2017 ANNUAL REPORT

SBM OFFSHORE

EXPERIENCE MATTERS

The interest addition to provisions is mainly due to the unwinding of the discounting impact on the provision for potential contemplated settlement with Brazilian authorities and Petrobras recognized in 2015.

4.3.8 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of US$ 33 million (2016: US$ 29 million) and mainly relate to Digital FPSO, Renewables and FLNG product line development costs 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' when the developed technology is used through one or several projects. Otherwise, it is allocated to the 'Research and development expenses'.

4.3.9 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 profit 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 income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	**2017**	2016
Corporation tax on profits for the year		(18)	(12)
Adjustments in respect of prior years		1	6
Total current income tax		**(17)**	**(5)**
Deferred tax	*4.3.16*	(10)	(22)
Total		**(26)**	**(28)**

The Company's operational activities are subject to taxation at rates which range up to 35% (2016: 35%).

For the year ended December 31, 2017, 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 resulted in an effective tax on continuing operations of 96.8% (2016: 9.6%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2017 %	2017	2016 %	2016
Profit/(Loss) before tax		**25**		**275**
Share of profit of equity-accounted investees		(2)		(14)
Profit/(Loss) before tax and share of profit of equity-accounted investees		**27**		**288**
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(7)	25%	(72)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other jurisdictions	117%	(32)	(19%)	55
Withholding taxes and taxes based on deemed profits	8%	(2)	2%	(5)
Non-deductible expenses	71%	(19)	17%	(49)
Non-taxable income	(291%)	79	(30%)	87
Adjustments related to prior years	(2%)	1	(2%)	6
Adjustments recognized in the current year in relation to deferred income tax of previous year	(1%)	0	6%	(18)
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	171%	(46)	13%	(36)
Movements in tax risks provision	1%	0	(1%)	3
Total tax effects	**73%**	**(20)**	**(15%)**	**44**
Total of tax charge on the Consolidated Income Statement	**97%**	**(26)**	**10%**	**(28)**

The 2017 Effective Tax Rate of the Company was primarily impacted by valuation allowance on deferred tax assets concerning the Netherlands, Luxembourg, Switzerland, Canada, Brazil, Monaco and the US as well as for material non-recurring expenses without tax deduction in the profit and loss account.

With respect to the annual effective tax rate calculation for the year 2017, 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 Switzerland, Equatorial Guinea, Canada and the US.

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

Withholding taxes and taxes based on deemed profits

	2017			2016		
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Taxes based on deemed profit	Total	Withholding tax	Taxes based on deemed profit	Total
Angola	0	-	0	(4)	-	(4)
Equatorial Guinea	0	-	0	0	-	0
Brazil	0	1	1	0	-	0
Guyana	(2)	-	(2)	-	-	-
Other[1]	(1)	0	(1)	0	(1)	(1)
Total withholding and overseas taxes	**(3)**	**1**	**(2)**	**(4)**	**(1)**	**(5)**

1 other includes Nigeria, the Republic of Congo and Ghana

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 difference in alignment 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 increase of US$ 14.8 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 various taxes other than corporate income tax. 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.