and was operating from three locations: Rotterdam, Fribourg and Antwerp. The move to Monaco of the Company's engineering activities took place in 1971 and the Regional Center (RC) remains the heart of SBM Offshore's technological innovation and the largest RC of the five RCs located around the globe, including Schiedam, Houston, Kuala Lumpur and Rio.

COMPANY PRESENCE GROWS WORLDWIDE

1969

EXPERIENCE MATTERS

5 FINANCIAL REPORT 2016

5.1 FINANCIAL REVIEW

OVERVIEW

	Directional		IFRS	
in US$ million	FY 2015	FY 2016	FY 2015	FY 2016
Revenue	**2,618**	**2,013**	**2,705**	**2,272**
EBIT	**191**	**290**	**239**	**564**
Underlying EBIT	348	344	395	617
EBITDA	**561**	**725**	**462**	**772**
Underlying EBITDA	718	778	619	825
Profit attributable to Shareholders	**24**	**24**	**29**	**182**
Underlying Profit attributable to Shareholders	180	150	186	308

	Directional		IFRS	
in US$ billion	FY 2015	FY 2016	FY 2015	FY 2016
Backlog	18.9	17.1	-	-
Net Debt	3.1	3.1	5.2	5.2

DIRECTIONAL[1]

Directional[1] consolidated net income for 2016 was US$ 24 million, stable compared to 2015. This result includes non-recurring items which generated a net loss of US$ 126 million in 2016 compared to a net loss of US$ 157 million in 2015. Excluding non-recurring items, 2016 underlying consolidated Directional[1] net income attributable to shareholders stood at US$ 150 million, a decrease from US$ 30 million from the previous year, mainly attributable to lower Turnkey segment activity.

Non-recurring items for 2016 underlying performance relate to (i) provision for an onerous long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer (US$ 31 million), (ii) the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ 36 million) and the impairment of the Company's carrying amount for the net investment in the Joint Venture owning the Paenal construction yard (US$ 59 millions). These non-recurring items are the same in both IFRS and Directional, impacting EBIT and EBITDA by US$ 53 million, net financing costs by US$ 14 million and Share of Profit of Equity-accounted investees by US$ 59 million. For reference, non-recurring items for 2015 totalling US$ 157 million, were included in EBIT and EBITDA and were related to compliance issues.

Directional[1] earnings per share (EPS) in 2016 amounted to US$ 0.11 compared to US$ 0.11 per share in 2015. Adjusted for non-recurring items, underlying Directional[1] EPS decreased by 17% year-on-year from US$ 0.85 in 2015 to US$ 0.71.

New orders for the year totaled US$ 110 million as a result of current market downturn, which compares to US$ 248 million achieved in 2015.

Directional[1] revenue decreased by 23% to US$ 2,013 million compared to US$ 2,618 million in the year-ago period. This was primarliy attributable to lower Turnkey segment revenues.

Directional[1] backlog at the end of 2016 remained high at US$ 17.1 billion compared to US$ 18.9 billion at the end of 2015. This reflects both the lower level of order intake for the Turnkey segment and the resilience of the Lease and Operate portfolio amounting to US$ 17.0 billion at the end of 2016.

1 Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

Directional[1] EBITDA amounted to US$ 725 million, representing a 29% increase compared to US$ 561 million in 2015. This figure includes non-recurring net costs totaling US$ 53 million.

Directional[1] EBIT increased to US$ 290 million after non-recurring net costs of US$ 53 million. This compares to US$ 191 million in 2015 which included US$ 157 million of non-recurring costs.

IFRS

Reported consolidated 2016 IFRS total net income was US$ 247 million versus US$ 110 million in 2015. IFRS net income attributable to shareholders amounts to US$ 182 million compared to US$ 29 million in 2015.

IFRS revenue decreased by 16% to US$ 2,272 million versus US$ 2,705 million in 2015. This was mainly attributable to lower Turnkey segment revenues.

IFRS EBITDA amounted to US$ 772 million, representing a 67% increase compared to US$ 462 million in 2015.

IFRS EBIT increased to US$ 564 million, representing 136% increase compared to US$ 239 million in 2015.

IFRS Net Debt at the year-end totaled US$ 5,216 million versus US$ 5,208 million in 2015. All bank covenants were met and available cash and undrawn committed credit facilities stood at US$ 1,537 million.

FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights:

- Successful delivery of FPSOs Cidade de Marica, Cidade de Saquarema and Turritella which were formally on hire respectively as of February 7, 2016, July 8, 2016 and September 2, 2016.
- The Company completed its share repurchase program under the authorization granted by the Annual General Meeting of Shareholders of the Company held on April 6, 2016. In the period between August 11, 2016 and December 20, 2016, a total number of 11,442,179 shares totaling EUR 150 million were repurchased. The repurchased shares are held as Treasury shares predominantly for share capital reduction purposes and, to a lesser extent, for employee share programs.
- Award of the Front End Engineering and Design component of the contract for a FPSO by Esso Exploration and Production Guyana Limited to the Company and for which construction, installation and operation of the FPSO remain subject to a final investment decision expected in 2017. This contributed to new orders of US$ 110 million in aggregate.
- The Company, together with its core relationship banks, signed an amendment of its Revolving Credit Facility (RCF) on April 18, 2016, providing headroom improvements to the leverage and interest coverage ratios. The agreed upon amendments, combined with a strong cash position, provide the Company with a greater degree of flexibility in navigating the current industry downturn.
- During the first half of 2016, the Company, the Ministry of Transparency, Oversight and Control (Ministério da Transparência, Fiscalização e Controle – 'MTFC'), the Attorney General's Office (Advocacia-Geral da União – 'AGU'), the Public Prosecutor's Office (Ministério Público Federal – 'MPF') and Petrobras engaged in further negotiations which resulted in the signature on Friday, July 15 of a Settlement Agreement ('Leniency Agreement'). As a result, the provision booked in December 2015 has been increased in the consolidated financial statements as at December 31, 2016, up to the amount of the present value of the financial terms of the leniency agreement being US$ 281 million, impacting the lines 'Other operating expense' of the consolidated income statement by US$ 22 million and 'Net financing costs' by US$ 14 million for the unwinding of the discounting impact of future settlement. As more fully explained in section 5.3.1 Highlights, the agreement will become legally binding after approval of the Fifth Chamber for Coordination and Review and Anti-Corruption of the Federal Prosecutor Service and remains subject to review by the Federal Court of Accounts ('TCU'), but this is not a condition precedent to the Leniency

Agreement. However, the terms of this agreement remains SBM Offshore's current best estimate for an eventual settlement, given that it was duly signed by the relevant parties and the approval process is still underway.

- At the end of January 2016, the United States Department of Justice (DoJ) informed the Company that it has re-opened its past inquiry of the Company in relation to the alleged improper sales practices over the period 2007 to 2011 and has made information requests in connection with that inquiry. During the period, the Company has cooperated with the DoJ and remains committed to close out discussions on this legacy issue which the Company self-reported to the authorities in 2012 and for which it reached a settlement with the Dutch Public Prosecutor in 2014. The Company also continues to cooperate with the DoJ for its inquiry into Unaoil, a company that SBM Offshore had engaged with as an agent prior to 2012 in relation to delivery of barges, offshore terminals and maintenance.
- As a result of an on-going review of the cost structure and continued market downturn, the Company's workforce reduction over 2016 totaled approximately 2,250 positions. Roughly 650 were full-time employees and contractor staff. The remaining 1,600 were construction yard positions related to demobilization following successful delivery of main projects over the period. Restructuring costs of US$ 37 million were recorded during the period. The adaptation to market developments is focused on retaining core competencies.
- The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the ongoing downturn which has created significant over-supply in offshore markets, the costs of the long-term chartering contract exceed the economic benefits expected to be received by the Company through the utilization of the vessel. As a result, a provision for onerous contract of US$ 31 million has been recognized over the period.
- The activity outlook for the Company's investment (30% ownership) in the Joint Venture owning the Paenal construction yard operating in Angola has deteriorated. As a result, the Company's carrying amount for the net investment in this entity has been impaired by US$ 59 million on the second half of 2016. Because this investment is consolidated using the equity method, this non-cash impairment is recognized in the Company's Consolidated Income Statement on the line item 'Share of profit of equity-accounted investees'.

BACKLOG

Directional[2] backlog at the end of 2016 remained healthy at US$ 17.1 billion compared US$ 18.9 billion at the end of 2015. This reflects both the lower level of order intake for the Turnkey segment and the resilience of the Lease and Operate portfolio.

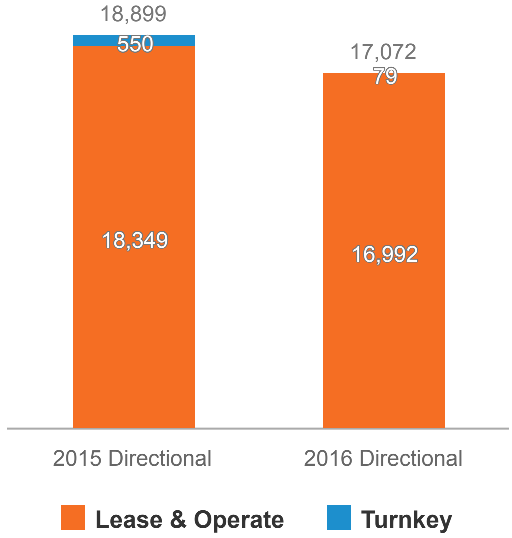
Directional[2] Turnkey backlog decreased to US$ 0.1 billion compared to US$ 0.5 billion in 2015 as no major Turnkey orders were signed in 2016. As market conditions continued to be challenging during the period, the level of tendering activity was lower than in 2015 and the order intake continued to be impacted by structural delays in client final investment decisions.

Backlog as of December 31, 2016 is expected to be executed as per the below tables:

Backlog (in millions of US$)

in million US$	Turnkey	Lease & Operate	Total
2017	0.1	1.5	1.6
2018	0.0	1.5	1.5
2019	0.0	1.5	1.5
Beyond 2020	0.0	12.5	12.5
Total Backlog	0.1	17.0	17.1

Backlog (in millions of US$)

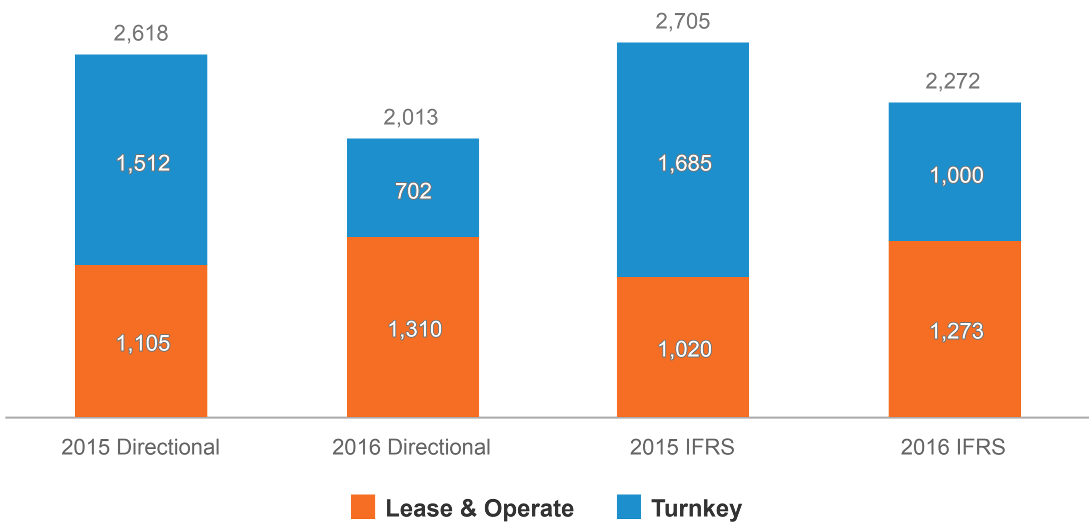


2 Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

REVENUE

Directional[3] Revenue decreased by 23% year-on-year despite an increase of 19% for the Lease and Operate segment:

Revenue (in millions of US$)



DIRECTIONAL[3]

Third party Directional[3] Turnkey revenue came down 54% year-over-year to US$ 702 million, representing only 35% of total 2016 revenue. This compares to US$ 1,512 million, or 58% of total revenue, in 2015. The decrease is mostly attributable to the completion stage reached in the course of 2016 on Ichthys turret and FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*, as well as the very low order intake in 2014, 2015 and 2016 as a result of the market downturn.

Directional[3] Lease and Operate revenue increased by 19% to US$ 1,310 million, representing 65% of total Directional[3] revenue contribution in 2016, up from the 42% contribution of 2015. The increase in segment revenue is attributable to the start-up of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella* while no vessel have been decommissioned during the period.

IFRS

Total IFRS revenue decreased during the year, down by 16% to US$ 2,272 million, despite an increase of 25% for the Lease and Operate segment. This was mainly attributable to significantly lower revenue recognized in the Turnkey segment upon completion of major projects in the course of 2016 as well as low order intake in 2014, 2015 and 2016.

PROFITABILITY

The Company's primary business segments are Lease and Operate and Turnkey plus 'Other' non-allocated corporate income and expense items. EBITDA and EBIT are analyzed by segment but it should be recognized that business activities are closely related, and that certain costs are not specifically related to either one segment or another. For example, when sales costs are incurred, including significant sums for preparing a bid, it is often uncertain whether the project will be leased or contracted on a turnkey lump sum basis.

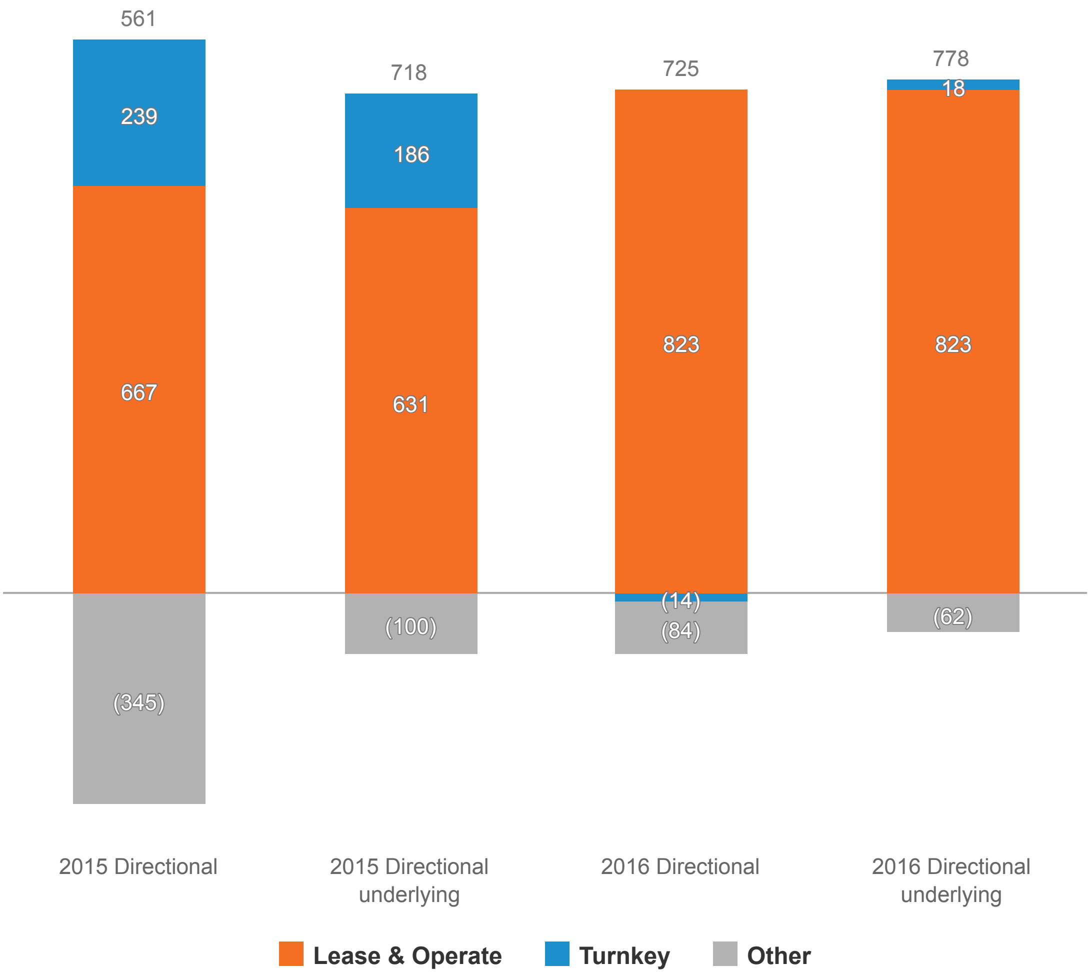
3 Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

5 FINANCIAL REPORT 2016

The Company's profitability may be affected by external variables and conditions. Profitability may be sensitive to significant areas of estimation and judgements, and to potential interest rates and currency fluctuations against the US dollar as described in notes 5.2.7.B (a) and 5.3.29 to the financial statements, respectively.

In recent years, new lease contracts are showing longer duration and are systematically classified under IFRS as finance leases for accounting purposes whereby the fair value of the leased asset is recorded as a Turnkey 'sale' during construction. For the Turnkey segment this has the effect of accelerating during the construction period a substantial part of the lease profits which would in the case of an operating lease be recognized through the Lease and Operate segment during the lease period. To address this lease accounting issue and IFRS 10 and 11 standards introduced in 2014, the Company has, in addition to its IFRS reporting, assessed its performance by treating all lease contracts as operating leases and consolidated all JVs related to lease contracts on a proportional basis, referred to as Directional[4]. This provides consistency in segment presentation.

EBITDA Directional (in millions of US$)



Reported 2016 Directional[4] EBITDA was US$ 725 million compared to US$ 561 million in 2015. Directional[4] EBITDA consisted of US$ 823 million from the Lease and Operate segment compared to US$ 667 million in 2015, and a loss of US$ 14 million from the Turnkey segment compared to profit of US$ 239 million in 2015.

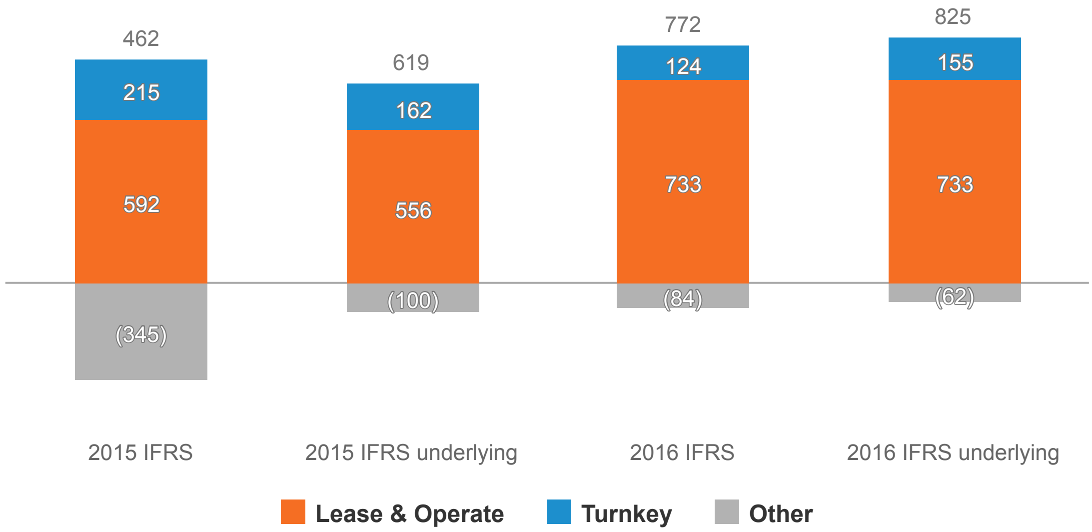
[4] Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

Other non-allocated expenses came at US$ 84 million, compared to US$ 345 million in 2015, related mainly to restructuring charges and update of provision related to potential settlement contemplated with the Brazilian authorities and Petrobras.

Adjusted for non-recurring items related to provision for onerous long-term charter contract with the DSCV SBM Installer (US$ 31 million) and the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ 22 million), 2016 underlying Directional[4] EBITDA increased by 8% to US$ 778 million compared to US$ 718 million in 2015. This increase is primarily attributable to the Lease and Operate segment with the three new FPSOs that came into production in 2016 and significant saving on other non-allocated costs of US$ 38 million. The underlying turnkey EBITDA decreased significantly due to the profit recognized in 2015 upon the sale of 45% of Company's shares in the joint venture leasing and operating the FPSO *Turritella* while the decline of Turnkey activity year-on-year have been mitigated thanks to strong projects performance, under-recovery monitoring and significant saving on Turnkey overheads.

As a percentage of revenue, Underlying Directional[4] EBITDA was 39% compared to 27% in 2015. Underlying Directional[4] EBITDA margin for the Lease and Operate segment stood at 63% versus 57% in 2015, while Turnkey segment Underlying Directional[4] EBITDA margin decreased to 3% compared to 12% in 2015.

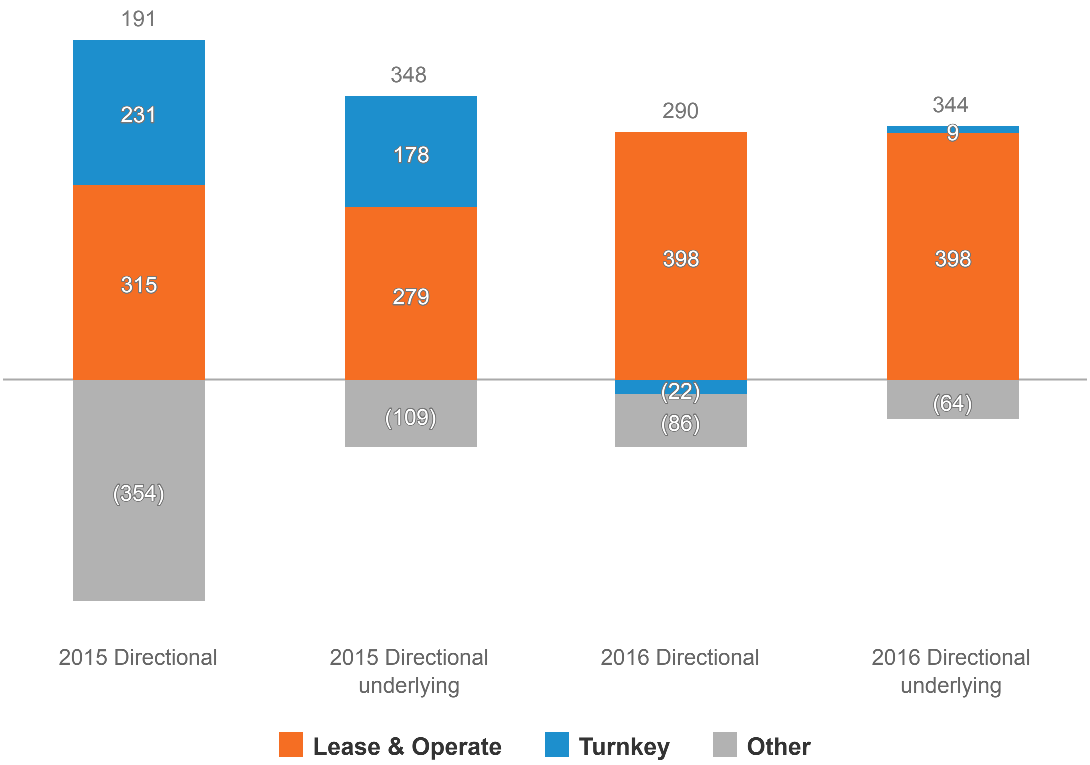
EBITDA IFRS (in millions of US$)



IFRS EBITDA in 2016 came in at US$ 772 million versus US$ 462 million in 2015. Total IFRS EBITDA consisted of US$ 733 million from the Lease and Operate segment compared to US$ 592 million in 2015, and US$ 124 million from the Turnkey segment compared to US$ 215 million in 2015. Other non-allocated expenses came at US$ 84 million with no difference compared to Directional[4]. Adjusted for non-recurring items, 2016 underlying IFRS EBITDA increased by 33% to US$ 825 million compared to US$ 619 million in 2015. This is primarily due the Lease and Operate segment and the three new FPSOs that came into production in 2016, while the underlying IFRS turnkey EBITDA, not impacted by the sale of Company's shares in the joint venture leasing and operating the FPSO Turritella in 2015, remained almost stable.

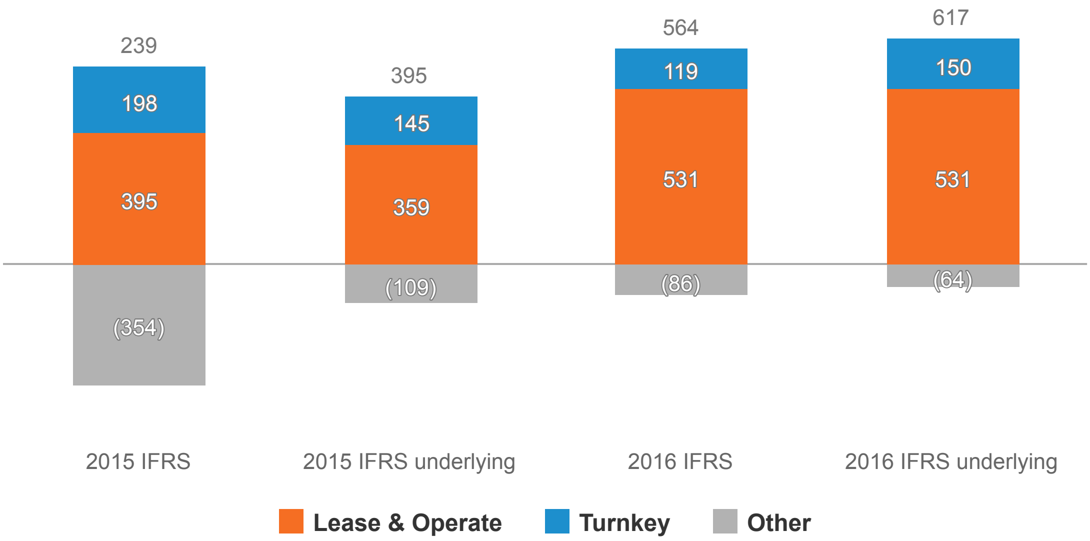
As a percentage of revenue, IFRS Underlying EBITDA was 36% compared to 23% in 2015. IFRS Underlying EBITDA margin for the Lease and Operate segment stood at 58% versus 55% in 2015, while Turnkey segment EBITDA margin stood at 16% compared to 10% in 2015 driven by project performance and decrease of structural costs.

EBIT Directional (in millions of US$)



Directional[4] EBIT in 2016 amounted to US$ 290 million compared to US$ 191 million in 2015. Adjusted for same non-recurring items as EBITDA, underlying Directional[3] 2016 EBIT slightly decreased by 1% to US$ 344 million versus US$ 348 million in 2015. Underlying EBIT variations per segment are the same as for the EBITDA, the increase of Lease and Operate Underlying EBITDA (US$ 191 million) being however partially offset by depreciation charges (US$ 66 million) related to the three new FPSOs that came into production in 2016.

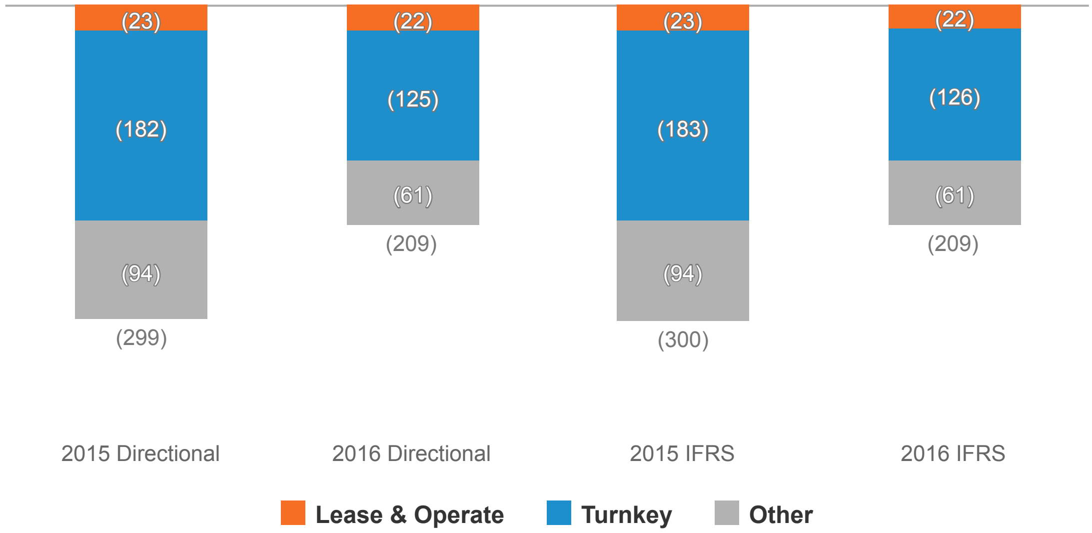
EBIT IFRS (in millions of US$)



IFRS EBIT in 2016 amounted to US$ 564 million compared to US$ 239 million in 2015. Adjusted for non-recurring items underlying 2015 EBIT increased by 56% to US$ 617 million compared to US$ 395 million in 2015.

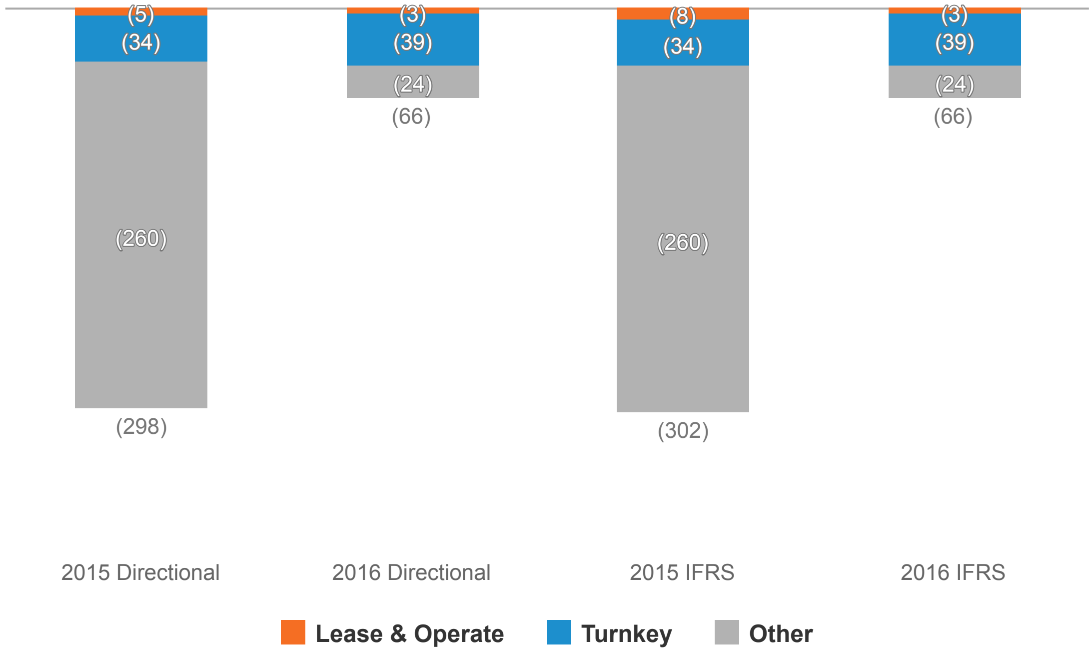
OVERHEADS, OTHER INCOME AND EXPENSES, NET FINANCING COSTS, SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEES AND INCOME TAX

OVERHEADS (IN MILLIONS OF US$)



Directional overheads were US$ 209 million in 2016 compared to US$ 299 million in 2015. This significant reduction resulted from the finalization of the Company's business improvement initiatives, material saving on general and administrative expenses, lower tendering activity and decreased costs of research and development. There is no material differences between IFRS and Directional overheads.

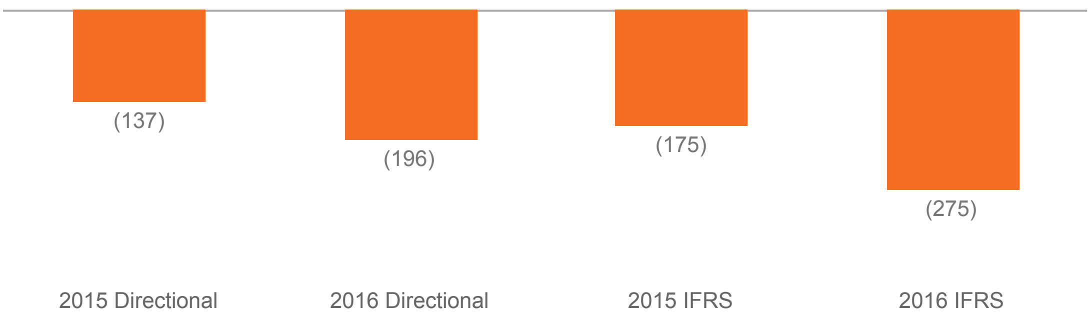
OTHER OPERATING INCOME AND EXPENSES (IN MILLIONS OF US$)



Directional[5] 'Other income and expenses' showed a net cost of US$ 66 million in 2016 compared to US$ 298 million in 2015. This includes the restructuring costs over the period of US$ 49 million, of which US$ 11 million relate to provision related to long-term offices rental contracts, and US$ 22 million related to the potential settlement discussed with Petrobras and the Brazilian authorities. The restructuring program has led to a significant decrease in staffing levels, which created overcapacity in rented office space in various Regional Centers. As a result, the obligation for the discounted future unavoidable costs has been provided for at an amount of US$ 11 million.

In comparison, in 2015, the Directional[5] 'Other income and expenses' were mainly made of US$ 245 million provision related to the potential settlement discussed with Petrobras and the Brazilian authorities and US$ 55 million of restructuring charges. There is no material difference between IFRS and Directional[5] 'Other income and expenses'.

NET FINANCING COSTS (IN MILLIONS OF US$)



Directional[5] net financing costs increased to US$ 196 million compared to US$ 137 million in 2015. This was mainly due to interest paid on project loans for FPSOs Cidade de Marica, Cidade de Saquarema and Turritella joining the fleet in 2016. The 2016 average cost of debt remained low at 4.6% compared to 4.1% in 2015. More generally, once production units are brought into service, the financing costs are expensed to the P&L statement, whereas during construction interest is capitalized. It should be emphasized that the net profit contribution of newly operating leased units is limited by the relatively high interest burden during the first years of operation, although dedication of lease revenues to debt servicing leads to fast redemption of the loan balances and hence reduced interest charges going forward.

IFRS net financing costs increased by US$ 100 million compared to 2015, mainly due to interest paid on project loans for the FPSOs joining the fleet in 2016.

SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEES

The Directional[5] share of profit of equity accounted investees, mainly consisting of the Paenal and the Brasa yards, resulted in a loss of US$ 61 million in 2016, up from a loss of US$ 8 million in 2015, mostly driven by the impairment recognized on the Company's investment (30% ownership) in the Joint Venture owning the Paenal construction yard operating in Angola.

Under IFRS, the Company's share of net losses of non-controlled joint ventures amounted to US$ 14 million in 2016 compared to a profit of US$ 73 million in 2015. This decrease is mainly due to the impairment recognized on the net investment in the Joint Venture owning the Paenal construction yard as well as the impact in 2015 of the turnkey contribution of the N'Goma project finalized early in that year.

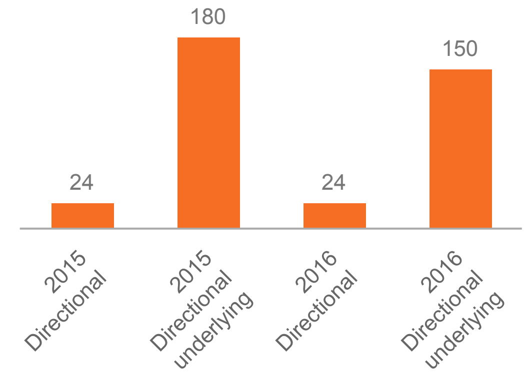
[5] Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

INCOME TAX

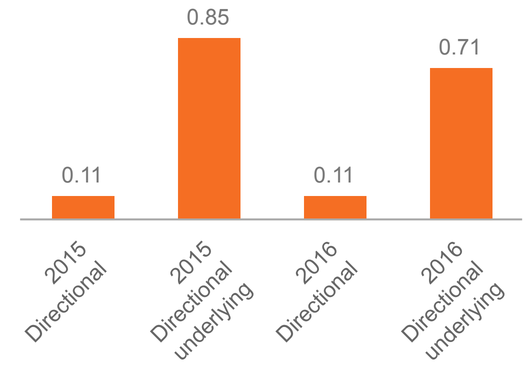
The 2016 IFRS tax expense slightly increased from US$ 26 million in 2015 to US$ 28 million, leading to an effective tax rate of 9.6% in 2016.

NET INCOME

Net Income Directional (in millions of US$)

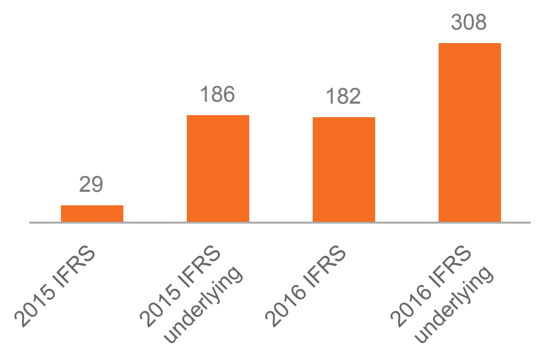


Weighted Average Earnings Per Share Directional (in US$)

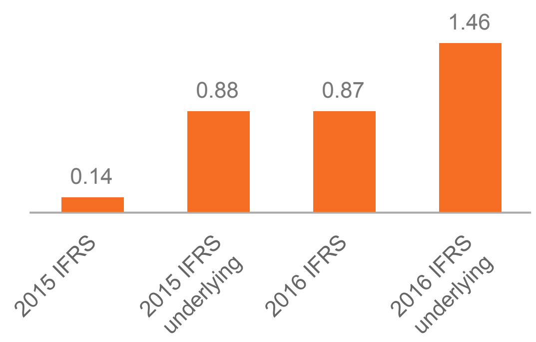


Directional[6] consolidated net income for 2016 was US$ 24 million, stable compared to 2015. Adjusted for non-recurring items, 2016 underlying consolidated Directional net income attributable to shareholders stood at US$ 150 million and a decrease by US$ 30 million from the previous year period, mainly attributable to lower Turnkey segment activity.

Net Income IFRS (in millions of US$)



Weighted Average Earnings Per Share IFRS (in US$)



After IFRS non-controlling interests of US$ 65 million included in 2016 net income and related to reported results from fully consolidated joint ventures where the Company has a minority partner (principally Brazilian FPSOs, Aseng and Turritella), IFRS net income attributable to shareholders amounted to US$ 182 million compared to US$ 29 million in 2015.

6 Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2016	2015	2014	2013	2012[1]
Capital employed IFRS	8,996	8,806	8,134	6,383	3,420
Total equity IFRS	3,513	3,465	3,149	2,887	1,530
Net debt IFRS	5,216	5,208	4,775	3,400	1,816
Net gearing (%) IFRS	59.8	60.0	60.3	54.1	54.3
Total assets IFRS	11,488	11,340	11,118	8,749	6,635
Leverage ratio	2.84	3.70	2.56	2.50	2.01
Solvency ratio	32.4	32.3	31.1	30.2	27.1

1 not restated for comparison purpose

Total assets remained almost stable at US$ 11.5 billion as of December 31, 2016 compared to US$ 11.3 billion at year end 2015. This slight variance is mainly attributable to the increasing cash position while the finalized investments in FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella* are largely offset by vessels depreciation and finance lease redemptions.

Shareholder's equity increased from US$ 2,496 million to US$ 2,516 million mostly due to the 2016 net income partially offset by the Share repurchase program completed over the period.

Capital Employed (Equity + Non-Current Provisions + Deferred tax liability + Net Debt) at year-end 2016 amounted to US$ 8,996 million, an increase of 2% compared to US$ 8,806 million in 2015. This was due in large part to the increase of non-current provisions following the reclassification as 'non-current' of part of the provision for contemplated settlement with Brazilian authorities and Petrobras, as well as the new provision for onerous contracts booked over the period.

IFRS net debt was at US$ 5,216 million versus US$ 5,208 million in 2015. Proportional net debt at year-end amounted to US$ 3,147 million versus US$ 3,128 million in the year-ago period. The stability of the net debt is mainly related to strong operating cash-flow generation covering investing activities, payment of dividends and the share repurchase program over the period.

IFRS net gearing (net debt over equity + net debt) at the end of the year came at 59.8%, almost stable compared to year end 2015 (60%).

The relevant banking covenants (Solvency, Net Debt/Adjusted EBITDA, Interest Cover) were all met. As in previous years, the Company has no off-balance sheet financing.

CAPITAL STRUCTURE

Despite the continuous market downturn, the Company's financial position has remained strong. The growth of the lease and operate segment as well as the adaptation of the Turnkey segment to a depressed market, coupled with strong cash-flows generated by the fleet strengthened equity and resulted in net debt staying constant despite payment of significant shareholder returns.

INVESTMENT AND CAPITAL EXPENDITURES

Total investments made in 2016 reached US$ 34 million compared to the US$ 775 million in 2015. Highlights for fiscal year 2016 investments are:

- Capital expenditure of US$ 14 million compared to US$ 23 million in 2015.
- Net investments in finance leases totaling US$ 20 million compared to US$ 704 million in 2015.

Total capital expenditures for 2016, which consist of additions to property, plant and equipment plus capitalized development expenditures, were related to minor investments.

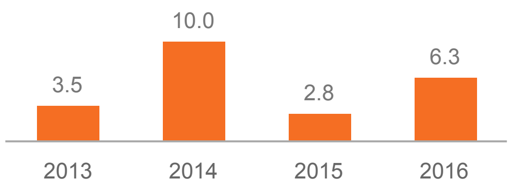
Due to the classification of the contracts as finance leases under IFRS, investments in the units were recorded as construction contracts, with the investments in finance leases ultimately recorded as financial assets. The net investment in these finance lease contracts amounted to US$ 20 million in 2016, which compares to US$ 704 million in 2015, and is reported as operating activities in the consolidated cash-flow statement.

The decrease in property, plant and equipment in 2016 to US$ 1,474 million, compared to US$ 1,686 million at the end of 2015, resulted from the very low level of capital expenditure less normal depreciation and amortisation.

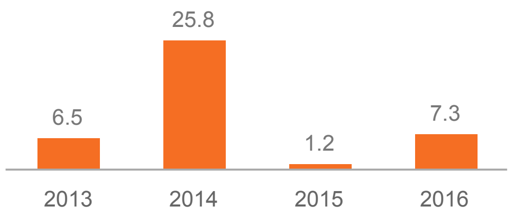
RETURN ON AVERAGE CAPITAL EMPLOYED AND EQUITY

Both IFRS Return on Average Capital Employed (ROACE) and Return on Average Shareholders' Equity (ROAE) increased, to 6.3% and 7.3% respectively in 2016. This was primarily the result of the higher EBIT and Net Result reported under IFRS in 2016 while equity and capital employed remained almost stable.

Return on Average Capital Employed (%)



Return on Average Equity (%)



CASH FLOW/LIQUIDITIES

Cash and undrawn committed credit facilities amounted to US$ 1,904 million, US$ 221 million of which can be considered as being dedicated to specific project debt servicing or otherwise restricted in its utilization.

The Enterprise Value to EBITDA ratio at year-end 2016 came in at 12.4, lower than the previous year, due mainly to significant increase in the Company's IFRS EBITDA.

in millions of US$	2016	2015	2014	2013	2012[1]
IFRS EBITDA	772	462	925	592	681
Cash	904	515	452	208	715
Cash flow from operations	488	(538)	(1,356)	(1,044)	1,134
EV : IFRS EBITDA ratio at 31/12	12.4	19.3	8.6	14.3	6.3

1 not restated for comparison purpose

Provided below is a reconciliation of net income before taxes to Cash Flow from Operations:

in millions of US$	2016	2015
Net income before taxes	**275**	**137**
Adjustments for non-cash items		
Depreciation of property, plant and equipment	216	212
Net impairment / (impairment reversal)	32	9
Amortisation of intangible assets	3	1
Adjustments for investing and financing items		
Share in net income of associates and joint ventures	(30)	(73)
Finance income	(26)	(25)
Finance costs excluding impairment	301	200
(Gain) / loss on disposal of property, plant and equipment	(2)	1
(Gain) / loss on disposal of subsidiary	0	3
Adjustments for equity items		
Share-based payments	16	20
Reclassification of exchange differences relating to the disposal of foreign subsidiaries	0	0
Subtotal	**787**	**484**
Changes in operating assets and liabilities		
Decrease / (increase) in investments	0	3
Decrease in operating receivables (excluding WIP)	20	178
Increase in WIP (excluding reclass to Financial Assets)	(301)	(836)
Decrease in operating liabilities	(240)	(548)
Total changes in operating assets and liabilities	**(521)**	**(1,204)**
Reimbursement finance lease assets	237	206
Income taxes paid	(15)	(24)
Net cash generated from operating activities	**488**	**(538)**

OUTLOOK AND GUIDANCE

Management's expectations for order intake in 2017 remain unchanged, aligned with an outlook for the industry where recovery is expected to be gradual as clients remain cautious regarding investment in their development programs. At the same time, productive client discussions continue to take place to make deep water projects competitive in today's oil price environment. A positive medium to long-term outlook is maintained as deep water offshore is expected to remain an important element in the energy supply of the future.

The Company is providing 2017 Directional revenue guidance of around US$ 1.7 billion, with around US$ 1.5 billion from Lease and Operate and around US$ 200 million from Turnkey. 2017 Directional EBITDA is guided at around US$ 750 million.

5.2 CONSOLIDATED FINANCIAL STATEMENTS

5.2.1 CONSOLIDATED INCOME STATEMENT

in millions of US$	Notes	2016	2015
Revenue	5.3.2/5.3.3	2,272	2,705
Cost of sales	5.3.5	(1,434)	(1,864)
Gross margin	5.3.2	**838**	**841**
Other operating income/(expense)	5.3.4/5.3.5	(66)	(302)
Selling and marketing expenses	5.3.5	(37)	(61)
General and administrative expenses	5.3.5	(142)	(196)
Research and development expenses	5.3.5/5.3.8	(29)	(43)
Operating profit/(loss) (EBIT)	5.3.2	**564**	**239**
Financial income	5.3.7	26	25
Financial expenses	5.3.7	(301)	(200)
Net financing costs		**(275)**	**(175)**
Share of profit of equity-accounted investees	5.3.31	(14)	73
Profit/(Loss) before tax		**275**	**137**
Income tax expense	5.3.9	(28)	(26)
Profit/(Loss)		**247**	**110**
Attributable to shareholders of the parent company		182	29
Attributable to non-controlling interests	5.3.32	65	81
Profit/(Loss)		**247**	**110**

Earnings/(loss) per share

	Notes	2016	2015
Weighted average number of shares outstanding	5.3.10	210,568,416	210,851,051
Basic earnings/(loss) per share	5.3.10	US$ 0.87	US$ 0.14
Fully diluted earnings/(loss) per share	5.3.10	US$ 0.87	US$ 0.14

5.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of US$	2016	2015
Profit/(Loss) for the period	**247**	**110**
Cash flow hedges	77	(8)
Deferred tax on cash flow hedges	(14)	(1)
Foreign currency variations	(17)	(18)
Items that are or may be reclassified to profit or loss	**46**	**(27)**
Remeasurements of defined benefit liabilities	4	0
Deferred tax on remeasurement of defined benefit liabilities	0	-
Items that will never be reclassified to profit or loss	**3**	**0**
Other comprehensive income for the period, net of tax	**50**	**(27)**
Total comprehensive income for the period, net of tax	**296**	**83**
Of which		
- on controlled entities	314	33
- on equity-accounted entities	(18)	50
Attributable to shareholders of the parent company	215	16
Attributable to non-controlling interests	81	67
Total comprehensive income for the period, net of tax	**296**	**83**

5.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in millions of US$	Notes	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment	5.3.12	1,474	1,686
Intangible assets	5.3.13	46	45
Investment in associates and joint ventures	5.3.31	484	460
Finance lease receivables	5.3.14	7,232	3,020
Other financial assets	5.3.15	249	321
Deferred tax assets	5.3.16	29	59
Derivative financial instruments	5.3.20	8	0
Total non-current assets		**9,522**	**5,591**
Inventories	5.3.17	5	8
Finance lease receivables	5.3.14	328	164
Trade and other receivables	5.3.18	681	705
Construction work-in-progress	5.3.19	15	4,336
Derivative financial instruments	5.3.20	30	21
Cash and cash equivalents	5.3.21	904	515
Assets held for sale	5.3.22	1	-
Total current assets		**1,965**	**5,749**
TOTAL ASSETS		**11,488**	**11,340**
EQUITY AND LIABILITIES			
Issued share capital		56	58
Share premium reserve		1,163	1,162
Treasury shares		(166)	-
Retained earnings		1,697	1,532
Other reserves		(235)	(255)
Equity attributable to shareholders of the parent company	5.3.23	**2,516**	**2,496**
Non-controlling interests	5.3.32	996	970
Total Equity		**3,513**	**3,465**
Loans and borrowings	5.3.24	5,564	4,959
Provisions	5.3.26	257	131
Deferred income	5.3.25	263	260
Deferred tax liabilities	5.3.16	10	3
Derivative financial instruments	5.3.20	122	167
Total non-current liabilities		**6,215**	**5,521**
Loans and borrowings	5.3.24	557	763
Provisions	5.3.26	347	410
Trade and other payables	5.3.27	706	992
Income tax payables		35	25
Bank overdrafts	5.3.21	-	-
Derivative financial instruments	5.3.20	114	164
Total current liabilities		**1,760**	**2,354**
TOTAL EQUITY AND LIABILITIES		**11,488**	**11,340**

5.2.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of US$	Outstanding number of shares	Issued share capital	Share premium reserve	Treasury shares	Retained earnings	Other reserves	Attributable to shareholders	Non-controlling interests	Total Equity
At 1 January 2016	**211,694,950**	**58**	**1,162**	**-**	**1,532**	**(255)**	**2,496**	**970**	**3,465**
Profit/(Loss) for the period		-	.	-	182	-	182	65	247
Foreign currency translation		(2)	-	-	-	(19)	(21)	4	(17)
Remeasurements of defined benefit provisions		-	-	-	-	3	3	-	3
Cash flow hedges/net investment hedges		-	-	-	-	51	51	12	63
Comprehensive income for the period		**(2)**	**-**	**-**	**182**	**35**	**215**	**81**	**296**
IFRS 2 Vesting cost of Share based payments		-	-	-	-	15	15	-	15
Issuance of shares on the share based scheme	1,776,355	0	2	0	28	(29)	1	-	1
Purchase of treasury shares		-	-	(166)	-	-	(166)	-	(166)
Cash dividend		-	-	-	(45)	-	(45)	(20)	(64)
Equity funding[1]		-	-	-	-	-	-	107	107
Equity repayment[2]		-	-	-	-	-	-	(142)	(142)
At 31 December 2016	**213,471,305**	**56**	**1,163**	**(166)**	**1,697**	**(235)**	**2,516**	**996**	**3,513**

1 equity contribution into Alfa Lula Alto S.à r.l, Beta Lula Central S.à r.l. and SBM Stones Sarl following shareholders resolution.

2 mainly equity repayment from Alfa Lula Alto S.à r.l and Beta Lula Central S.à r.l. following shareholders resolution.

in millions of US$	Outstanding number of shares	Issued share capital	Share premium reserve	Treasury shares	Retained earnings	Other reserves	Attributable to shareholders	Non-controlling interests	Total Equity
At 1 January 2015	**209,695,094**	**64**	**1,160**	**-**	**1,482**	**(287)**	**2,419**	**730**	**3,149**
Profit/(Loss) for the period		-	-	-	29	-	29	81	110
Foreign currency translation		(7)	-	-	-	(12)	(18)	-	(18)
Remeasurements of defined benefit provisions		-	-	-	-	0	0	-	0
Cash flow hedges/net investment hedges		-	-	-	-	5	5	(14)	(9)
Comprehensive income for the period		**(7)**	**-**	**-**	**29**	**(7)**	**16**	**67**	**83**
IFRS 2 Vesting cost of Share based payments		-	-	-	(28)	28	-	-	-
IFRS 2 Reserve identification[1]				-		20	20		20
Issuance of shares on the share based scheme	1,999,856	1	2	-	10	(10)	3	-	3
Cash dividend		-	-	-	-	-	-	(2)	(2)
Transactions with non-controlling interests		-	-	-	38	-	38	(38)	-
Equity funding[2]		-	-	-				292	292
Equity repayment[3]		-	-	-	-	-	-	(78)	(78)
At 31 December 2015	**211,694,950**	**58**	**1,162**	**-**	**1,532**	**(255)**	**2,496**	**970**	**3,465**

1 the IFRS 2 Share Based Payments granted but still unvested has been reclassified to the Other Reserves to reflect its undistributable nature.

2 mainly equity contribution into SBM Stones S.à.r.l and Alfa Lula Alto S.à r.l, following shareholders resolution.

3 equity repayment from companies Guara Norte S.à r.l., Beta Lula Central S.à r.l. and Tupi Nordeste S.à r.l. following shareholders resolution.

5.2.5 CONSOLIDATED CASH FLOW STATEMENT

in millions of US$	2016	2015
Cash flow from operating activities		
Receipts from customers	1,859	2,139
Payments for finance leases construction	(20)	(704)
Payments to suppliers and employees	(1,266)	(1,879)
Settlement Dutch Public Prosecutor's Office	(70)	(70)
Income tax received/(paid)	(15)	(24)
Net cash from operating activities	**488**	**(538)**
Cash flow from investing activities		
Investment in property, plant and equipment	(9)	(7)
Investment in intangible assets	(5)	(15)
Additions to funding loans	(47)	(3)
Redemption of funding loans	50	126
Interest received	15	9
Dividends received from equity-accounted investees	45	9
Net proceeds from disposal of property, plant and equipment	3	13
Net proceed from disposal of Financial assets	38	3
Net cash used in investing activities	**90**	**135**
Cash flow from financing activities		
Net equity funding from partners	(35)	214
Additions to borrowings and loans	1,118	1,855
Repayments of borrowings and loans	(780)	(1,405)
Dividends paid to shareholders and non-controlling interests	(64)	(2)
Share repurchase program	(166)	-
Interest paid	(252)	(210)
Net cash from financing activities	**(179)**	**451**
Net increase/(decrease) in cash and cash equivalents	**399**	**48**
Net cash and cash equivalents as at 1 January	515	452
Net increase/(decrease) in net cash and cash equivalents	399	48
Foreign currency variations	(9)	15
Net cash and cash equivalents as at 31 December	**904**	**515**

The reconciliation of the net cash and cash equivalents as at 31 December with the corresponding amounts in the statement of financial position is as follows:

Reconciliation of net cash and cash equivalents as at 31 December

	31 December 2016	31 December 2015
Cash and cash equivalents	904	515
Bank overdrafts	-	-
Net cash and cash equivalents	**904**	**515**

5.2.6 GENERAL INFORMATION

SBM Offshore N.V. is a company domiciled in Amsterdam, the Netherlands. SBM Offshore N.V. is the holding company of a group of international marine technology oriented companies. The Company globally serves the offshore oil and gas industry by supplying engineered products, vessels and systems, as well as offshore oil and gas production services.

The Company is listed on the Euronext Amsterdam stock exchange.

The consolidated financial statements for the year ended December 31, 2016 comprise the financial statements of SBM Offshore N.V., its subsidiaries and interests in associates and joint ventures (together referred to as 'the Company'). They are presented in millions of US dollars, except when otherwise indicated. Figures may not add up due to rounding.

The consolidated financial statements were authorized for issue by the Supervisory Board on February 8, 2017.

5.2.7 ACCOUNTING PRINCIPLES

A. ACCOUNTING FRAMEWORK

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the EU, where effective, for financial years beginning January 1, 2016.

The separate financial statements included in section 5.4 are part of the 2016 financial statements of SBM Offshore N.V.

New standards, amendments and interpretations applicable as of January 1, 2016

The Company has adopted the following new standards with a date of initial application of January 1, 2016:

- IAS 19 Amended 'Defined Benefit Plans: Employee Contributions';
- IFRS 11 Amendment 'Accounting for Acquisitions of Interests in Joint Operations';
- IAS 16 and IAS 38 Amendment 'Clarification of Acceptable Methods of Depreciation and Amortization';
- IAS 27 Amendment 'Equity Method in Separate Financial Statements';
- IAS 1 Amendment 'Disclosure Initiative';
- Annual improvements: 2010-2012 and 2012-2014 cycles.

The adoption of the interpretations, amendments and annual improvements had no significant effect on the financial statements for earlier periods and on the financial statements for the period ended December 31, 2016.

Standards and interpretations not mandatory applicable to the group as of January 1, 2016

The Company has decided not to early adopt standards and amendments published by the IASB and endorsed by the European Commission, but not mandatory applicable as of January 1, 2016. Other new standards and amendments have been published by the IASB but have not been endorsed yet by the European Commission. Early adoption is not possible until European Commission endorsement. Those which may be relevant to the Company are set out below:

IFRS 9 – Financial Instruments

This Standard includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard will be mandatory as of January 1, 2018.

The Company is analyzing the impacts and practical consequences of these standard's future application. It is expected that the main impact will relate to the new impairment model whereby impairment of the financial assets are based on a current expected credit losses model.

IFRS 15 – Revenue Recognition

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
This standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This standard will be mandatory as of January 1, 2018.

The Company is analyzing the impacts and practical consequences of these standard's future application. The preliminary analysis of the existing contracts demonstrates that the construction contract represents one performance obligation and the progress-based measurement of revenue will still be the main method used by the Company for the construction contracts. The lease contracts are not impacted by IFRS 15 as they are covered by IFRS 16. For the operating and maintanance contracts no major changes are anticipated.

The Company expects to use the retrospective implementation method in 2018, with restatement of comparative figures for 2017.

IFRS 16 – Leases

IFRS 16 was issued in January 2016. This standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The accounting for contracts where the Company is the lessor is expected to be unchanged.

The Company has a number of lease contracts for land and buildings and instalment vessel that are currently accounted for under IAS 17 as operating leases. The following changes are expected upon transition to IFRS 16:

- Assets and liabilities are expected to increase by an amount close to the net present value of future lease payments.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) will increase as the lease payments will be presented as depreciation and finance cost rather than operating expenses.
- Operating cash flow will increase and investing and financing cash flow will decrease as the lease payments will no longer be considered as operational.

The Company will continue to analyze the impacts and practical consequences of these standard's future application.

The new standard for leases is effective January 1, 2019.

Other new or revised accounting standards are not considered to have a material impact on the Company's consolidated financial statements.

B. CRITICAL ACCOUNTING POLICIES

Critical accounting policies involving a high degree of judgement or complexity, or areas where assumptions and estimates are material, are disclosed in the paragraphs below.

(a) Use of estimates and judgement

When preparing the financial statements, it is necessary for the Management of the Company to make estimates and certain assumptions that can influence the valuation of the assets and liabilities and the outcome of the income statement. The actual outcome may differ from these estimates and assumptions, due to changes in facts and circumstances. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Estimates:

Significant areas of estimation and uncertainty in applying accounting policies that have the most significant impact on amounts recognized in the financial statements are:

The measurement of revenues and costs at completion, and margin recognition on construction contracts based on the stage of completion method:

Gross margin at completion and revenue at completion are reviewed periodically and regularly throughout the life of the contract. This requires a large number of estimates, especially of the total expected costs at completion, due to the complex nature of the Company's construction contracts.

Judgement is also required for the recognition of variation orders, incentives and claims from clients where negotiations or discussions are at a sufficiently advanced stage.

The gross margin at completion reflects at each reporting period the management's current best estimate of the probable future benefits and obligations associated with the contract.

Provisions for anticipated losses are made in full in the period in which they become known.

Impairments and provision for onerous contracts:

Some assumptions and estimates used in the discounted cash flow model and the adjusted present value model to determine the value in use of assets or group of assets are subject to uncertainty. There is a possibility that changes in circumstances or in market conditions could impact the recoverable amount of the asset or group of assets. Such assumptions and estimates can also be required to determine the amount of specific provision related to onerous contracts.

The anticipated useful life of the leased facilities:

Management uses its experience to estimate the remaining useful life of an asset. The actual useful life of an asset may be impacted by an unexpected event that may result in an adjustment to the carrying amount of the asset.

The Company's taxation:

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. As per IAS 12, the liabilities include any penalties and interests that could be associated to the tax audit issue. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will influence the income tax and deferred tax provisions in the period in which such determination is made.

The Company's exposure to litigation with third parties and non-compliance:
The Company identifies and provides analysis on a regular basis, of current litigations and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligation, taking into account information available and different possible outcomes at the reporting period.

The Warranty fund :
A warranty provision is accrued during the construction phase of projects, based on historical warranty expenditure. At the completion of a project a warranty provision (depending on the nature of the project) is therefore provided for and reported as provision in the statement of financial position. Following the acceptance of a project the warranty provision is released over the warranty period. For some specific claims formally notified by the customer and which can be reliably estimated an amount is provided in full and without discounting. An overall review of the warranty fund is performed by management at each reporting date.

The timing and estimated cost of demobilization:
The estimated future costs of demobilization are reviewed on a regular basis and adjusted when appropriate. Nevertheless, considering the long-term expiry date of the obligations, these costs are subject to uncertainty. Indeed, cost estimates can vary in response to many factors, including for example new demobilization techniques, the Company's own experience on demobilization operations, future changes in laws and regulations, and timing of demobilization operation.

Estimates and assumptions made in determining these obligations, can therefore lead to significant adjustments to the future financial results. Nevertheless, the cost of demobilization obligations at the reporting date represent management's best estimate of the present value of the future costs required.

All significant projects have been completed during the year and there is therefore no significant estimates related to measurement of the stage of completion of projects as of December 2016. Several of the estimates included the 2016 financial statements are disclosed in the highlights section (5.3.1) and are detailed as follows:

- Onerous contract provision (detailed in note 5.3.26) related to (i) the long-term contract with Diving Support and Construction Vessel SBM Installer amounting to US$ 31 million due to the activity outlook deterioration and (ii) the long-term offices rental contracts amounting to US$ 11 million in the light of the recent restructuring activities which has created overcapacity in rented office space in various Regional Centers
- Impairment of the net investment in the Angolan yard amounting to US$ 59 million due to the activity outlook deterioration

Judgments:
In addition to the above estimates, the management exercises the following judgement:

Lease classification:
When the Company enters into a new lease arrangement, the terms and conditions of the contract are analyzed in order to assess whether or not the Company retains the significant risks and rewards of ownership

of the asset subject of the lease contract. In applying the criteria provided by IAS 17 'Leases', the Company can make significant judgement to determine whether the arrangement results in a finance lease or an operating lease. This judgement can have a significant effect on the amounts recognized in the consolidated financial statements.

(b) Leases: accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Under an operating lease, the asset is included in the statement of financial position as property, plant and equipment. Lease income is recognized over the term of the lease on a straight-line basis. This implies the recognition of deferred income when the contractual day rates are not constant during the initial term of the lease contract.

When assets are leased under a finance lease, the present value of the lease payments is recognized as a financial asset. Under a finance lease, the difference between the gross receivable and the present value of the receivable is recognized as revenue. Lease income is, as of the commencement date of the lease contract, recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. During the construction phase of the facility, the contract is treated as a construction contract, whereby the percentage of completion method is applied.

(c) Impairment of non-financial assets

Under certain circumstances, impairment tests must be performed. Assets that have an indefinite useful life, for example goodwill, are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets that are subject to amortization or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount is the higher of an asset's or cash-generating-unit's (CGU's) fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. An impairment loss is recognized for the amount by which the assets or CGU's carrying amount exceeds its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and risks specific to the asset. The Company bases its future cash flows on detailed budgets and forecasts.

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each statement of financial position date.

(d) Impairment of financial assets

The Company assesses whether there is objective evidence that a financial asset or group of financial assets (together referred to as 'financial asset') may be impaired at the end of each reporting date. An impairment exists if one or more events (a 'loss event') that have occurred after the initial recognition of the asset, have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss include:

- significant financial difficulty of the obligor

- a breach of contract, such as a default or delinquency in interest or principal payments
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise consider
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization
- national or local economic conditions that correlate with defaults on the financial assets

The amount of the impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced by the impairment which is recognized in the income statement. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the income statement.

Impairment on trade and other receivables is described later in Section 5.2.7 C. Significant Accounting Policies.

(e) Revenue

Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Construction contracts :

Construction contracts are accounted for in accordance with IAS 11 'Construction contracts'. Revenue and gross margin are recognized at each period based upon the advancement of the work-in-progress, using the percentage of completion. The percentage of completion is calculated based on the ratio of costs incurred to date to total estimated costs. Margin is recognized only when the visibility of the riskiest stages of the contract is deemed sufficient and when estimates of costs and revenues are considered to be reliable.

Complex projects that present a high risk profile due to technical novelty, complexity or pricing arrangements agreed with the client are subject to independent project reviews at advanced degrees of completion in engineering prior to recognition of margin, typically around 25% complete. An internal project review is an internal but independent review of the status of a project based upon an assessment of a range of project management and company topics. Until this point, no margin is recognized, with revenue recognized to the extent of cost incurred.

Due to the nature of the services performed, variation orders and claims are commonly billed to clients in the normal course of business. Additional contract revenue arising from variation orders is recognized when it is more than probable that the client will approve the variation and the amount of revenue arising from the variation can be reliably measured. Revenue resulting from claims is recognized in contract revenue only when negotiations have reached an advanced stage such that it is more than probable that the client will accept the claim and that the amount can be measured reliably.

Lease and operate contracts :

Revenue from long-term operating lease contracts is reported on a straight-line basis over the period of the contract once the facility has been brought into service. The difference between straight-line revenue and the contractual day-rates, which may not be constant throughout the charter, is included as deferred income.

Revenue from finance lease contracts is, as of the commencement date of the lease contract, recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(f) Construction work in progress

Construction work in progress is stated at cost plus profit recognized to date less any provisions for foreseeable losses and less invoiced instalments. Cost includes all expenditures related directly to specific projects and attributable overhead. Where instalments exceed the value of the related costs, the excess is included in current liabilities. Advances received from customers are also included in current liabilities per project.

(g) Demobilization obligations

The demobilization obligations of the Company are either stated in the lease contract or derive from the international conventions and the specific legislation applied in the countries where the Company builds assets. Demobilization costs will be incurred by the Company at the end of the operating life of the Company's facilities.

For operating leases, the net present value of the future obligations is included in property, plant and equipment with a corresponding amount included in the provision for demobilization. As the remaining duration of each lease reduces, and the discounting effect on the provision unwinds, accrued interest is recognized as part of financial expenses and added to the provision. The subsequent updates of the measurement of the demobilization costs are recognized both impacting the provision and the asset. In some cases, when the contract includes a demobilization bareboat fee that the Company invoices to the client during the demobilization phase, a receivable is recognized at the beginning of the loan phase for the discounted value of the fee.

For finance leases, demobilization obligations are analyzed as a component of the sale recognized under IAS 17 'Leases'. Therefore, because of the fact that demobilization operation is performed at a later stage, the related revenue is deferred until demobilization operations occur. The subsequent updates of the measurement of the demobilization costs are recognized immediately through deferred revenue, for the present value of the change.

C. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

(a) Distinction between current and non-current assets and liabilities

The distinction between current assets and liabilities, and non-current assets and liabilities is based on their maturity. Assets and liabilities are classified as 'current' if their maturity is less than twelve months or 'non-current' if their maturity exceeds twelve months.

(b) Consolidation

The Company's consolidated financial statements include the financial statements of all controlled subsidiaries.

In determining under IFRS 10 whether the Company has power over the investee, exposure or rights to variable returns from its involvement, it is assessed that, for entities whereby all key decisions are taken on a mutual consent basis, the main deciding feature resides in the deadlock clause existing in shareholders' agreements. In case a deadlock situation arises at the Board of Directors of an entity, whereby the Board is unable to force a decision, the deadlock clause of the shareholders' agreements generally stipulates whether a substantive right is granted to the Company or to all the partners in the entity to buy its shares through a compensation mechanism that is fair enough for the Company or one of the partner to acquire these shares. In case such a substantive right is granted to the Company, the entity will be defined under IFRS 10 as controlled by the Company. In case no such substantive right is granted through the deadlock clause to the Company, the entity will be defined as a joint arrangement.

Subsidiaries:
Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated using the full consolidation method.

All reciprocal transactions between two controlled subsidiaries, with no profit or loss impact at consolidation level, are fully eliminated for the preparation of the consolidated financial statements.

Interests in joint ventures:
The group has applied IFRS 11 'Joint arrangement' to all joint arrangements. Under IFRS 11 investment in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. In determining under IFRS11 the classification of a 'Joint arrangement', the Company assessed that all 'Joint arrangements' were structured through private limited liability companies incorporated in various jurisdictions. As a result, assets and liabilities held in these separate vehicles were those of the separate vehicles and not those of the shareholders of these limited liability companies. Shareholders had therefore no direct rights to the assets, nor primary obligations for liabilities of these vehicles. The group has considered the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Investments in associates:
Associates are all entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. Investments in associates are accounted for under the equity method.

When losses of an equity-accounted entity are greater than the value of the Company's net investment in that entity, these losses are not recognized unless the Company has a constructive obligation to fund the entity. The share of the negative net equity of these is first accounted for against the loans held by the owner towards the equity-accounted company that form part of the net investment. Any excess is accounted for under provisions.

Reciprocal transactions carried out between a subsidiary and an equity-accounted entity, are not eliminated for the preparation of the consolidated financial statements. Only transactions leading to an internal profit (like for dividends or internal margin on asset sale) are eliminated applying the percentage owned in the equity-accounted entity.

The financial statements of the subsidiaries, associates and joint venture are prepared for the same reporting period as the Company and the accounting policies are in line with those of the Company.

(c) Non-derivatives financial assets
The Company classifies its financial assets into finance lease receivables, corporate debt securities and loans to joint ventures and associates. Trade and other receivables, even when they are financial assets according to IFRS definitions, are considered separately.

Finance leases are non-derivative financial assets with fixed or determined payments that are not quoted in an active market.

Corporate securities relates to:

- Fixed-rate bonds, issued by internationally known companies, quoted in liquid markets with fixed maturities, have bullet repayments at maturity and investment grade ratings at issuance. These instruments are classified as 'held-to-maturity' as the Company has the ability and intention to hold to maturity. In the event the criteria are not met, they are classified as available-for-sale. They are measured at fair value less transaction costs at initial recognition and subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value, is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.
- Other investments, such as equity shares, are initially measured at fair value less transaction costs and subsequently measured at fair value through Other Comprehensive Income, as they are classified in the available-for sale category.

Loans to joint ventures and associates relate primarily to interest-bearing loans to joint ventures. These financial assets are initially measured at fair value less transaction costs (if any) and subsequently measured at amortized cost.

Corporate securities and loans to joint ventures and associates are recognized on settlement date being the date on which cash is paid or received.

A financial asset or a group of financial assets is considered to be impaired only if objective evidence indicates that one or more events ('loss events'), happening after its initial recognition, have an effect on the estimated future cash flows of that asset. For loans to joint ventures and subsidiaries, as the Company has visibility over the expected cash inflows and outflows of the counterparty (joint venture), impairment occurs as soon as there is evidence that the asset will not be duly repaid.

(d) Borrowings (bank and other loans)

Borrowings are recognized on settlement date being the date on which cash is paid or received. They are initially recognized at fair value, net of transaction costs incurred (transaction price), subsequently measured at amortized cost and classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized into the cost of the asset in the period in which they are incurred. Otherwise, borrowing costs are recognized as an expense in the period in which they are incurred.

(e) Operating segment information

As per IFRS 8, an operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the entity's chief operating decision maker for which distinct financial information is available.

The Management Board, as chief operating decision maker, monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Revenue, Gross Margin and EBIT.
The Group has two reportable segments:

- the Lease and Operate segment includes all earned day-rates on long-term operating lease and operate contracts. In the case of a finance lease, revenue is recognized during the construction and installation

period within the Turnkey segment. As of the commencement date of a finance lease contract, interest income is shown in this segment
- the Turnkey segment includes Europe, Houston, Kuala Lumpur and Rio de Janeiro Regional Centers that derive revenues from turnkey supply contracts and after-sales services, which consist mainly of large production systems, large mooring systems, deep water export systems, fluid transfer systems, tanker loading and discharge terminals, design services and supply of special components and proprietary designs and equipment

No operating segments have been aggregated to form the above reportable operating segments.

The Company's corporate overhead functions do not constitute an operating segment as defined by IFRS 8 'Operating segments' and are reported under the 'Other' section in Note 5.3.2 Operating Segments.

Operating segments are also measured under Directional Reporting accounting policies, the main principles of which are the following:
- all lease contracts are classified and accounted for as if they were operating lease contracts. Some Lease and Operate contracts may provide for defined invoicing ('upfront payments') to the client occurring during the construction phase or at first-oil (beginning of the lease phase), to cover specific construction work and/or services performed during the construction phase. These 'upfront payments' are recognized as revenues and the costs associated to the construction work and/or services are recognized as 'Cost of sales' with no margin during the construction. As a consequence, these costs are not capitalized in the gross value of the assets under construction at joint venture level.
- all joint ventures related to lease and operate contracts are accounted for at the Company's share using the proportionate consolidation method (where all lines of the income statement are consolidated for the Company's percentage of ownership).
- all other accounting principles remain unchanged compared to applicable IFRS standards.

The above differences to the consolidated financial statements under IFRS are pointed out in the reconciliations provided in Note 5.3.2 Operating Segments on the revenue, the EBIT and other significant items, as required by IFRS 8 'Operating segments'.

(f) Foreign currency transactions and derivative financial instruments

Foreign currency transactions are translated into the functional currency, the US dollar, at the exchange rate applicable on the transaction date. At the closing date, monetary assets and liabilities stated in foreign currencies are translated into the functional currency at the exchange rate prevailing on that date. Resulting exchange gains or losses are directly recorded in the income statement. At the closing date, non-monetary assets and liabilities stated in foreign currency remain translated into the functional currency using the exchange rate at the date of the transaction.

Translation of foreign currency income statements of subsidiaries into US dollars are converted at the average exchange rate prevailing during the year. Statements of financial position are translated at the exchange rate at the closing date. Differences arising in the translation of financial statements of foreign subsidiaries are recorded in other comprehensive income as foreign currency translation reserve. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and borrowings of such investments, are taken to Company equity.

Derivative financial instruments held by the Company are aimed at hedging risks associated with market risk fluctuations. A derivative instrument qualifies for hedge accounting (cash flow hedge or net investment hedge) when there is formal designation and documentation of the hedging relationship, and of the effectiveness of the hedge throughout the life of the contract. A cash flow hedge aims at reducing risks incurred by variations in the value of future cash flows that may impact net income. A net investment hedge aims at reducing risks incurred by variations in the value of the net investment in a foreign operation.

In order for a derivative to be eligible for hedge accounting treatment, the following conditions must be met:
- its hedging role must be clearly defined and documented at the inception date
- its effectiveness is proven at the inception date and as long as it remains highly effective in offsetting exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk

All derivative instruments are recorded and disclosed in the statement of financial position at fair value. Where a portion of a financial derivative is expected to be realized within twelve months of the reporting date, that portion is presented as current; the remainder of the financial derivative as non-current.

Changes in fair value of derivatives designated as cash flow or net investment hedge relationships are recognized as follows:
- the effective portion of the gain or loss of the hedging instrument is recorded directly in other comprehensive income, and the ineffective portion of the gain or loss on the hedging instrument is recorded in the income statement. The gain or loss which is deferred in equity, is reclassified to the net income in the period(s) in which the specified hedged transaction affects the income statement
- the changes in fair value of derivative financial instruments that do not qualify as hedging in accounting standards are directly recorded in the income statement

When measuring the fair value of a financial instrument, the Company uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. Further information about the fair value measurement of financial derivatives is included in Note 5.3.29 Financial Instruments – Fair Values and Risk Management.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(h) Provisions

Provisions are recognized if and only if the following criteria are simultaneously met:
- the Company has an ongoing obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- the amount of the obligation can be reliably estimated; provisions are measured according to the risk assessment or the exposed charge, based upon best-known facts

Demobilization provisions relate to estimated costs for demobilization of leased facilities at the end of the respective lease period or operating life.

Warranty provisions relate to the Company's obligations to replace or repair defective items that become apparent within an agreed period starting from final acceptance of the delivered system. Such warranties are provided to customers on most turnkey sales. These provisions are estimated on a statistical basis regarding the Company's past experience or on an individual basis in the case of any warranty claim already identified. These provisions are classified as current by nature as it coincides with the production cycle of the Company.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of such items. The capital value of a facility to be leased and operated for a client is the sum of external costs (such as shipyards, subcontractors and suppliers), internal costs (design, engineering, construction supervision, etc.), third party financial costs including interest paid during construction and attributable overhead.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The costs of assets include the initial estimate of costs of demobilization of the asset net of reimbursement expected to be received by the client. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate line items of property, plant and equipment. The depreciation charge is calculated based on future anticipated economic benefits, e.g. based on the unit of production method or on a straight-line basis as follows:

- Converted tankers 10-20 years (included in Vessels and floating equipment)
- Floating equipment 3-15 years (included in Vessels and floating equipment)
- Buildings 30-50 years
- Other assets 2-20 years
- Land is not depreciated

Useful lives and methods of depreciation are reviewed at least annually, and adjusted if appropriate.

The assets' residual values are reviewed and adjusted, if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains and losses arising on disposals or retirement of assets are determined by comparing any sales proceeds and the carrying amount of the asset. These are reflected in the income statement in the period that the asset is disposed of or retired.

(j) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of the annual impairment testing.

Patents are amortized on a straight-line basis over their useful life, generally over fifteen years.

Research costs are expensed when incurred. In compliance with IAS 38, development costs are capitalized if all of the following criteria are met:

- the projects are clearly defined
- the Company is able to reliably measure expenditures incurred by each project during its development
- the Company is able to demonstrate the technical feasibility of the project
- the Company has the financial and technical resources available to achieve the project

- the Company can demonstrate its intention to complete, to use or to commercialize products resulting from the project
- the Company is able to demonstrate the existence of a market for the output of the intangible asset, or, if it is used internally, the usefulness of the intangible asset

When capitalized, development costs are carried at cost less any accumulated amortization. Amortization begins when the project is complete and available for use. It is amortized over the period of expected future benefit, which is generally between three and five years.

(k) Assets (or disposal groups) held for sale

The Company classifies assets or disposal groups as being held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification is performed when the following criteria are met:

- management has committed to a plan to sell the asset or disposal group
- the asset or disposal group is available for immediate sale in its present condition
- an active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated
- the sale of the asset or disposal group is highly probable
- transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year
- the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value
- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn

Assets or disposal groups classified as held for sale are measured at the lower of their carrying value or fair value less costs of disposal. Non-current assets are not depreciated once they meet the criteria to be held for sale and are shown separately on the face of the consolidated statement of financial position.

When an asset or disposal group which was previously classified as assets held for sale, is sold and leased back, the lease back transaction is analyzed regarding IAS 17 'Leases'. For a sale and leaseback transaction that results in a finance lease, any excess of proceeds over the carrying amount is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the profit or loss is recognized immediately.

(l) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Inventories comprise semi-finished and finished products valued at cost including attributable overheads and spare parts stated at the lower of purchase price or market value.

(m) Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less impairment. At each balance sheet date, the Company assesses whether any indications exist that a financial asset or group of financial assets is impaired.

In relation to trade receivables, a provision for impairment is made when there is objective evidence that the Company may not be able to collect all of the amounts due. Impaired trade receivables are derecognized when they are determined to be uncollectible.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest rate method. Interest income, together with gains and losses when the receivables are derecognized or impaired, is recognized in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash in bank and in hand fulfilling the following criteria: a maturity of usually less than three months, highly liquid, a fixed exchange value and an extremely low risk of loss of value.

(o) Share capital

Ordinary Shares and Protective Preference Shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(p) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the associated tax is also recognized in other comprehensive income or directly in equity.

Income tax expenses comprise corporate income tax due in countries of incorporation of the Company's main subsidiaries and levied on actual profits. Income tax expense also includes the corporate income taxes which are levied on a deemed profit basis and revenue basis (withholding taxes). This presentation adequately reflects the Company's global tax burden.

(q) Deferred income tax

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

Pension obligations: the Company operates various pension schemes that are generally funded through payments determined by periodic actuarial calculations to insurance companies or are defined as multi-employer plans. The Company has both defined benefit and defined contribution plans:

- a defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation
- a defined contribution plan is a pension plan under which the Company pays fixed contributions to public or private pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to

pay all employees the benefits relating to employee service in the current and prior periods. The contributions to defined contribution plans and multi-employer plans are recognized as an expense in the income statement as incurred

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations.

The expense recognized under the EBIT comprises the current service cost and the effects of any change, reduction or winding up of the plan. The accretion impact on actuarial debt and interest income on plan assets are recognized under the net financing cost.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in comprehensive income.

Share-based payments: within the Company there are three types of share based payment plans that qualify as equity settled:
- Restricted Share Unit (RSU) / Performance Share Unit (PSU)
- Performance shares
- Matching bonus shares

The estimated total amount to be expensed over the vesting period related to share based payments is determined by reference to the fair value of the instruments determined at the grant date, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that the employee will ultimately receive. Main assumptions for estimates are revised at statement of financial position date. Total cost for the period is charged or credited to the income statement, with a corresponding adjustment to equity.

When equity instruments are exercised, the Company issues new shares.

5.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.3.1 HIGHLIGHTS

Provision for settlement in Brazil

At the end of fiscal year 2015, the Company announced that the settlement discussions with the Ministry of Transparency, Oversight and Control (Ministério da Transparência, Fiscalização e Controle – 'MTFC'), the Attorney General's Office (Advocacia-Geral da União – 'AGU'), the Public Prosecutor's Office (Ministério Público Federal – 'MPF') and Petrobras had progressed to the point where it had become sufficiently clear that a settlement with these parties in Brazil will have a financial component. Consequently, based on information available to it, the Company recorded a non-recurring provision of US$ 245 million in the year-end financial results of 2015.

During the first half of 2016, the Company, the MTFC, the MPF, the AGU and Petrobras engaged in further negotiations which resulted in the signature on July 15, 2016 of a Settlement Agreement. The financial terms for final settlement negotiated between the Parties are made up as follows:

- cash payment by the Company totaling US$ 162.8 million, of which US$ 149.2 million is payable to Petrobras, US$ 6.8 million to the MPF and US$ 6.8 million to the Council of Control of Financial Activities (Conselho de Controle de Atividades Financeiras – 'COAF') for the implementation of units for massive electronic process of information and other instruments to be used in the prevention and combat against corruption by the MPF and the COAF. This amount will be paid in three instalments. The first instalment of US$ 142.8 million will be payable as of the effective date of the Settlement Agreement. The two further instalments of US$ 10 million each will be due respectively one and two years following the effective date of the Settlement Agreement; and,
- a reduction of 95% in future performance bonus payments related to FPSOs *Cidade de Anchieta* and *Capixaba* lease and operate contracts, representing a present value for the Company of approximately US$ 112 million over the period 2016 to 2030.

As a result from the signature of the settlement agreement in July 2016, the provision booked in December 2015 had been increased in the consolidated interim financial statements as at June 30, 2016, up to the amount of the present value of the financial terms of the agreement being US$ 273 million.

Subsequently, the Public Prosecutor's Office submitted the Settlement Agreement for approval of the Fifth Chamber for Coordination and Review and Anti-Corruption of the Federal Prosecutor Service ('Fifth Chamber').

On September 2, 2016, the Company was informed that the Fifth Chamber did not approve the leniency agreement signed by Brazilian authorities, Petrobras and SBM Offshore on July 15, 2016.

On October 6, 2016, the Company was informed that the Fifth Chamber confirmed its decision in which the Leniency Agreement as per the current terms was not approved, and referred the matter, including review of the appeals filed by the AGU and the MPF, to the Higher Council of the MPF (Conselho Institutional) for further consideration and decision.

On December 14, 2016, the Company learned that the Higher Council of MPF upheld the decision by the Fifth Chamber of October 6, 2016. The Higher Council decided not to accept the appeals filed by the MPF and the AGU and referred the case back to the Fifth Chamber and the prosecutor handling the case for further review and next steps.

The Higher Council is the highest institutional body within the MPF, in which prosecutors from all seven chambers of the MPF are represented.

The Company remains committed to engage with all relevant authorities until the Leniency Agreement is approved by the Fifth Chamber and the Company has been notified thereof. Such notification will make the Leniency Agreement, duly signed with the MTFC, the MPF, the AGU, and Petrobras, binding upon the parties. Until then, the Company is not under any obligation to make payments under the Leniency Agreement.

The Leniency Agreement further remains subject to review by the Federal Court of Accounts ('TCU'), which is not a condition precedent to the Leniency Agreement.

Although the Fifth Chamber of the Brazilian Federal Prosecutor Service has not approved the leniency agreement signed by Brazilian authorities, Petrobras and SBM Offshore on July 15, 2016, the terms of this agreement remain the Company's best estimate for an eventual settlement.

As a result, the provision booked in the Half-year 2016 condensed consolidated interim financial statements has been maintained and updated during the second half of 2016, up to the amount of the present value of the financial terms of the leniency agreement being US$ 281 million, impacting the line 'Other operating expense' of the consolidated income statement by US$ 22 million and the line 'Net financing costs' for US$ 14 million reflecting the unwinding of the discounting impact of future settlement.

SBM Offshore remains committed to engage with the prosecutor and the Fifth Chamber until the Leniency Agreement is approved by the Fifth Chamber. The Leniency Agreement further remains subject to review by the Federal Court of Accounts, but this is not a condition precedent to the Leniency Agreement. The Company continues to cooperate with the United States Department of Justice (DoJ) following the reopening of the investigation it had closed in November 2014 and with its inquiry into Unaoil, a company that SBM Offshore had engaged with as an agent prior to 2012 in relation to buoy business.

First Oil Cidade de Maricá, Cidade de Saquarema and Turritella

The portion of the construction work-in-progress related to the construction of Cidade de Maricá, Cidade de Saquarema and Turritella have been transferred to Finance Lease Receivable in the Consolidated Statement of Financial Position following the FPSOs achieving first oil and being formally on hire respectively as of February 7, 2016, July 8, 2016 and September 2, 2016.

Share Buy-Back

On August 11, 2016, the Company initiated a EUR 150 million share repurchase program. As of December 31, 2016, the share repurchase program is completed and the Company had repurchased 11,442,179 shares at an average share price of EUR 13.11, equal to 100% of the total repurchase program.

Restructuring

As a result of an on-going review of the cost structure and continued market downturn, the Company's workforce reduction is around 650 positions worldwide over the year 2016.

Restructuring costs accounted for as 'Other operating expense' over the period ended December 31, 2016 represent US$ 37 million. The total liabilities for restructuring included in 'Provisions' and 'Trade and other payables' represent US$ 9 million as of December 31, 2016 for the Company.

In the light of these recent restructuring activities an onerous contract provision related to the long-term offices rental contracts in various regional centers has been recognized for a total amount of US$ 11 million as of December 31, 2016.

DSCV SBM Installer Charter Contract

The Group has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the ongoing downturn which has created significant over-supply in offshore markets, the costs of the long-term chartering contract exceed the economic benefits expected to be received by the Company through the utilization of the vessel. As a result, a provision for onerous contract of US$ 31 million has been recognized in the gross margin as of December 31, 2016 (Please refer to note 5.3.26 Provisions).

Investment in JV holding Construction Yard Paenal

The activity outlook for the Company's investment (30% ownership) in the Joint Venture owning the Paenal construction yard operating in Angola has deteriorated. As a result, the Company's carrying amount for the net investment in this entity has been impaired by US$ 59 million on the second half of 2016. Because this investment is consolidated using the equity method, this non-cash impairment is recognized in the Company's Consolidated Income Statement on the line item 'Share of profit of equity-accounted investees' (please refer to note 5.3.15 Other financial assets).

5.3.2 OPERATING SEGMENTS

The Company's reportable operating segments as defined by IFRS 8 'Operating segments' are:

- Lease and Operate;
- Turnkey.

The operating segments are measured under Directional Reporting accounting principles, as described under Note 5.2.7.C. Significant Accounting Policies of the consolidated financial statements as of and for the year ended December 31, 2016.

In 2016, the Turnkey segment is impacted by the onerous contract provision related to DSCV SBM Installer and the long term offices rental contracts.

2016 operating segments

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	**1,310**	**702**	**2,013**	**-**	**2,013**
Gross margin	**423**	**142**	**565**	**-**	**565**
Other operating income/expense	(3)	(39)	(42)	(24)	**(66)**
Selling and marketing expenses	(3)	(35)	(37)	0	**(37)**
General and administrative expenses	(19)	(61)	(81)	(61)	**(142)**
Research and development expenses	0	(29)	(29)	0	**(29)**
Operating profit/(loss) (EBIT)	**398**	**(22)**	**376**	**(86)**	**290**
Net financing costs					(196)
Share of profit of equity-accounted investees					(61)
Income tax expense					(9)
Profit/(Loss)					**24**
Operating profit/(loss) (EBIT)	398	(22)	376	(86)	**290**
Depreciation, amortisation and impairment	425	9	433	2	**435**
EBITDA	**823**	**(14)**	**809**	**(84)**	**725**
Other segment information :					
Impairment charge/(reversal)	(8)	0	(8)	-	**(8)**

Reconciliation of 2016 operating segments

	Reported segments under Directional reporting	Impact of consolidation methods	Impact of lease accounting treatment	Impact of Other[1]	Total Consolidated IFRS
Revenue					
Lease and Operate	1,310	172	(210)	-	1,273
Turnkey	702	(17)	314	-	1,000
Total revenue	**2,013**	155	105	-	**2,272**
Gross margin					
Lease and Operate	423	94	38	-	555
Turnkey	142	(3)	144	-	283
Total gross margin	**565**	91	182	-	**838**
EBIT					
Lease and Operate	398	93	39	-	531
Turnkey	(22)	(2)	143	-	119
Other	-	0	0	(86)	(86)
Total EBIT	**376**	91	182	(86)	**564**
EBITDA					
Lease and Operate	823	118	(208)	-	733
Turnkey	(14)	(1)	138	-	124
Other	-	-	-	(84)	(84)
Total EBITDA	**809**	117	(70)	(84)	**772**

1 Impact of business segment that does not meet the definition of an operating segment

2015 operating segments

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	**1,105**	**1,512**	**2,618**	**-**	**2,618**
Gross margin	**342**	**447**	**789**	**-**	**789**
Other operating income/expense	(5)	(34)	(38)	(260)	**(298)**
Selling and marketing expenses	(5)	(56)	(61)	0	**(60)**
General and administrative expenses	(18)	(83)	(101)	(95)	**(196)**
Research and development expenses	-	(43)	(43)	0	**(43)**
Operating profit/(loss) (EBIT)	**315**	**231**	**545**	**(354)**	**191**
Net financing costs					(137)
Share of profit of equity-accounted investees					(8)
Income tax expense					(22)
Profit/(Loss)					**24**
Operating profit/(loss) (EBIT)	315	231	545	(354)	**191**
Depreciation, amortisation and impairment	352	8	360	10	**370**
EBITDA	**667**	**239**	**906**	**(345)**	**561**
Other segment information :					
Impairment charge/(reversal)	13	2	15	-	**15**

Reconciliation of 2015 operating segments

	Reported segments under Directional reporting	Impact of consolidation methods	Impact of lease accounting treatment	Impact of Other[1]	Total Consolidated IFRS
Revenue					
Lease and Operate	1,105	65	(151)	-	1,020
Turnkey	1,512	(9)	181	-	1,685
Total revenue	**2,618**	57	31	-	**2,705**
Gross margin					
Lease and Operate	342	54	30	-	426
Turnkey	447	(21)	(11)	-	414
Total gross margin	**789**	33	18	-	**841**
EBIT					
Lease and Operate	315	51	30	-	395
Turnkey	231	(21)	(11)	-	198
Other	-	0	-	(354)	(354)
Total EBIT	**545**	29	18	(354)	**239**
EBITDA					
Lease and Operate	667	76	(151)	-	592
Turnkey	239	(22)	(2)	-	215
Other	-	-	-	(345)	(345)
Total EBITDA	**906**	53	(152)	(345)	**462**

1 Impact of business segment that does not meet the definition of an operating segment

5.3.3 GEOGRAPHICAL INFORMATION AND RELIANCE ON MAJOR CUSTOMERS

GEOGRAPHICAL INFORMATION

The classification by country is determined by the final destination of the product for both revenues and non-current assets.

The revenue by country is analyzed as follows:

Geographical information (revenue by country)

	2016	2015
Brazil	1,323	1,491
The United States of America	368	360
Canada	134	141
Equatorial Guinea	103	110
Australia	80	233
The United Kingdom	50	32
Angola	45	187
Congo	36	13
United Arab Emirates	31	13
Nigeria	16	15
Myanmar	15	41
South Africa	12	12
Malaysia	6	12
Other	53	45
Total revenue	**2,272**	**2,705**

The non-current assets by country are analyzed as follows:

Geographical information (non-current assets by country)

	31 December 2016	31 December 2015
Brazil	6,911	3,714
The United States of America	1,242	245
Angola	426	454
Canada	390	446
Equatorial Guinea	215	308
Malaysia	189	207
The Netherlands	7	11
Other	143	207
Total non-current assets	**9,522**	**5,591**

RELIANCE ON MAJOR CUSTOMERS

Two customers represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US$ 1,612 million (2015 : US$ 1,794 million).

5.3.4 OTHER OPERATING INCOME AND EXPENSE

	2016	2015
Restructuring expenses	(48)	(55)
Settlement expenses	(22)	(245)
Other operating expense	0	(3)
Other operating income	2	1
Total	**(66)**	**(302)**

In 2016, the other operating expenses mainly include:

- The US$ 22 million for non-recurring provision for potential contemplated settlement with Brazilian authorities and Petrobras (Please refer to Note 5.3.1 Highlights)
- The net restructuring costs following the workforce reduction plans launched for US$ 37 million (Please refer to Note 5.3.1 Highlights)
- A provision for onerous contract related to long-term offices rental contracts for US$ 11 million (Please refer to Note 5.3.26 Provisions), classified as restructuring expenses.

5.3.5 EXPENSES BY NATURE

Year-on-year, expenses on construction contracts sharply decreased as a result from the market slowdown and the lower activity on the Company's finance lease project which reached completed stage in 2016 (FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*).

The table below sets out expenses by nature for all items included in EBIT for the years 2016 and 2015:

Information on the nature of expenses

	Note	2016	2015
Expenses on construction contracts		(634)	(733)
Employee benefit expenses	5.3.6	(512)	(704)
Depreciation, amortisation and impairment		(208)	(223)
Selling expenses		(20)	(37)
Other costs		(338)	(770)
Total expenses		**(1,713)**	**(2,467)**

Employee benefit expenses came down during the period following the workforce reduction of approximately 650 positions.

In 2016, the line 'Other costs' mainly consists of recurring operating costs for the fleet and non-recurring items, including US$ 22 million addition to non-recurring provision for potential contemplated settlement with Brazilian authorities and Petrobras (please refer to 5.3.1). In 2015, 'Other costs' included US$ 245 million for non-recurring provision for settlement in Brazil and US$ 89 million release of accruals for sales consultancy fees.

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.

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.

5.3.12 PROPERTY, PLANT AND EQUIPMENT

The movement of the property, plant and equipment during the year 2016 is summarized as follows:

2016

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	57	3,581	71	0	**3,709**
Accumulated depreciation and impairment	(10)	(1,961)	(53)	-	**(2,023)**
Book value at 1 January	**47**	**1,620**	**18**	**0**	**1,686**
Additions	-	4	3	2	**9**
Disposals	-	0	(1)	0	**(1)**
Depreciation	(5)	(206)	(6)	-	**(216)**
(Impairment)/impairment reversal	-	7	0	-	**8**
Foreign currency variations	(1)	-	0	0	**(1)**
Other movements	(1)	(11)	(1)	1	**(11)**
Total movements	**(6)**	**(205)**	**(4)**	**3**	**(212)**
Cost	55	3,570	66	4	**3,694**
Accumulated depreciation and impairment	(14)	(2,155)	(52)	-	**(2,220)**
Book value at 31 December	**41**	**1,415**	**14**	**4**	**1,474**

2015

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	64	3,668	76	1	**3,810**
Accumulated depreciation and impairment	(6)	(1,826)	(56)	-	**(1,887)**
Book value at 1 January	**59**	**1,843**	**20**	**1**	**1,923**
Additions	-	0	5	2	**7**
Disposals	-	(4)	(1)	-	**(4)**
Depreciation	(5)	(185)	(8)	-	**(198)**
(Impairment)/impairment reversal	-	(13)	(1)	-	**(13)**
Foreign currency variations	(6)	-	(3)	0	**(9)**
Other movements/deconsolidation	0	(22)	5	(2)	**(19)**
Total movements	**(11)**	**(223)**	**(2)**	**0**	**(238)**
Cost	57	3,581	71	0	**3,709**
Accumulated depreciation and impairment	(10)	(1,961)	(53)	-	**(2,023)**
Book value at 31 December	**47**	**1,620**	**18**	**0**	**1,686**

During the 2016 period the following main events occurred:

- On October 12, 2016, SBM Offshore has officially inaugurated its new R&D facilities at Carros – Le Broc, near Nice in France. The laboratory covers 2,300 m^2, and will cater to a variety of testing and research requirements across the Company's product lines in new technological developments. Investments in these new R&D facilities amounted to US$ 2 million reported in addition to other fixed assets in 2016.
- US$ 216 million of annual depreciation on existing fixed assets

- FPSO *Falcon* was sold in July 2016, resulting in the impairment reversal of US$ 5 million in the lease and operate segment.

Property, plant and equipment at year-end comprise:

- Three (2015: three) integrated floating production, storage and offloading systems (FPSOs), each consisting of a converted tanker, a processing plant and one mooring system
- One (2015: one) floating storage and offloading system (FSO), consisting of a converted or newbuild tanker and mooring system including the fluid transfer system
- One second-hand tanker (2015: two)
- One semi-submersible production platform (2015: one)
- One MOPU facility (2015: one)

The depreciation charge for the Thunder Hawk facility is calculated based on its future anticipated economic benefits, resulting in a depreciation charge partly based on the unit of production method and, for the other part, based on the straight-line method. All other Property, plant and equipment are depreciated on a straight-line method.

No third-party interest have been capitalized during the financial year as part of the additions to property, plant and equipment (2015: nil).

OPERATING LEASES AS A LESSOR

The category 'Vessels and floating equipment' mainly relates to facilities leased to third parties under various operating lease agreements, which terminate between 2017 and 2030. Leased facilities included in the 'Vessels and floating equipment' amount to:

Leased facilities included in the Vessels and floating equipment

	31 December 2016	31 December 2015
Cost	3,243	3,243
Accumulated depreciation and impairment	(1,874)	(1,671)
Book value at 31 December	**1,369**	**1,572**

The nominal values of the future expected bareboat receipts (minimum lease payments of leases) in respect of those operating lease contracts are:

Nominal values of the future expected bareboat receipts

	31 December 2016	31 December 2015
Within 1 year	390	410
Between 1 and 5 years	1,462	1,529
After 5 years	932	1,296
Total	**2,784**	**3,235**

A number of agreements have extension options, which have not been included in the above table.

5.3.13 INTANGIBLE ASSETS

2016

	Development costs	Goodwill	Software	Patents	Total
Cost	19	25	9	19	**71**
Accumulated amortisation and impairment	(4)	-	(3)	(19)	**(26)**
Book value at 1 January	**15**	**25**	**5**	**1**	**45**
Additions	5	-	0	-	**5**
Amortisation	(1)	-	(2)	(1)	**(3)**
Impairment	-	-	-	-	**-**
Other movements	-	-	0	-	**0**
Foreign currency variations	(1)	-	0	-	**(1)**
Total movements	**3**	**-**	**(1)**	**(1)**	**1**
Cost	23	25	11	19	**77**
Accumulated amortisation and impairment	(5)	-	(7)	(19)	**(31)**
Book value at 31 December	**18**	**25**	**4**	**-**	**46**

2015

	Development costs	Goodwill	Software	Patents	Total
Cost	9	25	4	13	**51**
Accumulated amortisation and impairment	(4)	-	(2)	(11)	**(17)**
Book value at 1 January	**5**	**25**	**2**	**1**	**34**
Additions	12	-	4	-	**17**
Amortisation	-	-	(1)	(1)	**(3)**
Impairment	-	-	-	-	**-**
Other movements/deconsolidation	(3)	-	0	-	**(3)**
Foreign currency variations	-	-	0	-	**0**
Total movements	**9**	**-**	**3**	**(1)**	**11**
Cost	19	25	8	19	**71**
Accumulated amortisation and impairment	(4)	-	(3)	(19)	**(26)**
Book value at 31 December	**15**	**25**	**5**	**1**	**45**

The additions are primarily related to the completion of the Fast4ward concept.

Amortisation of development costs is included in 'Cost of sales' in the income statement in 2015 for nil and US$ 1.0 million in 2016.

Goodwill relates to the acquisition of the Houston based subsidiaries. The recoverable amount is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 2%. Management determined budgeted gross margin based on past performance and its expectations of market development and award perspective on brownfield, semi-TLP and semi-sub projects. The discount rates used are pre-tax and reflect specific risks (9.0%).

5.3.14 FINANCE LEASE RECEIVABLES

The reconciliation between the total gross investment in the lease and the net investment in the lease at the statement of financial position date is as follows:

Finance lease receivables (reconciliation gross / net_investment)

	31 December 2016	31 December 2015
Gross receivable	13,878	5,972
Less: Unearned finance income	(6,318)	(2,788)
Total	**7,560**	**3,184**
Of which		
Current portion	328	164
Non-current portion	7,232	3,020

As of December 31, 2016, finance lease receivables relate to the finance lease of:

- FPSO *Cidade de Marica*, which started production in February 2016 for a charter of 20 years;
- FPSO *Cidade de Saquarema*, which started production in July 2016 for a charter of 20 years;
- FPSO *Turitella*, which started production in September 2016 for a charter of 10 years;
- FPSO *Cidade de Ilhabela*, which started production in November 2014 for a charter of 20 years;
- FPSO *Cidade de Paraty*, which started production in June 2013 for a charter of 20 years;
- FPSO *Aseng*, which started production in November 2011 for a charter of 20 years;
- FSO *Yetagun* life extension started in May 2015 for a charter of 3 years.

The increase in finance lease receivable is driven by the recognition of the finance lease receivable of FPSOs *Cidade de Marica*, *Cidade de Saquarema* and *Turitella*, less the redemptions as per the payment plans.

Included in the gross receivable is an amount related to unguaranteed residual values. The total amount of unguaranteed residual values at the end of the lease term amounts to US$ 48 million as of December 31, 2016. Allowances for uncollectible minimum lease payments are nil.

Gross receivables are expected to be invoiced to the lessee within the following periods:

Finance lease receivables (gross receivables invoiced to the lessee within the following periods)

	31 December 2016	31 December 2015
Within 1 year	942	426
Between 1 and 5 years	3,459	1,487
After 5 years	9,477	4,059
Total Gross receivable	**13,878**	**5,972**

The following part of the net investment in the lease is included as part of the current assets within the 'trade and other receivables' of the statement of financial position:

Finance lease receivables (part of the net investment included as part of the current assets)

	31 December 2016	31 December 2015
Gross receivable	942	426
Less: Unearned finance income	(614)	(262)
Current portion of finance lease receivable	**328**	**164**

The maximum exposure to credit risk at the reporting date is the carrying amount of the finance lease receivables taking into account the risk of recoverability. The Company does not hold any collateral as security.

5.3.15 OTHER FINANCIAL ASSETS

The breakdown of the non-current portion of other financial assets is as follows:

	31 December 2016	31 December 2015
Non-current portion of other receivables	60	58
Corporate securities	-	30
Non-current portion of loans to joint ventures and associates	189	233
Total	**249**	**321**

The maximum exposure to credit risk at the reporting date is the carrying amount of the interest-bearing loans taking into account the risk of recoverability. The Company does not hold any collateral as security.

CORPORATE SECURITIES

The reduction of Corporate securities follows the discontinuation of a pension plan that existed for certain Offshore employees and for which the risks and ownership were transferred to an external party at fair value.

LOANS TO JOINT VENTURES AND ASSOCIATES

	Notes	31 December 2016	31 December 2015
Current portion of loans to joint ventures and associates	*5.3.18*	25	66
Non-current portion of loans to joint ventures and associates		189	233
Total	*5.3.33*	**215**	**299**

The activity outlook for the Company's investment (30% ownership) in the Joint Venture owning the Paenal construction yard operating in Angola has deteriorated. As a result, the Company's carrying amount for the net investment, including shareholder loans, in this entity has been impaired by US$ 59 million on the second half of 2016. Because this investment is consolidated using the equity method, this non-cash impairment is recognized in the Company's Consolidated Income Statement on the line item 'Share of profit of equity-accounted investees'.

The impairment recognized in 2016 has been determined based on the net investment position considered as the loans plus the shares in losses into the associates.

The recoverable amount of the net investment is determined based on value-in-use calculations which require the use of assumptions. The key assumptions to calculate the value-in-use are as follows:

- The calculations use cash flow projections approved by the Management Board of the Company for the next 5 years, including expectations of market development and award perspective on brownfield and integration work;
- Terminal value after the 5 years financial projection is based on same assumptions as the 2020-2021 period with no expected growth;
- The discount rate used is pre-tax and reflect specific country and industry risk (10.5%).

The impact of possible changes in key assumptions is as follows:

- If the gross margin used in the value-in-use calculation varies by +/- 5%, the impact on the impairment of the net investment would be in a range of +/- US$ 5 million;

- If the discount rate applied to the cash flow projections changes by +/- 1%, the impact on the impairment if the net investment would be in a range of +/- US$ 3 million.

Further information about the financial risk management objectives and policies, the carrying amount measurement and hedge accounting of financial derivatives instruments is included in Note 5.3.29 'Financial Instruments – carrying amounts and risk management'. The maximum exposure to credit risk at the reporting date is the carrying amount of the loans to joint ventures and associates taking into account the risk of recoverability. The Company does not hold any collateral as security.

5.3.16 DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax assets and liabilities and associated offsets are summarized as follows:

Deferred tax positions (summary)

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	0	10	(9)	0	3	(3)
Tax losses	14	-	14	23	-	23
R&D credits	-	-	-	4	-	4
Other	15	-	15	32	0	33
Book value at 31 December	**29**	**10**	**19**	**59**	**3**	**56**

Movements in net deferred tax positions

		2016	2015
	Note	Net	Net
Deferred tax at 1 January		**56**	**52**
Deferred tax recognised in the income statement	5.3.9	(22)	6
Deferred tax recognised in other comprehensive income		(14)	(1)
Foreign currency variations		0	(1)
Total movements		**(37)**	**4**
Deferred tax at 31 December		**19**	**56**

Expected realization and settlement of deferred tax positions is within 9 years. The current portion at less than one year of the net deferred tax position as of December 31, 2016 amounts to US$ 4 million. The deferred tax losses are expected to be recovered, based on the anticipated profit in the applicable jurisdiction. The Company has US$ 36 million (2015: US$ 23 million) in deferred tax assets unrecognized in 2016 due to current tax losses not valued.
The non-current portion of deferred tax assets amounts to US$ 25 million (2015: US$ 35 million).

Deferred tax assets per location are as follows:

Deferred tax positions per location

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Switzerland	6	-	6	22	-	22
The United States of America	-	-	-	13	0	13
The Netherlands	3	-	3	7	-	7
Canada	14	10	4	14	3	11
Luxembourg	-	-	-	3	-	3
Monaco	6	-	6	-	-	-
Other	1	-	1	0	0	-
Book value at 31 December	**29**	**10**	**19**	**59**	**3**	**56**

5.3.17 INVENTORIES

	31 December 2016	31 December 2015
Materials and consumables	5	7
Goods for resale	1	0
Total	**5**	**8**

5.3.18 TRADE AND OTHER RECEIVABLES

Trade and other receivables (summary)

	Note	31 December 2016	31 December 2015
Trade debtors		247	287
Other receivables		110	87
Other prepayments and accrued income		181	174
Accrued income in respect of delivered orders		95	74
Taxes and social security		23	18
Current portion of loan to joint ventures and associates	*5.3.15*	25	66
Total		**681**	**705**

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables as mentioned above. The Company does not hold any collateral as security.

The carrying amounts of the Company's trade debtors are distributed in the following countries:

Trade debtors (countries where Company's trade debtors are distributed)

	31 December 2016	31 December 2015
Angola	136	165
The United States of America	39	14
Brazil	15	26
Equatorial Guinea	11	20
Malaysia	7	10
Congo	6	0
Australia	4	20
Nigeria	0	8
Other	28	23
Total	**247**	**287**

The trade debtors balance is the nominal value less an allowance for estimated impairment losses as follows:

Trade debtors (trade debtors balance)

	31 December 2016	31 December 2015
Nominal amount	253	297
Impairment allowance	(6)	(10)
Total	**247**	**287**

The allowance for impairment represents the Company's estimate of losses in respect of trade debtors. The allowance is built on specific expected loss components that relate to individual exposures. The creation and release for impaired trade debtors have been included in gross margin in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovery. The other classes within the trade and other receivables do not contain allowances for impairment.

The ageing of the nominal amounts of the trade debtors are:

Trade debtors (ageing of the nominal amounts of the trade debtors)

	31 December 2016		31 December 2015	
	Nominal	Impairment	Nominal	Impairment
Not past due	80	(1)	59	-
Past due 0-30 days	18	-	50	-
Past due 31-120 days	29	(2)	54	-
Past due 121- 365 days	51	(1)	60	0
More than one year	76	(3)	74	(10)
Total	**253**	**(6)**	**297**	**(10)**

Not past due are those receivables for which either the contractual or 'normal' payment date has not yet elapsed. Past due are those amounts for which either the contractual or the 'normal' payment date has passed. Amounts that are past due but not impaired relate to a number of Company Joint ventures and independent customers for whom there is no recent history of default or the receivable amount can be offset by amounts included in current liabilities.

The trade debtors aged more than one year mostly relate to one contract for which some legal documents pending signature temporarily prevent the joint venture to settle the Company's receivable.

5.3.19 CONSTRUCTION WORK-IN-PROGRESS

	Note	31 December 2016	31 December 2015
Cost incurred		856	5,967
Instalments invoiced		(855)	(1,687)
Total construction work-in-progress		**1**	**4,280**
of which debtor WIP (cost incurred exceeding instalments)		15	4,336
of which creditor WIP (instalments exceeding cost incurred)	5.3.27	(14)	(56)

The cost incurred includes the amount of recognized profits and losses to date. The instalments exceeding cost incurred comprise the amounts of those individual contracts for which the total instalments exceed the total cost incurred. The instalments exceeding cost incurred are reclassified to other current liabilities. Advances received from customers are included in other current liabilities. For both aforementioned details, reference is made to Note 5.3.27 'Trade and other payables'.

The decreased construction work-in-progress reflects the completion of construction activities related to FPSOs *Cidade de Marica*, *Cidade de Saquarema* and *Turritella* during the period.

5.3.20 DERIVATIVE FINANCIAL INSTRUMENTS

Further information about the financial risk management objectives and policies, the fair value measurement and hedge accounting of financial derivative instruments is included in Note 5.3.29 'Financial Instruments – Fair values and risk management'.

In the ordinary course of business and in accordance with its hedging policies as of December 31, 2016, the Company held multiple forward exchange contracts designated as hedges of expected future transactions for which the Company has firm commitments or forecasts. Furthermore, the Company held several interest rate swap contracts designated as hedges of interest rate financing exposure.

The fair value of the derivative financial instruments included in the statement of financial position is summarized as follows:

Derivative financial instruments

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps cash flow hedge	6	170	(164)	0	205	(205)
Forward currency contracts cash flow hedge	7	54	(47)	2	86	(84)
Forward currency contracts fair value through profit and loss	26	12	14	18	41	(23)
Total	**38**	**236**	**(198)**	**21**	**332**	**(311)**
Non-current portion	8	122	(113)	0	167	(167)
Current portion	30	114	(84)	21	164	(144)

The ineffective portion recognized in the income statement (Note 5.3.7 'Net financing costs') arises from cash flow hedges totaling a US$ 2 million loss (2015: US$ 5 million loss). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

FORWARD CURRENCY CONTRACTS

The gross notional amount of the outstanding forward currency contracts at December 31, 2016 were US$ 2 billion (2015: US$ 2 billion) of which US$ 2 billion will mature in the next twelve months.

The net notional amount of the outstanding forward currency contracts at December 31, 2016 was US$ 1 billion (2015: US$ 1 billion) of which US$ 0 billion will mature in the next twelve months.

INTEREST RATE SWAPS

The gross notional amount of the outstanding interest rate swap contracts at December 31, 2016 were US$ 7 billion (2015: US$ 4 billion) and US$ 7 billion (2015: US$ 7 billion) including forward-start contracts.

The net notional amount of the outstanding interest rate swap contracts at December 31, 2016 were US$ 5 billion (2015: US$ 3 billion) and US$ 5 billion (2015: US$ 6 billion) including forward-start contracts. The increase in the current outstanding interest rate swap notional is due to the start of the derivatives hedging the lease and operating phase of the financing related to FPSOs Cidade de Marica, Cidade de Saquarema and Turritella).

The most important floating rate is the US$ 3-month LIBOR. Details of interest percentages of the long-term debt are included in Note 5.3.24 'Loans and borrowings'.

5.3.21 NET CASH AND CASH EQUIVALENT

	31 December 2016	31 December 2015
Cash and bank balances	415	260
Short-term investments	489	255
Cash and cash equivalent	**904**	**515**
Bank overdrafts	-	-
Net cash and cash equivalent	**904**	**515**

The cash and cash equivalents dedicated to debt and interest payments (restricted) amounts to US$ 221 million (2015: US$ 159 million). Short-term deposits are made for varying periods of up to one year depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

The cash and cash equivalents held in countries with restrictions on currency outflow (Angola, Brazil, Equatorial Guinea and Nigeria) amounts to US$ 45 million (2015: US$ 38 million).

Further disclosure about the fair value measurement is included in Note 5.3.29 'Financial Instruments – Fair values and risk management'.

5.3.22 ASSETS HELD FOR SALE

The movement of the assets held for sale is summarized as follows:

Assets held for sale

	31 December 2016	31 December 2015
Book value at 1 January	**-**	**13**
Reclassified assets	12	-
Disposal	(11)	-
Other movements	-	(13)
Book value at 31 December	**1**	**-**

In July 2016, the Company sold FPSO Falcon impacting the Lease and Operate segment.

In 2015, the Company completed the disposal of FPSO *Brasil* and VLCC *Alba* reported in the segment Lease and Operate.

5.3.23 EQUITY ATTRIBUTABLE TO SHAREHOLDERS

For a consolidated overview of changes in equity reference is made to the consolidated statement of changes in equity.

ISSUED SHARE CAPITAL

The authorized share capital of the Company is two hundred million euro (€ 200,000,000). This share capital is divided into four hundred million (400,000,000) Ordinary Shares with a nominal value of twenty-five eurocent (€ 0.25) each and four hundred million (400,000,000) Protective Preference Shares, with a nominal value of twenty-five eurocent (€ 0.25) each. The Protective Preference Shares can be issued as a protective measure as described in the Corporate Governance (section 3.5 of the Annual Report).

During the financial year the movements in the outstanding number of ordinary shares are as follows:

number of shares	2016	2015
Outstanding at 1 January	**211,694,950**	**209,695,094**
Share-based payment remuneration	1,776,355	1,999,856
Outstanding 31 December	**213,471,305**	**211,694,950**

TREASURY SHARES

The Company completed its share repurchase program under the authorization granted by the Annual General Meeting of Shareholders of the Company held on April 6, 2016. In the period between August 11, 2016 and December 20, 2016 a total number of 11,442,179 shares totaling EUR 150,000,000 were repurchased. These treasury shares are still reported in the outstanding ordinary shares as at December 31, 2016. The repurchased shares are held as Treasury shares predominantly for share capital reduction purposes and, to a lesser extent, for employee share programs.

Within the equity, an amount of US$ 708 million (2015: US$ 553 million) should be treated as legal reserve (please refer to 5.4 Company Financial Statements).

Of the ordinary shares 553,733 shares were held by members of Management Board, in office as at December 31, 2016 (December 31, 2015: 268,140) as detailed below :

Ordinary shares held in the Company by Management Board

	Shares subject to conditional holding requirement	Other shares	Total shares at 31 December 2016	Total shares at 31 December 2015
Bruno Chabas	284,967	96,112	381,079	188,423
Peter van Rossum[1]	137,612	35,042	172,654	79,717
Douglas Wood	-	-	-	-
Philippe Barril	-	-	-	-
Erik Lagendijk	-	-	-	-
Total	**422,579**	**131,154**	**553,733**	**268,140**

1 Mr. Peter van Rossum is no longer a member of the Management Board since 30 November 2016.

Of the Supervisory Board members, only Mr. Hepkema holds shares in the Company (211,613 shares as at December 31, 2016), resulting from his previous employment as member of Management Board.

OTHER RESERVES

The other reserves comprise the hedging reserve, actuarial gains/losses and the foreign currency translation reserve. The movement and breakdown of the other reserves can be stated as follows (all amounts are expressed net of deferred taxes):

	Hedging reserve	Actuarial gain/ (loss) on defined benefit provisions	Foreign currency translation reserve	IFRS 2 Reserves	Total other reserves
Balance at 31 December 2014	**(268)**	**(5)**	**(14)**	**-**	**(287)**
Cash flow hedges					
Change in fair value	(205)	-	-	-	(205)
Transfer to financial income and expenses	16	-	-	-	16
Transfer to construction contracts and property, plant and equipment	112	-	-	-	112
Transfer to operating profit and loss	83	-	-	-	83
IFRS 2 share based payments					
Identification of IFRS 2 reserve as at 1 January 2015	-	-	-	28	28
IFRS 2 vesting costs for the year	-	-	-	20	20
IFRS 2 vested share based payments	-	-	-	(10)	(10)
Actuarial gain/(loss) on defined benefit provision					
Change in defined benefit provision due to changes in actuarial assumptions	-	0	-	-	0
Foreign currency variations					
Foreign currency variations	-	-	(12)	-	(12)
Balance at 31 December 2015	**(263)**	**(5)**	**(26)**	**37**	**(255)**
Cash flow hedges					
Change in fair value	(24)	-	-	-	(24)
Transfer to financial income and expenses	11	-	-	-	11
Transfer to construction contracts and property, plant and equipment	21	-	-	-	21
Transfer to operating profit and loss	42	-	-	-	42
IFRS 2 share based payments					
IFRS 2 vesting costs for the year	-	-	-	15	15
IFRS 2 vested share based payments	-	-	-	(29)	(29)
Actuarial gain/(loss) on defined benefit provision					
Change in defined benefit provision due to changes in actuarial assumptions	-	3	-	-	3
Foreign currency variations					
Foreign currency variations	-	-	(19)	-	(19)
Balance at 31 December 2016	**(212)**	**(1)**	**(45)**	**23**	**(235)**

The hedging reserve consists of the effective portion of cash flow hedging instruments related to hedged transactions that have not yet occurred, net of deferred taxes.

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.

5.3.26 PROVISIONS

The current portion and the non-current portion of provisions refer to the following type of provisions:

Provisions (summary)

	Notes	31 December 2016	31 December 2015
Demobilisation		103	119
Onerous contract		42	-
Warranty		104	116
Employee benefits	5.3.6	26	29
Other		330	278
Total		**604**	**541**
of which :			
Non-current portion		257	131
Current portion		347	410

The movements in the provisions, other than those on employee benefits described in Note 5.3.6 'Employee benefit expenses' are:

Provisions (movements)

	Demobilisation	Onerous contracts	Warranty	Other
Balance at 1 January 2015	**110**	**1**	**118**	**9**
Arising during the year	36	-	15	273
Unwinding of interest	3	-	-	-
Utilised	(24)	-	(16)	(3)
Released to profit	(7)	(1)	-	0
Other	-	-	-	-
Foreign currency variations	0	0	0	0
Balance at 31 December 2015	**119**	**-**	**116**	**278**
Arising during the year	-	42	31	65
Unwinding of interest	3	-	-	14
Utilised	(12)	-	(42)	(23)
Released to profit	(6)	-	0	(5)
Other	-	-	0	0
Foreign currency variations	-	(1)	0	1
Balance at 31 December 2016	103	42	104	330

Demobilization

The provision for demobilization relates to the costs for demobilization of the vessels and floating equipment at the end of the respective operating lease periods. The obligations are valued at net present value, and a yearly basis interest is added to this provision. The recognized interest is included in financial expenses (see Note 5.3.7 'Net financing costs'.

Expected outflow within one year amounts to US$ 0 million, nil between one and five years and US$ 103 million after five years.

The utilized portion of the demobilization-provision relates to the demobilization of FPSO *Marlim Sul* which has been finalized in the course of 2016.

Onerous contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the ongoing downturn which has created significant over-supply in offshore markets, the costs of the long-term chartering contract exceed the economic benefits expected to be received by the Company through the utilization of the vessel. As a result, a provision for onerous contract of US$ 31 million has been accounted for as 'cost of sales' over the period ended December 31, 2016. The calculations use cash flow projections approved by the Management Board of the Company. The discount rate used is the risk free rate (2.6% as of December 2016).
If the vessel sales day rate varies by +/- 10% the impact on the onerous provision would be in a range of +/- US$ 15 million.

The Company has also reviewed its long-term offices rental contracts, in light of its ongoing restructuring program. The immediate result of this program has led to a significant decrease in staffing levels, which created overcapacity in rented office space in various Regional Centers. As a result, the obligation for the discounted future unavoidable costs has been provided for through a provision for onerous contract of US$ 11 million accounted for as 'Other operating expense' over the period ended December 31, 2016 (please refer to note 5.3.4). The discount rate used is the risk free rate (3.2% as of December 2016).

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 follows the signature of an agreement during the period relating to warranty issues with one customer (and for which the Company recorded an additional provision in 2014) and also to usual warranty consumptions.

Other

The Other provision that arose during the year mainly relates to non-recurring provision for potential contempleted settlement with Brazilian authorities and Petrobras for US$ 22 million, US$ 24 million provision for restructuring and provisions related to various contractual disputes for US$ 19 million .

5.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2016	31 December 2015
Accruals on projects		193	293
Trade payables		120	147
Accruals regarding delivered orders		206	142
Other payables		54	131
Instalments exceeding cost incurred	*5.3.19*	14	56
Pension taxation		9	14
Taxation and social security costs		36	29
Other non-trade payables		74	179
Total	*5.3.29*	**706**	**992**

The decrease year on year of accruals on projects is mainly related to the completion of construction activities on FPSOs *Turritella*, *Cidade de Marica* and *Cidade de Saquarema*.

The movement in the other non-trade payables mainly relates to the last US$ 70 million remaining installment due, following the settlement with the Dutch Public Prosecutor's Office over the investigation into potentially improper sales payments. The decrease of other payable mainly relates to the discontinuation of a pension plan that existed for certain Offshore employees.

The contractual maturity of the trade payables is as follows:

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

	31 December 2016	31 December 2015
Within 1 month	117	146
Between 1 and 3 months	2	1
Between 3 months and 1 year	1	0
More than one year	-	0
Total	**120**	**147**

5.3.28 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, 2016, the Company has provided bank guarantees to unrelated third parties for an amount of US$ 336 million (2015: US$ 379 million). No liability is expected to arise.

The Group holds in its favour US$ 99 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

Contingent Liability

At the end of January 2016, the United States Department of Justice (DoJ) informed the Company that it has re-opened its past inquiry of the Company in relation to the alleged improper sales practices over the period 2007 to 2011 and has made information requests in connection with that inquiry.

During the period, the Company has cooperated with the DoJ and remains committed to close out discussions on this legacy issue which the Company self-reported to the authorities in 2012 and for which it reached a settlement with the Dutch Public Prosecutor in 2014.

During the period, the Company has also cooperated with the DoJ for its inquiry into Unaoil, a company that SBM Offshore had engaged as agent prior to 2012.

Commitments

As at December 31, 2016, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US$ 2 million (December 31, 2015: US$ 35 million). Investment commitments have decreased principally due to the completion of the construction of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*.

The obligations in respect of operating lease, rental and leasehold obligations, are as follows:

Commitments

				2016	2015
	< 1 year	1-5 years	> 5years	Total	Total
Operating lease	16	64	78	158	**209**
Rental and leasehold	19	57	7	83	**131**
Total	**35**	**120**	**85**	**240**	**340**

CONTINGENT ASSET

The Company continues to investigate the possibility to recover losses incurred in connection with the Yme development project from insurers. Under the terms of the settlement agreement with Talisman, all pending and future claim recoveries (after expenses and legal costs) relating to the Yme development project under the relevant construction all risks insured shall be shared 50/50 between the Company and Talisman.

5.3.29 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.

Accounting classification and fair values as at December 31, 2016

		Carrying amount					
	Notes	Fair Value through profit or loss	Fair value - hedging instruments	Loans and receivables	IAS 17 Leases	Financial liabilities at amortised cost	Total
Financial assets measured at fair value							
Interest rate swaps	*5.3.20*	-	6	-	-	-	6
Forward currency contracts	*5.3.20*	26	7	-	-	-	33
Total		**26**	**13**	**-**	**-**	**-**	**39**
Financial assets not measured at fair value							
Trade and other receivables	*5.3.18*	-	-	656	-	-	656
Finance leases receivables	*5.3.14*	-	-	-	7,560	-	7,560
Loans to joint ventures and associates	*5.3.15/5.3.18*	-	-	215	-	-	215
Total		**-**	**-**	**870**	**7,560**	**-**	**8,430**
Financial liabilities measured at fair value							
Interest rate swaps	*5.3.20*	-	170	-	-	-	170
Forward currency contracts	*5.3.20*	12	54	-	-	-	66
Total		**12**	**224**	**-**	**-**	**-**	**236**
Financial liabilities not measured at fair value							
US$ project finance facilities drawn	*5.3.24*	-	-	-	-	4,624	4,624
US$ guaranteed project finance facilities drawn	*5.3.24*	-	-	-	-	1,426	1,426
Revolving credit facility/Bilateral credit facilities	*5.3.24*	-	-	-	-	(3)	(3)
Other debt	*5.3.24*	-	-	-	-	73	73
Trade and other payables/Other non-current liabilities	*5.3.27*	-	-	-	-	706	706
Total		**-**	**-**	**-**	**-**	**6,826**	**6,826**

Fair value levels 2016

		Fair value			
	Notes	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Interest rate swaps	5.3.20	-	6	-	6
Forward currency contracts	5.3.20	-	33	-	33
Total		**-**	**39**	**-**	**39**
Financial assets not measured at fair value					
Finance leases receivables	5.3.14	-	-	7,476	7,476
Loans to joint ventures and associates	5.3.15/5.3.18	-	-	197	197
Total		**-**	**-**	**7,673**	**7,673**
Financial liabilities measured at fair value					
Interest rate swaps	5.3.20	-	170	-	170
Forward currency contracts	5.3.20	-	66	-	66
Total		**-**	**236**	**-**	**236**
Financial liabilities not measured at fair value					
US$ project finance facilities drawn	5.3.24	-	4,634	-	4,634
US$ guaranteed project finance facilities drawn	5.3.24	-	1,426	-	1,426
Revolving credit facility/Bilateral credit facilities	5.3.24	-	(3)	-	(3)
Other debt	5.3.24	-	-	75	75
Total		**-**	**6,057**	**75**	**6,132**

Additional information

- In the above table, the Company has disclosed the fair value of each class of financial assets and financial liabilities in a way that permits the information to be compared with the carrying amounts
- Classes of financial instruments that are not used are not disclosed
- The Company has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values as the impact of discounting is insignificant
- No instruments were transferred between Level 1 and Level 2
- None of the instruments of the Level 3 hierarchy are carried at fair value in the statement of financial position
- No financial instruments were subject to offsetting as of December 31, 2016 and December 31, 2015. Financial Derivatives amounting to a fair value of US$ 6 million (2015: US$ 15 million) were subject to enforceable master netting arrangements or similar arrangements but were not offset as the IAS 32 ‘Financial Instruments – Presentation’ criteria were not met. The impact of offsetting would result in a reduction of both assets and liabilities by US$ 6 million (2015: US$ 15 million)

Accounting classification and fair values as at December 31, 2015

	Notes	Carrying amount							
		Fair Value through profit or loss	Fair value - hedging instruments	Held-to-maturity	Available for sale	Loans and receivables	IAS 17 Leases	Financial liabilities at amortised cost	Total
Financial assets measured at fair value									
Interest rate swaps	5.3.20	-	0	-	-	-	-	-	0
Forward currency contracts	5.3.20	18	2	-	-	-	-	-	20
Corporate securities		-	-	-	2	-	-	-	2
Total		**18**	**3**	**-**	**2**	**-**	**-**	**-**	**23**
Financial assets not measured at fair value									
Corporate securities		-	-	28	-	-	-	-	28
Trade and other receivables	5.3.18	-	-	-	-	640	-	-	640
Finance leases receivables	5.3.14	-	-	-	-	-	3,184	-	3,184
Loans to joint ventures and associates	5.3.15/5.3.18	-	-	-	-	299	-	-	299
Total		**-**	**-**	**28**	**-**	**938**	**3,184**	**-**	**4,151**
Financial liabilities measured at fair value									
Interest rate swaps	5.3.20	-	205	-	-	-	-	-	205
Forward currency contracts	5.3.20	41	86	-	-	-	-	-	127
Total		**41**	**291**	**-**	**-**	**-**	**-**	**-**	**332**
Financial liabilities not measured at fair value									
US$ project finance facilities drawn	5.3.24	-	-	-	-	-	-	2,782	2,782
US$ guaranteed project finance facilities drawn	5.3.24	-	-	-	-	-	-	2,515	2,515
Revolving credit facility/Bilateral credit facilities	5.3.24	-	-	-	-	-	-	(4)	(4)
Other debt	5.3.24	-	-	-	-	-	-	429	429
Trade and other payables/Other non-current liabilities		-	-	-	-	-	-	992	992
Total		**-**	**-**	**-**	**-**	**-**	**-**	**6,714**	**6,714**

Fair value levels 2015

	Notes	Level 1	Level 2	Level 3	Total
		Fair value			
Financial assets measured at fair value					
Interest rate swaps	5.3.20	-	0	-	0
Forward currency contracts	5.3.20	-	20	-	20
Corporate securities		-	2	-	2
Total		**-**	**23**	**-**	**23**
Financial assets not measured at fair value					
Corporate securities		25	2	-	27
Finance leases receivables	5.3.14	-	-	3,134	3,134
Loans to joint ventures and associates	5.3.15/5.3.18	-	-	296	296
Total		**25**	**2**	**3,430**	**3,457**
Financial liabilities measured at fair value					
Interest rate swaps	5.3.20	-	205	-	205
Forward currency contracts	5.3.20	-	127	-	127
Total		**-**	**332**	**-**	**332**
Financial liabilities not measured at fair value					
US$ project finance facilities drawn	5.3.24	-	2,700	-	2,700
US$ guaranteed project finance facilities drawn	5.3.24	-	2,515	-	2,515
Revolving credit facility/Bilateral credit facilities	5.3.24	-	(4)	-	(4)
Other debt	5.3.24	-	-	427	427
Total		**-**	**5,211**	**427**	**5,638**

MEASUREMENT OF FAIR VALUES

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

	Level 2 and level 3 instruments		Level 3 instruments
Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial instrument measured at fair value			
Interest rate swaps	Income approach – Present value technique	Not applicable	Not applicable
Forward currency contracts	Income approach – Present value technique	Not applicable	Not applicable
Commodity contracts	Income approach – Present value technique	Not applicable	Not applicable
Financial instrument not measured at fair value			
Loans to joint ventures and associates	Income approach – Present value technique	▪ Forecast revenues ▪ Risk-adjusted discount rate (6%-7%)	The estimated fair value would increase (decrease) if : ▪ the revenue was higher (lower) ▪ the risk-adjusted discount rate was lower (higher)
Finance lease receivables	Income approach – Present value technique	▪ Forecast revenues ▪ Risk-adjusted discount rate (5%-9%)	The estimated fair value would increase (decrease) if : ▪ the revenue was higher (lower) ▪ the risk-adjusted discount rate was lower (higher)
Loans and borrowings	Income approach – Present value technique	Not applicable	Not applicable
Other long term debt	Income approach – Present value technique	▪ Forecast revenues ▪ Risk-adjusted discount rate (6%)	The estimated fair value would increase (decrease) if : ▪ the revenue was higher (lower) ▪ the risk-adjusted discount rate was lower (higher)
Corporate debt securities	Market approach	Not applicable	Not applicable

DERIVATIVE ASSETS AND LIABILITIES DESIGNATED AS CASH FLOW HEDGES

The following table indicates the period in which the cash flows associated with the cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for interest rate swaps are estimated using the forward rates as at the reporting date.

Cash flows

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2016					
Interest rate swaps	(164)	(95)	(114)	(9)	(218)
Forward currency contracts	(47)	(48)	1	-	(48)
Commodity contracts	-	-	-	-	-
31 December 2015					
Interest rate swaps	(205)	(94)	(184)	(27)	(306)
Forward currency contracts	(84)	(84)	-	-	(84)
Commodity contracts	-	-	-	-	-

The following table indicates the period in which the cash flows hedges are expected to impact profit or loss and the carrying amounts of the related hedging instruments.

Expected profit or loss impact

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2016					
Interest rate swaps	(164)	(95)	(114)	(9)	(218)
Forward currency contracts	(47)	(48)	1	-	(48)
Commodity contracts	-	-	-	-	-
31 December 2015					
Interest rate swaps	(205)	(94)	(184)	(27)	(306)
Forward currency contracts	(84)	(84)	-	-	(84)
Commodity contracts	-	-	-	-	-

Interest rate swaps

Gains and losses recognized in the hedging reserve in equity on interest rate swap contracts will be continuously released to the income statement until the final repayment of the hedged items (see 5.3.23 'Equity Attributable to Shareholders').

Forward currency contracts

Gains and losses recognized in the hedging reserve on forward currency contracts are recognized in the income statement in the period or periods during which the hedged transaction affects the income statement. This is mainly within twelve months from the statement of financial position date unless the gain or loss is included in the initial amount recognized in the carrying amount of fixed assets, in which case recognition is over the lifetime of the asset, or the gain or loss is included in the initial amount recognized in the carrying amount of the cost incurred on construction contracts in which case recognition is based on the 'percentage-of-completion method'.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, market risks (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set in the Group Policy. Generally the Company seeks to apply hedge accounting in order to manage volatility in the Income Statement and Statement of Comprehensive Income. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance. Derivatives are only used to hedge closely correlated underlying business transactions.

The Company's principal financial instruments, other than derivatives, comprise trade debtors and creditors, bank loans and overdrafts, cash and cash equivalents (including short-term deposits) and financial guarantees. The main purpose of these financial instruments is to finance the Company's operations and/or result directly from the operations.

Financial risk management is carried out by a central treasury department under policies approved by the Management Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries and the Chief Financial Officer (CFO) during the quarterly Asset-Liability Committee. The

Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. It is, and has been throughout the year under review, the Company's policy that no speculation in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from transactional currency exposures, primarily with respect to the euro, Singapore dollar, and Brazilian real. The exposure arises from sales or purchases in currencies other than the Company's functional currency. The Company uses forward currency contracts to eliminate the currency exposure once the Company has entered into a firm commitment of a project contract.

The main Company's exposure to foreign currency risk is as follows based on notional amounts:

Foreign exchange risk (summary)

	31 December 2016			31 December 2015		
in millions of local currency	EUR	SGD	BRL	EUR	SGD	BRL
Fixed assets	52	-	280	55	-	38
Current assets	489	3	567	62	1	37
Long term liabilities	(16)	-	-	(13)	-	-
Current liabilities	(324)	(5)	(1,616)	(88)	(12)	(70)
Gross balance sheet exposure	**200**	**(2)**	**(769)**	**17**	**(11)**	**4**
Estimated forecast sales	-	-	-	-	-	-
Estimated forecast purchases	(621)	(279)	(339)	(529)	(65)	(429)
Gross exposure	**(421)**	**(281)**	**(1,108)**	**(513)**	**(76)**	**(425)**
Forward exchange contracts	164	281	333	553	75	292
Net exposure	**(257)**	**0**	**(775)**	**40**	**0**	**(132)**

The increase of the EUR exposure during 2016 was driven by the corporate finance activities (dividend distribution & share buyback program).

The increase of the BRL exposure during 2016 was driven by the increase of the Brazilian activities due to the finalization of the construction and the start of the operation of FPSO Cidade de Marica and FPSO Cidade de Saquarema.

The estimated forecast purchases relate to project expenditures for up to three years and overhead expenses.
The main currency exposures of overhead expenses are 100% hedged for the coming year, 66% hedged for the year thereafter, and 33% for the subsequent year.

Foreign exchange risk (exchange rates applied)

	2016	2015	2016	2015
	Average rate		Closing rate	
EUR 1	1.1069	1.1095	1.0541	1.0887
SGD 1	0.7244	0.7275	0.6919	0.7062
BRL 1	0.2888	0.3045	0.3073	0.2525

The sensitivity on equity and the income statement resulting from a change of ten percent of the US dollar's value against the following currencies at December 31 would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2015.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
	10 percent increase	10 percent decrease	10 percent increase	10 percent decrease
31 December 2016				
EUR	-	-	(39)	39
SGD	-	-	(19)	19
BRL	-	-	13	(13)
31 December 2015				
EUR	0	0	(62)	62
SGD	0	0	(5)	5
BRL	0	0	(8)	8

As set out above, by managing foreign currency risk the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long-term however, permanent changes in foreign currency rates would have an impact on consolidated earnings.

Interest rate risk

The Company's exposure to risk from changes in market interest rates relates primarily to the Company's long-term debt obligations with a floating interest rate. In respect of controlling interest rate risk, the floating interest rates of long-term loans are hedged by fixed rate swaps for the entire maturity period. The revolving credit facility is intended for fluctuating needs of construction financing of facilities and bears interest at floating rates, which is also swapped for fixed rates when exposure is significant.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments (exluding transaction costs) was:

Interest rate risk (summary)

	2016	2015
Fixed rate instruments		
Financial assets	7,601	3,293
Financial liabilities	(799)	(929)
Total	**6,802**	**2,364**
Variable rate instruments		
Financial assets	174	220
Financial liabilities	(5,459)	(4,952)
Financial liabilities (future)	-	(366)
Total	**(5,285)**	**(5,097)**

Interest rate risk (exposure)

	2016	2015
Variable rate instruments	(5,285)	(5,097)
Less: IRS contracts	5,237	5,186
Exposure	**(48)**	**89**

At December 31, 2016, it is estimated that a general increase of 100 basis points in interest rates would increase the Company's profit before tax for the year by approximately US$ 1 million (2015: increase of US$ 1 million) mainly related to un-hedged financial assets. 95.9% (2015: 92.8%) of the floating operating debt is hedged by floating-to-fixed interest rate swaps.

The sensitivity on equity and the income statement resulting from a change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2015.

Interest rate risk (sensitivity)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2016				
Variable rate instruments	0	0	-	-
Interest rate swap	1	(1)	279	(302)
Sensitivity (net)	**1**	**(1)**	**279**	**(302)**
31 December 2015				
Variable rate instruments	1	0	-	-
Interest rate swap	0	0	320	(345)
Sensitivity (net)	**1**	**(1)**	**320**	**(345)**

As set out above, the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long term however, permanent changes in interest rates would have an impact on consolidated earnings.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's other financial assets, trade and other receivables (including committed transactions), derivative financial instruments and cash and cash equivalents.

Credit risk

	2016		2015	
Rating	Assets	Liabilities	Assets	Liabilities
AAA			-	-
AA+			-	-
AA	3	(30)	1	40
AA-		(5)	-	6
A+	22	(150)	4	133
A	9	(36)	12	123
A-		-	-	15
BBB+	5	(15)	3	14
BBB			-	-
BBB-			-	-
Non-investment grade			0	0
Derivative financial instruments	**39**	**(236)**	**21**	**332**
AAA	127		20	-
AA+	0		0	-
AA	18		46	-
AA-	28		22	-
A+	631		109	-
A	61		259	-
A-	0		0	-
BBB+	-		32	-
BBB	-		-	-
BBB-	-		0	-
Non-investment grade	38		26	-
Cash and cash equivalents and bank overdrafts	**904**	**-**	**515**	**-**

The Company maintains its policy on cash investment and limits per individual counterparty are set to: A- and A rating US$ 25 million, A+ rating US$ 50 million, AA- and AA rating US$ 80 million and AA+ and above rating US$ 100 million. Cash held in banks rated below A- is mainly related to the Company's activities in Angola (US$ 33 million).

For trade debtors the credit quality of each customer is assessed, taking into account its financial position, past experience and other factors. Bank or parent company guarantees are negotiated with customers. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management Board. At the statement of financial position date there is no customer that has an outstanding balance with a percentage over 10% of the total of trade and other receivables. Reference is made to 5.3.18 'Trade and Other Receivables' for information on the distribution of the receivables by country and an analysis of the ageing of the receivables. Furthermore, limited recourse project financing removes a significant portion of the risk on long-term leases.

For other financial assets, the credit quality of each counterpart is assessed taking into account its credit agency rating.

Regarding loans to joint ventures and associates, the maximum exposure to credit risk is the carrying amount of these instruments. As the counterparties of these instruments are Joint Ventures, SBM Offshore has visibility over the expected cash flows and can monitor and manage credit risk that mainly arises from the Joint Venture's final client.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity is monitored using rolling forecasts of the Company's liquidity reserves on the basis of expected cash flows. Flexibility is secured by maintaining availability under committed credit lines.

The table below analyses the Company's non-derivative financial liabilities, derivative financial liabilities and derivative financial assets into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for borrowings and derivative financial instruments are based on the LIBOR rates as at the reporting date.

Liquidity risk 2016

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years
31 December 2016				
Borrowings		765	2,999	3,568
Derivative financial liabilities		156	264	170
Derivative financial assets		(23)	19	9
Trade and other payables	*5.3.27*	706	-	-
Total		**1,604**	**3,282**	**3,746**

Liquidity risk 2015

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years
31 December 2015				
Borrowings		928	2,517	3,316
Derivative financial liabilities		214	421	313
Derivative financial assets		0	0	-
Trade and other payables	*5.3.27*	992	0	-
Total		**2,134**	**2,938**	**3,629**

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including the short-term part of the long-term debt and bank overdrafts as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The Company's strategy, which has not changed compared to 2015, is to target a gearing ratio between 50% and 60%. This target is subject to maintaining headroom of 20% of all banking covenants. The gearing ratios at December 31, 2016 and 2015 were as follows:

Capital risk management

	2016	2015
Total borrowings	6,120	5,722
Less: net cash and cash equivalents	904	(515)
Net debt	**5,216**	**5,208**
Total equity	3,513	3,465
Total capital	**8,729**	**8,672**
Gearing ratio	59.8%	60.0%

Other risks

In respect of controlling political risk, the Company has a policy of thoroughly reviewing risks associated with contracts, whether turnkey or long-term leases. Where political risk cover is deemed necessary and available in the market, insurance is obtained.

5.3.30 LIST OF GROUP COMPANIES

In accordance with legal requirements a list of the Company's entities which are included in the consolidated financial statements of SBM Offshore N.V. has been deposited at the Chamber of Commerce in Amsterdam.

5.3.31 INTEREST IN JOINT VENTURES AND ASSOCIATES

The Company has several joint ventures and associates:

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2016 main reporting segment	Project name
Sonasing Xikomba Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & operate	FPSO N'Goma
OPS-Serviços de Produção de Petróleos Ltd.	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & operate	Angola operations
OPS-Serviços de Produção de Petróleos Ltd Branch	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Angola	Lease & operate	Angola operations
OPS Production Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.	Joint venture	50.00	Bermuda	Lease & operate	Angola operations
Malaysia Deepwater Floating Terminal (Kikeh) Ltd	Malaysia International Shipping Corporation Behard	Joint venture	49.00	Malaysia	Lease & operate	FPSO Kikeh
Malaysia Deepwater Production Contractors Sdn Bhd	Malaysia International Shipping Corporation Behard	Joint venture	49.00	Malaysia	Lease & operate	FPSO Kikeh
Anchor Storage Ltd	Maersk group	Joint venture	49.00	Bermuda	Lease & operate	Nkossa II FSO
Gas Management (Congo) Ltd	Maersk group	Joint venture	49.00	Bahamas	Lease & operate	Nkossa II FSO
Solgaz S.A.	Deepwater Enterprises A/S (an entity of Maersk group)	Joint venture	49.00	France	Lease & operate	Nkossa II FSO
Sonasing Sanha Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & operate	FPSO Sanha
Sonasing Kuito Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Angola Offshore Services Limitada	Joint venture	50.00	Bermuda	Lease & operate	FPSO Kuito
Sonasing Saxi Batuque Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Vernon Angolan Services Limitada	Joint venture	50.00	Bermuda	Lease & operate	FPSO Saxi-Batuque
Sonasing Mondo Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Vernon Angolan Services Limitada	Joint venture	50.00	Bermuda	Lease & operate	FPSO Mondo
SNV Offshore Ltd	Naval Ventures Corp (an entity of Synergy Group)	Joint venture	50.00	Bermuda	Turnkey	Brazilian yard
Pelican Assets S.à.r.l.	SNV Offshore Limited (see information above)	Joint venture	50.00	Luxembourg	Turnkey	Brazilian yard
Estaleiro Brasa Ltda	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2016 main reporting segment	Project name
Brasil Superlift Serviçõs Içamento Ltda	SNV Offshore Limited (see information above)	Joint venture	50.00	Brazil	Turnkey	Brazilian yard
Normand Installer S.A.	The Solstad Group	Joint venture	49.90	Switzerland	Turnkey	Normand Installer
OS Installer AS	Ocean Yield AS	Associate	25.00	Norway	Turnkey	SBM Installer
SBM Ship Yard Ltd	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; Daewoo Shipbuilding & Marine Engineering Co. Ltd.	Associate	33.33	Bermuda	Turnkey	Angolan yard
PAENAL - Porto Amboim Estaleiros Navais Ltda	Sociedad Nacional de Combustiveis de Angola Empresa Publica -Sonangol E.P.; SBM Shipyard	Associate	30.00	Angola	Turnkey	Angolan yard

The Brazilian market has faced a recent downturn related to economic and political crisis. The adverse changes in the economic environment in the market to which the Brazilian yard is dedicated is considered as a triggering event and thus an impairment test of Company's net investment in the Joint ventures owning the Brazilian yard has been carried out.

As the value in use determined is higher than the carrying amount, no impairment charge has to be recognized at the end of December 2016.

The Company has no joint operation as per definition provided by IFRS 11 'Joint arrangements'.

The following tables present the figures at 100%.

Information on significant joint arrangements and associates - 2016

Entity name	Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilites
Sonasing Xikomba Ltd	FPSO N'Goma	Angola	1,215	1,061	25	564	554	269
OPS-Serviços de Produção de Petroleos Ltd.	Angola operations	Angola	58	(2)	17	-	0	7
OPS-Serviços de Produção de Petróleos Ltd Branch	Angola operations	Angola	91	4	11	-	-	98
OPS Production Ltd	Angola operations	Angola	81	0	9	-	-	63
Malaysia Deepwater Floating Terminal (Kikeh) Ltd	FPSO Kikeh	Malaysia	400	328	(7)	0	20	3
Malaysia Deepwater Production Contractors Sdn Bhd	FPSO Kikeh	Malaysia	26	-	4	-	0	20
SNV Offshore Ltd[1]	Brazilian yard	Brazil	76	49	3	-	-	9
SBM Ship Yard Ltd	Angolan yard	Angola	252	220	0	415	415	0
PAENAL - Porto Amboim Estaleiros Navais Ltda	Angolan yard	Angola	237	104	67	224	224	102
Non material joint ventures/associates			304	226	40	271	209	96
Total at 100%			**2,740**	**1,989**	**169**	**1,474**	**1,422**	**668**

1 consolidated figures including the entities Estaleiro Brasa Ltda, Brasil Superlift Serviços Icamento Ltda and Pelican Assets S.à.r.l. which are owned at 100% by SNV Offshore Ltd

Information on significant joint arrangements and associates - 2016

Entity name	Project name	Place of the business	Dividends paid	Revenue
Sonasing Xikomba Ltd	FPSO N'Goma	Angola	-	105
OPS-Serviços de Produção de Petroleos Ltd.	Angola operations	Angola	-	4
OPS-Serviços de Produção de Petróleos Ltd Branch	Angola operations	Angola	-	91
OPS Production Ltd	Angola operations	Angola	-	80
Malaysia Deepwater Floating Terminal (Kikeh) Ltd	FPSO Kikeh	Malaysia	88	50
Malaysia Deepwater Production Contractors Sdn Bhd	FPSO Kikeh	Malaysia	2	58
SNV Offshore Ltd[1]	Brazilian yard	Brazil	-	78
SBM Ship Yard Ltd	Angolan yard	Angola	-	-
PAENAL - Porto Amboim Estaleiros Navais Ltda	Angolan yard	Angola	-	40
Non material joint ventures/associates			4	36
Total at 100%			**94**	**543**

1 consolidated figures including the entities Estaleiro Brasa Ltda, Brasil Superlift Serviços Icamento Ltda and Pelican Assets S.à.r.l. which are owned at 100% by SNV Offshore Ltd

Information on significant joint arrangements and associates - 2015

Entity name	Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non- current liabilities	Current liabilites
Sonasing Xikomba Ltd	FPSO N'Goma	Angola	1,280	1,132	13	616	629	293
OPS-Serviçõs de Produção de Petroleos Ltd.	Angola operations	Angola	56	(2)	22	-	0	5
OPS-Serviçõs de Produção de Petróleos Ltd Branch			74	5	(3)	-	-	75
OPS Production Ltd			89	0	36	-	-	68
Malaysia Deepwater Floating Terminal (Kikeh) Ltd	FPSO Kikeh	Malaysia	468	396	(6)	30	33	22
Malaysia Deepwater Production Contractors Sdn Bhd			34	-	8	-	0	27
SNV Offshore Ltd[1]	Brazilian yard	Brazil	68	48	5	25	25	15
SBM Ship Yard Ltd	Angolan yard	Angola	265	225	0	395	395	0
PAENAL - Porto Amboim Estaleiros Navais Ltda			365	208	52	232	230	150
Non material joint ventures/associates			323	246	47	296	286	57
Total at 100%			**3,021**	**2,258**	**176**	**1,593**	**1,599**	**712**

1 consolidated figures including the entities Estaleiro Brasa Ltda and Brasil Superlift Serviçõs Icamento Ltda which were owned at 100% by SNV Offshore Ltd at 31 December 2014

Information on significant joint arrangements and associates - 2015

Entity name	Project name	Place of the business	Dividends paid	Revenue
Sonasing Xikomba Ltd	FPSO N'Goma	Angola	-	187
OPS-Serviçõs de Produção de Petroleos Ltd.	Angola operations	Angola	-	0
OPS-Serviçõs de Produção de Petróleos Ltd Branch			-	106
OPS Production Ltd			-	85
Malaysia Deepwater Floating Terminal (Kikeh) Ltd	FPSO Kikeh	Malaysia	-	50
Malaysia Deepwater Production Contractors Sdn Bhd			-	47
SNV Offshore Ltd[1]	Brazilian yard	Brazil	-	152
SBM Ship Yard Ltd	Angolan yard	Angola	-	-
PAENAL - Porto Amboim Estaleiros Navais Ltda			-	75
Non material joint ventures/associates			41	40
Total at 100%			**41**	**742**

1 consolidated figures including the entities Estaleiro Brasa Ltda, Brasil Superlift Serviçõs Icamento Ltda and Pelican Assets S.à.r.l. which are owned at 100% by SNV Offshore Ltd

The movements in investments in associates and joint ventures are as follows:

	2016	2015
Investments in associates and joint ventures at 1 January	**460**	**386**
Share of profit of equity-accounted investees	45	73
Dividends	(45)	(18)
Cash flow hedges	3	2
Capital increase/(decrease)	12	-
Foreign currency variations	(7)	(24)
Share in negative net equity reclassification to loans to joint ventures and associates	17	42
Investments in associates and joint ventures at 31 December	**484**	**460**

The bank interest-bearing loans and other borrowings held by joint ventures and associates are as follows:

Informations on loans and borrowings of joint ventures and associates

				Net book value at 31 December 2016			Net book value at 31 December 2015		
Entity name	% Ownership	% Interest	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:									
Sonasing Xikomba Ltd	50.00	4.71%	16-aug-21	342	81	423	423	77	501
Normand Installer SA	49.90	3.87%	17-jul-17	-	50	50	50	6	56
OS Installer AS	25.00	3.83%	16-dec-19	88	7	95	95	7	102
Loans from subsidiaries of SBM Offshore N.V.[1]				416	20	437	380	61	441
Loans from other shareholders of the joint ventures and associates[2]				246	-	246	247	15	262
Loans from other joint ventures				250	-	250	232	-	232
Net book value of loans and borrowings				**1,343**	**158**	**1,501**	**1,427**	**167**	**1,593**

1 Please refer to note 5.3.15 'Loans to joint-ventures and associates' for presentation of the carrying amount of these loans in Company's Consolidated Statement of Financial Position.

2 Loans from the Joint Ventures SBM Shipyard Ltd to the JV Paenal - Porto Amboim Estaleiros Navais Ltda.

Aggregated information on joint ventures and associates

	2016	2015
Net result at 100 %	38	128

5.3.32 INFORMATION ON NON-CONTROLLING INTERESTS

The Company has several jointly owned subsidiaries:

Entity name	Partners	% of ownership	Country registration	2016 main reporting segment	Project name
Aseng Production Company Ltd	GE Petrol	60.00	Cayman island	Lease & operate	FPSO Aseng
Gepsing Ltd	GE Petrol	60.00	Cayman island	Lease & operate	FPSO Aseng
Gepsing Ltd - Equatorial Guinea Branch	GE Petrol	60.00	Equatorial Guinea	Lease & operate	FPSO Aseng
Brazilian Deepwater Floating Terminals Ltd	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & operate	FPSO Espirito Santo
Brazilian Deepwater Production Ltd	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & operate	FPSO Espirito Santo
Brazilian Deepwater Production Contractors Ltd	Malaysia International Shipping Corporation Behard	51.00	Bermuda	Lease & operate	FPSO Espirito Santo
Operações Marítimas em Mar Profundo Brasileiro Ltda	owned by Brazilian Deepwater Production Contractors (see information above)	51.00	Brazil	Lease & operate	FPSO Espirito Santo
SBM Stones S.à r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	55.00	Luxembourg	Turnkey	FPSO Turritella
SBM Turritella LLC	owned by SBM Stones S.a r.l. (see information above)	55.00	The United States of America	Turnkey	FPSO Turritella
SBM Stones Holding Operations B.V.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	55.00	The Netherlands	Lease & operate	FPSO Turritella
SBM Stones Operations LLC	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha	55.00	The Netherlands	Lease & operate	FPSO Turritella
Alfa Lula Alto S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Luxembourg	Turnkey	FPSO Cidade de Marica
Alfa Lula Alto Holding Ltd	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Bermuda	Lease & operate	FPSO Cidade de Marica
Alfa Lula Alto Operações Marítimas Ltda	owned by Alfa Lula Alto Holding Ltd. (see information above)	56.00	Brazil	Lease & operate	FPSO Cidade de Marica
Beta Lula Central S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Luxembourg	Turnkey	FPSO Cidade de Saquarema
Beta Lula Central Holding Ltd	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	56.00	Bermuda	Lease & operate	FPSO Cidade de Saquarema
Beta Lula Central Operações Marítimas Ltda	Owned by Betal Lula Central Holding Ltd. (see information above)	56.00	Brazil	Lease & operate	FPSO Cidade de Saquarema
Tupi Nordeste S.à.r.l.	Nippon Yusen Kabushiki Kaisha; Itochu Corporation; Queiroz Galvao Oleo e Gas, S.A.	50.50	Luxembourg	Lease & operate	FPSO Cidade de Paraty
Tupi Nordeste Operações Marítimas Ltda	Owned by Tupi Nordeste Holding (see information below)	50.50	Brazil	Lease & operate	FPSO Cidade de Paraty
Tupi Nordeste Holding Ltd	Nippon Yusen Kabushiki Kaisha; Itochu Corporation; Queiroz Galvao Oleo e Gas, S.A.	50.50	Bermuda	Lease & operate	FPSO Cidade de Paraty

Entity name	Partners	% of ownership	Country registration	2016 main reporting segment	Project name
Guara Norte S.à.r.l.	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	62.25	Luxembourg	Lease & operate	FPSO Cidade de Ilhabela
Guara Norte Holding Ltd	Mitsubishi Corporation; Nippon Yusen Kabushiki Kaisha ; Queiroz Galvao Oleo e Gas, S.A.	62.25	Bermuda	Lease & operate	FPSO Cidade de Ilhabela
Guara Norte Operações Marítimas Ltda	Owned by Guara Norte Holding Ltd. (see information above)	62.25	Brazil	Lease & operate	FPSO Cidade de Ilhabela
SBM Capixaba Operações Marítimas Ltda	Owned by FPSO Capixaba Venture S.A. (see information below)	80.00	Brazil	Lease & operate	FPSO Capixaba
SBM Espirito Do Mar Inc	Queiroz Galvao Oleo e Gas, S.A.	80.00	Switzerland	Lease & operate	FPSO Capixaba
FPSO Capixaba Venture S.A.	Queiroz Galvao Oleo e Gas, S.A.	80.00	Switzerland	Lease & operate	FPSO Capixaba
FPSO Brasil Venture SA	MISC Berhad	51.00	Switzerland	Lease & operate	FPSO Brazil
SBM Operações Ltda	MISC Berhad	51.00	Brazil	Lease & operate	FPSO Brazil
SBM Systems Inc.	MISC Berhad	51.00	Switzerland	Lease & operate	FPSO Brazil
South East Shipping Co. Ltd	Mitsubishi Corporation	75.00	Bermuda	Lease & operate	Yetagun

Included in the consolidated financial statements are the following items that represent the Company's interest in the revenues, assets and loans of the partially owned subsidiaries.

Figures are presented at 100% before elimination of intercompany transactions.

Information on non-controlling interests (NCI) – 2016

Entity name	Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities
Aseng Production Company Ltd	FPSO Aseng	Equatorial Guinea	328	215	10	180	148	40
Gepsing Ltd			3	-	3	-	-	13
Gepsing Ltd - Equatorial Guinea Branch			34	-	2	-	-	24
Brazilian Deepwater Floating Terminals Ltd	FPSO Espirito Santo	Brazil	-	-	-	-	-	0
Brazilian Deepwater Production Ltd			368	321	21	-	258	22
Brazilian Deepwater Production Contractors Ltd			37	0	18	-	-	27
Operações Marítimas em Mar Profundo Brasileiro Ltda			4	0	0	7	7	3
SBM Stones S.à r.l.[1]	FPSO Turritella	The United States of America	1,156	1,038	30	791	718	76
SBM Stones Holding Operations B.V.			0	-	-	-	-	-
SBM Stones Operations LLC			13	-	7	-	-	8
Alfa Lula Alto S.à.r.l.	FPSO Cidade de Marica	Brazil	1,791	1,683	48	1,394	1,363	117
Alfa Lula Alto Holding Ltd			5	0	4	-	-	9
Alfa Lula Alto Operações Marítimas Ltda			8	1	0	0	0	14
Beta Lula Central S.à.r.l.	FPSO Cidade de Saquarema	Brazil	1,741	1,668	16	1,426	1,372	90
Beta Lula Central Holding Ltd			7	0	0	-	-	8
Beta Lula Central Operações Marítimas Ltda			7	-	2	-	-	6
Tupi Nordeste S.à.r.l.	FPSO Cidade de Paraty	Brazil	1,259	1,164	38	714	645	108
Tupi Nordeste Operações Marítimas Ltda			2	0	0	20	20	13
Tupi Nordeste Holding Ltd			3	3	0	-	-	14
Guara Norte S.à.r.l.	FPSO Cidade de Ilhabela	Brazil	1,595	1,465	75	1,005	904	129
Guara Norte Holding Ltd			7	0	3	-	-	18
Guara Norte Operações Marítimas Ltda			7	0	0	5	5	15
SBM Capixaba Operações Marítimas Ltda	FPSO Capixaba	Brazil	5	0	0	23	23	11
SBM Espirito Do Mar Inc			272	217	25	5	41	32
FPSO Capixaba Venture S.A.			7	0	0	17	17	62
Non material NCI			79	4	7	3	11	11
Total 100%			**8,738**	**7,781**	**310**	**5,590**	**5,532**	**871**

1 consolidated figures including the entity SBM Turritella LLC which is owned at 100% by SBM Stones S.à r.l.

Information on non-controlling interests (NCI) – 2016

Entity name	Project name	Place of business	Dividends to NCI	Revenue
Aseng Production Company Ltd	FPSO Aseng	Equatorial Guinea	-	24
Gepsing Ltd			4	1
Gepsing Ltd - Equatorial Guinea Branch			-	49
Brazilian Deepwater Floating Terminals Ltd	FPSO Espirito Santo	Brazil	-	-
Brazilian Deepwater Production Ltd			15	118
Brazilian Deepwater Production Contractors Ltd			-	29
Operações Marítimas em Mar Profundo Brasileiro Ltda			-	13
SBM Stones S.à r.l.[1]	FPSO Turritella	The United States of America	-	165
SBM Stones Holding Operations B.V.			-	-
SBM Stones Operations LLC			-	35
Alfa Lula Alto S.à.r.l.	FPSO Cidade de Marica	Brazil	-	332
Alfa Lula Alto Holding Ltd			-	21
Alfa Lula Alto Operações Marítimas Ltda			-	19
Beta Lula Central S.à.r.l.	FPSO Cidade de Saquarema	Brazil	-	277
Beta Lula Central Holding Ltd			-	12
Beta Lula Central Operações Marítimas Ltda			-	11
Tupi Nordeste S.à.r.l.	FPSO Cidade de Paraty	Brazil	-	93
Tupi Nordeste Operações Maritimas Ltda			-	13
Tupi Nordeste Holding Ltd			-	28
Guara Norte S.à.r.l.	FPSO Cidade de Ilhabela	Brazil	-	148
Guara Norte Holding Ltd			-	29
Guara Norte Operações Marítimas Ltda			-	16
SBM Capixaba Operações Marítimas Ltda	FPSO Capixaba	Brazil	-	11
SBM Espirito Do Mar Inc			-	28
FPSO Capixaba Venture S.A.			-	45
Non material NCI			1	(8)
Total 100%			**20**	**1,509**

1 consolidated figures including the entity SBM Turritella LLC which is owned at 100% by SBM Stones S.à r.l.

Information on non-controlling interests (NCI) – 2015

Entity name	Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities
Aseng Production Company Ltd	FPSO Aseng	Equatorial Guinea	416	308	11	272	235	45
Gepsing Ltd			14	-	14	-	-	6
Gepsing Ltd - Equatorial Guinea Branch			21	-	1	-	0	17
Brazilian Deepwater Floating Terminals Ltd	FPSO Espirito Santo	Brazil	0	-	-	-	-	0
Brazilian Deepwater Production Ltd			451	366	50	42	256	97
Brazilian Deepwater Production Contractors Ltd			29	0	6	9	6	16
Operações Marítimas em Mar Profundo Brasileiro Ltda			7	0	0	7	7	3
SBM Stones S.à r.l.[1]	FPSO Turritella	The United States of America	2,186	1,085	-	685	377	1,499
SBM Stones Holding Operations B.V.			-	-	-	-	-	-
Alfa Lula Alto S.à.r.l.	FPSO Cidade de Marica	Brazil	1,827	-	1	1,337	1,365	154
Alfa Lula Alto Holding Ltd			0	0	0	-	-	0
Alfa Lula Alto Operações Marítimas Ltda			1	-	0	-	-	0
Beta Lula Central S.à.r.l.	FPSO Cidade de Saquarema	Brazil	1,538	-	2	1,178	1,184	19
Beta Lula Central Holding Ltd			0	0	0	-	-	0
Beta Lula Central Operações Marítimas Ltda			0	-	0	-	-	0
Tupi Nordeste S.à.r.l.	FPSO Cidade de Paraty	Brazil	1,297	1,203	41	801	748	103
Tupi Nordeste Operações Marítimas Ltda			3	0	0	6	6	12
Tupi Nordeste Holding Ltd			16	2	9	-	-	17
Guara Norte S.à.r.l.	FPSO Cidade de Ilhabela	Brazil	1,609	1,501	56	1,103	1,013	122
Guara Norte Holding Ltd			15	0	12	-	-	16
Guara Norte Operações Marítimas Ltda			5	0	0	1	1	9
SBM Capixaba Operações Marítimas Ltda	FPSO Capixaba	Brazil	4	0	0	11	11	4
SBM Espirito Do Mar Inc			278	251	11	37	41	35
FPSO Capixaba Venture S.A.			2	0	1	17	17	61
Non material NCI			100	9	7	3	10	13
Total 100%			**9,821**	**4,726**	**222**	**5,509**	**5,276**	**2,249**

1 consolidated figures including the entity SBM Turritella LLC which is owned at 100% by SBM Stones S.à r.l.

Information on non-controlling interests (NCI) – 2015

Entity name	Project name	Place of business	Dividends to NCI	Revenue
Aseng Production Company Ltd	FPSO Aseng	Equatorial Guinea	-	32
Gepsing Ltd			-	2
Gepsing Ltd - Equatorial Guinea Branch			-	42
Brazilian Deepwater Floating Terminals Ltd	FPSO Espirito Santo	Brazil	-	-
Brazilian Deepwater Production Ltd			-	129
Brazilian Deepwater Production Contractors Ltd			-	0
Operações Marítimas em Mar Profundo Brasileiro Ltda			-	14
SBM Stones S.à r.l.[1]	FPSO Turritella	The United States of America	-	199
SBM Stones Holding Operations B.V.			-	-
Alfa Lula Alto S.à.r.l.	FPSO Cidade de Marica	Brazil	-	369
Alfa Lula Alto Holding Ltd			-	-
Alfa Lula Alto Operações Marítimas Ltda			-	-
Beta Lula Central S.à.r.l.	FPSO Cidade de Saquarema	Brazil	-	360
Beta Lula Central Holding Ltd			-	-
Beta Lula Central Operações Marítimas Ltda			-	-
Tupi Nordeste S.à.r.l.	FPSO Cidade de Paraty	Brazil	-	121
Tupi Nordeste Operações Maritimas Ltda			-	17
Tupi Nordeste Holding Ltd			-	28
Guara Norte S.à.r.l.	FPSO Cidade de Ilhabela	Brazil	-	160
Guara Norte Holding Ltd			-	29
Guara Norte Operações Marítimas Ltda			-	16
SBM Capixaba Operações Marítimas Ltda	FPSO Capixaba	Brazil	-	11
SBM Espirito Do Mar Inc			-	68
FPSO Capixaba Venture S.A.			-	13
Non material NCI			3	25
Total 100%			**3**	**1,635**

1 consolidated figures including the entity SBM Turritella LLC which is owned at 100% by SBM Stones S.à r.l.

Reference is made to section 5.3.24 'Loans and Borrowings' for a description of the bank interest-bearing loans and other borrowings per entity.

Included in the consolidated financial statements are the following items that represent the aggregate contribution of the partially owned subsidiaries to the Company consolidated financial statements:

Interest in non-controlling interest (summary)

	2016	2015
Net result	65	81
Accumulated amount of NCI	996	970

5.3.33 RELATED PARTY TRANSACTIONS

During 2016, no major related party transactions requiring additional disclosure in the financial statements took place.

For relations with Supervisory Board Members, Managing Directors and other key personnel reference is made to Note 5.3.6 'Employee benefit expenses'.

The Company has transactions with joint ventures and associates which are recognized as follows in the Company's consolidated financial statements:

Related party transactions

	Note	2016	2015
Revenue		10	56
Cost of sales		(106)	(222)
Loans to joint ventures and associates	5.3.15	215	299
Trade receivables		164	204
Trade payables		78	60

The Company has provided loans to joint ventures and associates such as shareholder loans and funding loans at rates comparable to the commercial rates of interest.

During the period, the Company entered into trading transactions with joint ventures and associates on terms equivalent to those that prevail in arm's length transactions. The decrease of revenue mainly relates to the finalisation of the construction of the FPSOs *Cidade de Marica*, *Cidade de Saquarema* and *Turitella*. The decrease of cost of sales is mainly driven by lower transactions with the Brasa yard.

Additional information regarding the joint ventures and associates is available in 5.3.31 'Interest in Joint Ventures and Associates'.

5.3.34 AUDITOR'S FEES AND SERVICES

Fees included in Other operating costs related to PwC, the 2016 and 2015 Company's external auditor, are summarized as follows:

in thousands of US$	2016	2015
Audit fees	1,962	2,162
Out of which:		
- invoiced by PwC Accountants N.V.	*1,344*	*1,469*
- invoiced by PwC network firms	*618*	*693*
Tax fees	32	92
Other	533	555
Total	**2,527**	**2,810**

In 2016 and 2015, the other auditor's fees were mainly related to other auditing services carried out in the course of the development of a potential master limited partnership (MLP) project and review of Company Sustainability Report.

5.3.35 EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the Company policy introduced in 2015 which consists of paying out 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, and, this year, considering 2016 exceptional non-recurring items, a dividend out of 2016 net income of US$ 0.23 per share will be proposed to the Annual General Meeting on April 13, 2017, corresponding to approximately 31% of the US$ 150 million Company's 2016 Directional net income adjusted, this year, for non-recurring items.

5.4 COMPANY FINANCIAL STATEMENTS

5.4.1 COMPANY BALANCE SHEET

Company balance sheet

Before appropriation of profit	Notes	31 December 2016	31 December 2015
ASSETS			
Investment in Group companies	5.5.1	2,814	2,585
Total financial fixed assets		**2,814**	**2,585**
Deferred tax asset	5.5.2	3	4
Total non-current assets		**2,817**	**2,589**
Other receivables	5.5.3	5	22
Cash and cash equivalents	5.5.4	-	4
Total current assets		**5**	**26**
TOTAL ASSETS		**2,823**	**2,615**
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Issued share capital		56	58
Share premium reserve		1,163	1,162
Treasury shares		(166)	-
Legal reserves	5.5.5	708	553
Retained earnings		571	694
Profit of the year		182	29
Shareholders' equity	5.5.5	**2,516**	**2,496**
Other non-current liabilities	5.5.6	-	3
Total non-current liabilities			**3**
Other current liabilities	5.5.6	307	116
Total current liabilities		**307**	**116**
TOTAL EQUITY AND LIABILITIES		**2,823**	**2,615**

5.4.2 COMPANY INCOME STATEMENT

Company income statement

For the years ended 31 December	Note	2016	2015[1]
Revenue	5.5.7	4	2
Gross margin		**4**	**2**
General and administrative expenses	5.5.8	(27)	(31)
Operating profit/(loss) (EBIT)		**(22)**	**(29)**
Financial income		-	2
Financial expenses	5.5.9	(1)	-
Net financing costs		**(1)**	**2**
Result of Group companies	5.5.1	204	54
Profit/(Loss) before tax		**180**	**27**
Income tax expense	5.5.10	2	2
Profit/(Loss)		**182**	**29**

1 The 2015 Company income statement is restated for comparison purposes. Pursuant to the change in Section 387 of Book 2 of the Netherlands Civil Code, SBM Offshore N.V. no longer uses the exemption to present the income statement in condensed form following Section 402 of Book 2 of the Netherlands Civil Code.

5.4.3 GENERAL

The separate financial statements are part of the 2016 financial statements of SBM Offshore N.V.

The Company costs mainly comprise of management activities and cost of the headquarters office at Schiphol of which part is recharged to Group companies.

5.4.4 PRINCIPLES FOR THE MEASUREMENT OF ASSETS AND LIABILITIES AND THE DETERMINATION OF THE RESULT

SBM Offshore N.V. uses the option provided in section 2:362 (8) of the Netherlands Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of SBM Offshore N.V. are the same as those applied for the consolidated financial statements. The consolidated financial statements are prepared according to the standards set by the International Accounting Standards Board and adopted by the European Union (referred to as EU-IFRS). Reference is made to the notes to the consolidated financial statements ('5.2.7 Accounting Principles') for a description of these principles.

Investments in group companies, over which control is exercised, are stated on the basis of the net asset value.

Results on transactions, involving the transfer of assets and liabilities between SBM Offshore N.V. and its participating interests or between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealized.

5.5 NOTES TO THE COMPANY FINANCIAL STATEMENTS

5.5.1 INVESTMENT IN GROUP COMPANIES

The movements in the item Investment in Group companies are as follows:

Investment in Group companies

	2016	2015
Balance at 1 January	2,585	2,129
Reclassification to other receivables	(42)	(47)
Investments net value	**2,543**	**2,082**
Result of Group companies	204	54
Investment and other changes (a.o. IAS 39)	54	381
Divestments and capital repayments	-	39
Foreign currency variations	(27)	(13)
Movements	**230**	**461**
Balance at 31 December	**2,814**	**2,585**

The subsidiaries of the Company are the following (all of which are 100% owned):

- SBM Offshore Holding B.V., Amsterdam, the Netherlands
- SBM Group Holding Inc., Marly, Switzerland
- SBM Holding Luxembourg SARL, Luxembourg, Luxembourg
- SBM Schiedam B.V., Rotterdam, the Netherlands
- Van der Giessen-de Noord N.V., Krimpen a/d IJssel, the Netherlands
- SBM Holland B.V., Rotterdam, the Netherlands
- Capixaba Holding B.V., 's Gravenhage, the Netherlands
- XNK Industries B.V., Dongen, the Netherlands

5.5.2 DEFERRED TAX ASSET

The Company is head of a fiscal unity in which almost all Dutch companies are included.
A deferred tax asset is recognized for tax losses of the fiscal unity which can be carry forward for a period of nine years and are expected to be recovered based on anticipated future taxable profit within the Dutch fiscal unit.

5.5.3 OTHER RECEIVABLES

	31 December 2016	31 December 2015
Amounts owed by Group companies	5	21
Other debtors	-	1
Total	**5**	**22**

Receivables fall due in less than one year. The fair value of the receivables approximates the book value, due to their short-term character.

5.5.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are at the Company's free disposal.

5.5.5 SHAREHOLDERS' EQUITY

For an explanation of the shareholders equity, reference is made to the consolidated statement of changes in equity and 5.3.23 Equity Attributable to Shareholders.

Legal reserve

	31 December 2016	31 December 2015
Joint venture equity non-distributable	947	827
Capitalized development expenditure	18	15
Translation reserve	(45)	(26)
Cash flow hedges	(212)	(263)
Total	**708**	**553**

Under the Dutch guidelines for financial reporting which apply to the Company statement of financial position, a legal reserve must be maintained for the above-mentioned items.

PROPOSED APPROPRIATION OF PROFITS

With the approval of the Supervisory Board, it is proposed that the result shown in the Company income statement be appropriated as follows (in US$):

Appropriation of result

	2016
Profit/Loss attributable to shareholders	182
In accordance with Article 29 clause 4 to be transferred to retained earnings	136
At the disposal of the General Meeting of Shareholders	**46**

It is proposed that US$ 46 million of the profit of the year ended December 31, 2016 be distributed among the shareholders.

5.5.6 OTHER CURRENT AND NON-CURRENT LIABILITIES

Current and non current liabilities

	31 December 2016	31 December 2015
Amounts owed to Group companies	-	2
Total non current liabilities	**-**	**2**
Amounts owed to Group companies	303	38
Taxation and social security costs	1	5
Other creditors	3	74
Total current liabilities	**307**	**116**

The other current liabilities fall due in less than one year. The fair value of other current liabilities approximates the book value, due to their short-term character.

The movement in the current portion of 'other creditors' mainly relates to the last US$ 70 million remaining installment due, following the settlement with the Dutch Public Prosecutor's Office over the investigation into potentially improper sales payments.

5.5.7 REVENUE

The revenue comprises management fees charged to 100% owned group companies.

5.5.8 GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employee Benefits	(22)	(27)
Other costs	(5)	(4)
Total	**(27)**	**(31)**

The employee benefits include the Management Board remuneration, and recharge of other personnel costs at the headquarter, as well as share based payments (IFRS 2 costs) for the entire group. For further details on the Board of Management remuneration, reference is made to section 5.3.6 Employee Benefit Expenses.

The other costs include amongst others audit fees, legal, compliance, corporate governance and investor relation costs. For the audit fees reference is made to section 5.3.34 Auditor's Fees and Services.

5.5.9 FINANCIAL EXPENSES

The financial expenses relate to interest expenses charged by group companies to SBM Offshore N.V.

5.5.10 INCOME TAX

The income tax relates to variance on valuation allowances on deferred tax asset position recognized on the preceding years within the Dutch fiscal unity after settlements of tax positions between the Dutch group companies belonging to the fiscal unity. All tax liabilities and tax assets are transferrred to fiscal unity parent.

5.5.11 COMMITMENTS AND CONTINGENCIES

The Company has issued performance guarantees for contractual obligations to complete and deliver projects in respect of several Group companies, and fulfilment of obligations with respect to long-term lease/operate contracts. Furthermore, the Company has issued parent company guarantees in respect of several Group companies' financing arrangements.

The Company is head of a fiscal unity for current income tax in which almost all Dutch Group companies are included. Current income tax liabilities of Dutch Group compamies are settled via intercompany current accounts to the Company. This means that these companies are jointly and severally liable in respect of the fiscal unity as a whole.

5.5.12 DIRECTORS' REMUNERATION

For further details on the Directors' remuneration, reference is made to section 5.3.6 Employee Benefit Expenses of the consolidated financial statements.

5.5.13 NUMBER OF EMPLOYEES

The Company has no employee, excluding members of the Management Board.

5.5.14 AUDIT FEES

For the audit fees relating to the procedures applied to the Company and its consolidated group entities by accounting firms and external auditors, reference is made to paragraph 5.3.34 Auditor's Fees and Services of the consolidated financial statements.

5.5.15 EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the Company policy introduced in 2015 which consists of paying out 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, and, this year, considering 2016 exceptional non-recurring items, a dividend out of 2016 net income of US$ 0.23 per share will be proposed to the Annual General Meeting on April 13, 2017, corresponding to approximately 31% of the US$ 150 million Company's 2016 Directional net income adjusted, this year, for non-recurring items.

Schiphol, the Netherlands
February 8, 2017

Management Board
B.Y.R. Chabas, Chief Executive Officer
P. Barril, Chief Operating Officer
E. Lagendijk, Chief Governance and Compliance Officer
D.H.M. Wood, Chief Financial Officer

Supervisory Board
F.J.G.M. Cremers, Chairman
T.M.E. Ehret, Vice-Chairman
L.A. Armstrong
F.G.H. Deckers
F.R. Gugen
S. Hepkema
L.B.L.E. Mulliez
C.D. Richard

5.6 OTHER INFORMATION

5.6.1 APPROPRIATION OF RESULT

ARTICLES OF ASSOCIATION GOVERNING PROFIT APPROPRIATION

With regard to the appropriation of result, article 29 of the Articles of Association states:

1. When drawing up the annual accounts, the Management Board shall charge such sums for the depreciation of the Company's fixed assets and make such provisions for taxes and other purposes as shall be deemed advisable.
2. Any distribution of profits pursuant to the provisions of this article shall be made after the adoption of the annual accounts from which it appears that the same is permitted. The Company may make distributions to the shareholders and to other persons entitled to distributable profits only to the extent that its shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law. A deficit may be offset against the statutory reserves only to the extent permitted by law.
3. a. The profit shall, if sufficient, be applied first in payment to the holders of Protective Preference Shares of a percentage as specified in b. below of the compulsory amount due on these Shares as at the commencement of the financial year for which the distribution is made.
   b. The percentage referred to above in subparagraph a. shall be equal to the average of the Euribor interest charged for loans with a term of twelve (12) months - weighted by the number of days for which this interest was applicable - during the financial year for which the distribution is made, increased by two hundred (200) basis points.
   c. If in the course of the financial year for which the distribution is made the compulsory amount to be paid on the Protective Preference Shares has been decreased or, pursuant to a resolution for additional payments, increased, then the distribution shall be decreased or, if possible, increased by an amount equal to the aforementioned percentage of the amount of the decrease or increase as the case may be, calculated from the date of the decrease or from the day when the additional payment became compulsory, as the case may be.
   d. If in the course of any financial year Protective Preference Shares have been issued, the dividend on Protective Preference Shares for that financial year shall be decreased proportionately.
   e. If the profit for a financial year is being determined and if in that financial year one or more Protective Preference Shares have been cancelled with repayment or full repayment has taken place on Protective Preference Shares, the persons who according to the shareholders' register referred to in article 12 at the time of such cancellation or repayment were recorded as the holders of these Protective Preference Shares, shall have an inalienable right to a distribution of profit as described hereinafter. The profit which, if sufficient, shall be distributed to such a person shall be equal to the amount of the distribution to which he would be entitled pursuant to the provisions of this paragraph if at the time of the determination of the profits he had still been the holder of the Protective Preference Shares referred to above, calculated on a time-proportionate basis for the period during which he held Protective Preference Shares in that financial year, with a part of a month to be regarded as a full month. In respect of an amendment of the provisions laid down in this paragraph, the reservation referred to in section 2: 122 of the Dutch Civil Code is hereby explicitly made.
   f. If in any one financial year the profit referred to above in subparagraph a. is not sufficient to make the distributions referred to in this article, then the provisions of this paragraph and those laid down hereinafter in this article shall in the subsequent financial years not apply until the deficit has been made good.
   g. Further payment out of the profits on the Protective Preference Shares shall not take place.
4. The Management Board is authorised, subject to the approval of the Supervisory Board, to determine each year what part of the profits shall be transferred to the reserves, after the provisions of the preceding paragraph have been applied.
5. The residue of the profit shall be at the disposal of the General Meeting.
6. The General Meeting may only resolve to distribute any reserves upon the proposal of the Management Board, subject to the approval of the Supervisory Board.

5.6.2 INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of SBM Offshore N.V.

Report on the financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of SBM Offshore N.V. as at December 31, 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of SBM Offshore N.V. as at December 31, 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of SBM Offshore N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of SBM Offshore N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the Consolidated Statement of Financial Position as at December 31, 2016;
- the following consolidated statements for 2016: the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement; and
- the Notes to the Consolidated Financial Statements, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the Company Balance Sheet as at December 31, 2016;
- the Company Income Statement for the year then ended; and
- the Notes to the Company Financial Statements, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independance

We are independent of SBM Offshore N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context

The company engages in the construction and the leasing and operating of large and complex offshore floating production, storage and offloading vessels (FPSOs) and is affected negatively by the impact low oil prices have on their clients and prospects. The difficult market conditions, leading to a downturn in the results, affected our determination of materiality as described in the materiality section of this report; these conditions also resulted in specific areas of focus as set out in the key audit matter section of this report.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements in this context. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain in difficult market circumstances. In paragraph 5.2.7 section 'Use of estimates and judgement' of the financial statements, the company describes the areas of judgement in applying the accounting policies and key sources of estimation uncertainty. Given the significant estimation uncertainty in accruals and warranty provisions, provisions for onerous contracts and the impairment of assets, we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we considered the provisions and settlements with respect to the Brazilian activities a key audit matter, given the impact on the financial statements and the risks involved.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a company providing floating production solutions to the offshore energy industry, over the full product life-cycle. We thereto included specialists in the areas of IT, tax, valuations and pension benefit provisions in our team and discussed the compliance matters with forensics and risk management specialists.

Materiality

- Overall materiality: USD 14 million, representing 3.5% of adjusted profit and before tax

Audit scope

- We conducted audit work in 4 locations
- Site visits were conducted to Monaco
- Audit coverage: 97% of consolidated revenue and 93% of consolidated total assets and 89% of profit before tax

Key audit matters

- Difficult market conditions in the offshore oil & gas industry
- Accruals regarding delivered orders during the handover period and warranty provision
- Provision for onerous contracts and restructuring
- Triggering events resulting in impairment assesments
- Provisions and settlements with respect to Brazilian activities

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibility for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	USD 14 million (2015: USD 32.5 million).
How we determined it	3.5% of the adjusted profit before tax for 2016.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. We changed the benchmark from last year (from 5% of a three year average adjusted PBT to 3.5% of current year's adjusted PBT) to reflect the continued downturn of the global offshore oil & gas market. We believe that adjusted profit before tax is an important metric for the financial performance of the company. We also took into account other factors such as the headroom on covenants and the financial position of the Company. The profit before tax was adjusted for non-recurring items as per Note 5.3.1. of the financial statements: onerous contracts, impairment of net investment in Paenal and the increase in the provision for Brazilian settlement. We have performed specific audit procedures on these individual non-recurring items.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between USD 3 million and USD 13 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.
We agreed with the Supervisory board that we would report to them misstatements identified during our audit above USD 1.4 million (2015: USD 3.25 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. This is a decrease from last year, in line with decreased PBT as a result of no new projects commencing construction during 2016.

The scope of our group audit

SBM Offshore N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of SBM Offshore N.V.

The group audit focussed on the significant components: two regional centres in Monaco, one in Houston and the treasury function in Marly.

Two components in Monaco were subjected to full scope of audit as those components are individually significant to the group. The components Houston and Marly were subjected to specific risk-focussed audit procedures as they include significant or higher risk areas. Additionally, four components were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage, based on a regional center approach, on the financial line items:

Revenue	97%
Total assets	93%
Profit before tax	89%

For the remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components. The coverage percentages were determined on the basis of the financial information of components that are accompanied by an audit opinion from the component auditor, or were subject to specified procedures, and taken into account in full at the consolidated level.

For the audit work in Houston, Monaco and Marly, we used components auditors. Where the work was performed by them, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The group engagement team visits the component teams on a rotation basis. In the current year, the group engagement team has visited the Monaco component teams.

The group consolidation, financial statement disclosures and a number of complex (accounting) items, such as share based payments, onerous contracts, provisions, impairment analysis and the compliance matters, are audited by the group engagement team at the head office.

By performing audit procedures at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	*How our audit addressed the matter*
Difficult market conditions, no new projects from Brazil (their main market), and the Company's restructuring actions	
The continued low oil price resulted in a downturn of the global offshore oil & gas market, significantly decreasing the number of tenders and no awarding of new large Engineering Procurement Construction (EPC) contracts in 2016 for the Company. The continued downturn of the offshore oil & gas market impacted the Company's financial position and results – particularly its Turnkey segment. The Company continued its initiatives aimed at reducing cost significantly. Given these facts and circumstances, we focussed on matters such as estimates that involve significant judgement like impairments, provisioning and future scenarios (all of these are disclosed in more detail below as it regards to key audit matters) and the ability of the company to continue to operate as a going concern. With respect to the latter we focused on cash flow forecasts and different liquidity scenarios.	We have had discussions with management to understand their plans and business changes. We have considered management's assessment whether the Company would face liquidity problems as a result from the downturn in the industry, and the circumstances the Company is facing in Brazil as described in note 5.3.1. of the financial statements. Our audit procedures included obtaining a liquidity forecast and assessment of the effects of the different liquidity scenarios on the Company's compliance with its bank loan covenants. We have compared the business plans and assumptions with market data as well as with the lease contracts commenced that generate cash flows in the upcoming years. We have compared this to management's estimates included in the liquidity scenarios and based on this we found that we could concur with management's conclusion that there are no material uncertainties with respect to going concern.
Accruals regarding delivered orders during the handover period and warranty provision	
The engineering and construction of FPSOs is complex resulting in various business and financial reporting risks. During 2016, all FPSO projects reached first oil, representing finalisation of the construction phase. Significant management judgement was involved to assess the accruals for delivered orders during the handover period and for the warranty provision in case performance issues are encountered or replacement and repair of materials is applicable. This represents an inherent risk that not all cost to complete or provisions are included. Reference is made to notes 5.3.26. and 5.3.27. of the financial statements.	We examined project documentation and discussed the accruals for delivered vessels CdM, CdS and Turritella, as well as the warranty provision for vessels in operation with management, finance and technical staff of the Company. We compared prior year's budgets to prior year's actuals to assess the degree in which management is able to make reliable estimates. We have tested the controls the Company designed and implemented over its process to accrue or provide for estimated expenses during the handover respectively the warranty period. E.g. we attended Monthly Operations Review meetings in the regional centres in Houston and Monaco. We determined that we could rely on these controls for the purpose of our audit. We also performed test of details e.g. vouching to the 'punch list', reconciled the items on the punch list to the underlying calculation for estimated hours and cost to be incurred, divided in onshore work and carry-over work, vouched calculations to supplier quotes and third party surveys. We have assessed management's assumptions underlying the weighting of the scenario's such as the required repairs as per contract specifics and cost and number of hours needed for repairs, resulting into an accrual or provision balance, for reasonableness. In addition, we discussed the status of claims and legal proceedings with management, examined various claims and variation orders between the Company, subcontractors and clients and responses thereto, and obtained lawyers' letters. Our audit did not result in material audit findings in this respect.
Provision for onerous contracts and restructuring	
The market deterioration led to a decreased charter rate and worsened utilization of the Diving Support	We have assessed, challenged and performed audit procedures on the appropriateness of cash flows

Key audit matter	How our audit addressed the matter
and Construction Vessel SBM Installer, leading to a provision for onerous contracts of USD 31 million. The deterioration of the market resulted also in the Company initiating a number of restructuring initiatives that commenced in 2015 and continued in 2016, reducing the company's workforce, for which an additional provision of USD 37 million was recorded in 2016. Subsequently, unused office space led to the recognition of a USD 11 million provision for onerous contracts relating to premises in Monaco, Houston and Kuala Lumpur. Given provisions bear an inherent risk that estimated expenditure required is included and the amounts involved, we consider this a key audit matter. Reference is made to note 5.3.1. and 5.3.26. provisions.	projections stemming from management's assumptions such as vouched charter rates to contracts; assessed appropriateness of utilization and discount rate for the SBM Installer lease contract with the joint venture owning the vessel to cash flow forecasts and market data. For the unused office spaces we corroborated the provision for onerous contracts with the lease contracts of the offices in Monaco, Kuala Lumpur and Houston, and evaluated termination clauses in the contract. We assessed and challenged management's assumptions on potential sublease income, e.g. vouched to brokers' quotes to ascertain appropriateness of the rates and timing of commencement of any sublease used in the calculations and the discount rates used. We have assessed and discussed appropriateness of classification in the segment reporting. For the addition to the restructuring provision, we have assessed appropriateness and timing of expected expenditure through corroborating to timing of announcements and vouched payments made to leavers to bank statements. Our testing did not reveal any material exceptions.
Triggering events resulting in impairment assessments	
The company identified an impairment trigger e.g. as a result of the worsened utilization of the Brasilian (Brasa) yard as well as performed its annual testing of impairment of the Houston goodwill. This required an impairment assessment of the carrying value of the goodwill and the Brasa yard based on the future cash flows of these assets and/or the cash generating units to which the assets are allocated. Each assessment contains a number of variables that are subject to (significant) judgement e.g. future level of business at the joint venture yards (expected brown field and integration projects), average margin on those projects, level of required operational and capital expenditure relative to the size of the business. The goodwill (USD 25 million) and investment in the Brasa yard (USD 35 million) did not require impairment. The investment in joint venture relating to the Angolan (Paenal) yard was already reduced to zero, where the company's share in losses continued to be recognized against the shareholder loans. The worsened utilization of the yard and deteriorated outlook for Angola triggered an additional incurred loss (impairment) on the shareholder loans of USD 59 million, resulting in a net book value of USD 41 million. Reference is made to note 5.3.13, 5.3.15. and 5.3.31. to the financial statements. Given the materiality of the assets, the recognition of any further (incurred) impairment loss could have a significant effect on the financial statements. As performing the impairment test involves significant judgement, we identified an increased risk of overstatement of the value of the related assets in our audit planning. Therefore we considered this area to be a key audit matter.	For Brasa and the goodwill, we evaluated and challenged the composition of management's future cash flow forecasts and the process by which they were drawn up. We performed audit procedures on management's assumptions such as revenue and margin from expected brown field and integration projects, the discount rate, terminal value, operational and capital expenditure, number of employees. We have obtained corroborative evidence for these assumptions such as approval of the 3 year plan, number of total brown field projects to undergo maintenance in the area, breakdown of expected integration projects to be undertaken in the area. We performed analyses to assess the reasonableness of forecasted revenues, margins and expenditures in line with the level of activity forecasted, and obtained further explanations when considered necessary. We compared the long term growth rates used in determining the terminal value, with economic and industry forecasts. We have included valuations experts in our audit team, together we have re-performed calculations, compared with generally accepted valuation techniques, assessed appropriateness of the cost of capital for the company and comparable assets, as well as considered territory specific factors and assessed appropriateness of disclosure of the key assumptions and sensitivities underlying the tests. We found the assumptions to be consistent and in line with our expectations. We have also assessed the impairment of the shareholder loans to the Angolan yard in accordance with IAS 39 by assessing management's estimate of future cash flows as described above. Our audit procedures did not indicate material findings with respect to the impairments as recorded and disclosed in the financial statements for an amount of USD 59 million.

Key audit matter	*How our audit addressed the matter*
Provisions and settlements with respect to Brazilian activities	
The Investigation by the Brazilian authorities into alleged improper sales practices in Brazil as reported in prior years has led the company to negotiating a settlement. The company announced the signing of the leniency agreement in July of 2016. Early September 2016, the company was informed that the Fifth Chamber of the Brazilian Federal Prosecutor Service did not approve the leniency agreement and has since then sought clarification of the decision as well as entered into discussions to seek progression of the matter. As a result of accretion and delay of first payments that were agreed under the leniency agreement, the provision stands at USD 281 million at December 31, 2016. Considering the significance of the provision, we considered this a key audit matter. Reference is made to notes 5.3.1. and 5.3.26. of the financial statements.	We have discussed the status of the Brazilian settlement negotiations with the management board. We have examined various in- and external documents. In addition, we assessed the accounting for the settlement agreement with Petrobras and the Brazilian authority, the CGU. The company is of the opinion that it is probable that a settlement in line with the signed leniency agreement will be reached and is in a position to make a reasonable estimate of the cost of such a potential settlement. We have assessed the reasonableness of such estimate through reconciliation with the leniency agreement, signed by all parties, inquiry with the management board and discussions held with the Brazilian and Dutch external lawyers confirmed by a lawyers letters. We have assessed the adequacy of the related disclosure in note 5.3.1. The amount provided is management's best estimate. We concur with the accounting and disclosure note in the financial statements.

Report on the other information included in the annual report

In addtion of the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the director's report as included in chapter 1 to 5.1,
- the non-financial data and other information as included in chapter 6 and 7, and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered wheter the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of SBM Offshore N.V. on November 13, 2013 subject to the passing of a resolution by the shareholders at the annual meeting held on April 17, 2014 and have been reappointed in the 2016 annual meeting of shareholders representing a total period of uninterrupted engagement appointment of 3 years.

Responsabilities for the financial statements and the audit

Responsabilities of the management board and the supervisory board for the financial statements

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements. The Supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, February 8, 2017
PricewaterhouseCoopers Accountants N.V.

M. de Ridder RA

Appendix to our auditor's report on the financial statements 2016 of SBM Offshore N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

5.7 KEY FIGURES

Key financial figures

	2016	2015	2014	2013	2012
Turnover	**2,272**	2,705	5,482	4,584	3,639
Results					
Net profit/(loss) (continuing operations)	**247**	110	652	175	-75
Dividend	**46**	45	-	-	-
Operating profit (EBIT)	**564**	239	726	188	38
EBITDA	**772**	462	926	592	681
Shareholders’ equity at 31 December	**2,516**	2,496	2,419	2,039	1,459
Net debt	**5,216**	5,208	4,775	3,400	1,816
Capital expenditure	**15**	24	65	186	655
Depreciation, amortisation and impairment	**208**	223	199	404	643
Number of employees (average)	**5,237**	7,300	8,330	7,126	5,275
Employee benefits	**512**	704	861	831	750
Ratios (%)					
Shareholders' equity : net assets	**26**	28	30	31	0
Current ratio	**112**	244	170	184	117
Return on average capital employed	**6.3**	2.8	10.0	3.5	1.1
Return on average shareholders' equity	**7.3**	1.2	25.8	6.5	(5.8)
Operating profit (EBIT) : net turnover	**24.8**	8.8	13.3	4.1	1.0
Net profit/(loss) : net turnover	**10.9**	4.1	11.9	3.8	(2.1)
Net debt : total equity	**148**	150	152	118	119
Enterprise value : EBITDA	**12.4**	19.3	8.6	14.3	6.3
Information per Share (US$)					
Net profit/(loss)	**0.87**	0.14	2.75	0.56	-0.44
Dividend	**0.23**	0.21	-	-	-
Shareholders' equity at 31 December	**12.00**	12.00	12.00	10.00	7.71
Share price (€)					
- 31 December	**14.92**	11.66	9.78	14.80	10.50
- highest	**15.20**	13.80	15.65	16.18	16.39
- lowest	**9.59**	8.11	8.74	10.04	7.71
Price / earnings ratio	**18.4**	93.4	4.3	37.2	NA
Number of shares issued (x 1,000)	**213,471**	211,695	209,695	208,747	189,142
Market capitalization (US$ mln)	**3,357**	2,739	2,490	4,247	2,625
Turnover by volume (x 1,000)	**379,108**	478,943	516,024	359,517	481,719
New shares issued in the year (x 1,000)	**1,776**	2,000	948	18,914	17,112

Key Directional financial figures

	2016	2015	2014	2013	2012
Turnover	**2,013**	2,618	3,545	3,373	3,059
Lease and Operate	**1,310**	1,105	1,059	1,006	977
Turnkey	**702**	1,512	2,487	2,367	2,082
EBIT	**290**	191	201	63	(79)
Lease and Operate	**398**	315	274	(204)	(341)
Turnkey	**(22)**	231	195	288	311
Other	**(86)**	(354)	(268)	(21)	(49)
EBITDA	**725**	561	486	520	623
Net Profit	**24**	24	84	(58)	(175)