2017
ANNUAL REPORT

EXPERIENCE MATTERS

4.

FINANCIAL STATEMENTS 2017

EXPERIENCE MATTERS

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4 FINANCIAL STATEMENTS 2017

4.1 FINANCIAL REVIEW

4.1.1 FINANCIAL OVERVIEW

	Directional		IFRS	
in US$ million	FY 2017	FY 2016	FY 2017	FY 2016
Revenue	**1,676**	**2,013**	**1,861**	**2,272**
Lease and Operate	1,501	1,310	1,554	1,273
Turnkey	175	702	307	1,000
EBITDA	**596**	**725**	**611**	**772**
Lease and Operate	954	823	920	733
Turnkey	21	(14)	71	124
Other	(380)	(84)	(380)	(84)
Underlying EBITDA	**806**	**778**	**822**	**825**
Lease and Operate	954	823	920	733
Turnkey	(86)	18	(36)	155
Other	(62)	(62)	(62)	(62)
Profit/(loss) attributable to shareholders	**(203)**	**(5)**[1]	**(155)**	**182**
Underlying profit attributable to shareholders	**80**	**121**	**151**	**308**

1 Restated for comparison purpose, please refer to note 4.3.2

	Directional		IFRS	
in US$ billion	FY 2017	FY 2016	FY 2017	FY 2016
Backlog	16.8	17.1	-	-
Net Debt	2.7	3.1	4.6	5.2

Segment information

The Company's primary business segments are Lease and Operate and Turnkey plus 'Other' non-allocated corporate income and expense items. Revenue, gross margin, EBIT and EBITDA are analyzed by segment but it should be recognized that business activities are closely related. For example, sales costs are incurred and allocated to the Turnkey segment even though a prospect may be ultimately a Lease and Operate contract.

In recent years, new lease contracts have shown a longer duration and were 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 accounting treatment results in the acceleration of recognition of lease revenues and profits into the construction phase of the asset, whereas the asset becomes cash generating only after construction and commissioning activities have been completed. In the case of an operating lease, lease revenues and profits are recognized during the lease period, in effect more closely tracking cash receipts. Following the implementation of accounting standards IFRS 10 and 11 relating to consolidation, it has also become challenging to extract the Company's proportionate share of results. To address these accounting issues, the Company discloses Directional reporting in addition to its IFRS reporting. Directional reporting treats all lease contracts as operating leases and consolidates all co-owned investees related to lease contracts on a proportional basis. Under Directional, the accounting results more closely track cash flow generation and this is the basis used by the Management of the Company to monitor performance and business planning. Reference is made to note 4.3.2 for further detail on the main principles of Directional reporting.

As the Management Board, as chief operating decision maker, monitors the operating results of its operating segments primarily based on Directional reporting, the financial information in this section 4.1 'Financial review' is presented both under Directional and IFRS while the financial information presented in note 4.3.2 'Operating segments and Directional reporting' is presented under Directional with a reconciliation to IFRS. For clarity, the remainder of the financial statements are presented solely under IFRS.

Underlying performance

Non-recurring items for 2017 are impacting the Directional profit attributable to shareholders by US$ (283) million as follows:

- US$ (210) million impact on EBITDA relating to (i) the penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') (US$ (238) million), (ii) the Yme project estimated net insurance claim income (US$ 125 million, net of claim-related costs incurred and accounted for in 2017) (iii) the compensation to the partners in the investee owning the *Turritella* (FPSO) following the purchase option exercised by Shell (US$ (80) million) and (iv) the net increase of the provision for the onerous long-term charter contract with the SBM Installer[1] (US$ (17) million).
- US$ (39) million impact on net financing costs, relating to (i) unwinding of the discount on the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ (18) million) and (ii) the hedge accounting discontinuance of the interest rate swap on the *Turritella* (FPSO) project loan (US$ (21) million).
- US$ (34) million impact on the line item 'Share of profit of equity-accounted investees' relating to the impairment of the Company's carrying amount of the net investment in the joint venture owning the Paenal construction yard.

In addition to the above items, IFRS results include a US$ (40) million impairment of the *Turritella* (FPSO) finance lease receivable, following the purchase option exercised by Shell. Given the Company's share in the investee owning the *Turritella* (FPSO) (55%), this impairment impacts the IFRS profit attributable to shareholders by US$ (22) million and the profit attributable to non-controlling interests by US$ (18) million. As a result, total non-recurring items for 2017 underlying performance are impacting the IFRS profit attributable to shareholders by US$ (306) million.

For reference, non-recurring items for 2016 were impacting the profit attributable to shareholders by US$ (126) million with the same impact in both IFRS and Directional as follows:

- US$ (53) million on EBITDA, related to (i) the provision for an onerous long-term charter contract with the SBM Installer[1] (US$ (31) million) and (ii) the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ (22) million).
- US$ (14) million on net financing costs for the unwinding of discount on the provision for contemplated settlement with Brazilian authorities and Petrobras.
- US$ (59) million impact on the line item 'Share of profit of equity-accounted investees' related to the impairment of the Company's carrying amount for the net investment in the joint venture owning the Paenal construction yard.

4.1.2 FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights (please refer to section 4.3.1 for more detail).

Awarded Turnkey and Lease and Operate Contracts for the ExxonMobil Liza FPSO

On June 22, 2017 the Company announced that ExxonMobil had formally confirmed the award of contracts for the next phase of the Liza project in Guyana. Under these contracts, the Company will construct, install and lease a floating production, storage and offloading vessel (FPSO). The operating and maintenance scope, agreed in principle, is subject to a final work order.

Turritella (FPSO) Purchase Option Exercised by Shell

On July 11, 2017 the Company announced that Shell E&P Offshore Services B.V. (Shell) notified the Company of the fact that Shell was exercising its right under the charter agreement to purchase the *Turritella* (FPSO). The purchase allows a Shell affiliate to assume operatorship of the Stones development in its entirety. The transaction closed on January 16, 2018 following a transition window which allowed for a safe and controlled handover of operations.

The total impact of the exercise of the purchase option on the result attributable to the shareholders of the Company recognized over 2017 is a loss of US$ (123) million under IFRS and a loss of US$ (101) million under Directional. Under Directional reporting, in accordance with the requirements of IFRS, the positive result on the sale of the vessel will be accounted for in 2018.

[1] Diving Support and Construction Vessel (DSCV) – one of two units in SBM Offshore's installation fleet

Agreed Heads of Terms for Settlement with a Majority Group of Primary Layer Insurers on the Yme Insurance Claim

In Q3 2017, the Company announced that it had entered into a binding settlement with an 83.6% majority group of the US$ 500 million primary insurance layer relating to the Company's insurance claim arising from the Yme project. Pursuant to that agreement, the Company received the sum of US$ 281 million in full and final settlement of its claim against those participating insurers.

The funds received will first be used to cover legal fees and expenses incurred in the claim, with the balance then being shared equally with Repsol.

The Company continues to pursue its claim against all remaining insurers including the two excess layers, the trial of which is scheduled to commence in October 2018.

The impact on the consolidated income statement for the year ended December 31, 2017 is an estimated insurance income of US$ 125 million, net of the claim-related costs incurred and accounted for in 2017.

DSCV SBM Installer Charter Contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to still challenging conditions in the offshore oil and gas industry, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract expected to exceed the economic benefits to be received. As a result, the contract continues to be classified as onerous and the non-cash provision for onerous contract has been increased by US$ 33 million, recognized in the gross margin of the Turnkey segment as of December 31, 2017. Taking into account use of the provision already provided for at December 31, 2016, the net increase in the provision in 2017 is US$ 17 million.

Investment in JV holding Construction Yard Paenal

As the activity outlook for the Paenal construction yard operating in Angola has continued to deteriorate, the Company's investment in the joint venture owning the Paenal construction yard (30% ownership) has been fully impaired to a net book value of zero, resulting in an additional impairment charge of US$ 34 million accounted for in the consolidated income statement for the year ended December 31, 2017.

DoJ settlement penalties in United States

On November 30, 2017, the Company announced that it has signed a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the reopened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil.

As part of the overall resolution, SBM Offshore USA, Inc. a U.S. subsidiary of the Company, pleaded guilty to a single count of conspiracy to commit a violation of the U.S. Foreign Corrupt Practices Act. The Company agreed to pay monetary penalties in the total amount of US$ 238 million, paid out in cash in December 2017 and accounted for in the consolidated income statement for the year ended December 31, 2017.

Provision for Brazil settlement in Brazil

The discussions relating to the leniency agreement which was signed on July 16, 2016 but which was ultimately sent back for adjustment to the Public Prosecutor by the Brazilian Fifth Chamber for Coordination and Review and Anti-corruption remain complex. It has transpired that two leniency agreements are now required which necessitate agreement and coordination among the multiple parties involved. Consequently, a resolution has not yet been reached.

The Company confirmed its commitment to close out its legacy issues in Brazil and its willingness in principle to pay the previously agreed substantial amounts which remains the Company's best estimate for an eventual settlement.

A provision of US$ 281 million was included in the year ended December 31, 2016 consolidated financial statements and has been updated during 2017 to US$ 299 million, with the increase being due to the time value of money. In

view of the current situation, which remains complex, the Company cannot guarantee that a satisfactory resolution will be reached. Given the range of options available, which could lead to a potential upside or downside related to the amount to settle, the Company has assessed that the provision in the financial statements is the most valid and substantiated outcome, as having previously been agreed to by the Brazilian authorities, Petrobras and the Company

Awarded Turnkey Contract for Statoil's Johan Castberg Turret Mooring System
On December 6, 2017 the Company announced that Statoil had formally confirmed the award of a contract related to the engineering, procurement and construction (EPC) work scope for a large-scale turret mooring system for its Johan Castberg development in Norway.

4.1.3 FINANCIAL REVIEW DIRECTIONAL

BACKLOG

Under Company policy, the backlog would not yet take the sale of *Turritella* (FPSO) into account with the closing of the transaction occuring only in January 2018. This also holds for the agreed FPSO *Liza* operating and maintenance scope, which is agreed in principle but pending a final work order. However, for the purpose of transparency and to better reflect the current reality, the pro-forma backlog represented in the table below takes both into account.

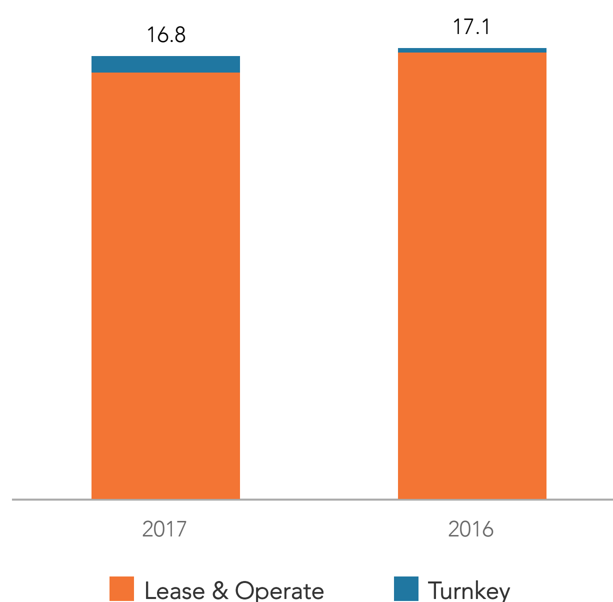
New orders for the year totaled to US$ 2,608 million as a result of the awards of the FPSO *Liza*, the Johan Castberg EPC contract for a large-scale turret mooring system, the five year operating and maintenance contract on FPSO *Serpentina* and various buoys and offshore terminal EPC contracts. This compares to US$ 110 million achieved in 2016. This increase is partially offset by the decrease in backlog resulting from the sale of *Turritella* (FPSO), effective early 2018.

Consequently, the proforma Directional backlog at the end of 2017 remains substantial at US$ 16.8 billion (US$ 17.1 billion at the end of 2016).

Proforma Backlog (in billions of US$)

in billion US$	Turnkey	Lease & Operate	Total
2018	0.2	1.3	1.5
2019	0.2	1.3	1.5
2020	0.2	1.5	1.7
Beyond 2020	0.0	12.1	12.1
Total Backlog	0.6	16.2	16.8

Proforma Backlog (in billions of US$)

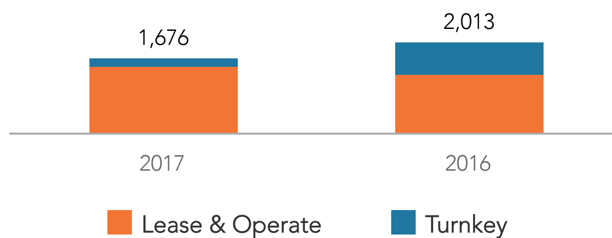


PROFITABILITY

Revenue

Directional revenue decreased by 17% to US$ 1,676 million compared to US$ 2,013 million in the year-ago period. This was primarily attributable to lower Turnkey segment revenues.

Revenue Directional (in millions of US$)



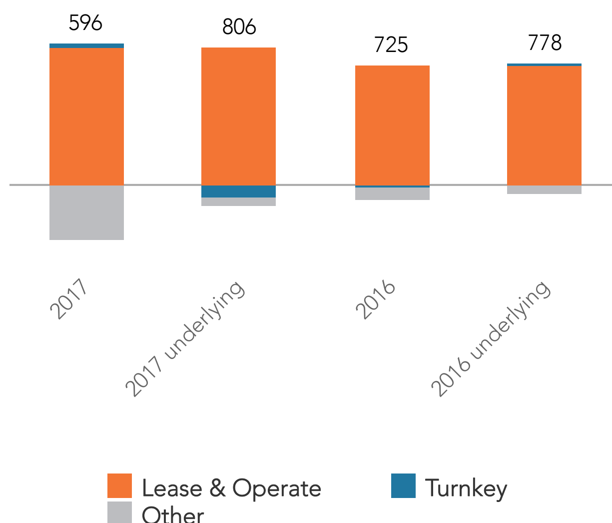
Directional Turnkey revenue decreased by 75% year-on-year to US$ 175 million, representing 10% of total 2017 revenue. This compares to US$ 702 million, or 35% of total revenue, in 2016. The decrease is mostly attributable to the completion stage reached in the course of 2016 on Ichthys turret and FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella* while new major awards won during 2017 are expected to materially contribute to Turnkey revenues in 2018.

Directional Lease and Operate revenue increased by 15% to US$ 1,501 million, representing 90% of total Directional revenue contribution in 2017, up from the 65% contribution in 2016. The increase in segment revenue is attributable to the full year operation of FPSO *Cidade de Maricá* (on hire as of February 7, 2016), FPSO *Cidade de Saquarema* (on hire as of July 8, 2016) and *Turritella* (FPSO) (on hire as of September 2, 2016) while no vessel has been decommissioned during 2017.

EBITDA

Directional EBITDA amounted to US$ 596 million, representing a 18% decrease compared to US$ 725 million in 2016. This figure includes non-recurring net costs totaling US$ 210 million (please refer to the detail provided in section 4.1.1).

EBITDA Directional (in millions of US$)

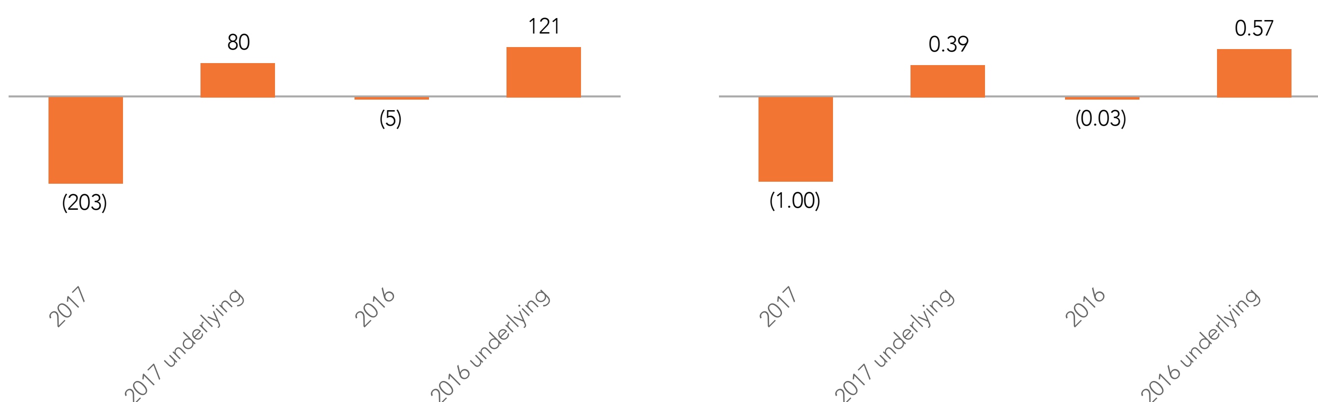


Adjusted for non-recurring items, underlying Directional EBITDA increased by 4% to US$ 806 million compared with US$ 778 million in 2016. This increase is primarily attributable to the Lease and Operate segment generating US$ 132 million additional EBITDA with full year contribution of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*. Despite the significant decline of Turnkey activity year-on-year, underlying Turnkey EBITDA has been held to a loss of US$ (86) million due to sound performance in project close out.

As a percentage of revenue, underlying Directional EBITDA was 48% (2016: 39%). Underlying Directional EBITDA margin for the Lease and Operate segment stood at 64%, an increase compared with 63% in 2016, while Turnkey segment underlying Directional EBITDA margin decreased to (49)% compared to 3% in 2016, as the level of project activity was not sufficient to absorb structural cost.

It should be noted that the start of the construction of the FPSO Liza did not contribute to Directional revenue and gross margin over the period. This is because the contract is 100% owned by the Company and classified as operating lease as per Directional accounting principles.

Net income



Directional consolidated net income for 2017 decreased to a US$ (203) million loss compared to a US$ (5) million loss in 2016 (restated for comparison purposes due to change in accounting policy for Directional income tax computation, please refer to note 4.3.2). This result includes non-recurring items, which generated a net loss of US$ (283) million in 2017 compared to a net loss of US$ (126) million in 2016.

Excluding non-recurring items, 2017 underlying consolidated Directional net income attributable to shareholders stood at US$ 80 million, a decrease of US$ 41 million from the previous year. After considering depreciation and net financing cost (increasing year-on-year caused by the full year contribution of the additional three FPSOs delivered in 2016), the increased contribution of the Lease and Operate activity was not sufficient to absorb the decrease in Turnkey EBITDA and the negative contribution of the Company's share of profit of equity-accounted investees over the period. This follows the Company's strategy to maintain Turnkey capacity to a level which should enable it to benefit from the expected improvement in the offshore market in the coming years.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2017	2016
Total equity	1,097	1,159
Net debt	2,687	3,107
Net Cash	878	823
Total assets	6,915	7,296
Leverage ratio	3.0	2.8
Solvency ratio	32.5	32.4

Total assets decreased to US$ 6.9 billion as of December 31, 2017 compared to US$ 7.3 billion at year-end 2016. This decrease is mainly attributable to vessel depreciation over the period.

Shareholder's equity decreased from US$ 1,159 million to US$ 1,097 million mostly due to the 2017 net loss and dividends paid to shareholders, partially offset by increasing marked-to-market value of hedging instruments, mainly driven by the fall in the US$ exchange rate versus the hedged currencies.

Directional net debt was US$ 2,687 million at year-end 2017 compared with US$ 3,107 million in 2016. The strong operating cash flow from the Lease and Operate segment and the proceeds from the Yme insurance claim were more than sufficient to cover Turnkey cash consumption, corporate overheads, payment of the non-recurring penalty to the U.S. DoJ, investing activities, dividends and interest paid over the period. All of the Company's debt consists of non-recourse project financing in special purpose investees with no borrowing at corporate level as of December 31, 2017.

The relevant banking covenants (solvency ratio, leverage ratio (net debt/adjusted EBITDA) and interest cover ratio) were all met at December 31, 2017. As in previous years, the Company has no off-balance sheet financing.

Despite the market downturn, the Company's financial position has remained strong thanks to the growth of the cash flow generated by the fleet and the adaptation of the Turnkey segment to a slow market.

CASH FLOW / LIQUIDITIES

Cash and undrawn committed credit facilities amounted to US$ 1,878 million, of which US$ 254 million is considered as pledged to specific project debt servicing or otherwise restricted in its utilization.

The consolidated cash flow statement under Directional reporting is as follows:

in millions of US$	2017
EBITDA	**596**
Adjustments for non-cash and investing items	
Addition/(release) provision	292
(Gain)/loss on disposal of property, plant and equipment	0
Share-based payments	12
Changes in operating assets and liabilities	
Decrease in operating receivables	31
Increase in construction work-in-progress	7
Decrease in operating liabilities	(201)
Income taxes paid	(30)
Net cash from operating activities	**707**
Capital expenditures	(96)
Addition to and repayments of funding loans	38
Other investing activities	30
Net cash used in investing activities	**(28)**
Addition to and repayments of borrowings and loans	(381)
Dividends paid to shareholders	(47)
Interest paid	(192)
Net cash used in financing activities	**(620)**
Foreign currency variations	(3)
Net increase in cash and cash equivalents	**55**

4.1.4 FINANCIAL REVIEW IFRS

PROFITABILITY

Revenue

Total IFRS revenue decreased during the year, down by 18% to US$ 1,861 million versus US$ 2,272 million in 2016, despite an increase of 22% for the Lease and Operate segment. This was mainly attributable to significantly lower revenue generated by the Turnkey segment upon completion of major projects in the course of 2016 while awards won during 2017 will start to materially contribute to Turnkey revenues in 2018.

EBITDA

IFRS EBITDA amounted to US$ 611 million, representing a 21% decrease compared with US$ 772 million in 2016.

Adjusted for non-recurring items, 2017 underlying IFRS EBITDA is stable at US$ 822 million compared with US$ 825 million in 2016. This is primarily attributable to the Lease and Operate segment with full year contribution of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*. Despite the significant decline of Turnkey activity year-on-year, the underlying Turnkey EBITDA has been held to a loss of US$ (36) million due to sound performance in project close out.

It should be noted that the start of the construction of the FPSO *Liza* did not yet contribute to the IFRS gross margin given the Company policy of not recognizing margin before it could be estimated reliably thanks to substantial progress in engineering activity and the completion of an independent project review, typically at around 25% of project progress.

Net income

After IFRS non-controlling interest of US$ 154 million included in 2017 net income and related to reported results from consolidated investees where the Company has a minority partner (principally Brazilian FPSOs, *Aseng* and *Turritella*), IFRS net income attributable to shareholders is a loss of US$ (155) million compared to US$ 182 million profit in 2016. This result includes non-recurring items which generated a net loss of US$ (306) million in 2017 compared to a net loss of US$ (126) million in 2016.

Excluding non-recurring items, 2017 underlying consolidated IFRS net income attributable to shareholders was therefore US$ 151 million, a decrease of US$ 157 million from the previous year.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2017	2016	2015	2014	2013
Total equity	3,559	3,513	3,465	3,149	2,887
Net debt	4,613	5,216	5,208	4,775	3,400
Net Cash	957	904	515	475	208
Total assets	11,007	11,488	11,340	11,118	8,749

Total assets decreased to US$ 11.0 billion as of December 31, 2017 compared with US$ 11.5 billion at year-end 2016. This decrease is mainly attributable to finance lease redemptions and capex depreciation over the period, partially offset by increased construction work-in-progress explained by the start of construction activities for FPSO *Liza* during the period.

Total equity increased from US$ 3,513 million to US$ 3,559 million, mostly due to increasing marked-to-market value of hedging instruments partially offset by dividends paid to shareholders and non-controlling interests.

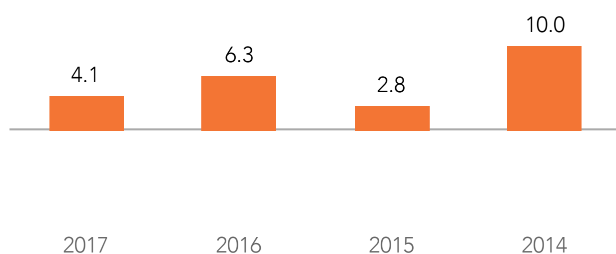
IFRS net debt was US$ 4,613 million at year-end 2017 compared with US$ 5,216 million in 2016. The decrease of the net debt is mainly related to strong operating cash flow generated by the Lease and Operate segment and the proceeds from the Yme insurance claim more than covering Turnkey cash consumption, corporate overheads, the penalty to the U.S. Department of Justice ('DoJ'), dividends and interest paid over the period.

All of the Company's debt consists of project financing in special purpose investees with no borrowing at corporate level as of December 31, 2017.

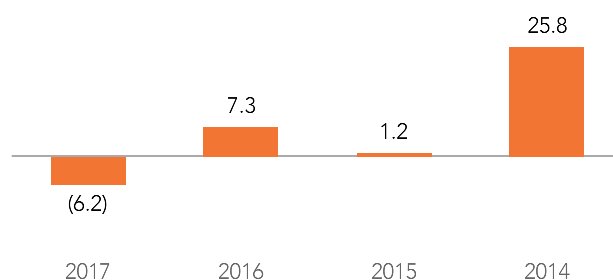
RETURN ON CAPITAL EMPLOYED AND EQUITY

Both IFRS return on average capital employed (ROACE) and return on average shareholders' equity (ROAE) decreased to 4.1% and (6.2)% respectively in 2017. This was primarily the result of the lower EBIT and net loss reported under IFRS in 2017 while equity and capital employed remained stable.

Return on Average Capital Employed (%)



Return on Average Equity (%)



4.1.5 OUTLOOK AND GUIDANCE

Management expects the deep water oil and gas market to continue to recover on the basis of improved break-even prices of world-class reservoirs combined with clients gaining confidence in long-term returns of offshore projects. Medium-term market visibility has improved as there is increased client demand for front-end engineering and design (FEED) scope aiming at optimizing project returns so that Final Investment Decisions (FIDs) can be taken. The Company continues to believe that deep water developments have a significant role to play in the energy mix of the future. The low level of investment in offshore projects over the past years has the potential to cause a long-term supply gap as reservoir decline rates are not offset by new production.

The Company's 2018 Directional revenue guidance is around US$ 1.9 billion, with around US$ 1.3 billion from Lease and Operate and around US$ 600 million from Turnkey. Guidance for 2018 Directional EBITDA is around US$ 750 million. This excludes the gain on the sale of *Turritella* (FPSO) (US$ 213 million) and the expected positive impact from implementation of IFRS16 (c. US$ 35 million) which the Company has decided to adopt early from 2018.

The Company expects that the performance of its Turnkey division will improve in line with the gradual market recovery in 2018 with 2017 being the turning point of the current cycle.

The above guidance assumes a partial sell-down of the Company's ownership share of FPSO Liza, which remains subject to negotiation and Management decision. Should expectation of this scenario change, guidance will be adjusted accordingly.

4.2 CONSOLIDATED FINANCIAL STATEMENTS

4.2.1 CONSOLIDATED INCOME STATEMENT

in millions of US$	Notes	2017	2016
Revenue	4.3.2 / 4.3.3	1,861	2,272
Cost of sales	4.3.5	(1,064)	(1,434)
Gross margin	4.3.2	**797**	**838**
Other operating income/(expense)	4.3.4 / 4.3.5	(239)	(66)
Selling and marketing expenses	4.3.5	(36)	(37)
General and administrative expenses	4.3.5	(132)	(142)
Research and development expenses	4.3.5 / 4.3.8	(33)	(29)
Operating profit/(loss) (EBIT)	4.3.2	**358**	**564**
Financial income	4.3.7	27	26
Financial expenses	4.3.7	(358)	(301)
Net financing costs		**(331)**	**(275)**
Share of profit of equity-accounted investees	4.3.31	(2)	(14)
Profit/(loss) before tax		**25**	**275**
Income tax expense	4.3.9	(26)	(28)
Profit/(loss)		**(1)**	**247**
Attributable to shareholders of the parent company		(155)	182
Attributable to non-controlling interests	4.3.32	154	65
Profit/(loss)		**(1)**	**247**

Earnings/(loss) per share

	Notes	2017	2016
Weighted average number of shares outstanding	4.3.10	202,849,287	210,568,416
Basic earnings/(loss) per share	4.3.10	US$ (0.76)	US$ 0.87
Fully diluted earnings/(loss) per share	4.3.10	US$ (0.76)	US$ 0.87

4.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of US$	2017	2016
Profit/(Loss) for the period	**(1)**	**247**
Cash flow hedges	200	77
Deferred tax on cash flow hedges	-	(14)
Foreign currency variations	(15)	(17)
Items that are or may be reclassified to profit or loss	**185**	**46**
Remeasurements of defined benefit liabilities	7	4
Deferred tax on remeasurement of defined benefit liabilities	0	0
Items that will never be reclassified to profit or loss	**7**	**3**
Other comprehensive income for the period, net of tax	**192**	**50**
Total comprehensive income for the period, net of tax	**191**	**296**
Of which		
- on controlled entities	192	314
- on equity-accounted entities	0	(18)
Attributable to shareholders of the parent company	23	215
Attributable to non-controlling interests	169	81
Total comprehensive income for the period, net of tax	**191**	**296**

4.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in millions of US$	Notes	31 December 2017	31 December 2016
ASSETS			
Property, plant and equipment	4.3.12	1,243	1,474
Intangible assets	4.3.13	42	46
Investment in associates and joint ventures	4.3.31	457	484
Finance lease receivables	4.3.14	5,945	7,232
Other financial assets	4.3.15	201	249
Deferred tax assets	4.3.16	27	29
Derivative financial instruments	4.3.20	8	8
Total non-current assets		**7,922**	**9,522**
Inventories	4.3.17	10	5
Finance lease receivables	4.3.14	1,252	328
Trade and other receivables	4.3.18	635	681
Income tax receivables		10	-
Construction work-in-progress	4.3.19	134	15
Derivative financial instruments	4.3.20	85	30
Cash and cash equivalents	4.3.21	957	904
Assets held for sale	4.3.22	2	1
Total current assets		**3,085**	**1,965**
TOTAL ASSETS		**11,007**	**11,488**
EQUITY AND LIABILITIES			
Issued share capital		62	56
Share premium reserve		1,163	1,163
Treasury shares		(35)	(166)
Retained earnings		1,376	1,697
Other reserves		(65)	(235)
Equity attributable to shareholders of the parent company	4.3.23	**2,501**	**2,516**
Non-controlling interests	4.3.32	1,058	996
Total Equity		**3,559**	**3,513**
Loans and borrowings	4.3.24	4,347	5,564
Provisions	4.3.26	242	257
Deferred income	4.3.25	249	263
Deferred tax liabilities	4.3.16	16	10
Derivative financial instruments	4.3.20	80	122
Total non-current liabilities		**4,935**	**6,215**
Loans and borrowings	4.3.24	1,223	557
Provisions	4.3.26	588	347
Trade and other payables	4.3.27	596	706
Income tax payables		33	35
Derivative financial instruments	4.3.20	73	114
Total current liabilities		**2,514**	**1,760**
TOTAL EQUITY AND LIABILITIES		**11,007**	**11,488**

4.2.4 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 2017	**213,471,305**	56	1,163	(166)	1,697	(235)	**2,516**	996	**3,513**
Profit/(loss) for the period		-	-	-	(155)	-	**(155)**	154	**(1)**
Foreign currency translation		8	-	(5)	-	(17)	**(15)**	1	**(15)**
Remeasurements of defined benefit provisions		-	-	-	-	7	**7**	-	**7**
Cash flow hedges/net investment hedges		-	-	-	-	186	**186**	14	**200**
Comprehensive income for the period		8	-	(5)	(155)	176	**23**	169	**191**
IFRS 2 vesting cost of share based payments		-	-	-	-	12	**12**	-	**12**
Treasury shares transferred on the share based scheme		-	-	20	(2)	(17)	**1**	-	**1**
Share cancellation	(7,800,000)	(2)	-	116	(113)	-	**-**	-	**-**
Cash dividend		-	-	-	(47)	-	**(47)**	(47)	**(93)**
Equity repayment[1]		-	-	-	-	-	**-**	(61)	**(61)**
Other		-	-	-	(4)	-	**(4)**	0	**(4)**
At 31 December 2017	**205,671,305**	62	1,163	(35)	1,376	(65)	**2,501**	1,058	**3,559**

1 mainly equity repayment from SBM Stones S.à r.l., 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 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.

4.2.5 CONSOLIDATED CASH FLOW STATEMENT

in millions of US$	2017	2016
Cash flow from operating activities		
Receipts from customers	2,057	1,859
Payments for finance lease construction	(51)	(20)
Payments to suppliers and employees	(1,072)	(1,266)
Yme insurance claim settlement	281	-
Penalty U.S. Department of Justice / settlement Dutch Public Prosecutor's Office	(238)	(70)
Income taxes paid	(22)	(15)
Net cash from operating activities	**955**	**488**
Cash flow from investing activities		
Investment in property, plant and equipment	(43)	(9)
Investment in intangible assets	(1)	(5)
Addition to funding loans	(9)	(47)
Redemption of funding loans	68	50
Interest received	22	15
Dividends received from equity-accounted investees	76	45
Proceeds from disposal of property, plant and equipment	1	3
Proceeds from disposal of financial assets and other assets	15	38
Other investing activities	(8)	-
Net cash from investing activities	**121**	**90**
Cash flow from financing activities		
Equity repayment to partners	(61)	(35)
Addition to borrowings and loans	-	1,118
Repayments of borrowings and loans	(576)	(780)
Dividends paid to shareholders and non-controlling interests	(93)	(64)
Share repurchase program	-	(166)
Interest paid	(290)	(252)
Net cash from financing activities	**(1,019)**	**(179)**
Net increase/(decrease) in cash and cash equivalents	**57**	**399**
Net cash and cash equivalents as at 1 January	904	515
Net increase/(decrease) in net cash and cash equivalents	57	399
Foreign currency variations	(4)	(9)
Net cash and cash equivalents as at 31 December	**957**	**904**

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

in millions of US$	31 December 2017	31 December 2016
Cash and cash equivalents	957	904
Net cash and cash equivalents	**957**	**904**

4.2.6 GENERAL INFORMATION

SBM Offshore N.V. is a company domiciled in Amsterdam, the Netherlands (KvK number 24233482). 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, 2017 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 7, 2018.

4.2.7 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, 2017 and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

The separate financial statements included in section 4.4 are part of the 2017 financial statements of SBM Offshore N.V.

New standards, amendments and interpretations applicable as of January 1, 2017

The Company has adopted the following new standards with a date of initial application of January 1, 2017:
- IAS 7 Amendment 'Disclosure initiative';
- IAS 12 Amendment 'Recognition of deferred tax assets for unrealized Losses';
- Annual Improvements to IFRSs 2014-2016 (Amendments to IFRS 12).

The adoption of the interpretations, amendments and annual improvements had no significant effect on the financial statements for earlier periods nor on the financial statements for the period ended December 31, 2017.

Standards and interpretations not mandatory applicable to the group as of January 1, 2017

The Company has decided not to pursue early adoption of standards and amendments published by the IASB and endorsed by the European Commission, but not mandatory applicable as of January 1, 2017. 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 (de-)recognition 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 has further analyzed the impacts and practical consequences of the standard's future application. Based on the analyses performed, the preliminary conclusions are the following:
- Implementation of the new standard has no impact on the classification and initial measurement of the Company's financial assets and liabilities.
- The new rules for hedge accounting are expected to have no impact on the financial reporting of the Company.

- The new impairment model, whereby impairment of financial assets is based on an expected credit loss model, is expected to have a very limited, lower than US$ 5 million, impact on the Company's finance lease receivables. Based on the Company's historical and forward-looking analyses it is concluded that i) the Company's finance lease receivables have a low credit risk profile, as illustrated by the lack of a case of default over the past five years, ii) the counterparties of the finance lease receivables have a strong capacity to meet their contractual cash flow obligations based on existing contractual arrangements, which include parent company guarantees and iii) for the majority of the Company's finance lease receivables, exposure is reduced by the related non-recourse debt. Given the low credit risk associated with them, the Company will apply the low credit risk simplification of IFRS 9 for the computation of the expected credit loss on its finance lease receivables.
- The Company has also assessed the impact of applying the new impairment model of IFRS 9 on the balances of i) trade and other receivables, ii) contract assets (i.e. construction work-in-progress) and iii) other financial assets as per December 31, 2017, and concluded that the new expected credit loss impairment model would have a limited impact, lower than US$ 10 million, on the net book value of these financial assets as of January 1, 2018 given the strong credit worthiness of the Company's client portfolio. The Company intends to apply a provision matrix, using historical credit loss experience (adjusted as appropriate), to estimate the expected credit loss on non-individually significant trade, other receivables and contract assets.
- The Company will apply this standard retrospectively, with restatements of comparative figures for 2017.

Based on the assessment performed, the Company concludes that applying the new standard would have a limited impact, as further detailed above, on the Company's balances per December 31, 2017.

IFRS 15 – Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This standard 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 recognizes revenue and requires such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principle-based five-step model to be applied to contracts with customers who provide goods or services in the ordinary course of business. This standard will be mandatory as of January 1, 2018.

The Company has analyzed the possible impacts and practical consequences of the standard's future application. The Company's analysis has been focused on two specific steps in the five-step model being i) the potential unbundling of existing contracts into multiple performance obligations and to a lesser extent on the potential bundling of separate contracts into one performance obligation and ii) the recognition of the transaction price over time or at a certain point in time. The analysis of the Company's construction contracts demonstrates the following:

- The Company's usual construction contracts represent one performance obligation, given the significant level of integration and interrelation of the various components of each of the Company's products; and
- The progress-based measurement of revenue should remain the method used by the Company for revenue recognition. This is because (i) the Company delivers customized products, specific to identified clients, and without alternative use to the Company and (ii) usual construction contracts provide the Company with an enforceable right of payment for performance completed to date.

For the operating and maintenance contracts, no change from applying the new standard is anticipated.

The Company expects to apply the retrospective implementation method in 2018. The Company will not restate contracts that are completed contracts at the beginning of the earliest period presented.

Based on the Company's analysis it is concluded that the retrospective implementation of IFRS 15 per January 1, 2018 has no impact on the Company's figures.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and will be mandatory as of January 1, 2019. 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.

In accounting for contracts where the Company is the lessor, the main potential impact is expected to be related to the variable lease payments (when applicable), which have to be included in the net investment in finance lease at the commencement date, whereas such contingent rents are explicitly excluded from the minimum lease payments used to determine the net investment in the lease under IAS 17. Based on the transition procedures in the new standard, this approach will be applied prospectively on new lease contracts after the implementation date.

The Company plans to early adopt the standard starting January 1, 2018 and to apply it retrospectively with the cumulated effect of initially applying the standard recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. The Company plans to adopt the practical expedient by adjusting the right of use assets recognized as of January 1, 2018 with the amount of any provision for onerous lease contracts recognized in the statement of financial position as of December 31, 2017. Finally, the Company plans to not apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company has a number of lease contracts for land and buildings and installation vessels that are currently accounted for under IAS 17 as operating leases. The impacts for these contracts where the Company is the lessee are expected to be the following, 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, representing below 2% of the company total assets reported in the statement of financial position as of January 1, 2018.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) will increase by approximately US$ 35 million in 2018, as the lease payments are presented as depreciation and finance cost rather than operating expenses.
- Operating cash flows reported in the consolidated cash flow statement in 2018 should increase and financing cash flows should decrease by approximately the same amount as EBITDA as the lease payments will no longer be considered as operating cash flows but as financing cash flow.
- Net impact on the opening balance of retained earnings as of January 1, 2018 is expected to be lower than US$ 1 million.

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 the 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 interest that could be associated with a 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 litigation and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligations, taking into account information available and different possible outcomes at the reporting period.

The warranty provision:
A warranty provision is accrued during the construction phase of projects, based on historical warranty expenditure per product type. 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 provision is performed by management at each reporting date. Nevertheless, considering the specificity of each asset, actual warranty expenditures could vary significantly from one project to another and therefore differ materially from initial statistical warranty provision provided at the completion of a said project.

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. 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.

Several of the estimates included the 2017 financial statements are disclosed in note 4.3.1 and/or are detailed as follows:

- Addition to the onerous contract provisions (detailed in note 4.3.26 Provisions) related to (i) the long-term contract with Diving Support and Construction Vessel SBM Installer for an amount of US$ 33 million due to the activity outlook deterioration and (ii) the long-term offices rental contracts amounting for an amount of US$ 7 million in the light of the recent restructuring activities which has created overcapacity in rented office space in various locations.
- Impairment of the net investment in the Angolan yard amounting to US$ 34 million due to deterioration in the activity outlook of the yard (detailed in note 4.3.15 Other Financial Assets).
- The Company has performed impairment tests of its net investment in the Brazilian yard (detailed in note 4.3.31) and the goodwill related to the acquisition of the Houston based subsidiaries (detailed in note 4.3.13), concluding that both assets are not impaired. These impairment tests were based on Management expectations of future market conditions which are, by definition, subject to uncertainty.
- For the Brazil settlement, although the Fifth Chamber of the Brazilian Federal Prosecutor Service has not approved the leniency agreement signed by Brazilian authorities, Petrobras and the Company 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 year ended December 31, 2016 consolidated financial statements has been maintained and updated, up to the amount of the present value of the financial terms of the leniency agreement being US$ 299 million at as December 31, 2017. In view of the current situation, which remains complex, the Company cannot guarantee that a satisfactory resolution will be reached. Given the range of options available, which could lead to a potential upside or downside related to the amount to settle, the Company has assessed that the provision in the financial statements is the most valid and substantiated outcome, as having previously been agreed to by the Brazilian authorities, Petrobras and the Company.

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. To identify whether risks and rewards are retained, the Company systematically considers, amongst others, all the examples and indicators listed by IAS 17.10 and IAS 17.11 on a contract by contract basis. By performing such analysis, the Company makes 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 and its recognition of profits in the future.

(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 of trade and other receivables is described later in section 4.2.7.

(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% completion. 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 the additional revenue is contractually secured or 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. In the latter case, additional revenues are recognized only to the extent of contract costs incurred. Revenue resulting from claims is recognized in contract revenue when the revenue is contractually secured or when negotiations have reached such an advanced stage that it is more than probable that the client will accept the claim and that the amount can be measured reliably. Also in this latter case, additional revenues are recognized only to the extent of contract costs incurred.

Lease and Operate contracts:

Charter rates

Charter rates received on long-term operating lease contracts are 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 accounted for 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.

Operating fees

Operating fees are received by the Company for facilitating receipt, processing and storage of petroleum services on board of the facilities. Revenue is recognized by reference to the stage of completion of the service rendered in accordance to IAS 18.21on a straight-line basis for lump sum contracts and in line with cost incurred on reimbursable contracts.

Bonuses/penalties

On some contracts the Company is entitled to receive bonuses and incurs penalties depending on the level of interruption of production or processing of oil. Bonuses are recognized as revenue when earned while penalties are recognized as a deduction of revenue when incurred.

(f) 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, EBIT and EBITDA.

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 4.3.2 Operating Segments and Directional Reporting.

Operating segment information is prepared and evaluated based on Directional reporting for which the main principles are explained in note 4.3.2.

(g) 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.

(h) Demobilization obligations

The demobilization obligations of the Company are either stated in the lease contract or derived from the international conventions and the specific legislation applied in the countries where the Company operates 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 lease 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 controls an investee, the Company assesses whether it has i) power over the investee, ii) exposure or rights to variable returns from its involvement, and iii) the ability to use power over investees to affect the amount of return. To determine whether the Company has power over the investee, multiple contractual elements are analyzed, amongst which i) voting rights of the Company at the General Meeting, ii) voting rights of the Company at Board level and iii) the power of the Company to appoint, reassign or remove other key Management personnel.

For investees whereby such contractual elements are not conclusive because all decisions about the relevant activities are taken on a mutual consent basis, the main deciding feature resides then 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 conclude on 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 partners to acquire these shares. In case such a substantive right resides with the Company, the entity will be defined under IFRS 10 as controlled by the Company. In case no such substantive right is held by any of the shareholders through the deadlock clause, 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 IFRS 11 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 forms 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 (e.g. 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-derivative 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.

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.

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.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(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.

Borrowings are derecognized when the Company either discharges the borrowing by paying the creditor, or is legally released from primary responsibility for the borrowing either by process of law or by the creditor.

(e) 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 is 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 4.3.29 Financial Instruments – Fair Values and Risk Management.

(f) 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.

(g) 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.

(h) 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 recognized at historical cost and patents acquired in a business combination are recognized at fair value at the acquisition date when intangible assets criteria are met and 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.

(i) 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 in relation to 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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 vest, the Company issues new shares, unless the Company has Treasury shares in stock.

4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 FINANCIAL HIGHLIGHTS

Awarded Turnkey and Lease and Operate Contracts for the ExxonMobil Liza FPSO

On June 22, 2017 the Company announced that ExxonMobil had formally confirmed the award of contracts for the next phase of the Liza project in Guyana. Under these contracts, the Company will construct, install and lease a floating production, storage and offloading vessel (FPSO). This follows completion of front-end engineering studies and the final investment decision on the project by ExxonMobil. The operating and maintenance scope, agreed in principle, is subject to a final work order.

The FPSO is designed to produce up to 120,000 barrels of oil per day, will have associated gas treatment capacity of circa 170 million cubic feet per day and water injection capacity of circa 200,000 barrels per day. The converted VLCC FPSO will be spread moored in water depth of 1,525 meters and will be able to store 1.6 million barrels of crude oil.

The lease contract is classified as a finance lease contract under IAS 17, in particular because at the inception of the lease, the present value of the minimum lease payment amounts to at least substantially all of the fair value of the leased asset.

FPSO Turritella Purchase Option Exercised by Shell

On July 11, 2017 the Company announced that Shell E&P Offshore Services B.V. (Shell) had notified the Company of the fact that Shell was exercising its right under the charter agreement to purchase the *Turritella* (FPSO). The purchase allows a Shell affiliate to assume operatorship of the Stones development in its entirety. The transaction closed on January 16, 2018 following a transition window which allowed a safe and controlled handover of operations.

The Company owns 55% of the investee that owned the *Turritella* (FPSO). Nippon Yusen owns another 15% and Mitsubishi Corporation the remaining 30%.

The transaction comprises a total cash consideration to the investee of US$ 987 million. The net divestment proceeds, after taking into account the unwinding of the commitments to the partners in the investee, will primarily be used for project finance redemption.

The financial impact of the transaction in the Company's consolidated financial statements are the following:

- A provision of US$ 80 million for the compensation to the partners in the investee according to the guarantee provided by the Company in the joint venture agreements in case of early termination of the lease contract has been recognized as of December 31, 2017, impacting the line 'Other operating expense' of the consolidated income statement;
- Impact of the hedge accounting discontinuance of the interest rate swap and amortization of the transaction costs related to the project loan to be repaid of US$ (21) million, impacting the line 'Net financing costs' of the consolidated income statement over the period ended December 31, 2017;
- Under IFRS, as a result of the sale price to be received from the client on exercising the option to purchase being lower than the remaining net investment in the lease, an impairment of US$ 40 million has been recognized in the line item 'Other operating expense' of the consolidated income statement as of December 31, 2017. The derecognition of the impaired finance lease receivable will be accounted for in the 2018 Company's financial statements upon effective completion of the transaction, without further impact on the consolidated income statement;
- Under Directional reporting, the 55% held in net book value of the FPSO recognized as property plant and equipment has been reclassified as asset held for sale, without any impairment, the sale price to be received from the client being higher than the remaining net book value of the vessel. The derecognition of the asset, and the booking of the related gain on disposal of US$ 213 million, will be accounted for in the 2018 Company's financial statements.

Agreed Heads of Terms for Settlement with a Majority Group of Primary Layer Insurers on the Yme Insurance Claim

In Q3 2017, the Company announced that it had entered into a binding settlement with an 83.6% majority group of the US$ 500 million primary insurance layer relating to the Company's insurance claim arising from the YME project. Pursuant to that agreement, the Company received the sum of US$ 281 million in full and final settlement of its claim against those participating insurers.

Following reimbursement first of legal fees and other claim-related expenses incurred to date (most of which being incurred by the Company), the balance of the settlement monies has to be shared equally with Repsol in accordance with the terms of their settlement agreement of March 11, 2013 which concluded the Yme project.

The impact on the result attributable to the Company is an estimated insurance income of US$ 125 million, net of the claim-related costs incurred and accounted for in 2017, reported as 'Other operating income' in the consolidated income statement for the year ended December 31, 2017.

The Company continues to pursue its claim against all remaining insurers including the two excess layers, the trial of which is scheduled to commence in October 2018.

DSCV SBM Installer Charter Contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Conditions in the offshore oil and gas industry continue to be challenging as regards the over supply of construction vessels available on the market and recent lower activity in the offshore service industry compared with previous years. As a consequence, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract exceeding the economic benefits expected to be received. As a result, the contract continues to be classified as onerous and the non-cash provision for onerous contract has been increased by US$ 33 million, recognized in the gross margin of the Turnkey segment as of December 31, 2017. The Company's investment (25% ownership) in the joint venture which owns the vessel is accounted for using the equity method (please refer to note 4.3.26).

Investment in JV holding Construction Yard Paenal

The activity outlook for the Paenal construction yard operating in Angola has continued to deteriorate further, with no award in the Angolan FPSO market since 2014 and macro-economic constraints arising from the persistent downturn. The local construction capacity in Angola is therefore in excess of the activity generated by the oil & gas industry. As a consequence, the Company's investment in the joint venture owning the Paenal construction yard (30% ownership) has been fully impaired to a net book value of zero, resulting in an additional impairment charge of US$ 34 million. Because this investment is accounted for using the equity method, this non-cash impairment has been recognized on the line item 'Share of profit of equity-accounted investees' of the consolidated income statement over the period ended December 2017 (please refer to note 4.3.15).

DoJ settlement penalties in United States

On November 30, 2017, the Company announced that it had signed a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the reopened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil.

As part of the overall resolution, SBM Offshore USA, Inc. a U.S. subsidiary of the Company, pleaded guilty to a single count of conspiracy to commit a violation of the U.S. Foreign Corrupt Practices Act. The Company agreed to pay monetary penalties in the total amount of US$ 238 million, paid out in cash in December 2017, and accounted for on the line 'Other operating income/(expense)' of the consolidated income statement over the period ended December 2017.

The terms of the resolution reflect the Company's cooperation and confidence in the quality of the Company's compliance program and efforts by current management.

Provision for Brazil settlement in Brazil

On July 15, 2016, the Company signed a Leniency Agreement with the Ministry of Transparency, Oversight and Control (Ministério da Transparência, Fiscalização e Controle – 'MTFC'), the Public Prosecutor's Office (Ministério Público Federal –'MPF'), the Attorney General's Office (Advocacia-Geral da União – 'AGU') and Petrobras.

Discussions with relevant authorities have continued during the year 2017, following the decision by the Brazilian Fifth Chamber not to approve the agreement and to send the agreement back to the Public Prosecutor for adjustments. On November 6, 2017, the Company reported that the discussions relating to the leniency agreement remained complex and that two leniency agreements were now required which necessitate agreement and coordination among the multiple parties involved.

Further to this update, the Company reported the two following developments on December 22, 2017:

- The Company learned that following a review of the leniency agreement pending the injunction order suspending signing of the leniency agreement, the Federal Court of Accounts (Tribunal de Contas da União – 'TCU') decided to allow the MTFC, the AGU and Petrobras to move forward with the signing of the leniency agreement.
- The MPF has filed a damage claim based on the Brazilian Improbity Act with the Federal Court in Rio de Janeiro against a Brazilian subsidiary of the Company, an intermediate holding company in Switzerland and a number of individuals, including former employees of the SBM Offshore Group. The claim relates to the alleged improper sales practices before 2012 that are also the subject of the leniency agreements under discussion with the Brazilian authorities and Petrobras. The judge handling the case will now have to decide on the acceptance of the lawsuit before the Brazilian court, after which the defendants could be served with the court documents. In the context of this lawsuit, the MPF asked the court to impose a provisional measure as a means to secure damages potentially awarded.

Although the Fifth Chamber of the Brazilian Federal Prosecutor Service has not approved the leniency agreement signed by Brazilian authorities, Petrobras and the Company on July 15, 2016, the terms of this agreement remain the Company's best estimate for an eventual settlement. A provision of US$ 281 million was included in the year ended

December 31, 2016 consolidated financial statements and has been updated during 2017 to US$ 299 million, with the increase being due to the time value of money.

The Company confirms its commitment to close out its legacy issues in Brazil and its willingness in principle to pay the previously agreed substantial amounts. However, to enter into the proposed leniency agreements, the Company would need to be in a position to reach satisfactory closure with all Brazilian authorities and Petrobras on all outstanding leniency issues at the same time. In view of the current situation, the Company cannot guarantee that a satisfactory resolution will be reached. Given the range of options available, which could lead to a potential upside or downside related to the amount to settle, the Company has assessed that the provision in the financial statements is the most valid and substantiated outcome, as having previously been agreed to by the Brazilian authorities, Petrobras and the Company.

The Company will await resolution before participating in Petrobras-operated tenders.

Awarded Turnkey Contract for Statoil's Johan Castberg Turret Mooring System

On December 6, 2017 the Company announced that Statoil had formally confirmed the award of a contract related to the engineering, procurement and construction (EPC) work scope for a large-scale turret mooring system for its Johan Castberg development.

The Johan Castberg (formerly Skrugard) development is situated in the Barents Sea in Norway, approximately 100 kilometers north of the Snøhvit-field. The turret is planned to be delivered in modules in early 2020, will be moored in c. 370 meter water depth and will have a capacity to accommodate 21 risers.

4.3.2 OPERATING SEGMENTS AND DIRECTIONAL REPORTING

OPERATING SEGMENTS

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

- Lease and Operate;
- Turnkey.

DIRECTIONAL REPORTING

Strictly for the purposes of this note, the operating segments are measured under Directional reporting, which in essence follows IFRS, but deviates on two main points:

- all lease contracts are classified and accounted for as if they were operating lease contracts under IAS 17. 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 with 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.
- all investees related to lease and operate contracts are accounted for at the Company's share as if they were classified as Joint Operation under IFRS 11, using the proportionate consolidation method (where all lines of the income statement and statement of financial positions are consolidated for the Company's percentage of ownership). Yards and installation vessel related joint ventures remain equity accounted.
- all other accounting principles remain unchanged compared with applicable IFRS standards.

The above differences to the consolidated financial statements between Directional reporting and IFRS are highlighted in the reconciliations provided in this note on revenue, gross margin, EBIT and EBITDA as required by IFRS 8 'Operating segments'. As a next step in providing transparency, the Company has decided to extend these reconciliation disclosures by providing a reconciliation of the statement of financial position and cash flow statement under IFRS and Directional reporting starting December 31, 2017. The statement of financial position and the cash flow statement under Directional reporting, the latter being prepared applying the indirect method, are evaluated

regularly by the Management Board in assessing the financial position and cash generation of the Company. The Company believes that these additional disclosures should enable users of its financial statements to better evaluate the nature and financial effects of the business activities in which it engages, while facilitating the understanding of the Directional reporting by providing a straightforward reconciliation with IFRS for all key financial metrics.

It is noted that for finance lease contracts, under IFRS, commencing before January 1, 2013 (i.e. the introduction date of Directional reporting) and accounted for as if they were operating lease contracts under Directional reporting, the Company has assumed that no subsequent costs have been added to the initial Directional capex value since commencement date of these lease contracts until January 1, 2013. In accordance with Company and IFRS policy related to property, plant and equipment, the initial Directional capex value equals to the sum of external costs, internal costs and third party financial costs incurred by the Company during construction. Starting January 1, 2013, 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.

Until December 31, 2016, the income tax expense reported under Directional reporting, but not allocated by segment, was determined by applying the IFRS effective tax rate of the relevant period to the Directional profit before tax. In order to align Directional reporting as much as possible to IFRS standards, starting from the period ending December 31, 2017, the Company decided to discontinue this practical expedient and to strictly apply IAS 12 for the computation of the income tax to be accounted for under Directional reporting. The comparative data related to the period ending December 31, 2016 and presented in this note has been restated for comparison purposes, resulting in an additional tax charge of US$ 29 million. As a result, the previously reported Directional income tax charge for the year ending December 31, 2016 of US$ 9 million is restated to a Directional income tax charge of US$ 38 million. If for the year ending December 31, 2017 the Company would have applied the practical expedient of applying the IFRS effective tax rate to the Directional profit before tax, the Directional income tax for the year ending December 31, 2017 would have been a tax charge of US$ 12 million compared to a current Directional tax charge of US$ 34 million.

SEGMENT HIGHLIGHTS

In 2017, the Turnkey segment is impacted by the insurance claim payouts of Yme project insurance claim (please refer to note 4.3.4), while in 2017 and 2016 the Turnkey segment is impacted by the onerous contract provision related to DSCV SBM Installer and the long-term office rental contracts (please refer to note 4.3.26).

'Other' is impacted by the compensation paid to the partners in the investee owning *Turritella* (FPSO) and the penalty paid following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') (please refer to note 4.3.4).

2017 operating segments (Directional)

	Lease and Operate	Turnkey	Reported segments	Other	Total Directional reporting
Third party revenue	**1,501**	**175**	**1,676**	**-**	**1,676**
Gross margin	**514**	**2**	**516**	**-**	**516**
Other operating income/expense	(4)	123	119	(317)	**(199)**
Selling and marketing expenses	(2)	(33)	(36)	0	**(36)**
General and administrative expenses	(18)	(50)	(68)	(63)	**(132)**
Research and development expenses	(2)	(31)	(33)	0	**(33)**
Operating profit/(loss) (EBIT)	**487**	**11**	**498**	**(381)**	**117**
Net financing costs					(233)
Share of profit of equity-accounted investees					(54)
Income tax expense					(34)
Profit/(Loss)					**(203)**
Operating profit/(loss) (EBIT)	487	11	498	(381)	**117**
Depreciation, amortization and impairment	467	10	478	1	**478**
EBITDA	**954**	**21**	**975**	**(380)**	**596**
Other segment information :					
Impairment charge/(reversal)	(10)	-	(10)	-	**(10)**

Reconciliation of 2017 operating segments (Directional to IFRS)

	Reported segments under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Impact of Other[1]	Total Consolidated IFRS
Revenue					
Lease and Operate	1,501	(269)	322	-	1,554
Turnkey	175	130	2	-	307
Total revenue	**1,676**	(139)	324	-	**1,861**
Gross margin					
Lease and Operate	514	19	207	-	740
Turnkey	2	24	31	-	57
Total gross margin	**516**	43	238	-	**797**
EBIT					
Lease and Operate	487	19	207	-	713
Turnkey	11	23	(9)	-	25
Other	-	0	0	(381)	(381)
Total EBIT	**498**	43	198	(381)	**358**
EBITDA					
Lease and Operate	954	(269)	234	-	920
Turnkey	21	42	8	-	71
Other	-	-	-	(380)	(380)
Total EBITDA	**975**	(226)	242	(380)	**611**

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

2016 operating segments (Directional)

	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[1]					(38)
Profit/(Loss)					**(5)**
Operating profit/(loss) (EBIT)	398	(22)	376	(86)	**290**
Depreciation, amortization and impairment	425	9	433	2	**435**
EBITDA	**823**	**(14)**	**809**	**(84)**	**725**
Other segment information :					
Impairment charge/(reversal)	(8)	0	(8)	-	**(8)**

1 Restated for comparison purpose

Reconciliation of 2016 operating segments (Directional to IFRS)

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

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

For the purposes of this note, a reconciliation of the Directional statement of financial position to IFRS is provided as of and for each reporting ended period. A reconciliation of cash flow statement to IFRS is provided for the year ended December 31, 2017.

Reconciliation of 2017 statement of financial position (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
ASSETS				
Property, plant and equipment and Intangible assets	4,692	(3,545)	138	1,285
Investment in associates and joint ventures	36	-	421	457
Finance lease receivables	-	4,767	2,429	7,196
Other financial assets	268	(134)	100	234
Construction work-in-progress	18	116	0	134
Trade receivables and other assets	599	0	51	649
Derivative financial instruments	92	-	0	92
Cash and cash equivalents	878	-	79	957
Assets held for sale	332	(330)	-	2
Total Assets	**6,915**	875	3,217	**11,007**
EQUITY AND LIABILITIES				
Equity attributable to parent company	1,097	1,424	(19)	2,501
Non-controlling interests	0	-	1,057	1,058
Equity	**1,097**	1,424	1,038	**3,559**
Loans and borrowings	3,565	-	2,005	5,571
Provisions	971	(142)	1	830
Trade payable and other liabilities	584	37	15	636
Deferred income	587	(443)	114	257
Derivative financial instruments	110	-	43	154
Total Equity and Liabilities	**6,915**	875	3,217	**11,007**

Reconciliation of 2017 cash flow statement (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
EBITDA	**596**	(226)	242	**611**
Adjustments for non-cash and investing items	304	0	1	306
Changes in operating assets and liabilities	(162)	(91)	(16)	(269)
Reimbursement finance lease assets	0	266	63	329
Income taxes paid	(30)	-	8	(22)
Net cash flows from (used in) operating activities	**707**	(52)	299	**955**
Capital expenditures	(96)	52	0	(44)
Other investing activities	68	0	98	165
Net cash flows from (used in) investing activities	**(28)**	52	98	**121**
Equity repayment to partners	-	-	(61)	(61)
Addition and repayments of borrowings and loans	(381)	-	(194)	(576)
Dividends paid to shareholders non-controlling interests	(47)	-	(47)	(93)
Interests paid	(192)	-	(97)	(290)
Net cash flows from (used in) financing activities	**(620)**	-	(399)	**(1,019)**
Net cash and cash equivalents as at 1 January	823	-	81	904
Net increase/(decrease) in net cash and cash equivalents	59	-	(2)	57
Foreign currency variations	(3)	-	0	(4)
Net cash and cash equivalents as at 31 December	**878**	-	79	**957**

Reconciliation of 2016 statement of financial position (Directional to IFRS)

	Reported under Directional reporting	Impact of lease accounting treatment	Impact of consolidation methods	Total Consolidated IFRS
ASSETS				
Property, plant and equipment and Intangible assets	5,447	(4,097)	170	1,520
Investment in associates and joint ventures	48	-	436	484
Finance lease receivables	0	5,050	2,510	7,560
Other financial assets	280	(75)	69	274
Construction work-in-progress	15	0	0	15
Trade receivables and other assets	647	0	44	690
Derivative financial instruments	36	-	3	38
Cash and cash equivalents	823	-	81	904
Assets held for sale	1	-	-	1
Total Assets	**7,296**	878	3,313	**11,488**
EQUITY AND LIABILITIES				
Equity attributable to parent company	1,159	1,379	(22)	2,516
Non-controlling interests	0	0	996	996
Equity	**1,159**	1,379	975	**3,513**
Loans and borrowings	3,930	-	2,190	6,120
Provisions	701	(103)	7	604
Trade payable and other liabilities	731	40	(25)	746
Deferred income	597	(438)	109	268
Derivative financial instruments	179	-	57	236
Total Equity and Liabilities	**7,296**	878	3,313	**11,488**

Deferred income (Directional)

	31 December 2017	31 December 2016
Within one year	42	32
Between 1 and 2 years	84	33
Between 2 and 5 years	274	263
More than 5 years	186	270
Balance at 31 December	**587**	**597**

The deferred income is mainly related to the revenue of lease contracts, which reflects a decreasing 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.

4.3.3 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)

	2017	2016
Brazil	1,090	1,323
The United States of America	237	368
Guyana	147	3
Canada	134	134
Equatorial Guinea	95	103
Angola	22	45
Australia	20	80
Myanmar	12	15
Egypt	10	2
Malaysia	8	6
Nigeria	8	16
South Africa	7	12
Other	71	165
Total revenue	**1,861**	**2,272**

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

Geographical information (non-current assets by country)

	31 December 2017	31 December 2016
Brazil	6,617	6,911
Angola	387	426
Canada	309	390
The United States of America	175	1,242
Malaysia	162	189
Equatorial Guinea	130	215
The Netherlands	7	7
Other	135	143
Total non-current assets	**7,922**	**9,522**

RELIANCE ON MAJOR CUSTOMERS

Two customers each represent more than 10% of the consolidated revenue. Total revenue from these major customers amounts to US$ 1,273 million (2016 : US$ 1,612 million).

4.3.4 OTHER OPERATING INCOME AND EXPENSE

	2017	2016
Insurance claim payouts	125	-
Gains from sale of financial participations, property, plant and equipment	0	2
Other operating income	5	2
Total other operating income	**130**	**4**
Settlement expenses	(238)	(22)
Restructuring expenses	(10)	(48)
Other operating expense	(121)	0
Total other operating expense	**(369)**	**(70)**
Total	**(239)**	**(66)**

In 2017, the insurance claim payouts correspond to the Company share of the Yme insurance claim settlement (please refer to note 4.3.1).

In 2017, the other operating expenses mainly include:

- The US$ 238 million for non-recurring penalty following signature of Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the reopened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil (please refer to note 4.3.1)
- The US$ 40 million impairment of the *Turritella* (FPSO) finance lease receivable and US$ 80 million compensation to the partners in the investee owning this FPSO, following the purchase option exercised by Shell (please refer to note 4.3.1).
- Additional provision for onerous contract related to long-term offices rental contracts for US$ 7 million (please refer to note 4.3.26), classified as restructuring expenses.

4.3.5 EXPENSES BY NATURE

The table below sets out expenses by nature for all items included in EBIT for the years 2017 and 2016:

Information on the nature of expenses

	Note	2017	2016
Expenses on construction contracts		(164)	(634)
Employee benefit expenses	4.3.6	(514)	(512)
Depreciation, amortization and impairment		(253)	(208)
Selling expenses		(17)	(20)
Other costs		(684)	(338)
Total expenses		**(1,633)**	**(1,713)**

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

In 2017, 'Depreciation, amortization and impairment' is impacted by the impairment of the finance lease receivable of *Turritella* (FPSO) following the exercise of a purchase option by Shell on July 11, 2017 (please refer to note 4.3.1 Financial Highlights*)*.

In 2017 'Other costs' included US$ 238 million of monetary penalty following signature of a Deferred Prosecution Agreement ('DPA') with the U.S. Department of Justice ('DoJ') resolving the re-opened investigation into the Company's legacy issues and the investigation into the Company's relationship with Unaoil (please refer to note 4.3.1*)* and US$ 80 million for the compensation to the partners in the *Turritella* (FPSO) investee following the purchase option exercised by Shell (please refer to note 4.3.1). Remainder of 'Other costs' mainly comprises recurring operating cost for the fleet which increased compared to 2016 following the first full year operations on FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*.

In 2016, the line 'Other costs' mainly consisted 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.

4.3.6 EMPLOYEE BENEFIT EXPENSES

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

Employee benefit expenses

	Note	2017	2016
Wages and salaries		(315)	(302)
Social security costs		(46)	(39)
Contributions to defined contribution plans		(31)	(33)
(Increase)/decrease in liability for defined benefit plans		(1)	(2)
(Increase)/decrease in liability for other long-term benefits		(1)	1
Share-based payment cost		(12)	(15)
Contractors costs		(58)	(52)
Other employee benefits		(51)	(70)
Total employee benefits	*4.3.5*	**(514)**	**(512)**

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 2.4 million 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	2017	2016
Pension plan		3	9
Lump sums on retirement		7	6
Defined benefit plans		**10**	**15**
Long-service awards		13	11
Other long-term benefits		**13**	**11**
Employee benefits provisions	*4.3.26*	**23**	**26**

The defined benefit plan provision is partially funded as follows:

Benefit asset/liability included in the statement of financial position

	31 December 2017			31 December 2016		
	Pension plans	Lump sums on retirement	Total	Pension plans	Lump sums on retirement	Total
Defined benefit obligation	40	7	47	43	6	**48**
Fair value of plan assets	(37)	-	(37)	(34)	-	**(34)**
Benefit (asset)/liability	**3**	**7**	**10**	**9**	**6**	**15**

During the year, total defined benefit plan provision decreased mainly following the payment of pension plans obligation, generating US$ 4 million of experience actuarial gains. The decrease in defined benefit obligation is mostly the result of benefits paid to employees partially offset by foreign currency variations of Euro compared to US dollar. The fair value of plan assets increased due to actuarial gains and foreign currency variations higher than benefits paid to employees.

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 %	2017	2016
Discount rate	0.25 - 2.00	0.25 - 1.75
Inflation rate	1.75	1.75
Discount rate of return on plan assets during financial year	0.50	0.75
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.

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$ 20 million (2016: US$ 17 million).

The performance-related part of the remuneration, comprising both STI and LTI components, equals 56% (2016: 51%). The remuneration (including the Management Board's remuneration which is euro denominated), was affected by a 10% voluntary cut in fixed income from September 2016 to September 2017 and the impact of the fluctuation in the exchange of the US$ dollar (2.1% higher average rate compared to 2016).

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

2017 remuneration key management personnel

in thousands of US$	Base salary	STI[1]	Sharebased compensation[2]	Other[3]	Pensions[4]	Total remuneration
Bruno Chabas						
2017	843	1,682	1,881	321	277	5,005
2016	856	784	1,380	175	272	3,467
Peter van Rossum						
2017	179	253	359	12	74	877
2016	594	420	781	292	167	2,254
Douglas Wood						
2017	497	725	801	47	124	2,193
2016	122	80	102	9	30	343
Sietze Hepkema						
2017	-	-	-	-	-	-
2016	-	-	(131)	-	-	(131)
Philippe Barril						
2017	581	908	1,134	166	156	2,944
2016	589	420	684	158	152	2,003
Erik Lagendijk						
2017	432	675	941	42	116	2,205
2016	438	312	495	35	113	1,394
Other key personnel[5]						
2017	3,297	997	968	1,633	232	7,128
2016	2,839	2,020	1,277	161	1,311	7,608
Total 2017	**5,829**	**5,240**	**6,083**	**2,221**	**979**	**20,352**
Total 2016	**5,439**	**4,035**	**4,588**	**831**	**2,046**	**16,938**

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 Long Term Incentive ('LTI') shares, matching 'LTI' 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.

5 The definition of 'Other key personnel' has been amended to align with the Leadership Team, as disclosed on the Company's website. The 2016 figures have been restated for comparison purposes

The table above represents the total remuneration in US$, being the reporting currency of the Company.

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 2017, the Supervisory Board concluded that the Management Board members for their individual performance indicators as set for 2017 dealt with the difficult market circumstances in a capable manner. The Company's performance indicators (for the year 2017 a total of five performance indicators have been established) had outcomes ranging from slightly below target to maximum. The personal and the company performance together resulted in performance of 169% of salary for the CEO and between 128-133% for the other Management Board members. As for the safety/quality/sustainability multiplier, the Supervisory Board assessed this to have the maximum outcome.

The total performance under the STI, including the 10% uplift from the Corporate Social Responsibility & Quality Multiplier, resulted in 186% for the CEO and 141-146% for the other Management Board members.

PERFORMANCE SHARES (PS) MANAGEMENT BOARD

Under the Remuneration Policy 2015, 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 earnings per share (EPS) growth, and relative total shareholder return (TSR). Performance shares vest three years after the provisional award date, and must be retained for two years from the vesting date.

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 2017, assuming 'At target' performance, were 80,817 shares for the CEO, and 53,878 for each of the other Managing Directors.

For the performance period 2015-2017 the EPS performance indicator came in at target and the relative TSR performance indicator at Maximum. Each Performance indicator having a weighting of 50%, the total vesting of the LTI grant 2015 resulted in 150% for the CEO, and 125% for each of the other Managing Directors.

The main assumptions included in the value calculation for the LTI 2017 award are:

2017 awards – Fair values

	2017
PS - TSR - CEO	€ 19.62
PS - TSR - other MB	€ 15.54
PS - EPS	€ 14.31

The parameters underlying the 2017 PS fair values are: a share price at the grant date of € 14.31 (February 8, 2017), volatility of 41%, risk free interest rate 0.0% (negative Dutch governance bond rate) and a dividend yield of 1.5%.

RESTRICTED SHARE UNIT (RSU) PLANS

No RSU shares granted in 2017 (2016: 736,000); the granting of new RSU shares has been deferred to early 2018, with the three year employment period starting on January 1, 2018.

The annual RSU award is based on individual performance. The RSU plans themselves have no performance condition, only a service condition, and will vest at the end of three year continuing service.

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.

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

2017 awards – Fair values

	2017
STI matching shares	€ 14.57

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$):

2017	Performance shares and RSU/PSU	Matching shares	Total
Instruments granted	6,060	964	**7,024**
Performance conditions	4,831	134	**4,965**
Total expenses 2017	**10,891**	**1,098**	**11,989**

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**

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 an employee is in possession of price sensitive information.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board amounted to EUR 769,000 (2016: EUR 765,000) and can be specified as follows:

	2017			2016		
in thousands of EUR	Basic remuneration[1]	Committees	Total	Basic remuneration	Committees	Total
F.J.G.M. Cremers - Chairman	120	17	**137**	120	17	**137**
T.M.E. Ehret - Vice-chairman	80	10	**90**	80	10	**90**
L.A. Armstrong	75	16	**91**	75	16	**91**
F.G.H. Deckers	75	17	**92**	75	17	**92**
F.R. Gugen	75	10	**85**	75	10	**85**
S. Hepkema	75	8	**83**	75	8	**83**
L.B.L.E. Mulliez	75	8	**83**	75	6	**81**
C.D. Richard	100	8	**108**	100	6	**106**
Total	**675**	**94**	**769**	**675**	**90**	**765**

1 Including intercontinental travel allowance

There are no share-based incentives granted to the members of the Supervisory Board. Nor are there any loans outstanding to the members of the Supervisory Board or guarantees given on behalf of members of the Supervisory Board.

NUMBER OF EMPLOYEES

Number of employees (by operating segment)

	2017		2016	
By operating segment:	Average	Year-end	Average	Year-end
Lease and Operate	1,506	1,513	1,529	1,498
Turnkey	1,489	1,429	1,809	1,548
Other	293	302	285	283
Total excluding employees working for JVs and associates	**3,287**	**3,244**	**3,622**	**3,329**
Employees working for JVs and associates	864	882	1,615	845
Total	**4,150**	**4,126**	**5,237**	**4,174**

Number of employees (by geographical area)

	2017		2016	
By geographical area:	Average	Year-end	Average	Year-end
The Netherlands	317	309	349	324
Worldwide	2,970	2,935	3,274	3,005
Total excluding employees working for JVs and associates	**3,287**	**3,244**	**3,622**	**3,329**
Employees working for JVs and associates	864	882	1,615	845
Total	**4,150**	**4,126**	**5,237**	**4,174**

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.

4.3.7 NET FINANCING COSTS

	2017	2016
Interest income on loans & receivables	9	14
Interest income on investments	13	11
Interest income on Held-to-Maturity investments	-	0
Net foreign exchange gain	3	-
Other financial income	2	1
Financial income	**27**	**26**
Interest expenses on financial liabilities at amortized cost	(231)	(181)
Interest expenses on hedging derivatives	(88)	(95)
Interest addition to provisions	(23)	(17)
Net loss on financial instruments at fair value through profit and loss	-	(2)
Net cash flow hedges ineffectiveness	(17)	(2)
Net foreign exchange loss	0	(6)
Other financial expenses	-	0
Financial expenses	**(358)**	**(301)**
Net financing costs	**(331)**	**(275)**

The increase in net financing cost is mainly due to the interest expenses related to FPSO Cidade de Marica (on hire as of February 7, 2016), FPSO Cidade de Saquarema (on hire as of July 8, 2016) and *Turritella* (FPSO) (on hire as of September 2, 2016).

The loss on net cash flow hedges ineffectiveness is due to the hedge accounting discontinuance of the interest rate swap on *Turritella* (FPSO) project loan which was repaid on January 16, 2018 after the receipt of the purchase price from Shell (please refer to note 4.3.1).

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		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.

4.3.10 EARNINGS / (LOSS) PER SHARE

The basic earnings per share for the year amounts to US$ (0.76) (2016: US$ 0.87); the fully diluted earnings per share amounts to US$ (0.76) (2016: US$ 0.87).

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

	2017	2016
Earnings attributable to shareholders (in thousands of US$)	(155,122)	182,307
Number of shares outstanding at January 1	202,042,126	211,694,950
Average number of new shares issued		1,118,829
Average number of shares repurchased		(2,245,363)
Average number of treasury shares transferred to employee share programs	807,161	
Weighted average number of shares outstanding	**202,849,287**	**210,568,416**
Potential dilutive shares from stock option scheme and other share-based payments	0	1,747
Weighted average number of shares (diluted)	**202,849,287**	**210,570,163**
Basic earnings per share	US$ (0.76)	US$ 0.87
Fully diluted earnings per share	US$ (0.76)	US$ 0.87

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.

4.3.11 DIVIDENDS PAID AND PROPOSED

The Company seeks to maintain a stable dividend which grows over time. Determination of the dividend is based on the Company's assessment of the underlying cash flow position and of the 'Directional net income', where a target pay-out ratio of between 25% and 35% of 'Directional net income' will also be considered. In accordance with the dividend policy, but taking into account the specific circumstances relating to 2017, including the nature of the non-recurring items, a dividend, out of retained earnings, of US$ 0.25 (2016 : US$ 0.23) per share will be proposed to the Annual General Meeting on April 11, 2018, corresponding to approximately 64% of the Company's US$ 80 million Directional net income adjusted 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 11, 2018.

4.3.12 PROPERTY, PLANT AND EQUIPMENT

The movement of the property, plant and equipment during the year 2017 is summarized as follows:

2017

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	55	3,570	66	4	**3,694**
Accumulated depreciation and impairment	(14)	(2,155)	(52)	-	**(2,220)**
Book value at 1 January	**41**	**1,415**	**14**	**4**	**1,474**
Additions	-	31	2	19	**51**
Disposals	0	0	0	0	**0**
Depreciation	(5)	(214)	(4)	-	**(223)**
(Impairment)/impairment reversal	-	10	-	-	**10**
Foreign currency variations	5	-	1	0	**7**
Other movements	(1)	(72)	0	(3)	**(76)**
Total movements	**0**	**(245)**	**(1)**	**16**	**(231)**
Cost	61	3,255	68	19	**3,402**
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	**(2,160)**
Book value at 31 December	**41**	**1,170**	**13**	**19**	**1,243**

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**

During the 2017 period the following main events occurred:

- Additions to property, plant and equipment which mainly concerns the acquisition of the VLCC tanker 'Gene' and IT infrastructure upgrade capital expenditure.
- Marlim Sul was sold for recycling for a price of US$ 15 million, resulting in an impairment reversal of US$ 10 million in the line 'Cost of sales' in Lease and Operate segment and the transfer to 'Asset held for sale' in the first half of 2017 (please refer to note 4.3.22).
- In the line 'Other movements', the transfer to construction work-in-progress of the VLCC tanker 'Tina' for the start of the FPSO Liza conversion phase in Singapore at Keppel's shipyard. The conversion includes upgrade work on the hull and integration of topsides upgrade work on the hull and integration of topsides.
- US$ 223 million of annual depreciation on existing fixed assets.

Property, plant and equipment at year-end comprise:

- Three (2016: three) integrated floating production, storage and offloading systems (FPSOs) (namely FPSO *Espirito Santo*, FPSO *Capixaba* and FPSO *Cidade de Anchieta*) each consisting of a converted tanker, a processing plant and one mooring system. These three FPSOs are leased to third parties under an operating lease contract.
- One second-hand tanker (2016: one).
- One semi-submersible production platform, the *Thunder Hawk* (2016: one), leased to third parties under an operating lease contracts.
- One MOPU facility, the *Deep Panuke* (2016: one), leased to a third party under an operating lease contract.

The depreciation charge for the semi-submersible production facility Thunder Hawk 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. Changes in the actual oil production compared to the initial production profile of the facility was determined to be an indicator that the Thunder Hawk facility possibly had to be impaired. Based on the impairment test performed, using amongst others an updated future production profile provided by the main operator of the field, it was concluded that no impairment has to be recognized. The updated future production profile impacts the future depreciation charges based on the unit of production method.

All other property, plant and equipment are depreciated on a straight-line method.

Company-owned property, plant and equipment with a carrying amount of US$ 662 million (2016: US$ 766 million) has been pledged as security for liabilities, mainly for external financing.

No third-party interest has been capitalized during the financial year as part of the additions to property, plant and equipment (2016: 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 2018 and 2030. Leased facilities included in the 'Vessels and floating equipment' amount to:

Leased facilities included in the Vessels and floating equipment

	31 December 2017	31 December 2016
Cost	3,220	3,243
Accumulated depreciation and impairment	(2,081)	(1,874)
Book value at 31 December	**1,139**	**1,369**

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 2017	31 December 2016
Within 1 year	376	390
Between 1 and 5 years	1,108	1,462
After 5 years	723	932
Total	**2,207**	**2,784**

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

Purchase Options in Operating Lease Contracts

The operating lease contracts of FPSO *Espirito Santo*, MOPU Deep Panuke and semi-submersible Thunder Hawk, where the Company is the lessor, include call options for the client to i) purchase the underlying asset or ii) to

terminate the contract early without obtaining the underlying asset. Exercising of any of the purchase options would have resulted in a gain for the Company as of December 31, 2017 while exercising of the options for early termination as of December 31, 2017 would have resulted in a gain or, in one case, a near break-even result for the Company.

4.3.13 INTANGIBLE ASSETS

2017

	Development costs	Goodwill	Software	Patents	Total
Cost	23	25	11	19	**77**
Accumulated amortization and impairment	(5)	-	(7)	(19)	**(31)**
Book value at 1 January	**18**	**25**	**4**	**-**	**46**
Additions	0	-	1	-	**1**
Amortization	(4)	-	(2)	-	**(5)**
(Impairment)/impairment reversal	-	-	-	-	**-**
Foreign currency variations	-	-	0	-	**0**
Other movements	-	-	0	-	**0**
Total movements	**(3)**	**-**	**(1)**	**-**	**(4)**
Cost	23	25	12	19	**79**
Accumulated amortization and impairment	(9)	-	(8)	(19)	**(36)**
Book value at 31 December	**14**	**25**	**3**	**-**	**42**

2016

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

Amortization of development costs is included in 'Research and development expenses' in the income statement in 2017 for US$ 4 million (2016: US$ 1 million).

Goodwill relates to the acquisition of the Houston based subsidiaries (i.e. the Houston Regional Center). 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 which cover a six-year period, in line with the Company's internal forecasting horizon. Cash flows beyond the six-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 supported by external sources of information. Budgeted gross margin is based on a gradual recovery of the market for brownfield, semi-TLP and semi-sub projects over the next five years. The discount rate used is pre-tax and reflects specific risks (8.3%). The most significant assumption included in the financial budget used for the determination of the recoverable amount of the goodwill is the award of a semi-sub EPC contract in the next three years period (i.e.

before 31 December 2020). The use of more pessimistic market assumptions, with no award of semi-sub EPC contract within the next 5 years, would lead to a full impairment of the goodwill as of December 31, 2017.

4.3.14 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 2017	31 December 2016
Gross receivable	12,420	13,878
Less: unearned finance income	(5,224)	(6,318)
Total	**7,196**	**7,560**
Of which		
Current portion	1,252	328
Non-current portion	5,945	7,232

As of December 31, 2017, 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;
- *Turritella* (FPSO), which started production in September 2016 with an initial lease charter of 10 years. Following the exercise of a purchase option by Shell on July 11, 2017, the finance lease will mainly be recovered though a selling price at the effective purchase option closing date, being January 16, 2018, resulting in a classification in current portion of the total net book value of the finance lease receivable as of December 31, 2017 (please refer to note 4.3.1).
- 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 decrease in the finance lease receivables is driven by the invoicing of bareboat charter rates in 2017 as per redemption plan and US$ 40 million impairment of *Turritella* (FPSO) for the difference between net investment in the finance lease and purchase price payment (please refer to note 4.3.1). This non-cash impairment is recognized in the Company's consolidated income statement on the line item 'Other operating income/(expense)'.

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$ 57 million as of December 31, 2017. 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 2017	31 December 2016
Within 1 year	1,747	942
Between 1 and 5 years	2,677	3,459
After 5 years	7,995	9,477
Total Gross receivable	**12,420**	**13,878**

The following part of the net investment in the lease is included as part of the current assets within the statement of financial position:

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

	31 December 2017	31 December 2016
Gross receivable	1,747	942
Less: unearned finance income	(495)	(614)
Current portion of finance lease receivable	**1,252**	**328**

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.

Purchase Options in Finance Lease Contracts

The finance lease contracts of the FPSOs *Aseng* and *Turritella*, where the Company is the lessor, include call options for the client to purchase the underlying asset or to terminate the contract early. Exercising of the purchase option for *FPSO Aseng* as of December 31, 2017 would have resulted in a gain for the Company while exercising of the early termination option, in which case the Company would retain the vessel, would have resulted in an insignificant loss. Please refer to note 4.3.1 for the detailed impact of Shell exercising the purchase option on *Turritella* (FPSO).

4.3.15 OTHER FINANCIAL ASSETS

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

	31 December 2017	31 December 2016
Non-current portion of other receivables	124	60
Non-current portion of loans to joint ventures and associates	77	189
Total	**201**	**249**

The increase in the non-current portion of other receivables is mainly related to a reclassification of a receivable on a joint venture previously classified under trade receivables and a revision of the long-term receivable related to demobilization fees on operating leases.

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.

LOANS TO JOINT VENTURES AND ASSOCIATES

	Notes	31 December 2017	31 December 2016
Current portion of loans to joint ventures and associates	*4.3.18*	33	25
Non-current portion of loans to joint ventures and associates		77	189
Total	*4.3.33*	**110**	**215**

The activity outlook for the Company's investment (30% ownership) in the joint venture owning the Paenal construction yard operating in Angola has continued to deteriorate, with no award in the Angolan FPSO market since 2014 and macro-economic constraints arising from the persistent downturn. The local construction capacity in Angola is therefore in excess of the activity generated by the oil & gas industry. As a result, the Company's carrying amount for the net investment, including shareholder loans, in this joint venture has been fully impaired to a net book value of zero with an additional impairment charge of US$ 34 million accounted for in the second half of 2017. Because this investment is accounted for 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 2017 has been determined based on the net investment position considered as the loans plus the shares in losses in the associates.

The recoverable amount of the net investment is determined based on a value-in-use calculation which requires the use of assumptions. The cash flow projections used for the value-in-use calculation, as approved by the Management

Board of the Company for the next five years, include expectations of market development and award perspective on brownfield and integration work. Management expects a low level of activity for the Paenal construction yard for the next five years. If the gross margin used in the value-in-use calculation would increase by +5%, this would have a positive impact on the impairment of the net investment of less than US$ 1 million.

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.

4.3.16 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax positions (summary)

	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	16	(16)	0	10	(9)
Tax losses	12	-	12	14	-	14
Other	15	-	15	15	-	15
Book value at 31 December	**27**	**16**	**11**	**29**	**10**	**19**

Movements in net deferred tax positions

		2017	2016
	Note	Net	Net
Deferred tax at 1 January		**19**	**56**
Deferred tax recognized in the income statement	*4.3.9*	(10)	(22)
Deferred tax recognized in other comprehensive income		0	(14)
Foreign currency variations		1	0
Total movements		**(9)**	**(37)**
Deferred tax at 31 December		**11**	**19**

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, 2017 amounts to US$ 5 million. The deferred tax losses are expected to be recovered, based on the anticipated profit in the applicable jurisdiction. The Company has US$ 46 million (2016: US$ 36 million) in deferred tax assets unrecognized in 2017 due to current tax losses not valued. The term in which these unrecognized deferred tax assets could be settled depends on the respective tax jurisdiction and ranges from seven years to an unlimited period of time.

The non-current portion of deferred tax assets amounts to US$ 21 million (2016: US$ 25 million).

Deferred tax assets per location are as follows:

Deferred tax positions per location

	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Switzerland	3	-	3	6	-	6
The Netherlands	3	-	3	3	-	3
Canada	12	16	(4)	14	10	4
Monaco	6	-	6	6	-	6
Brazil	2	-	2	-	-	-
Other	1	-	1	1	-	1
Book value at 31 December	**27**	**16**	**11**	**29**	**10**	**19**

4.3.17 INVENTORIES

	31 December 2017	31 December 2016
Materials and consumables	3	5
Goods for resale	7	1
Total	**10**	**5**

Goods for resale mainly relates to the ongoing EPC phase of the Fast4Ward™ new-build, multi-purpose hull construction contract signed with China Shipbuilding Trading Company, Ltd. and the shipyard of Shanghai Waigaoqiao Shipbuilding and Offshore Co., Ltd. in June 2017. The Fast4Ward™ hull will remain in inventories until it will be used in the first award of a new-build FPSO.

4.3.18 TRADE AND OTHER RECEIVABLES

Trade and other receivables (summary)

	Note	31 December 2017	31 December 2016
Trade debtors		216	247
Other receivables		142	110
Other prepayments and accrued income		191	181
Accrued income in respect of delivered orders		34	95
Taxes and social security		19	23
Current portion of loan to joint ventures and associates	*4.3.15*	33	25
Total		**635**	**681**

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 2017	31 December 2016
Angola	101	136
The United States of America	43	39
Brazil	27	15
Equatorial Guinea	14	11
Malaysia	4	7
Congo	1	6
Australia	3	4
Nigeria	2	0
Other	22	28
Total	**216**	**247**

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

Trade debtors (trade debtors balance)

	31 December 2017	31 December 2016
Nominal amount	224	253
Impairment allowance	(7)	(6)
Total	**216**	**247**

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 2017		31 December 2016	
	Nominal	Impairment	Nominal	Impairment
Not past due	119	-	80	(1)
Past due 0-30 days	41	-	18	-
Past due 31-120 days	15	-	29	(2)
Past due 121- 365 days	35	(3)	51	(1)
More than one year	13	(4)	76	(3)
Total	**224**	**(7)**	**253**	**(6)**

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 decrease of trade debtors past due by more than one year is mainly related to the reclassification of a receivable on a joint venture to 'Non-current portion of other receivables'.

4.3.19 CONSTRUCTION WORK-IN-PROGRESS

	Note	31 December 2017	31 December 2016
Cost incurred		947	856
Instalments invoiced		(833)	(855)
Total construction work-in-progress		**114**	**1**
of which debtor WIP (cost incurred exceeding instalments)		134	15
of which creditor WIP (instalments exceeding cost incurred)	*4.3.27*	(21)	(14)

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 afore-mentioned details, reference is made to note 4.3.27 'Trade and other payables'.

The increased construction work-in-progress mainly reflects the amount of construction activities related to FPSO Liza completed during the period.

4.3.20 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 4.3.29 'Financial Instruments – fair values and risk management'.

In the ordinary course of business and in accordance with its hedging policies as of December 31, 2017, 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 most important floating rate is the US$ 3-month LIBOR. Details of interest percentages of the long-term debt are included in note 4.3.24 'Loans and borrowings'.

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

Derivative financial instruments

	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps cash flow hedge	-	109	(109)	6	170	(164)
Forward currency contracts cash flow hedge	69	5	64	7	54	(47)
Forward currency contracts fair value through profit and loss	23	39	(16)	26	12	14
Total	**92**	**154**	**(61)**	**38**	**236**	**(198)**
Non-current portion	8	80	(72)	8	122	(113)
Current portion	85	73	11	30	114	(84)

The ineffective portion recognized in the income statement (please refer to note 4.3.7 'Net financing costs') arises from cash flow hedges totaling a US$ (17) million loss (2016: US$ 2 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.

4.3.21 NET CASH AND CASH EQUIVALENT

	31 December 2017	31 December 2016
Cash and bank balances	164	415
Short-term investments	793	489
Net cash and cash equivalent	**957**	**904**

The cash and cash equivalents dedicated to debt and interest payments (restricted) amounts to US$ 204 million (2016: US$ 221 million). Short-term deposits are made for varying periods of up to one year, usually less than three months, 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, Ghana and Nigeria) amounts to US$ 58 million (2016: US$ 45 million).

Further disclosure about the fair value measurement is included in note 4.3.29 'Financial Instruments – fair values and risk management'.

4.3.22 ASSETS HELD FOR SALE

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

Assets held for sale

	31 December 2017	31 December 2016
Book value at 1 January	**1**	-
Reclassified assets	16	12
Disposal	(15)	(11)
Book value at 31 December	**2**	**1**

In July 2017, the Company sold FPSO Marlim Sul for recycling. For the year ended December 31, 2016, the movement related to the disposal of FPSO Falcon. Both movements impact the Lease and Operate segment.

4.3.23 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).

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

number of shares	2017	2016
Outstanding at 1 January	**213,471,305**	**211,694,950**
Share-based payment remuneration	-	1,776,355
Treasury shares cancelled	(7,800,000)	-
Outstanding 31 December	**205,671,305**	**213,471,305**

TREASURY SHARES

A total number of 2,254,274 treasury shares are still reported in the outstanding ordinary shares as at December 31, 2017 and held predominantly for employee share programs. During 2017, a total of 1,374,905 shares were transferred to employee share programs.

Within equity, an amount of US$ 1,051 million (2016: US$ 708 million) should be treated as legal reserve (please refer to section 4.5.5).

ORDINARY SHARES

Of the ordinary shares, 574,685 shares were held by members of Management Board, in office as at December 31, 2017 (December 31, 2016: 381,079) as detailed below :

Ordinary shares held in the Company by the Management Board

	Shares subject to conditional holding requirement	Other shares	Total shares at 31 December 2017	Total shares at 31 December 2016
Bruno Chabas	346,260	228,425	574,685	381,079
Douglas Wood	-	-	-	-
Philippe Barril	-	-	-	-
Erik Lagendijk	-	-	-	-
Total	**346,260**	**228,425**	**574,685**	**381,079**

Of the Supervisory Board members, only Mr. Hepkema holds shares in the Company (256,333 shares as at December 31, 2017), resulting from his previous position as member of the 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 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)**
Cash flow hedges					
Change in fair value	137	-	-	-	137
Transfer to financial income and expenses	28	-	-	-	28
Transfer to construction contracts and property, plant and equipment	4	-	-	-	4
Transfer to operating profit and loss	16	-	-	-	16
IFRS 2 share based payments					
IFRS 2 vesting costs for the year	-	-	-	12	12
IFRS 2 vested share based payments	-	-	-	(17)	(17)
Actuarial gain/(loss) on defined benefit provision					
Change in defined benefit provision due to changes in actuarial assumptions	-	7	-	-	7
Foreign currency variations					
Foreign currency variations	-	-	(17)	-	(17)
Balance at 31 December 2017	**(26)**	**6**	**(62)**	**18**	**(65)**

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. The increased marked-to-market value of these instruments is mainly driven by the fall in the US$ exchange rate versus the hedged currencies.

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.

4.3.24 LOANS AND BORROWINGS

BANK INTEREST-BEARING LOANS AND OTHER BORROWINGS

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

	2017	2016
Non-current portion	5,564	4,959
Add: current portion	557	763
Remaining principal at 1 January	**6,120**	**5,722**
Additions	0	1,157
Redemptions	(576)	(780)
Transaction and amortized costs	26	21
Other movements	0	0
Total movements	**(550)**	**398**
Remaining principal at 31 December	**5,571**	**6,120**
Less: Current portion	(1,223)	(557)
Non-current portion	**4,347**	**5,564**
Transaction and amortized costs	112	137
Remaining principal at 31 December (excluding transaction and amortized costs)	**5,682**	**6,258**
Less: Current portion	(1,240)	(576)
Non-current portion	**4,442**	**5,682**

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 4.3.29 'Financial Instruments – fair values and risk management'.

The bank interest-bearing loans and other borrowings, excluding transaction costs and amortized costs amounting to US$ 112 million (2016: US$ 137 million), have the following forecast repayment schedule:

	31 December 2017	31 December 2016
Within one year	1,240	576
Between 1 and 2 years	508	592
Between 2 and 5 years	1,614	1,847
More than 5 years	2,319	3,243
Balance at 31 December	**5,682**	**6,258**

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

Loans and borrowings per entity

					Net book value at 31 December 2017			Net book value at 31 December 2016		
Entity name	Project name or nature of loan	% Ownership	% Interest[1]	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:										
SBM Deep Panuke SA	MOPU Deep Panuke	100.00	3.52%	15-Dec-21	202	62	264	264	60	324
Tupi Nordeste Sarl	FPSO Cidade de Paraty	50.50	5.30%	15-Jun-23	524	98	622	622	92	714
Guara Norte Sarl	FPSO Cidade de Ilhabela	62.25	5.59%	15-Oct-24	792	109	901	901	103	1,005
SBM Baleia Azul Sarl	FPSO Cidade de Anchieta	100.00	5.53%	15-Sep-27	339	30	368	368	28	396
Alfa Lula Alto Sarl	FPSO Cidade de Marica	56.00	5.09%	15-Dec-29	1,216	92	1,307	1,307	87	1,394
Beta Lula Central Sarl	FPSO Cidade de Saquarema	56.00	4.21%	15-Jun-30	1,276	77	1,353	1,352	75	1,426
SBM Turritella LLC	FPSO Turritella	55.00	3.64%	16-Jan-18	-	724	724	718	72	791
Revolving credit facility:										
SBM Offshore Finance Sarl	Corporate Facility	100.00	Variable	16-Dec-21	(1)	(1)	(2)	(2)	(1)	(3)
Other:										
Other		100.00			0	33	33	33	40	73
Net book value of loans and borrowings					**4,347**	**1,223**	**5,571**	**5,564**	**557**	**6,120**

1 % interest per annum on the remaining loan balance

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.

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

Expiry date of the undrawn facilities and unused credit lines

	2017	2016
Expiring within one year	100	100
Expiring beyond one year	1,000	1,000
Total	**1,100**	**1,100**

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 4.25x in December 2017, onwards 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 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 co-owned investees 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 co-owned investees.

Covenants

	2017	2016
Tangible net worth	3,537	3,691
Total tangible assets	10,872	11,403
Solvency ratio	32.5%	32.4%
Consolidated net borrowings	2,657	3,063
Adjusted EBITDA (SBM Offshore N.V.)	879[1]	1,077
Leverage ratio	3.0	2.8
Net interest payable	171	159
Interest cover ratio	5.2	6.0

1 Exceptional items restated from 2017 Adjusted EBITDA are mainly related to the settlement with the DoJ, the unwinding of the commitments to the partners in the investee owning the FPSO Turritela, the estimated Insurance income related to the Yme Insurance Claim (net of claim related expenses incurred up to December 31, 2017) and restructuring costs

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 2017 and 2016 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.

4.3.25 DEFERRED INCOME

The deferred incomes are as follows:

	31 December 2017	31 December 2016
Deferred income on operating lease contracts	249	247
Other	-	16
Total	**249**	**263**

The deferred income on operating lease contracts is mainly related to the revenue for one of the operating lease units, which reflects a decreasing 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.

4.3.26 PROVISIONS

The movement and type of provisions during the year 2017 are summarized as follows:

Provisions (movements)

	Demobilisation	Onerous contracts	Warranty	Employee benefits	Other	Total
Balance at 1 January 2017	**103**	**42**	**104**	**26**	**330**	**604**
Arising during the year	-	40	43	2	253	338
Unwinding of interest	4	1	-	0	18	22
Utilised	-	(21)	(41)	(1)	(11)	(74)
Released to profit	-	0	(39)	0	(4)	(43)
Through OCI	-	-	-	(7)	-	(7)
Other	(14)	-	0	0	0	(14)
Foreign currency variations	-	1	0	2	0	3
Balance at 31 December 2017	93	63	68	23	584	830
of which :						
Non-current portion	93	41	-	23	86	242
Current portion	0	22	68	-	498	588

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 (please refer to note 4.3.7 'Net financing costs').

The 'Other' movement of the demobilization provision relates to updates of the estimated demobilization cost based on the latest available benchmarks where updates of the demobilization costs are recognized both impacting the provision and the asset.

Expected outflow within one year is nil and amounts to US$ 29 million between one and five years and US$ 63 million after five years.

Onerous contract

The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the still challenging conditions in the offshore oil and gas industry, the Company expects a reduced utilization of its DSCV SBM Installer with costs of the long-term chartering contract exceeding the economic benefits expected to be received. As a result, the contract continues to be classified as onerous and the non-cash provision for onerous contract has been increased by US$ 33 million, recognized in the gross margin of the Turnkey segment as of December 31, 2017. The calculations use cash flow projections approved by the Management Board of the Company. The discount rate used is the risk free rate (2.4% as of December 2017). If the vessel sales day rate varies by +/- 10% the impact on the onerous provision would be in a range of +/- US$ 14 million. If the vessel days of utilization varies by +/- 10% the impact on the onerous provision would be in a range of +/- US$ 16 million.

In light of previous year's restructuring programs, the Company has overcapacity in rented office space in various locations. The obligation for the discounted future unavoidable costs related to long-term office rental contracts has been provided for through a provision for onerous contracts. As a result of unforeseen lack of sublease of empty offices, an additional provision for onerous contract has been provided for amounting to US$ 7 million over the period ended December 31, 2017. The discount rate used is the risk free rate (3.3% as of December 2017).

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 net decrease of the warranty provision compared to December 31, 2016 mainly consists of warranty costs effectively incurred over 2017 (US$ 41 million).

Other

The 'Other' provisions arising during the year mainly include estimated insurance income to be shared with Repsol in accordance with the terms of the settlement agreement of March 11, 2013 which concluded the Yme project (please refer to note 4.3.1) and US$ 80 million for compensation to the partners in the investee owning the *Turritella* (FPSO) following the purchase option exercised by Shell and according to the guarantee provided by the Company in the joint venture agreements in case of early termination of the bareboat contract (please refer to note 4.3.1 Financial Highlights). The unwinding of interest mainly relate to the provision for potential contemplated settlement in Brazil (please refer to note 4.3.1 Financial Highlights).

4.3.27 TRADE AND OTHER PAYABLES

Trade and other payables (summary)

	Notes	31 December 2017	31 December 2016
Accruals on projects		189	193
Trade payables		98	120
Accruals regarding delivered orders		60	206
Other payables		73	54
Instalments exceeding cost incurred	4.3.19	21	14
Pension taxation		9	9
Taxation and social security costs		52	36
Other non-trade payables		95	74
Total	4.3.29	**596**	**706**

The decrease year-on-year of accruals on delivered orders is mainly related to finalization and project close-out on FPSOs *Turritella*, *Cidade de Marica* and *Cidade de Saquarema*.

The contractual maturity of the trade payables is as follows:

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

	31 December 2017	31 December 2016
Within 1 month	88	117
Between 1 and 3 months	4	2
Between 3 months and 1 year	5	1
More than one year	1	-
Total	**98**	**120**

4.3.28 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, 2017, the Company has provided bank guarantees to unrelated third parties for an amount of US $ 342 million (2016: US$ 336 million). No liability is expected to arise under these guarantees.

The Group holds in its favor US$ 78 million of bank guarantees from unrelated third parties. No withdrawal under these guarantees is expected to occur.

COMMITMENTS

As at December 31, 2017, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US$ 296 million (December 31, 2016: US$ 2 million). Investment commitments have increased principally due to investment commitments entered into for FPSO *Liza*.

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

Commitments

				2017	2016
	< 1 year	1-5 years	> 5years	Total	Total
Operating lease[1]	16	63	61	141	**158**
Rental and leasehold	21	66	4	91	**83**
Total	**37**	**129**	**65**	**231**	**240**

1 mainly consists of DSCV SBM Installer charter contract

The Company has overcapacity on rental and leasehold contracts of office buildings in some locations (refer to note 4.3.26). The Company has entered into sub-leasing arrangements on some of these rental and leasehold contracts in Houston and Monaco with total future minimum sublease payments amounting to US$ 8 m.

CONTINGENT ASSET

In Q3 2017, the Company announced that it had entered into a binding settlement with an 83,6% majority group of the US$ 500 million primary insurance layer relating to SBM Offshore's insurance claim arising from the Yme project. Pursuant to that agreement, the Company received the sum of US$ 281 million in full and final settlement of its claim against those participating insurers.

The Company continues to pursue its claim against all remaining insurers including the two excess layers, the trial of which is scheduled to commence October 2018 to recover losses incurred in connection with the Yme development.

Under the terms of the settlement agreement with Repsol, 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 equally between the Company and Repsol.

4.3.29 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, 2017

		Carrying amount					
	Notes	Fair Value through profit or loss	Fair value - hedging instruments	Loans and receivables	IAS 17 Leases	Financial liabilities at amortized cost	Total
Financial assets measured at fair value							
Forward currency contracts	*4.3.20*	23	69	-	-	-	92
Total		**23**	**69**	**-**	**-**	**-**	**92**
Financial assets not measured at fair value							
Trade and other receivables	*4.3.18*	-	-	602	-	-	602
Finance leases receivables	*4.3.14*	-	-	-	7,196	-	7,196
Loans to joint ventures and associates	*4.3.15 / 4.3.18*	-	-	110	-	-	110
Total		**-**	**-**	**712**	**7,196**	**-**	**7,909**
Financial liabilities measured at fair value							
Interest rate swaps	*4.3.20*	-	109	-	-	-	109
Forward currency contracts	*4.3.20*	39	5	-	-	-	44
Total		**39**	**114**	**-**	**-**	**-**	**154**
Financial liabilities not measured at fair value							
US$ project finance facilities drawn	*4.3.24*	-	-	-	-	5,539	5,539
Revolving credit facility/Bilateral credit facilities	*4.3.24*	-	-	-	-	(2)	(2)
Other debt	*4.3.24*	-	-	-	-	33	33
Trade and other payables/Other non-current liabilities	*4.3.27*	-	-	-	-	596	596
Total		**-**	**-**	**-**	**-**	**6,166**	**6,166**

Fair value levels 2017

	Notes	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Forward currency contracts	*4.3.20*	-	92	-	92
Total		**-**	**92**	**-**	**92**
Financial assets not measured at fair value					
Finance leases receivables	*4.3.14*	-	-	7,351	7,351
Loans to joint ventures and associates	*4.3.15 / 4.3.18*	-	-	102	102
Total		**-**	**-**	**7,453**	**7,453**
Financial liabilities measured at fair value					
Interest rate swaps	*4.3.20*	-	109	-	109
Forward currency contracts	*4.3.20*	-	44	-	44
Total		**-**	**154**	**-**	**154**
Financial liabilities not measured at fair value					
US$ project finance facilities drawn	*4.3.24*	-	5,565	-	5,565
Revolving credit facility/Bilateral credit facilities	*4.3.24*	-	(2)	-	(2)
Other debt	*4.3.24*	-	-	33	33
Total		**-**	**5,563**	**33**	**5,596**

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
- No instruments were transferred between Level 2 and Level 3
- 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, 2017 and December 31, 2016. Financial Derivatives amounting to a fair value of US$ 2 million (2016: US$ 6 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$ 2 million (2016: US$ 6 million)

Accounting classification and fair values as at December 31, 2016

	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 amortized cost	Total
Financial assets measured at fair value									
Interest rate swaps	4.3.20	-	6	-	-	-	-	-	6
Forward currency contracts	4.3.20	26	7	-	-	-	-	-	33
Total		**26**	**13**	**-**	**-**	**-**	**-**	**-**	**39**
Financial assets not measured at fair value									
Trade and other receivables	4.3.18	-	-	-	-	656	-	-	656
Finance leases receivables	4.3.14	-	-	-	-	-	7,560	-	7,560
Loans to joint ventures and associates	4.3.15 / 4.3.18	-	-	-	-	215	-	-	215
Total		**-**	**-**	**-**	**-**	**870**	**7,560**	**-**	**8,430**
Financial liabilities measured at fair value									
Interest rate swaps	4.3.20	-	170	-	-	-	-	-	170
Forward currency contracts	4.3.20	12	54	-	-	-	-	-	66
Total		**12**	**224**	**-**	**-**	**-**	**-**	**-**	**236**
Financial liabilities not measured at fair value									
US$ project finance facilities drawn	4.3.24	-	-	-	-	-	-	4,624	4,624
US$ guaranteed project finance facilities drawn	4.3.24	-	-	-	-	-	-	1,426	1,426
Revolving credit facility/Bilateral credit facilities	4.3.24	-	-	-	-	-	-	(3)	(3)
Other debt	4.3.24	-	-	-	-	-	-	73	73
Trade and other payables/Other non-current liabilities		-	-	-	-	-	-	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	*4.3.20*	-	6	-	6
Forward currency contracts	*4.3.20*	-	33	-	33
Total		**-**	**39**	**-**	**39**
Financial assets not measured at fair value					
Finance leases receivables	*4.3.14*	-	-	7,476	7,476
Loans to joint ventures and associates	*4.3.15 / 4.3.18*	-	-	197	197
Total		**-**	**-**	**7,673**	**7,673**
Financial liabilities measured at fair value					
Interest rate swaps	*4.3.20*	-	170	-	170
Forward currency contracts	*4.3.20*	-	66	-	66
Total		**-**	**236**	**-**	**236**
Financial liabilities not measured at fair value					
US$ project finance facilities drawn	*4.3.24*	-	4,634	-	4,634
US$ guaranteed project finance facilities drawn	*4.3.24*	-	1,426	-	1,426
Revolving credit facility/Bilateral credit facilities	*4.3.24*	-	(3)	-	(3)
Other debt	*4.3.24*	-	-	75	75
Total		**-**	**6,057**	**75**	**6,132**

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 (8%-9%)	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 (8%)	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 2017					
Interest rate swaps	(109)	(32)	(55)	(36)	(123)
Forward currency contracts	64	55	12	-	67
31 December 2016					
Interest rate swaps	(164)	(95)	(114)	(9)	(218)
Forward currency contracts	(47)	(48)	1	-	(48)

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 2017					
Interest rate swaps	(109)	(32)	(55)	(36)	(123)
Forward currency contracts	64	55	12	-	67
31 December 2016					
Interest rate swaps	(164)	(95)	(114)	(9)	(218)
Forward currency contracts	(47)	(48)	1	-	(48)

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 (please refer to note 4.3.23 '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 2017			31 December 2016		
in millions of local currency	EUR	SGD	BRL	EUR	SGD	BRL
Fixed assets	46	-	139	52	-	280
Current assets	155	2	1,039	489	3	567
Long-term liabilities	(19)	-	-	(16)	-	-
Current liabilities	(57)	-	(2,232)	(324)	(5)	(1,616)
Gross balance sheet exposure	**125**	**2**	**(1,054)**	**200**	**(2)**	**(769)**
Estimated forecast sales	155	-	-	-	-	-
Estimated forecast purchases	(672)	(297)	(528)	(621)	(279)	(339)
Gross exposure	**(392)**	**(295)**	**(1,582)**	**(421)**	**(281)**	**(1,108)**
Forward exchange contracts	391	294	411	164	281	333
Net exposure	**(1)**	**(1)**	**(1,171)**	**(257)**	**0**	**(775)**

The decrease of the EUR exposure was driven by the equity reallocation between SBM Offshore N.V. and its subsidiaries following the completion of the share repurchase program.

The increase of the BRL exposure during 2017 was driven by the increase of the Brazilian operations related to FPSO Cidade de Marica (on hire as of February 7, 2016) and FPSO Cidade de Saquarema (on hire as of July 8, 2016).

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)

	2017	2016	2017	2016
	Average rate		Closing rate	
EUR 1	1.1297	1.1069	1.1993	1.0541
SGD 1	0.7244	0.7244	0.7484	0.6919
BRL 1	0.3136	0.2888	0.3019	0.3073

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 2016.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
	10 percent increase	10 percent decrease	10 percent increase	10 percent decrease
31 December 2017				
EUR	-	-	(62)	62
SGD	-	-	(22)	22
BRL	-	-	19	(19)
31 December 2016				
EUR	-	-	(39)	39
SGD	-	-	(19)	19
BRL	-	-	13	(13)

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 (excluding transaction costs) was:

Interest rate risk (summary)

	2017	2016
Fixed rate instruments		
Financial assets	7,196	7,601
Financial liabilities	(669)	(799)
Total	**6,527**	**6,802**
Variable rate instruments		
Financial assets	110	174
Financial liabilities	(5,013)	(5,459)
Total	**(4,902)**	**(5,285)**

Interest rate risk (exposure)

	2017	2016
Variable rate instruments	(4,902)	(5,285)
Less: IRS contracts	4,814	5,237
Exposure	**(88)**	**(48)**

At December 31, 2017, it is estimated that a general increase of 100 basis points in interest rates would decrease the Company's profit before tax for the year by approximately US$ 1 million (2016: increase of US$ 1 million) mainly related to un-hedged portion of financial liabilities.

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 2016.

Interest rate risk (sensitivity)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Variable rate instruments	(1)	1	-	-
Interest rate swap	0	0	203	(218)
Sensitivity (net)	**(1)**	**1**	**203**	**(218)**
31 December 2016				
Variable rate instruments	0	0	-	-
Interest rate swap	1	(1)	279	(302)
Sensitivity (net)	**1**	**(1)**	**279**	**(302)**

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

	2017		2016	
Rating	Assets	Liabilities	Assets	Liabilities
AA	4	(13)	3	(30)
AA-	13	(18)	-	(5)
A+	38	(81)	22	(150)
A	20	(25)	9	(36)
A-	-	0	-	-
BBB+	17	(16)	5	(15)
Derivative financial instruments	**92**	**(154)**	**39**	**(236)**
AAA	381	-	127	-
AA+	-	-	0	-
AA	17	-	18	-
AA-	338	-	28	-
A+	69	-	631	-
A	4	-	61	-
A-	100	-	0	-
BBB-	0	-	-	-
Non-investment grade	50	-	38	-
Cash and cash equivalents and bank overdrafts	**957**	**-**	**904**	**-**

The Company maintains and reviews its policy on cash investments and limits per individual counterparty are set to:

- BBB- to BBB+ rating: U$25 million or 10% of cash available.
- A- to A+ rating: U$75 million or 20% of cash available.
- AA- to AA+ rating: U$100 million or 20% of cash available.
- Above AA+ rating: no limit.

As per December 31, 2017, cash investments above AA+ rating do not exceed US$ 100 million per individual counterparty.

Cash held in banks rated below A- is mainly related to the Company's activities in Angola (US$ 32 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 4.3.18 '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, the Company 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 2017

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2017					
Borrowings		1,421	2,634	2,581	6,635
Derivative financial liabilities		99	182	63	345
Derivative financial assets		(78)	(5)	-	(83)
Trade and other payables	4.3.27	595	1	-	596
Total		**2,037**	**2,813**	**2,643**	**7,493**

Liquidity risk 2016

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2016					
Borrowings		765	2,999	3,568	7,332
Derivative financial liabilities		156	264	170	589
Derivative financial assets		(23)	19	9	4
Trade and other payables	*4.3.27*	706	-	-	706
Total		**1,604**	**3,282**	**3,746**	**8,632**

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 2016, is to target a gearing ratio between 50% and 60%. This target is subject to maintaining headroom of 20% of all banking covenants. At December 31, 2017 and 2016 all debt was held at project company level on a limited recourse basis. The gearing ratios at December 31, 2017 and 2016 were as follows:

Capital risk management

	2017	2016
Total borrowings	5,571	6,120
Less: net cash and cash equivalents	957	904
Net debt	**4,613**	**5,216**
Total equity	3,559	3,513
Total capital	**8,172**	**8,729**
Gearing ratio	56.4%	59.8%

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.

4.3.30 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.

4.3.31 INTEREST IN JOINT VENTURES AND ASSOCIATES

The Company has several joint ventures and associates:

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2017 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
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

Entity name	Partners	Joint venture/ Associate	% of ownership	Country registration	2017 main reporting segment	Project name
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 continues to face a downturn related to economic and political factors. 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 of December 31, 2017.

The recoverable amount of the net investment in the Brazilian yard is determined based on value-in-use calculations which require the use of assumptions, including future market conditions, which are by essence subject to uncertainty. 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 eight years, including expectations of the market development and award perspective on the FPSO and brownfield market. Management expects to see a gradual recovery of the market within the next five years.
- The terminal value is based on the average of the 2021-2025 period (with no expected growth), the low level of activity expected on the 2018-2020 being not considered as normative.
- The discount rate used is pre-tax and reflects the specific country and industry risk (9.4%).

As a result of the impairment test performed, the determined value-in-use is higher than the carrying amount of the net investment in the Brazilian yard as of December 31, 2017 (US$ 24 million) and no impairment has therefore been recognized.

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

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

	2017	2016
Investments in associates and joint ventures at 1 January	**484**	**460**
Share of profit of equity-accounted investees	33	45
Dividends	(76)	(45)
Cash flow hedges	3	3
Capital increase/(decrease)	4	12
Foreign currency variations	(1)	(7)
Share in negative net equity reclassification to loans to joint ventures and associates	10	17
Investments in associates and joint ventures at 31 December	**457**	**484**

The following tables present the figures at 100%.

Information on significant joint arrangements and associates - 2017

Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilites	Dividends paid	Revenue
FPSO N'Goma	Angola	1,130	981	27	432	386	291	-	101
Angola operations	Angola	225	1	22	-	-	180	10	156
FPSO Kikeh	Malaysia	350	253	5	-	4	17	107	111
Brazilian yard	Brazil	49	37	1	-	-	6	-	11
Angolan yard	Angola	130	0	77	437	437	62	-	13
Non material joint ventures/associates		255	211	21	252	236	51	41	44
Total at 100%		**2,140**	**1,483**	**154**	**1,121**	**1,063**	**605**	**158**	**436**

Information on significant joint arrangements and associates - 2016

Project name	Place of the business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilites	Dividends paid	Revenue
FPSO N'Goma	Angola	1,215	1,061	25	564	554	269	-	105
Angola operations	Angola	230	2	36	-	0	168	-	175
FPSO Kikeh	Malaysia	426	328	(3)	0	20	23	90	108
Brazilian yard	Brazil	76	49	3	-	-	9	-	78
Angolan yard	Angola	490	324	67	639	639	102	-	40
Non material joint ventures/associates		304	226	40	271	209	96	4	36
Total at 100%		**2,740**	**1,989**	**169**	**1,474**	**1,422**	**668**	**94**	**543**

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

Information on loans and borrowings of joint ventures and associates

				Net book value at 31 December 2017			Net book value at 31 December 2016		
Entity name	% Ownership	% Interest	Maturity	Non-current	Current	Total	Non-current	Current	Total
US$ Project Finance facilities drawn:									
Sonasing Xikomba Ltd	50.00	4.77%	16-Aug-21	256	85	342	342	81	423
Normand Installer SA	49.90	4.99%	15-Feb-19	35	8	43	-	50	50
OS Installer AS	25.00	4.18%	16-Dec-19	80	7	88	88	7	95
Loans from subsidiaries of SBM Offshore N.V.[1]				355	33	387	416	20	437
Loans from other shareholders of the joint ventures and associates				261	-	261	246	-	246
Loans from other joint ventures[2]				252	1	253	250	-	250
Net book value of loans and borrowings				**1,240**	**134**	**1,374**	**1,343**	**158**	**1,501**

1 Please refer to note 4.3.15 '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

	2017	2016
Net result at 100 %	(33)	38

Reconciliation equity at 100 % with investment in associates and joint ventures

	2017	2016
Equity at 100%	472	650
Partner ownership	(181)	(294)
Share in negative net equity reclassification to loans to joint ventures and associates	166	127
Investments in associates and joint ventures	**457**	**484**

4.3.32 INFORMATION ON NON-CONTROLLING INTERESTS

The Company has several jointly owned subsidiaries:

Entity name	Partners	% of ownership	Country registration	2017 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 United States of America	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
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

Entity name	Partners	% of ownership	Country registration	2017 main reporting segment	Project name
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 S.A.	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) – 2017

Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities	Dividends to NCI	Revenue
FPSO Aseng	Equatorial Guinea	269	130	23	80	-	106	-	84
FPSO Espirito Santo	Brazil	311	264	15	0	249	47	39	113
FPSO Turritella	The United States of America	1,063	-	22	724	0	739	-	175
FPSO Cidade de Marica	Brazil	1,772	1,640	57	1,308	1,258	146	-	204
FPSO Cidade de Saquarema	Brazil	1,726	1,627	24	1,353	1,294	105	-	208
FPSO Cidade de Paraty	Brazil	1,214	1,123	28	622	538	145	-	160
FPSO Cidade de Ilhabela	Brazil	1,587	1,427	90	902	793	169	-	201
FPSO Capixaba	Brazil	197	175	8	65	74	87	7	94
Non material NCI		76	0	7	4	4	11	1	9
Total 100%		**8,214**	**6,387**	**274**	**5,056**	**4,210**	**1,554**	**47**	**1,247**

Information on non-controlling interests (NCI) – 2016

Project name	Place of business	Total assets	Non-current assets	Cash	Loans	Non-current liabilities	Current liabilities	Dividends to NCI	Revenue
FPSO Aseng	Equatorial Guinea	365	215	14	180	148	76	4	74
FPSO Espirito Santo	Brazil	409	321	40	7	266	52	15	161
FPSO Turritella	The United States of America	1,169	1,038	37	791	718	84	-	199
FPSO Cidade de Marica	Brazil	1,804	1,684	52	1,394	1,363	140	-	372
FPSO Cidade de Saquarema	Brazil	1,755	1,668	18	1,426	1,372	105	-	300
FPSO Cidade de Paraty	Brazil	1,264	1,167	38	734	664	136	-	134
FPSO Cidade de Ilhabela	Brazil	1,610	1,466	78	1,010	909	163	-	192
FPSO Capixaba	Brazil	284	217	26	45	81	105	-	83
Non material NCI		79	4	7	3	11	11	1	(8)
Total 100%		**8,738**	**7,781**	**310**	**5,590**	**5,532**	**871**	**20**	**1,509**

Reference is made to section 4.3.24 '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)

	2017	2016
Net result	154	65

Reconciliation equity at 100 % with Non-controlling interests on partially owned subsidiaries

	2017	2016
Equity at 100%	2,450	2,335
Company ownership	(1,392)	(1,338)
Accumulated amount of NCI	**1,058**	**996**

4.3.33 RELATED PARTY TRANSACTIONS

During 2017, 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 4.3.6 '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	2017	2016
Revenue		25	10
Cost of sales		(12)	(106)
Loans to joint ventures and associates	4.3.15	110	215
Trade receivables		139	164
Trade payables		61	78

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 increase of revenue mainly relates to repair work performed on one FPSO under warranty period. 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 4.3.31 'Interest in joint ventures and associates'.

4.3.34 AUDITOR'S FEES AND SERVICES

Fees included in other operating costs related to PwC, the 2017 and 2016 Company's external auditor, are summarized as follows:

in thousands of US$	2017	2016
Audit fees	1,861	1,962
Out of which:		
- invoiced by PwC Accountants N.V.	1,009	*1,344*
- invoiced by PwC network firms	852	*618*
Tax fees	47	32
Other	101	533
Total	**2,009**	**2,527**

In 2017, the other auditor's fees were mainly related to the review of the Company sustainability report.

In 2016, 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 the Company sustainability report.

4.3.35 EVENTS AFTER END OF REPORTING PERIOD

In accordance with the Company's dividend policy introduced in 2017 which consists of paying out a dividend based on the Company's assessment of the underlying cash flow position and 'Directional net income', where a target pay-out ratio of between 25% and 35% is also considered, a dividend out of retained earnings of US$ 0.25 per share will be proposed to the Annual General Meeting on April 11, 2018, corresponding to approximately 64% of the US$ 80 million Company's 2017 Directional net income adjusted for non-recurring items.

On January 16, 2018 the Company and Shell completed the transaction related to the sale of *Turritella* (FPSO). The financial impacts of the transaction are provided in note 4.3.1 'Financial Highlights'.

4.4 COMPANY FINANCIAL STATEMENTS

4.4.1 COMPANY BALANCE SHEET

Company balance sheet

Before appropriation of profit	Notes	31 December 2017	31 December 2016
ASSETS			
Investment in Group companies	*4.5.1*	2,523	2,814
Deferred tax asset	*4.5.2*	3	3
Total non-current assets		**2,526**	**2,817**
Other receivables	*4.5.3*	12	5
Cash and cash equivalents	*4.5.4*	0	-
Total current assets		**13**	**5**
TOTAL ASSETS		**2,539**	**2,823**
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Issued share capital		62	56
Share premium reserve		1,163	1,163
Treasury shares		(35)	(166)
Legal reserves	*4.5.5*	1,051	708
Retained earnings		416	571
Profit of the year		(155)	182
Shareholders' equity	*4.5.5*	**2,501**	**2,516**
Other current liabilities	*4.5.6*	37	307
Total current liabilities		**37**	**307**
TOTAL EQUITY AND LIABILITIES		**2,539**	**2,823**

4.4.2 COMPANY INCOME STATEMENT

Company income statement

For the years ended 31 December	Note	2017	2016
Revenue	4.5.7	4	4
General and administrative expenses	4.5.8	(33)	(27)
Operating profit/(loss) (EBIT)		**(29)**	**(22)**
Financial expenses	4.5.9	(2)	(1)
Net financing costs		**(2)**	**(1)**
Result of Group companies	4.5.1	(125)	204
Profit/(Loss) before tax		**(156)**	**180**
Income tax expense	4.5.10	1	2
Profit/(Loss)		**(155)**	**182**

4.4.3 GENERAL

The separate financial statements are part of the 2017 financial statements of SBM Offshore N.V.

SBM Offshore N.V. costs mainly comprise of management activities and cost of the headquarters office at Schiphol of which part is recharged to Group companies.

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

The standalone financial statements were prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements of the 'Raad voor de Jaarverslaggeving'. SBM Offshore N.V. uses the option provided in section 2:362 (8) of the Dutch 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 ('4.2.7 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 are deemed to be unrealized.

4.5 NOTES TO THE COMPANY FINANCIAL STATEMENTS

4.5.1 INVESTMENT IN GROUP COMPANIES

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

Investment in Group companies

	2017	2016
Balance at 1 January	2,773	2,501
Reclassification to other receivables	41	42
Investments net value	**2,814**	**2,543**
Result of Group companies	(125)	204
Divestments and capital repayments	(232)	-
Dividends received	(118)	-
Other changes (a.o. IAS 39)[1]	189	54
Foreign currency variations	(9)	(27)
Movements	**(295)**	**230**
Balance at 31 December	2,477	2,773
Reclassification to other receivables[2]	46	41
Investments net value at 31 December	**2,523**	**2,814**

1 mainly relates to Cash flow hedges/net investment hedges (please refer to section 4.2.4 'Company's Consolidated Statement of changes in equity).
2 this relates to negative equity booked against the companies stand alone receivables on those investments.

An overview of the information on principal subsidiary undertakings required under articles 2: 379 of the Dutch Civil Code is given below. The subsidiaries of the Company are the following (all of which are 100% owned):

- SBM Offshore Holding B.V., Amsterdam, The Netherlands
- SBM Holding Inc. S.A., Marly, Switzerland
- SBM Holding Luxembourg S.à.r.l, 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
- FPSO Capixaba Holding B.V., 's Gravenhage, The Netherlands
- XNK Industries B.V., Dongen, The Netherlands

4.5.2 DEFERRED TAX ASSET

SBM Offshore N.V. 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 carried forward for a period of nine years and are expected to be recovered based on anticipated future taxable profits within the Dutch fiscal unity.

4.5.3 OTHER RECEIVABLES

	31 December 2017	31 December 2016
Amounts owed by Group companies	12	5
Other debtors	0	0
Total	**12**	**5**

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

4.5.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are at the SBM Offshore N.V.'s free disposal.

4.5.5 SHAREHOLDERS EQUITY

For an explanation of the shareholders equity, reference is made to the consolidated statement of changes in equity and 4.3.23 Equity Attributable to Shareholders.

Legal reserve

	31 December 2017	31 December 2016
Investees equity non-distributable[1]	1,124	947
Capitalized development expenditure[2]	14	18
Translation reserve	(62)	(45)
Cash flow hedges	(26)	(212)
Total	**1,051**	**708**

1 including US$ 70 million of Swiss entities legal reserves
2 relates to the Company subsidiaries

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 RESULT

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

Appropriation of result

	2017
Profit/Loss attributable to shareholders	(155)
In accordance with Article 29 clause 4 to be transferred to the 'Retained earnings'	(155)
At the disposal of the General Meeting of Shareholders	**-**

It is proposed that US$ 51 million of retained earnings is distributed among the shareholders.

4.5.6 OTHER CURRENT AND NON-CURRENT LIABILITIES

Current and non current liabilities

	31 December 2017	31 December 2016
Trade payables	1	0
Amounts owed to Group companies	29	303
Taxation and social security costs	1	1
Other creditors	6	3
Total current liabilities	**37**	**307**

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.

4.5.7 REVENUE

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

4.5.8 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Employee Benefits	(23)	(22)
Other costs	(11)	(4)
Total	**(33)**	**(27)**

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 4.3.6 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 4.3.34 Auditor's Fees and Services.

4.5.9 FINANCIAL EXPENSES

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

4.5.10 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 transferred to the parent of the fiscal unity.

4.5.11 COMMITMENTS AND CONTINGENCIES

SBM Offshore N.V. 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.

SBM Offshore N.V. 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 companies are calculated locally and 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.

4.5.12 DIRECTORS REMUNERATION

For further details on the Directors remuneration, reference is made to section 4.3.6 Employee Benefit Expenses of the consolidated financial statements.

4.5.13 NUMBER OF EMPLOYEES

The members of the Management Board are the only employees of SBM Offshore N.V.

4.5.14 AUDIT FEES

For the audit fees relating to the procedures applied to SBM Offshore N.V. and its consolidated group entities by accounting firms and external auditors, reference is made to paragraph 4.3.34 Auditor's Fees and Services of the consolidated financial statements.

4.5.15 EVENTS AFTER END OF REPORTING PERIOD

In accordance with the Company's dividend policy introduced in 2017 which consists of paying out a dividend based on the Company's assessment of the underlying cash flow position and 'Directional net income', where a target pay-out ratio of between 25% and 35% is also considered, a dividend out of 2017 net income of US$ 0.25 per share will be proposed to the annual general meeting on April 11, 2018, corresponding to approximately 64% of the US$ 80 million Company's 2017 Directional net income adjusted for non-recurring items.

Schiphol, the Netherlands
February 7, 2018

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

4.6 OTHER INFORMATION

4.6.1 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 SBM Offshore N.V.'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. SBM Offshore N.V. 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 authorized, 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.

4.6.2 INDEPENDENT AUDITOR'S REPORT

To: the general meeting and Supervisory Board of SBM Offshore N.V.

Report on the financial statements 2017

Our opinion

In our opinion:

- SBM Offshore N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 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;·
- SBM Offshore N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 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 2017 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 31 December 2017;
- the following statements for 2017: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company income statement for the year then ended; and
- the notes, 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.

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

Independence

We are independent of SBM Offshore N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

SBM Offshore N.V. serves the offshore oil and gas industry by supplying engineered products, vessels and systems, as well as offshore oil and gas production services. This includes the construction and the leasing and operating of large and complex offshore floating production, storage and offloading vessels (FPSOs). The group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

The Group continues to be affected negatively by the impact that low oil prices have on their clients and prospects, and the circumstances the company is facing in Brazil. The aforementioned conditions resulted in a decreased number of significant project awards, but nevertheless two awards and commencement of work for two new large Engineering Procurement Construction (EPC) contracts in 2017 for the Company. This impacted the Company's financial position and results – particularly its Turnkey segment. 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).

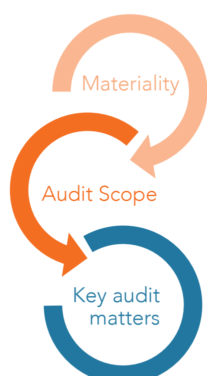
The difficult market conditions, leading to a downturn in the results, affected our determination of materiality as described in the materiality section of this report.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made important 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 4.2.7 section 'Use of estimates and judgement' of the financial statements, the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment of assets, we considered this to be a key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we considered the provision for Brazil and settlement in the United States of America with respect to the alleged improper sales activities a key audit matter given the impact on the financial statements and the risks involved. Finally we consider the directional reporting enhancements a key audit matter given the relevance of this information to certain stakeholders.

Other areas of focus, that were not considered to be key audit matters, were Shell exercising the purchase option on FPSO Turritella, uncertain tax provisions, provisions for onerous contracts, IAS 8 disclosures surrounding the implementation and impact assessment of IFRS 9, 15 and 16 and revenue and margin recognition relating to the Liza FPSO project. 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 Board 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 members with relevant industry-expertise and specialists in the areas of IT, tax, valuations and pension benefit provisions in our audit team and discussed the compliance matters with forensics and risk management specialists.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: USD 21.75 million. As a basis for our judgment we used 0,6% of the net assets for 2017.

Audit scope

- We conducted audit work in 3 locations.
- Site visits were conducted to Monaco.
- Audit coverage: 97% of consolidated revenue, 96% of consolidated total assets and 92% of profit before tax.

Key audit matters

- Assessment of goodwill and asset valuation
- Provision in Brazil and settlement in the United States of America with respect to alleged improper sales activities
- Directional reporting enhancements

Materiality

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

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	USD 21.75 million (2016: USD 14 million).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 0,6% of the net assets for 2017.
Rationale for benchmark applied	We used this benchmark and the rule of thumb (%), based on the common information needs of users of the financial statements, including factors such as the headroom on covenants and the financial position of the Company. The benchmark changed from last year from 3.5% of adjusted profit before tax to 0,6% of the company's net assets. The company is facing a period of prolonged downturn of the global (offshore) oil & gas market. The change in benchmark reflects the current (asset driven) significant weight of the lease and operate segment in the performance of the company, while facing a declined turnkey segment. As a result of our assessment, we consider net assets the appropriate representative benchmark for the financial performance of the company in 2017.
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 14 million and USD 21.5 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 10 million for balance sheet reclassifications and USD 2.2 million for profit before tax impact (2016: USD 1.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons in general. This is in line with the changed benchmark.

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.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

The group audit focussed on the significant components: two regional centres in Monaco, the group functions in Amsterdam, the Netherlands and the treasury function shared service center in Marly, Switzerland.

Two components in Monaco and the group functions component were subject to a full scope audit as those components are individually significant to the Group. The treasury function shared service center in Marly was subject to specific risk-focussed audit procedures as they include significant or higher risk areas. Additionally, one component ('Sites and Yards') was 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 on the financial line items:

Revenue	97%
Total assets	96%
Profit before tax	92%

For the remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components. The coverage percentages have been 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 group functions component in Amsterdam the group engagement team performed the audit work. For the components in Monaco and the treasury function shared service center in Marly we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where the work was performed by component auditors, 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 rotational basis. In the current year the group audit team has visited the Monaco components.

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

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the 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. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters. The key audit matters 'Assessment of goodwill and asset valuation' and 'Provision in Brazil and settlement in the United States of America with respect to alleged improper sales activities' are similar in nature to the key audit matters we reported in 2016 due to the nature of the company's business and its environment. The other audit matters considered key in the 2016 auditor's report, in our opinion, do not longer warrant the classification of key audit matter in 2017.

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 separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

Key audit matter	*How our audit addressed the matter*
Assessment of goodwill and asset valuation	
The company identified impairment triggers as a result of (a) the Brazilian (Brasa) yard's activity not being able to return to a normal state, and (b) a further deterioration of the outlook in Angola regarding its net investment in the Paenal yard. Furthermore the company performed its annual testing of impairment of the goodwill relating to the regional center Houston. This required an impairment assessment under IAS 36 of the carrying value of the Houston goodwill (USD 25 million) and the investment in the Brasa yard in Brazil (USD 24 million) 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 and estimation uncertainty 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 and investment in the Brasa yard both did not require impairment. The investment in the joint venture relating to the Angolan (Paenal) yard has seen its outlook for Angola deteriorate further, resulting in the remaining shareholder loans of net USD 34 million being impaired in full in 2017. Reference is made to note 4.3.13, 4.3.15 and 4.3.31 to the financial statements. As identifying triggering events for impairment and performing impairment testing involves significant judgement, and given the combined magnitude of the assets at risk, we considered this area to be a key audit matter.	Given the downturn in the industry and the lack of activities due to the limited projects awarded, management assessed triggering events for all relevant assets. We have discussed and agreed to the analysis and performed audit procedures over the resulting impairment assessment for the Brasa yard in Brazil and the shareholder loans to the Paenal yard. In addition, we have audited the required annual impairment assessment for goodwill. For the Brasa yard 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 and number of employees. We have obtained corroborative evidence for these assumptions. We have assessed the reasonableness based on available market data of the number of total projects to undergo maintenance in the area, breakdown of expected projects to be undertaken in the area and the expected timing of awarding of these projects as well as the probability of the company winning these awards in the 6 years to come. 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. In our audit team we included valuations experts. We have re-performed calculations, compared with generally accepted valuation techniques, assessed appropriateness of the cost of capital for the company and

Key audit matter	How our audit addressed the matter
	comparable assets, as well as considered territory specific factors and assessed appropriateness of disclosure of the key assumptions and sensitivities underlying the tests. As a result of our audit procedures, 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 (Paenal) 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 34 million.
Provision in Brazil and settlement in the United States of America with respect to alleged improper sales activities	
The Investigation by the Brazilian authorities into alleged improper sales practices in Brazil as reported in prior years has led the company to sign a leniency agreement in July of 2016. In September 2016, this was revoked by the Fifth Chamber of the Brazilian Federal Prosecutor Service. After addressing the formal matters in the leniency agreement that had led the Fifth Chamber to not approving it, the Federal Court of Accounts (TCU) revoked their permission to the parties involved (Ministry of Transparency, Fiscal matters and Control, MTFC, formerly known as CGU), the General Counsel (AGU) and Petrobras, to sign the amended leniency agreement. In December 2017, the company learned that the TCU decided to allow the MTFC, the AGU and Petrobras to move forward with signing of the leniency agreement. However, in the meantime the Federal Prosecutor's Office (MPF), no longer working as one counterparty with the organisations above, filed a damage claim (relating to the same case of improper sales payments before 2012) based on the Brazilian Improbability Act with the Federal Court in Rio de Janeiro against one Brazilian and one Swiss SBM Offshore entity and a number of individuals including former employees of SBM Offshore. Given the fact that the judge handling the case now has to decide whether to accept the lawsuit before the Brazilian court, and the current status, no additional provision was recorded in this respect. Management considers the provision in place (accreted for 2017 unwinding of discount) their best estimate of expenditure the company would rationally pay to settle at balance sheet date. The provision stands at USD 299 million at December 31, 2017. In November 2017 the company announced that it had signed a Deferred Prosecution Agreement with the U.S. Department of Justice resolving the reopened investigation into the company's alleged improper sales practices and the company's relationship with Unaoil. In prior year, this was disclosed under contingent liabilities in the Company's financial statements, since the requirements of IAS 37 to record a provision were not met. The Company agreed to pay monetary penalties in the total amount of USD 238 million, which has been paid to the U.S. authorities in 2017. Considering the significance of the provision and settlement, we consider this a key audit matter. Reference is made to notes 4.3.1 and 4.3.26 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. The company is of the opinion that it is probable that a settlement in line with the signed leniency agreement will be reached and continues to be 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 draft leniency agreement, inquiry with the Management Board, obtained lawyers letters and held extensive discussions with the Brazilian and Dutch external lawyers. We have assessed the adequacy of the related disclosure in note 4.3.1 and 4.3.26. The amount provided remains management's best estimate. Our aforementioned procedures did not indicate material findings with respect to the provision as recorded and disclosed in the financial statements. We have also discussed the settlement in the United States of America with the Management Board. As a result of the settlement, we assessed whether the penalties have been appropriately recorded in the income statement. We have examined the Deferred Prosecution Agreement, vouched payment of the monetary penalties to bank statements and assessed adequacy through lawyers letters obtained. We have assessed the adequacy of the related disclosure in note 4.3.1 and 4.3.26. Our audit procedures did not indicate material findings with respect to the settlement as recorded and disclosed in the financial statements.
Directional reporting enhancements	
The Management Board is managing, monitoring and reporting its business per Lease & Operate and Turnkey segments as described in note 4.2.7.c.e 'Operating segment information'.	We obtained the reports that the Management Board is receiving based on which they make informed decisions and reconciled those to the segments identified in the segment reporting. As part of our procedures we evaluated the reconciliation between Directional and IFRS reporting and in

Key audit matter	*How our audit addressed the matter*
Since 2014, the Company's segment reporting for the income statement has been based on 'directional reporting accounting policies' including a reconciliation between the 'Directional reporting' to the consolidated IFRS reporting. As described in note 4.2.7.c.e, the Directional reporting accounts for: ▪ All investees involved with lease and operate contracts at the Company's share as if they were classified as Joint Operation under IFRS 11, using the proportionate consolidation method; ▪ All lease contracts as if they were operating lease contracts under IAS 17. In 2017, the Management Board commenced using a reporting balance sheet and cash flow statement based on 'Directional reporting' accounting policies. Thereto a 'Directional balance sheet and cash flow statement' is provided as part of IFRS 8 disclosure in addition to the Directional income statement. Considering the non-GAAP nature of Directional reporting, the first-time application of the 'Directional reporting accounting policies' for the balance sheet and cash flow statement and the potential significance to various stakeholders, we considered this a key audit matter.	particular the proportionate consolidation method and classification of all leases as operational. We performed procedures on the impact of the proportionate consolidation under Directional reporting, e.g. tested the IT general controls, consolidation rules and automated calculations performed by the consolidation system, verified integrally that the correct SBM ownership percentages are included in the consolidation system and tested all the manual consolidation entries. Under Directional reporting, the FPSO's are reflected as property plant and equipment. We have assessed the appropriateness of the historical cost and (accumulated) depreciation of the FPSO's, through reconciling the historical cost to the underlying historical records, evaluated whether intercompany profits were appropriately partially eliminated and assessed whether the assets have been accurately depreciated thus far. In addition, we assessed whether the other effects of the accounting for leases as operating leases are appropriately amended in the 'Directional' balance sheet. This includes the reversal of historical results recognized in equity originating from the accounting for finance leases and the recognition of demobilisation obligations, now for all assets. In addition, we have recalculated the deferred revenues stemming from contractually agreed day-rates. Our procedures did not result in material findings for the Directional reporting disclosures in note 4.3.2.

Report on the other information included in the annual report

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

- chapter 1 to 4.1, 5 and 6 of the annual report;
- 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 whether the other information contains material misstatements.

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

The Management Board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with to Part 9 of 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 13 November 2013 subject to the passing of a resolution by the shareholders at the annual meeting held on 17 April 2014 for a uninterrupted period of 4 years up until the annual meeting of 11 April, 2018.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 4.3.34 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities 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;
- such internal control as the Management Board 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, 7 February 2018
PricewaterhouseCoopers Accountants N.V.

M. de Ridder RA

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 other things of the following:

- 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 Board.
- Concluding on the appropriateness of the Management Board'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. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 to 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.

4.7 KEY FIGURES

Key IFRS financial figures

	2017	2016	2015	2014	2013
Turnover	**1,861**	2,272	2,705	5,482	4,584
Results					
Net profit/(loss) (continuing operations)	**(1)**	247	110	652	175
Dividend	**51**	46	45	-	-
Operating profit (EBIT)	**358**	564	239	726	188
EBITDA	**611**	772	462	926	592
Shareholders' equity at 31 December	**2,501**	2,516	2,496	2,419	2,039
Net debt	**4,613**	5,216	5,208	4,775	3,400
Capital expenditure	**53**	15	24	65	186
Depreciation, amortization and impairment	**253**	208	223	199	404
Number of employees (average)	**4,150**	5,237	7,300	8,330	7,126
Employee benefits	**514**	512	704	861	831
Ratios (%)					
Shareholders' equity : net assets	**29**	26	28	30	31
Current ratio	**123**	112	244	170	184
Return on average capital employed	**4.1**	6.3	2.8	10.0	3.5
Return on average shareholders' equity	**(6.2)**	7.3	1.2	25.8	6.5
Operating profit (EBIT) : net turnover	**19.2**	24.8	8.8	13.3	4.1
Net profit/(loss) : net turnover	**0.0**	10.9	4.1	11.9	3.8
Net debt : total equity	**130**	148	150	152	118
Enterprise value : EBITDA	**15.2**	12.4	19.3	8.6	14.3
Information per Share (US$)					
Net profit/(loss)	**(0.76)**	0.87	0.14	2.75	0.56
Dividend	**0.25**	0.23	0.21	-	-
Shareholders' equity at 31 December	**12.16**	11.79	11.79	11.54	9.77
Share price (€)					
- 31 December	**14.67**	14.92	11.66	9.78	14.80
- highest	**16.12**	15.20	13.80	15.65	16.18
- lowest	**12.88**	9.59	8.11	8.74	10.04
Price / earnings ratio	**(23.3)**	18.4	93.4	4.3	37.2
Number of shares issued (x 1,000)	**205,671**	213,471	211,695	209,695	208,747
Market capitalization (US$ mln)	**3,619**	3,357	2,739	2,490	4,247
Turnover by volume (x 1,000)	**295,835**	379,108	478,943	516,024	359,517
New shares issued in the year (x 1,000)	**-**	1,776	2,000	948	18,914

Key Directional financial figures

	2017	2016	2015	2014	2013
Turnover	**1,676**	2,013	2,618	3,545	3,373
Lease and Operate	**1,501**	1,310	1,105	1,059	1,006
Turnkey	**175**	702	1,512	2,487	2,367
EBIT	**117**	290	191	201	63
Lease and Operate	**487**	398	315	274	(204)
Turnkey	**11**	(22)	231	195	288
Other	**(381)**	(86)	(354)	(268)	(21)
EBITDA	**596**	725	561	486	520
Net Profit	**(203)**	(5)	24	84	(58)

5.

NON-FINANCIAL DATA

EXPERIENCE MATTERS

5 NON-FINANCIAL DATA

5.1 SCOPE OF NON-FINANCIAL INFORMATION

5.1.1 REPORTING ABOUT NON-FINANCIAL INFORMATION

This report has been prepared in accordance with the GRI standards: Core option. The Company has used the GRI Standards to determine material aspects for this year's report. For SBM Offshore, it is important to have assurance on financial as well as non-financial information, to obtain assurance on the reliability of information presented to its stakeholders.
SBM Offshore has asked our auditors PwC to provide limited assurance on our non-financial information.

5.1.2 MATERIALITY METHODOLOGY

SBM Offshore conducts materiality analysis according to the GRI Standards in order to include the topics in the annual report that can reasonably be considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders.

To be consistent and complete in its reporting over 2017, SBM Offshore has chosen to only add or delete material topics compared to 2016 when required by either:

1. Significant changes in reporting frameworks and guidelines;
2. Strategic management decisions, in order to better align with the topics that reflect the organization's significant economic, environmental, and social impacts;
3. Significant changes in the topics that influence the assessments and decisions of stakeholders;
4. Significant changes in risks assessment.

UPDATE MATERIAL TOPICS

SBM Offshore conducted the following steps to re-validate and update the material topics in order to ensure the report contains the level of information required by stakeholders.

- Step 1: Update the list of potential material topics
- Step 2: Stakeholder engagement survey
- Step 3: Analysis of operating environment
- Step 4: Validation in management board meeting

For the material topics of 2017 the company chose to only rephrase the material topics of 2016 in order to be more in alignment with its strategy and business practise. The management board has decided to:

1. Update the material topic 'Health, Safety & Security' to include 'Quality'.
2. 'Renewables' is changed to 'Gas and renewables' and the management approach is discussed in Technology.
3. 'Flaring' is changed to 'Emissions reduction' and part of the strategic paragraph environment.

The material topics have been consolidated in a table in section 1.7. This table visualizes how the topics relate to the strategic priorities in section 2 and with that their corresponding management approach.

2017 MATERIAL TOPICS

The results of the materiality assessment can be found in the materiality matrix, which can be found in section 1.7 Materiality-based Value Creation. Details on how the matrix corresponds to GRI and reporting boundaries can be found in section 5.1.4 Reporting Boundaries. General standard disclosure and aspects of lower priority are included in the GRI Content Index.

5.1.3 STAKEHOLDER ENGAGEMENT

IDENTIFYING AND SELECTING OF STAKEHOLDERS

To shape stakeholder engagement, SBM Offshore identified key stakeholders by mapping the level of influence on and level of interest in the Company. Main stakeholders are the Company's employees, shareholders, the investor community, clients, business partners and suppliers. Other important stakeholders are lenders, export credit agencies, governments in operating areas, non-governmental organizations (NGOs), oil and gas industry associations, universities, researchers and potential investors. Throughout the year SBM Offshore engages with these stakeholders on a continuous basis as part of regular operations and captures that information.

Internally, SBM Offshore organizes regular Town Hall meetings where top management share business updates and establish a dialogue with staff; including participation in worldwide Company events such as Life Day. SBM Offshore also regularly shares information and updates on strategies, projects and people with its employees through the company's intranet site and via its internal monthly newsletter.

The Company maintains open and active engagement with its external stakeholders through regular business interactions, including the annual shareholders meeting, analyst and investor road shows/meetings, a Capital

Markets Day for financial analysts, analyst webcast presentations, Press Releases, Website updates, surveys and desktop research.

The feedback obtained forms the backbone of the Company's stakeholder engagement program. The program is complemented with other interaction with stakeholders, in order to validate findings and the feedback received feeds into management's approach to Materiality and long-term value creation.

Topics discussed with stakeholders

The table below shows per stakeholder group their expectations of SBM Offshore.

	Shareholders, Investors & Loan Providers	Employees	Clients, JV and Business partners	Classification Society	NGOs & Assocations	Suppliers
Technological innovation to maintain a leading position and support the energy transition	√	√	√	√	√	√
Compliance with all relevant laws and regulations, concerning the full scope of economic, ethical, social and environmental issues	√	√		√	√	
Maintenance of a high standard regarding anti-bribery and corruption procedures, Code of Conduct and business ethics	√	√		√	√	√
Predictable cash flows and liquidity	√					
Contribution to local development, protection of human rights, ethical business, behaviour and culture	√	√	√	√	√	√
Sustainable Business Creation	√				√	
Focus on health safety and process safety	√	√	√	√		√
Attention to the search and retention of talent, including talent development	√	√		√		√
An increase of renewables in the energy mix for the future					√	
Efficiency in the use of energy and natural resources and care for the protection of the environment	√	√		√	√	
Efficiency in SBM Offshore operations, with an cost effective sustainable supply chain to support this			√	√	√	√
Focus on calculating the total lifecycle costs of product	√		√	√		√
Project Performance	√	√	√	√		√

SBM OFFSHORE VALUES YOUR OPINION

SBM Offshore would like to know more about which economic, social and environmental issues are important to its stakeholders.

Would you like to participate in SBM Offshore's 2018 Stakeholder Engagement or provide feedback for the 2018 Stakeholder Engagement? Please write to us at sustainability@sbmoffshore.com.

5.1.4 REPORTING BOUNDARIES

SBM Offshore not only reports on impacts it causes, but also on impacts it contributes to, and impacts that are linked to its activities. In each of the following paragraphs we elaborate in detail on the boundaries of our material topics. The boundary of a material topic relates to the parts of the organization and supply chain covered in the figures.

5.1.5 HEALTH, SAFETY AND SECURITY REPORTING

The Health, Safety and Security (HSS) performance indicators boundaries takes into account:

- **Employees** which include all permanent employees, part-time employees, locally hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company.
- **Contractors** which include any person employed by a Contractor or Contractor's Subcontractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore.

HSS incidents are reported and managed through the Company's Single Reporting System (SRS) database. SRS is a web-based reporting system that is used to collect data on all incidents occurring in all locations where the Company operates. The SRS system records

safety, environmental, security incidents, loss of containments, equipment failure and damage only incidents.

Safety incidents are reported based on the incident classifications as defined by the IOGP Report 2015 – Jan 2016. Health incidents are reported based on the occupational illnesses classification given in IOGP Report Number 393 – 2007.

The Company also reports incident data from Contractor's construction facilities if the incident is related to an SBM Offshore project.

The Company uses records of exposure hours and SRS data to calculate Health and Safety performance indicators set by SBM Offshore.

5.1.6 ENVIRONMENTAL REPORTING

OFFSHORE

The environmental and process safety offshore performance reporting scope is comprised of offshore units that use the following reporting boundaries:

- Units in the Company's fleet producing and/or storing hydrocarbons under lease and operate contracts during 2017
- Units in which the Company exercises full operational management control
- Units in which the Company has full ownership or units that are jointly owned and where the Company has at least 50% ownership

The environmental and process safety performance of the Company is reported by region or management area: Brazil, Angola, North America & Equatorial Guinea and Asia. Based on the criteria stated above, SBM Offshore reports on the environmental performance for the following 14 units:

- Brazil – FPSO *Espirito Santo*, FPSO *Capixaba*, FPSO *Cidade de Paraty*, FPSO *Cidade de Anchiet*a, FPSO *Cidade de Ilhabela,* FPSO *Cidade de Marica,* FPSO *Cidade de Saquarema*
- Angola – FPSO *Mondo*, FPSO *Saxi Batuque* and *N'Goma* FPSO
- North America & Equatorial Guinea – FPSO *Aseng*, Deep Panuke *(MOPU)*, *Turritella* (FPSO)
- Asia – FSO *Yetagun*

The environmental offshore performance reporting methodology was chosen according to the performance indicators relative to GRI Standards and IOGP guidelines. This includes:

- Greenhouse Gases, referred to as GHG which are N_2O (Nitrous Oxide), CH_4 (Methane) and CO_2 (Carbon Dioxide)
- GHG emissions per hydrocarbon production from flaring and energy generation
- Non Greenhouse Gases which are CO (Carbon Monoxide), NO_x (Nitrogen Oxides), SO_2 (Sulphur Dioxide) and VOCs (Volatile Organic Compounds)
- Gas flared per hydrocarbon production, including gas flared on SBM Offshore account
- Energy consumption per hydrocarbon production
- Oil in Produced Water per hydrocarbon production

SBM Offshore reports some of its indicators as a weighted average, calculated pro rata over the volume of hydrocarbon production per region. This is in line with the IOGP Environmental Performance Indicators.

ONSHORE

SBM Offshore reports on its onshore scope 1 and 2 emissions[24] by operational control and discloses on the following locations; Netherlands, Monaco, Malaysia, United States of America, Brazil, Switzerland and Canada. Efforts are being made to extend the reporting scope to include all shore bases. SBM Offshore does not have absolute targets as the Company is focused on the maturity of its data collection.

SBM Offshore reports in this Annual Report for the first time on greenhouse gas emissions related to business flights (scope 3). The data consists of all flights booked via our standard travel system and the data covers all operating companies. The Company applies the UNECE/EMEP Emission Inventory Guidebook 2016 (SNAP/CORINAIR) for greenhouse gas emissions associated with flights.

For the onshore energy usage, the Company uses the World Resources Institute Greenhouse Gas Protocol (GHG Protocol) method to calculate CO_2 equivalents. CO_2 equivalency is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally, 100 years).

[24] The World Resources institute GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Construction Yards environmental data, specifically emissions, energy and water usage have not been included in scope. SBM Offshore is aware that the construction yards may have a large impact on the environment and have identified this as part of its license to grow under the initiative 'Manage Environmental Impact'.

ATMOSPHERIC EMISSIONS

The calculation of air emissions from offshore operations units uses the method as described in the EEMS-Atmospheric Emissions Calculations (Issue 1.810a) recommended by Oil & Gas UK (OGUKA). SBM Offshore uses the GHG Global Warming Potentials (GWP) from the Fourth Assessment Report issued by Intergovernmental Panel on Climate Change (IPCC).

Emissions reported in the Company's emissions records include:

- GHG emissions for the production of energy. Records of GHG emissions from steam boilers, gas turbines and diesel engines used by the operating units.
- GHG emissions from gas flared. Flaring events accountability is split into either Client or SBM Offshore: SBM Offshore Account is flaring resulting from unplanned events. Whereas Client Account is flaring resulting from events caused by the Client or planned by SBM Offshore in agreement with the Client.

Identifying the causes of flaring for which SBM Offshore is responsible and acting on these events is part of the continuous improvement process.

OFFSHORE ENERGY CONSUMPTION

The energy used to produce oil and gas covers a range of activities, including:

- Driving pumps producing the hydrocarbons or re-injecting produced water
- Heating produced oil for separation
- Producing steam
- Powering compressors to re-inject produced gas
- Driving turbines to generate electricity needed for operational activities.

The main source of energy consumption of offshore units is Fuel Gas and Marine Gas Oil.

OIL IN PRODUCED WATER DISCHARGES

Produced water is a high volume liquid discharge generated during the production of oil and gas. After extraction, produced water is separated and treated (de-oiled) before discharge to surface water. The quality of produced water is most widely expressed in terms of its oil content. Limits are imposed on the concentration of oil in the effluent discharge stream (generally expressed in the range of 15-30 ppm) or discharge is limited where re-injection is permitted back into the reservoir. The overall efficiency of the oil in water treatment and as applicable reinjection can be expressed as tonnes of oil discharged per million tonnes of hydrocarbon produced.

Incidental environmental releases to air, water or land from the offshore operations units are reported using the data recorded in the Single Reporting System (SRS) database. SBM Offshore has embedded a methodology for calculating the estimated discharge and subsequent classification within the SRS tool.

WASTE

In line with the GRI standards, SBM Offshore reports on hazardous and non-hazardous waste outputs. The reporting methodology is detailed in each Unit's Waste Management procedure which is part of Environmental Management System Manual. Collected information is based on manifests issued by the installations in compliance with Client requirements.

DATA REVISIONS

Gas Flared

In 2016, gas flared was divided into three categories, 'SBM Offshore account', 'Client account' and 'Flare Limit not Exceeded'. In 2017, to improve the visibility and accountability, reporting has been split into two categories; SBM Offshore or Client accounts.

Updated Calorific Values

SBM Offshore updated the calorific values used to measure Fuel Gas and Marine Gas Oil (MGO) as part of its continuous improvement process. For the sake of comparison the updated calorific values were applied to 2016 and 2017 data.

Updated Gas Densities

The H_2S density was updated as part of continuous improvement. The non-greenhouse gas, SO_2 calculation is now based on molecular weight as for other parameters. For the sake of comparison the updated densities were applied to 2016 and 2017 data.

Updated Global Warming Potentials

SBM Offshore has updated the Global Warming Potential (GWP) factors used to convert GHG into CO_2

equivalent (CO_2e) of each GHG reported. In 2017 SBM Offshore implemented the GWP according to the Fourth Assessment Report (AR4) issued by the IPCC. In previous years SBM Offshore applied the GWP factors from the Second Assessment Report (SAR). Updating the SBM Offshore's GWP to the AR4 increased the reported GHG emissions in CO_2 equivalents. The 2016 figures have been restated to reflect the new GWP factor for sake of comparison.

GHG Global Warming Potential conversion factors and revised data

IPCC Report	SAR	AR 4
Carbon Dioxide (CO_2)	1	1
Methane (CH_4) in CO_2e	21	25
Nitrous Oxide (N_2O) in CO_2e	310	298
IPCC Report	SAR	AR 4
SBM Offshore emissions in CO_2e	2016	2016
Carbon Dioxide (CO_2)	5,766,556	5,766,556
Methane (CH_4) in CO_2e	385,371	458,775
Nitrous Oxide (N_2O) in CO_2e	95,790	92,082
Total GHG in CO_2e	**6,247,717**	**6,317,413**

5.1.7 PROCESS SAFETY REPORTING

A Loss of Primary Containment (LOPC) is defined as an unplanned or uncontrolled release of any material from primary containment, including non-toxic and non-flammable materials (e.g. steam, hot condensate, nitrogen, compressed CO_2 or compressed air).

A Process Safety Event (PSE) is defined as an LOPC from a process that meets the Tier 1, Tier 2 or Tier 3 definitions within API RP 754.

Loss of Primary Containment (LOPC) events are reported in the Company's Single Reporting System as highlighted in Section 5.1.5. All LOPC's are analysed to identify those considered to be PSE's as per API RP 754. Process Safety KPIs used by the Company include the number of Tier 1 and the number of Tier 2 PSE's.

REVISED DATA

The data for Process Safety Events (PSE's) reported in 2016 have been revised to include six additional Tier 2 PSE's which were previously classified as Tier 3 events (Total of 20 Tier 2). As reported in section 2.6.1, this is an additional outcome of the activity of the review of Tier 3 events performed at the beginning of 2017.

5.1.8 HUMAN RESOURCES REPORTING

The Company's Human Resources data cover the global workforce and are broken down into parts which are: operating units, employment type, gender and age. The performance indicators report the workforce status at year-end December 31, 2017. It includes all staff who were assigned on permanent and fixed-term contracts, employee hires and departures, total number of locally-employed staff from agencies and all crew working on board the offshore operations units.

Human Resources considers:

- 'Permanent' employees as a staff member, holding a labor contract for either an unlimited or a defined period (or an offer letter for an unlimited period in the USA). Permanent employees are recorded on the payroll, directly paid by one entity of the SBM Offshore Group.
- 'Contractors' as an individual performing work for or on behalf of SBM Offshore, but not recognized as an employee under national law or practice (not part of SBM Offshore companies payroll, they issue invoices for services rendered).
- 'Subcontractors' are not considered as staff in the HR headcount breakdown structure. This population is managed as temporary service and are not covered by HR processes policies.

For reporting purposes certain performance indicators report on Construction Yard employees separately. Construction Yard employees for Human Resources reporting purposes consist of employees for yards located in Brazil and Angola. Construction Yard employees constitute a non-traditional type of SBM Offshore workforce who work in construction yards, which SBM Offshore owns and/or operates via a joint venture and could be allocated to non-SBM Offshore projects. SBM Offshore includes the Brasa Yard in Brazil and the Paenal yard in Angola in its reporting scope based on partial ownership and operational control including human resource activities and social responsibility for the employees.

In principle, reporting on Headcount, Turnover, Training, and Collective Bargaining, covers all SBM Offshore entities, including Construction yards. For the reporting on Appraisals and Absenteeism, Construction Yards employees are not included, due to the limits on influence and impact that SBM Offshore has with JV partners in the Panael and Brasa yards.

Certain differences may potentially arise between the headcount numbers reported by Finance and HR. This is due to the difference in the reporting structure of the two Departments. Turnover has been calculated as such; number of employees who have left the Company in 2017 (between January 1 and the December 31, 2017) compared with the headcount at January 1, 2017 and the number of newcomers in 2017.

Absenteeism

SBM Offshore considers absenteeism as the number of work days lost due to unplanned absence. This does not include permitted absences such as maternity/ paternity leave, national holidays, vacation or compassionate leave.

The absenteeism rate is calculated as follows: The total amount of sick days on Full Time Equivalent (FTE) basis divided by the total amount of scheduled work days on FTE basis.

Absenteeism has been monitored internally at a local level by SBM Offshore and in 2017 the Company started to report externally on a consolidated level. The Company started reports on the absenteeism rates per reporting entities. The scope for this indicator includes office-based permanent SBM Offshore employees employed throughout the entire year. The reporting for this metric is comprised of the Regional Centers, SBM Operation Headquarters and SBM Corporate. As part of its continuous improvements, the Company aims to align the criteria for recording absenteeism in order to be able to include offshore employees, onshore employees from all locations, construction yards, as well as employees employed part of the year, in the near future. The Company also plans to disclose absenteeism rates by male and female employees.

PERFORMANCE REVIEWS/SKILLS MANAGEMENT/ TRAINING

In order to ensure personal development and optimal management of performance within the Company, SBM Offshore conducts annual performance reviews for all employees. Globally, the Company uses a common system to grade and evaluate all permanent staff.

A Talent Management and Succession Planning program is in place to discuss the strengths, development needs and potential future career paths of SBM Offshore employees, taking into account certain criteria and identifies those who have the potential to take on greater leadership roles today and tomorrow.

SBM Offshore reports its Human Resources data in Operational Segments, which correspond to different regions and segments of the SBM Offshore population, which is a more relevant breakdown method for SBM Offshore's stakeholders. SBM Offshore has also chosen to disclose training information in the employee categories onshore/offshore as a relevant breakdown method for the Company's stakeholders, as these are two very different types of populations with different training needs. All employees receive regular performance and career development reviews, therefore breakdown per employee category and gender is not appropriate. For 2017, the indicator Onshore Performance Appraisals did not include the employees from SBM - Operations Angola. SBM Offshore reports its e-learning Ethics & Compliance training activity for permanent staff.

5.1.9 COMPLIANCE REPORTING

SBM Offshore reports on significant fines paid by SBM Offshore and all affiliate companies.
To define a significant fine the following thresholds are considered (subject to final assessment by Management Board on a case by case basis):

1. Operational fines of a regulatory and/or administrative nature which exceed US$ 500,000.
2. Legal and compliance fines of a criminal nature which exceed US$ 50,000.

Non-monetary sanctions are reported on the basis of significant regulatory incidents.

'Though we are in uncertain times, this does not affect my performance and I do feel part of SBM Offshore. I sincerely want to be part of making SBM Offshore better in the future, whether through its boom and bust cycles as before, or more cautiously, as is currently being predicted. We need to be different than from what we have been in the past and want to be a part of that.'

SBM Offshore Pulse Survey

carried out from January 9 to February 8, 2017

5.2 NON-FINANCIAL INDICATORS

5.2.1 HEALTH, SAFETY & SECURITY

Health, Safety & Security

	Year to Year		2017 – By Operating Segment	
	2017	2016	Offshore	Onshore
Exposure Hours				
Employee[1]	12,640,875	13,117,798	8,375,826	4,265,049
Contractor[2]	742,280	1,516,282	0	742,280
Total Exposure hours	13,383,155	14,634,080	8,375,826	5,007,329
Fatalities (work related)				
Employee	0	0	0	0
Contractor	0	0	0	0
Total Fatalities	0	0	0	0
Injuries				
Lost Time Injury Frequency Rate Employee	0.05	0.12	0.07	0.00
Lost Time Injury Frequency Rate Contractor	0.27	0.00	0.00	0.27
Lost Time Injury Frequency Rate (Total)[3]	0.06	0.11	0.07	0.04
Total Recordable Injury Frequency Rate Employee	0.17	0.34	0.26	0.00
Total Recordable Injury Frequency Rate Contractor	0.54	0.13	0.00	0.54
Total Recordable Injury Frequency Rate (Total)[4]	0.19	0.31	0.26	0.08
Occupational Illnesses				
Employee	1	7	1	0
Contractor	2	5	2	0
Total recordable Occupational Illness Frequency Rate (employees only)[5]	0.02	0.11	0.02	0.00
Security				
Work-related security incidents	11	9	9	2
Work-related security incident resulting in physical harm to employees (number)	0	0	0	0

1 Permanent employees, part-time employees, locally hired agency staff ('direct contractors') in the fabrication sites, offices and offshore workers, i.e. all people working for the Company

2 Any person employed by a Contractor or Contractor's Sub-Contractor(s) who is directly involved in execution of prescribed work under a contract with SBM Offshore

3 Lost time injuries per 200,000 exposure hours

4 Recordable injuries per 200,000 exposure hours

5 Occupational illnesses per 200,000 exposure hours

Process Safety

	Year to Year		2017 – Regional Breakdown			
	2017	2016	Brazil	Angola	North America & Equatorial Guinea	Asia
Loss of Containment - Process						
Total	353	297	256	30	34	33
API 754 Classified Materials	227	163	163	24	27	13
API 754 Classified Materials (by TIER)						
Tier 1 incidents (number)	5	3	2	1	1	1
Tier 2 incidents (number)	7	20	4	0	2	1
Tier 3 Incidents (above 1kg/hr)	91	82	61	16	11	3
Weeps and Seeps (below 1kg/hr)	124	58	96	7	13	8

5 NON-FINANCIAL DATA

5.2.2 ENVIRONMENT

Emissions & Energy

	Year to Year		2017 – Regional Breakdown			
	2017	2016[1]	Brazil	Angola	North America & Equatorial Guinea	Asia
Number of offshore units (vessels)	14	14	7	3	3	1
SBM Offshore Production						
Hydrocarbon Production (tonnes)	55,914,824	44,621,370	41,338,878	10,988,770	3,388,428	198,749
Energy Consumption						
Offshore Energy Consumption – Scope 1 in GJ[2]	62,746,663	55,486,649	40,358,799	16,304,135	6,027,049	56,679
Offshore Energy consumption per production[3]	1.12	1.24	0.98	1.48	1.78	0.29
Onshore Energy Consumption – Scope 1 + Scope 2 in GJ[2]	35,110	36,930				
Total Energy Consumption – Scope 1 + Scope 2 in GJ[2]	62,781,772	55,523,579				
Emissions – Offshore						
GHG Scope 1						
Carbon dioxide (CO_2) in tonnes	5,193,405	5,766,556	2,621,690	2,147,172	420,539	4,004
Methane (CH_4) in tonnes	11,917	18,351	2,976	8,319	623	0
Nitrous oxide (N_2O) in tonnes	314	309	181	105	28	0
Volume of GHG[4]	5,584,850	6,317,413	2,749,961	2,386,329	444,474	4,087
GHG per production offshore – Scope 1[5]	99.88	141.58	66.52	217.16	130.11	20.56
Flaring						
Total Gas Flared per production[6]	10.92	21.70	3.19	40.86	8.81	NA
Gas Flared on SBM account per production[6]	5.68	n.a.[7]	2.95	16.82	3.25	NA
Proportion of Gas Flared on SBM account	52%	n.a.[7]	93%	41%	37%	NA
Other/Air Pollution – Non Greenhouse Gas Emissions						
Carbon monoxide (CO) in tonnes	7,220	9,583	2,917	3,805	498	1
Nitrogen oxides (NO_x)	7,578	7,917	4,549	2,255	762	12
Sulphur dioxides (SO_2)	7,735	12,691	53	38	7,639	5
Volatile organic compounds (VOCs)	1,268	1,988	292	909	66	0

1 This information contains several data revisions compared to previous years. Details of these revisions can be found in section 5.1.6.

2 GJ = gigajoule

3 gigajoule of energy per tonnes of hydrocarbon production

4 GHG = Greenhouse Gas Emissions; in tonnes of CO_2 equivalents

5 tonnes of Greenhouse Gas Emissions per thousand tonnes of hydrocarbon production

6 tonnes of gas flared per thousand tonnes of hydrocarbon production

7 Not available due to change in methodology see section 5.1.6 for details.

Emissions & Energy (continued)

	Year to Year		2017 – Regional Breakdown			
	2017	2016 Revised[1]	Brazil	Angola	North America & Equatorial Guinea	Asia
Emissions – Onshore (Buildings)						
Renewable Energy Generated[2]	96,917	86,680				
GHG – Scope 1 (from buildings)						
Onshore Scope 1 energy consumption[2]	1,025,112	1,003,712				
Onshore Scope 1 emissions[3]	232	222				
GHG – Scope 2 (from buildings)						
Onshore Scope 2 energy consumption[2]	8,727,549	9,254,492				
Onshore Scope 2 emissions[3]	3,608	3,582				
GHG – Scope 3 (from air travel)						
Air travel emissions	12,343	12,916				
Emissions Total (Onshore + Offshore)						
Total Scope 1 Emissions[3]	5,585,083	6,317,635				
Total Scope 2 Emissions[3]	3,608	3,582				
Total Scope 3 Emissions[3]	12,343	12,916				
Total Emissions (Scope 1 + Scope 2 + Scope 3)[3]	**5,601,034**	**6,334,134**				

1 This information contains several data revisions compared to previous years. Details of these revisions can be found in section 5.1.6.

2 kWh

3 tonnes of CO_2 equivalents

Discharges

	Year to Year		2017 – Regional Breakdown			
	2017	2016	Brazil	Angola	North America & Equatorial Guinea	Asia
Number of offshore units (vessels)	14	14	7	3	3	1
Discharges						
Volume of oil in produced water discharges per million tonnes of hydrocarbon production	2.55	2.59	0.87	7.03	8.59	NA
Spills						
Spills (oil and chemicals) with release to sea (number)	13	6	8	3	2	-
Oil spills with release to sea (number)	12	6	8	3	1	-
Volume of Oil spills (m^3)	0.006	0.011	0.00215	0.00325	0.0001	-
Number of Oil spills > 1 barrel (159 L)	-	-	-	-	-	-
Number of Oil spills > 1 barrel (159 L) per million tonnes of hydrocarbon production	-	-	-	-	-	-
Waste						
Restricted Waste (kg)	2,706,168	1,471,474	1,518,653	74,920	1,105,068	7,527
Non Restricted Waste (kg)	1,573,654	1,305,163	969,841	257,310	280,910	65,593
Total Waste (kg)	**4,279,822**	**2,776,637**	**2,488,494**	**332,230**	**1,385,978**	**73,120**

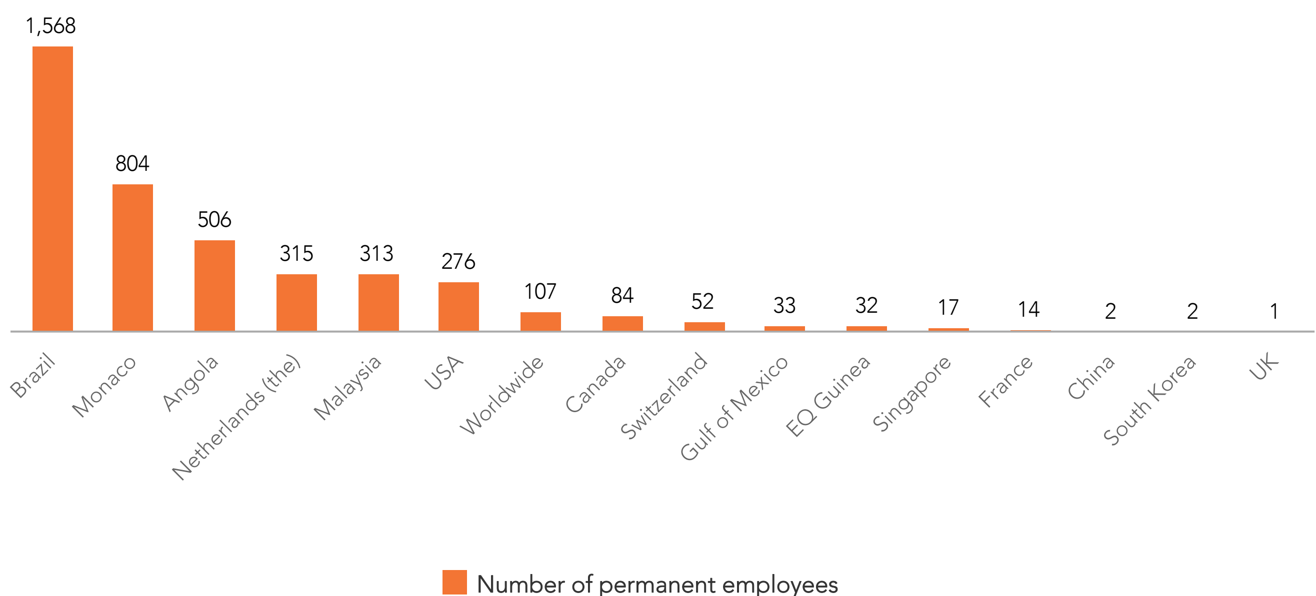
5 NON-FINANCIAL DATA

5.2.3 HUMAN RESOURCES

Headcount by Employee Type

		Total		Ratios
	Grand Total	Permanent	Contractor	% of Contractor Employees
SBM USA	**235**	**229**	**6**	**3%**
SBM – Malaysia	**316**	**233**	**83**	**26%**
SBM – Brazil	**113**	**113**	**0**	**0%**
SBM – Europe	**734**	**679**	**55**	**7%**
SBM – Schiedam	232	220	12	5%
SBM – Monaco	410	372	38	9%
Imodco	92	87	5	5%
SBM – Operations	**2,381**	**1,882**	**499**	**21%**
SBM – Headquarters	190	167	23	12%
SBM – Operations Brazil	1,152	1,019	133	12%
SBM – Operations Asia & Africa	109	71	38	35%
SBM – Operations Angola	461	401	60	13%
SBM – Operations North America	469	224	245	52%
SBM – Gas, Power & Renewables	**13**	**13**	**0**	**0%**
SBM – FPSO	**69**	**69**	**0**	**0%**
SBM – Group Executive Functions	**114**	**87**	**27**	**24%**
SBM – Shared Services	**97**	**96**	**1**	**1%**
SBM – Corporate	**215**	**212**	**3**	**1%**
Total	**4,287**	**3,613**	**674**	**16%**
Construction Yards (Brasa & Paenal)	**523**	**513**	**10**	**2%**
Grand Total	**4,810**	**4,126**	**684**	**14%**

Permanent Employees Headcount by Location

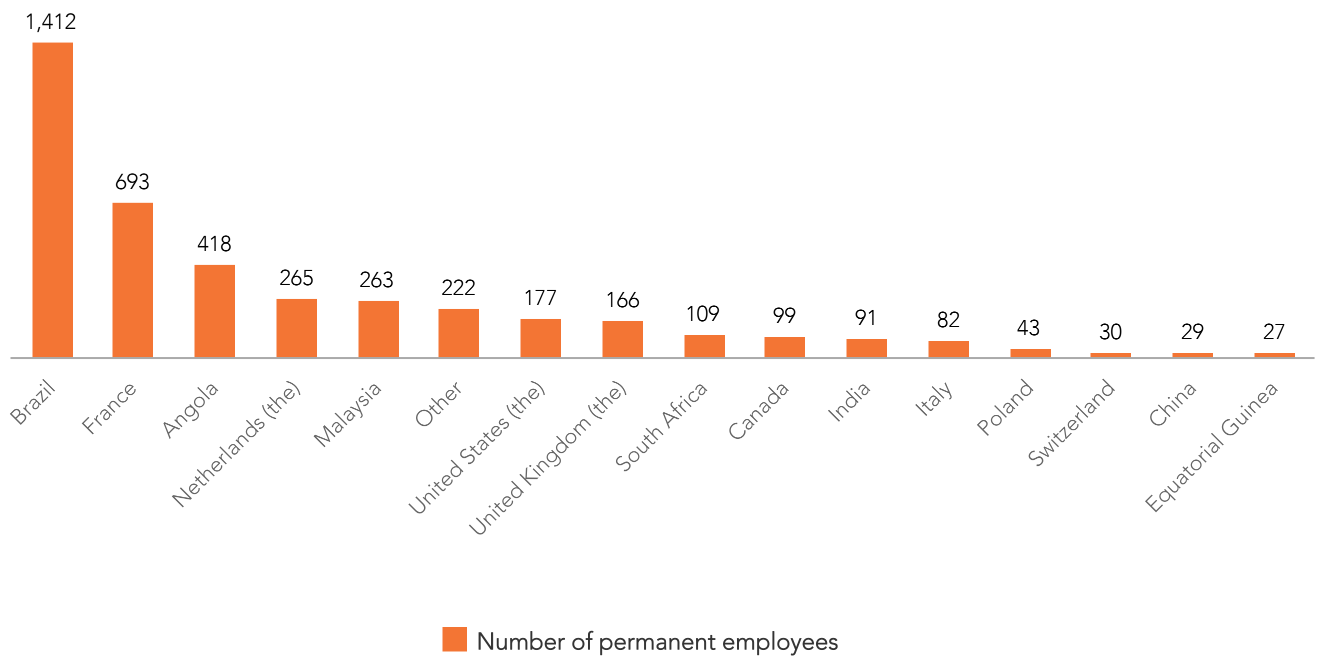


Headcount by Gender and by Age

	Permanent		Ratio by Gender	Headcount by Age		
	Male	Female	% of Permanent Female Employees	Headcount Permanent staff Under 30	Headcount Permanent staff between 30-50	Headcount Permanent staff Over 50
SBM USA	**164**	**65**	**28%**	**3**	**170**	**56**
SBM – Malaysia	**161**	**72**	**31%**	**10**	**204**	**19**
SBM – Brazil	**61**	**52**	**46%**	**20**	**89**	**4**
SBM – Europe	**548**	**131**	**19%**	**37**	**540**	**102**
SBM – Schiedam	181	39	18%	9	168	43
SBM – Monaco	298	74	20%	23	304	45
Imodco	69	18	21%	5	68	14
SBM – Operations	**1,689**	**193**	**10%**	**170**	**1,331**	**381**
SBM – Headquarters	117	50	30%	9	119	39
SBM – Operations Brazil	930	89	9%	133	693	193
SBM – Operations Asia & Africa	69	2	3%	2	55	14
SBM – Operations Angola	377	24	6%	16	324	61
SBM – Operations North America	196	28	13%	10	140	74
SBM – Gas, Power & Renewables	**10**	**3**	**23%**	**1**	**7**	**5**
SBM – FPSO	**55**	**14**	**20%**	**1**	**47**	**21**
SBM – Group Executive Functions	**65**	**22**	**25%**	**2**	**68**	**17**
SBM – Shared Services	**44**	**52**	**54%**	**25**	**64**	**7**
SBM – Corporate	**150**	**62**	**29%**	**24**	**158**	**30**
Total	**2,947**	**666**	**18%**	**293**	**2,678**	**642**
Construction Yards (Brasa & Paenal)	**463**	**50**	**10%**	**56**	**406**	**51**
Grand Total	**3,410**	**716**	**17%**	**349**	**3,084**	**693**

5 NON-FINANCIAL DATA

Permanent Employees Headcount by Nationality



Permanent Employees Part Time Headcount

	Total Part Time Employees	Part Time Male Employees	Part Time Female Employees	% of Part Time Employees
SBM USA	**15**	**6**	**9**	**7%**
SBM – Malaysia	**0**	**0**	**0**	**0%**
SBM – Brazil	**1**	**0**	**1**	**1%**
SBM – Europe	**81**	**46**	**35**	**12%**
SBM – Schiedam	36	20	16	16%
SBM – Monaco	39	23	16	10%
Imodco	6	3	3	7%
SBM – Operations	**4**	**1**	**3**	**0%**
SBM – Headquarters	3	0	3	2%
SBM – Operations Brazil	1	1	0	0%
SBM – Operations Asia & Africa	0	0	0	0%
SBM – Operations Angola	0	0	0	0%
SBM – Operations North America	0	0	0	0%
SBM – Gas, Power & Renewables	**1**	**1**	**0**	**8%**
SBM – FPSO	**3**	**2**	**1**	**4%**
SBM – Group Executive Functions	**6**	**0**	**6**	**7%**
SBM – Shared Services	**15**	**2**	**13**	**16%**
SBM – Corporate	**17**	**5**	**12**	**8%**
Total	**143**	**63**	**80**	**4%**
Construction Yards (Brasa & Paenal)	**0**	**0**	**0**	**0%**
Grand Total	**143**	**63**	**80**	**3%**

Permanent Employees Turnover Headcount by Age and by Gender

	Total Turnover		Total Turnover by Gender		Total Turnover by Age		
	Total Turnover Headcount	Total Turnover Rate	Male Turnover	Female Turnover	Under 30	30-50	Over 50
SBM USA	**34**	**13%**	**25**	**9**	**1**	**17**	**16**
SBM – Malaysia	**29**	**11%**	**16**	**13**	**6**	**19**	**4**
SBM – Brazil	**27**	**19%**	**9**	**18**	**6**	**21**	**0**
SBM – Europe	**70**	**9%**	**41**	**29**	**22**	**38**	**10**
SBM – Schiedam	27	11%	19	8	8	11	8
SBM – Monaco	24	6%	12	12	8	15	1
Imodco	19	18%	10	9	6	12	1
SBM – Operations	**176**	**9%**	**144**	**32**	**21**	**126**	**29**
SBM – Headquarters	15	8%	12	3	4	6	5
SBM – Operations Brazil	112	10%	86	26	15	83	14
SBM – Operations Asia & Africa	3	10%	3	0	0	2	1
SBM – Operations Angola	31	7%	29	2	2	25	4
SBM – Operations North America	15	6%	14	1	0	10	5
SBM – Gas, Power & Renewables	**0**	**0%**	**0**	**0**	**0**	**0**	**0**
SBM – FPSO	**5**	**7%**	**4**	**1**	**3**	**1**	**1**
SBM – Group Executive Functions	**12**	**12%**	**9**	**3**	**2**	**4**	**6**
SBM – Shared Services	**21**	**18%**	**5**	**16**	**5**	**15**	**1**
SBM – Corporate	**39**	**16%**	**25**	**14**	**14**	**19**	**6**
Total	**413**	**10%**	**278**	**135**	**80**	**260**	**73**
Construction Yards (Brasa & Paenal)	**170**	**25%**	**150**	**20**	**15**	**126**	**29**
Grand Total	**583**	**12%**	**428**	**155**	**95**	**386**	**102**

Permanent Employees Turnover Reasons

	Permanent Staff Turnover excluding Construction Yards		Permanent Construction Yards Staff Turnover	
	Turnover	Turnover rate	Turnover	Turnover Rate
Resignation	141	4%	3	0%
Dismissal	189	5%	166	24%
Net Turnover	**330**	**8%**	**169**	**25%**
End of Contract	70	2%	0	0%
Retirement	11	0%	0	0%
Fatalities non-work related	2	0%	3	0%
Fatalities work related[1]	0	0%	0	0%
Total	**413**	**10%**	**170**	**25%**

1 Includes non accidental fatalities which occurred during active employment

5 NON-FINANCIAL DATA

Permanent Employees New Hire Headcount by Gender and by Age

	Total		Gender		Total New Hires by Age		
	Total New Hire Headcount	New Hire Ratio	Male New Hire	Female New Hire	Under 30	30-50	Over 50
SBM USA	**5**	**2%**	**5**	**0**	**0**	**3**	**2**
SBM – Malaysia	**12**	**4%**	**8**	**4**	**3**	**7**	**2**
SBM – Brazil	**17**	**12%**	**6**	**11**	**5**	**12**	**0**
SBM – Europe	**49**	**6%**	**37**	**12**	**22**	**25**	**2**
SBM – Schiedam	21	9%	18	3	4	16	1
SBM – Monaco	19	5%	13	6	12	6	1
Imodco	9	9%	6	3	6	3	0
SBM – Operations	**209**	**10%**	**188**	**21**	**45**	**148**	**16**
SBM – Headquarters	16	9%	13	3	5	11	0
SBM – Operations Brazil	106	9%	96	10	33	67	6
SBM – Operations Asia & Africa	6	8%	5	1	1	5	0
SBM – Operations Angola	44	10%	43	1	4	38	2
SBM – Operations North America	37	15%	31	6	2	27	8
SBM – Gas, Power & Renewables	**2**	**13%**	**2**	**0**	**1**	**1**	**0**
SBM – FPSO	**3**	**4%**	**2**	**1**	**3**	**0**	**0**
SBM – Group Executive Functions	**4**	**4%**	**1**	**3**	**1**	**3**	
SBM – Shared Services	**15**	**12%**	**7**	**8**	**7**	**7**	**1**
SBM – Corporate	**27**	**13%**	**18**	**9**	**17**	**9**	**1**
Total	**343**	**9%**	**274**	**69**	**104**	**215**	**24**
Construction Yards (Brasa & Paenal)	**192**	**28%**	**175**	**17**	**26**	**145**	**21**
Grand Total	**535**	**11%**	**449**	**86**	**130**	**360**	**45**

Permanent Employees Absenteeism Rates

	Average
	Average days in % per FTE[1]
SBM – USA	**0.97%**
SBM – Malaysia	**2.31%**
SBM Brazil	**1.48%**
SBM Europe	**2.13%**
SBM – Schiedam	3.06%
SBM – Monaco	1.93%
Imodco	0.87%
SBM – Operations Headquarters	**2.16%**
SBM – Gas, Power & Renewables	**2.12%**
SBM – FPSO	**1.43%**
SBM – Group Executive Functions	**1.34%**
SBM – Shared Services	**2.71%**
SBM – Corporate	**1.80%**
Average	**1.90%**

1 The reported data covers a part of the permanent employees (excluding construction yards) and does not represent the entire Company's performance.

Employee Training Hours by Categories

	Permanent Employees		Construction Yards	
	Total Number of Training Hours	Training Hours per Employee	Total Number of Training Hours	Training Hours per Employee
HSSE Training	87,871		13,018	
Ethics & Compliance Training	2,397		73	
Leadership and Management Training	5,443		77	
Project Management Training	3,457		0	
Non-Technical Training	15,710		2,541	
Technical Training	18,240		1,512	
Total number of Training hours	133,117	**37**	17,220	**34**

Permanent Employees Training hours by Gender

	Total Training Hours	Total Training Hours per Permanent Employee	Male Training Hours	Female Training Hours
SBM – USA	**3,933**	**17**	**2,889**	**1,044**
SBM – Malaysia	**8,166**	**35**	**6,042**	**2,124**
SBM – Brazil	**4,698**	**42**	**2,794**	**1,904**
SBM – Europe	**19,021**	**28**	**17,283**	**1,738**
SBM – Schiedam	5,256	**24**	5,091	165
SBM – Monaco	11,477	**31**	10,284	1,193
Imodco	2,288	**26**	1,907	380
SBM – Operations	**89,395**	**48**	**86,278**	**3,117**
SBM – Headquarters	4,010	**24**	3,657	352
SBM – Operations Brazil	68,794	**68**	66,481	2,313
SBM – Operations Asia & Africa	339	**5**	283	56
SBM – Operations Angola	10,843	**27**	10,584	259
SBM – Operations North America	5,410	**24**	5,273	137
SBM – Gas, Power & Renewables	0	**0**	0	0
SBM – FPSO	**1,286**	**19**	**1,154**	**132**
SBM – Group Executive Functions	**1,087**	**12**	**1,000**	**87**
SBM – Shared Services	**1,977**	**21**	**1,673**	**304**
SBM – Corporate	**3,554**	**17**	**2,839**	**716**
Total	**133,117**	**37**	**121,951**	**11,166**
Construction Yards (Brasa & Paenal)	**17,220**	**34**	**16,347**	**874**
Grand Total	**150,337**	**36**	**138,298**	**12,039**

Permanent Employees Training Hours

	Total Training Hours per Permanent Employee	Total Number of Training Hours
Onshore	26	70,635
Offshore	58	79,702
Total	**36**	**150,337**

5 NON-FINANCIAL DATA

Number of Ethics and Compliance Trainings

	Total number of Ethics and Compliance trainings
SBM – USA	**281**
SBM – Malaysia	**173**
SBM – Brazil	**91**
SBM – Europe	**463**
SBM – Schiedam	231
SBM – Monaco	187
Imodco	45
SBM – Operations	**476**
SBM – Headquarters	81
SBM – Operations Brazil	277
SBM – Operations Asia & Africa	6
SBM – Operations Angola	61
SBM – Operations North America	51
SBM – Gas, Power & Renewables	0
SBM – FPSO	**63**
SBM – Group Executive Functions	**53**
SBM – Shared Services	**88**
SBM – Corporate	**209**
Total	**1,897**
Construction Yards (Brasa & Paenal)	58
Grand Total	**1,955**

Number of Ethics and Compliance Trainings – Onshore / Offshore

	Total number of Ethics and Compliance trainings
Onshore	1,729
Offshore	168
Total	**1,897**
Construction Yards (Brasa & Paenal)	**58**
Grand Total	**1,955**

Compliance Certificates and Trainings to Designated Staff

	Designated Staff[1]
Number of employees in Designated Staff per year-end	845

1 Designated Staff reflecting the number of employees per January 1, 2017 in Hay-Grade 11 or above, less the number of employees that left the Company during the year.

		Average Completion[1]
Compliance Certificate completed	full year	85%
Trained on Code of Conduct (face-to-face and/or e-Learning)	full year	85%

1 The ratio of completion of Compliance Certificates and Training on the Code of Conduct (face-to-face and/or e-Learning) of Onshore Designated Staff is 97%, that of Offshore Designated Staff 18% (Compliance Certificates) and 21% (face-to-face training and/or e-Learning).

Overall number of face-to-face trainings in 2017

	# people trained
Face-to-face trainings worldwide	1,179

Overall completions of Code of Conduct e-Learning campaign 2016-2017

	# people trained
e-Learnings in 2016	1,678
Additional e-Learnings in 2017	302

Integrity Line Reports

	Total
Integrity Line Reports received	37

Permanent Employees Training costs

	in US$
Total training costs	3,699,004

Permanent Employees Performance Appraisals and Developing Process

	Male %	Female %	Total %[1]
Performance Appraisals Completed – Onshore (2016)	98%	92%	96%
Performance Appraisals Completed – Offshore (2016)[2]	91%	88%	91%

1 An appraisal is considered completed when it has been validated by the Line Manager.
2 For 2017, SBM Operation Angola is not included in the calculation of the KPI.

Collective Bargaining

	%
Percentage of Employees covered by Collective Bargaining Agreements	88%

5.2.4 5-YEAR KEY SUSTAINABILITY FIGURES

	2017	2016	2015	2014	2013
Health, Safety and Security[1]					
LTIFR (rate)	0.06	0.11	0.03	0.05	0.15
TRIFR (rate)	0.19	0.31	0.22	0.22	0.44
Fatalities work related (number)	0	0	0	2	0
Total consolidated exposure hours	13.38	14.63	31.36	64.02	56.64
Environment					
Total GHG Emissions Offshore[2]	5,585	6,317	5,456		
Total GHG Emissions Offshore per production[3]	99.88	141.58	160.34		
Offshore energy consumption[4]	62,746,663	55,486,649	38,298,297		
Offshore energy Consumption per production[5]	1.12	1.24	1.13		
Number of Oil Spills > 1 Barrel per Production	0	0	0	1	0
Human Resources[6]					
Total Employees[7]	4,810	4,748	7,020	10,215	9,936
Contract / Permanent Ratio[7]	14%	12%	10%	19%	22%
Total Permanent Employees[7]	4,126	4,174	6,342	8,234	8,358
Total Contractors[7]	684	574	678	1,981	1,578
Total of Females in Permanent Workforce	18%	20%	21%	16%	24%
Part-time Workforce	4%	4%	3%	3%	3%
Part-time Females	56%	57%	66%	75%	75%
Part-time Males	44%	43%	34%	25%	25%
Employee Rates[6]					
Turnover	10%	19%	22%	14%	14%
Resignation	4%	2%	6%	8%	10%
Dismissal	5%	16%	14%	4%	4%
Retirement	0%	0%	1%	0%	0%
Fatalities Non Work Related	0%	0%	0%	0%	0%
Appraisals					
Performance Appraisals Completed	94%	94%	96%	96%	90%
Competency Training Indicators					
Offshore Training Hours per Eligible Employee	58	54	60	66	95
Onshore Training Hours per Eligible Employee	26	25	26	30	28

1 PricewaterhouseCoopers Accountants N.V. has provided limited assurance on the HSSE data reported for the years 2011 until 2013 based on a separate report on selected key sustainability indicators prepared by SBM Offshore.

2 Million tonnes of CO_2 equivalents

3 tonnes of GHG emissions per thousand tonnes of hydrocarbon production

4 in Gigajoules

5 Gigajoule of energy per tonnes of hydrocarbon production

6 does not include Construction Yards except if specified otherwise

7 including Construction Yards

5.3 GRI CONTENT INDEX

GRI 102: GENERAL DISCLOSURES 2016

Standard	Disclosure	Reference /direct answer
1. Organizational profile		
102-1	Name of the organization	SBM Offshore N.V
102-2	Activities, brands, products, and services	1.4
102-3	Location of the organization's headquarters	6
102-4	Location of operations	1.2
102-5	Ownership and legal form	3.5
102-6	Markets served	1.2
102-7	Scale of the organization	1.2
102-8	Information on employees and other workers	5.2.3
102-9	Supply chain	1.6
102-10	Significant changes to the organization and its supply chain	No significant changes
102-11	Precautionary Principle or approach	Sustainability policy
102-12	External initiatives	2.11
102-13	Memberships of associations	None
2. Strategy		
102-14	Statement from senior decision-maker	1.1
3. Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	1.3
4. Governance		
102-18	Governance structure	3.5
5. Stakeholder Engagement		
102-40	List of stakeholder groups	5.1.3
102-41	Collective bargaining agreements	5.2.3
102-42	Identifying and selecting stakeholders	5.1.3
102-43	Approach to stakeholder engagement	5.1.3
102-44	Key topics and concerns raised	5.1.3
6. Reporting practise		
102-45	Entities included in the consolidated financial statements	4.2
102-46	Defining report content and topic Boundaries	5.1, 1.7, 2
102-47	List of material topics	1.7
102-48	Restatements of information	5.1.6
102-49	Changes in reporting	5.1.2
102-50	Reporting period	calendar year 2017
102-51	Date of most recent report	February 8, 2017
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	6.2
102-54	Claims of reporting in accordance with the GRI Standards	5.1
102-55	GRI content index	5.3
102-56	External assurance	5.5, 5.1.1

5 NON-FINANCIAL DATA

MATERIAL TOPICS

Reporting standard	Disclosure	Reference/omission
Material topic: Economic Performance, Cost of ownership and Cost Efficiency		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.3
	103-2 The management approach and its components	2.3
	103-3 Evaluation of the management approach	2.3
GRI 201: Economic Performance 2016	Direct economic value generated or distributed	4.2
Material topic: Ethics & Compliance and Transparency		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	3.8
	103-2 The management approach and its components	3.8
	103-3 Evaluation of the management approach	3.8
GRI 205-2: Anti-corruption 2016	Communication and training about anti-corruption policies and procedures	3.8, 5.2.3
GRI 205-3: Anti-corruption 2016	Confirmed incidents of corruption and actions taken	3.8. There were no confirmed incidents of corruption in 2017, however during 2017 actions were taken related to previously reported incidents.
GRI 419-1: Socioeconomic Compliance 2016	Non-compliance with laws and regulations in the social and economic area	5.1.9, 3.8, on the Legacy Issues.
Material topic: Project & fleet performance		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.3.1
	103-2 The management approach and its components	2.6
	103-3 Evaluation of the management approach	2.6
GRI 302-1 Energy 2016	Energy consumption within the organization	5.2.2
GRI 302-3 Energy 2016	Energy intensity	5.2.2
Material topic: Emissions reductions		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.5
	103-2 The management approach and its components	2.5
	103-3 Evaluation of the management approach	2.5
GRI 305-1 Emissions 2016	Direct greenhouse gas (GHG) emissions (Scope 1)	5.2.2
GRI 305-2 Emissions 2016	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	5.2.2
GRI 305-7 Emissions 2016	NO_x, SO_x, and other significant air emissions	5.2.2
GRI 306-3 Effluents and waste 2016	Significant spills	5.2.2
G4-OG5	Volume and disposal of formation or produced water	5.2.2
G4-OG6	Volume of flared and vented hydrocarbon	5.2.2
Material topic: Human capital and training & development		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.8
	103-2 The management approach and its components	2.8
	103-3 Evaluation of the management approach	2.8
GRI 401-1 Employement 2016	New employee hires and employee turnover	5.2.3
GRI 404-1 Training and Education 2016	Average hours of training per year per employee	5.2.3
GRI 404-3 Training and Education 2016	Percentage of employees receiving regular performance and career development reviews	5.2.3

Reporting standard	Disclosure	Reference/omission
Material topic: Health, Safety & Security and Process Safety		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.4, 2.7
	103-2 The management approach and its components	2.4, 2.7
	103-3 Evaluation of the management approach	2.7, 2.4
GRI 403-2 Occupational Health and Safety 2016	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	5.2.1, 5.2.3, Partial omission for absenteeism; not all regions are included and this indicator is not broken down by gender, as information is unavailable. Steps are being taken to improve reporting on absenteeism and the Company expects to report on all regions and gender in the near future (see Chapter 5.1.8)
G4-OG13	Number of process safety events by business activity	5.2.1
Material topic: Human rights		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.1, 2.11
	103-2 The management approach and its components	2.11
	103-3 Evaluation of the management approach	2.11
GRI 412-3 Human Rights Assessment	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	148 signees of the supply chain charter. 2.3.2, 2.11, 5.4
Material topics which SBM reports according to own indicators		
Material topics: Innovation, Technology development and Gas & Renewables		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.1
	103-2 The management approach and its components	2.9
	103-3 Evaluation of the management approach	2.9
Own indicator	The success of SBM Offshore's Technology division is measured by the quantity and quality of new designs and proprietary components delivered and ready for market (TRL4)	2.9
Material topic: Quality		
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Boundary	2.7
	103-2 The management approach and its components	2.7
	103-3 Evaluation of the management approach	2.7
Own indicator	Certification and classification performance on; ISO 9001, ISO 14001, OHSAS 18001, Social Accountability & ISM	5.4

5.4 CERTIFICATION AND CLASSIFICATION TABLES

Complementing section 3.10 Operational Governance, the below tables map the compliance and certification of SBM Offshore entities and (onshore and offshore) sites with the following international certification standards and codes:

- ISO 9001 – International Standard related to Quality Management Systems
- ISO 14001 – International Standard related to Environmental Management Systems
- OHSAS 18001 – International Standard related to Occupational Health & Safety Management Systems
- Social Accountability Management System based on International Standard SA 8000
- 'Class' – Marine Certification by Classification Societies (e.g. ABS – American Bureau of Shipping)
- ISM – International Safety Management Code (from IMO - International Maritime Organization)
- ISPS – International Ship & Port Facility Security Code (from IMO)

OFFICES & WORKSITES	ISO 9001	ISO 14001	OHSAS 18001	Social Accountability	ISM
Corporate Offices					
Amsterdam (NL)	Certified				
Monaco (MC)	Certified				
Regional Centers					
Houston (US)	Certified				
Rio de Janeiro (Brazil)	Certified				
Europe - Monaco (MC)	Certified				
Europe - Schiedam (NL)	Certified				
Kuala Lumpur (Malaysia)	Certified				
Imodco					
Monaco (MC)	Certified				
Construction Sites					
Paenal (Angola)	Certified	Ongoing	Ongoing		
Brasa (Brazil)	Certified	Certified	Certified		
Operations Offices					
Monaco	Certified	Compliant	Compliant	Covered by local regulations	Certified
Angola		Compliant	Compliant	Compliant	Certified
Brazil		Compliant	Compliant	Compliant	Certified
Canada		Compliant	Compliant	Covered by local regulations	N/A
Equatorial Guinea		Compliant	Compliant	Ongoing	Certified
Malaysia		Compliant	Compliant	Compliant	Certified
Myanmar		Compliant	Compliant	Ongoing	Certified
USA		On Hold	On Hold	Covered by local regulations	Certified

Certified: certified by accredited 3rd Party
Compliant: verified as compliant by independent, qualified 3rd Party
Classed: certified by classification society

OFFSHORE PRODUCTION FLEET	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
Angola					
FPSO Mondo	Compliant	Compliant	Classed	Certified	Certified
FPSO Saxi Batuque	Compliant	Compliant	Classed	Certified	Certified
N'Goma FPSO	Compliant	Compliant	Classed	Certified	Certified
Brazil					
FPSO Capixaba	Compliant	Compliant	Classed	Certified	Certified
FPSO Espirito Santo	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Anchieta	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Paraty	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Ilhabela	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Maricá	Compliant	Compliant	Classed	Certified	Certified
FPSO Cidade de Saquarema	Compliant	Compliant	Classed	Certified	Certified
Canada					
Deep Panuke (MOPU)	Certified	Certified	N/A	N/A	N/A
Equatorial Guinea					
FPSO Aseng	Compliant	Compliant	Classed	Certified	Certified
FPSO Serpentina	Compliant	Compliant	Classed	Certified	Certified
Malaysia					
FPSO Kikeh	Certified	Compliant	Classed	Certified	Certified
Myanmar					
Yetagun FSO	Compliant	Compliant	Classed	Certified	Certified
USA					
Turritella (FPSO)	On Hold	On Hold	Classed	Certified	Certified

OFFSHORE INSTALLATION FLEET	ISO 9001	ISO 14001	OHSAS 18001	CLASS	ISM	ISPS
SBM Installer	Certified	Certified	Certified	Classed	Certified	Certified
Normand Installer	Certified	Certified	Certified	Classed	Certified	Certified

Certified: certified by accredited 3rd Party
Compliant: verified as compliant by independent, qualified 3rd Party
Classed: certified by classification society

5 NON-FINANCIAL DATA

5.5 ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: the Management Board and Supervisory Board of SBM Offshore N.V.

Assurance report on the non-financial information 2017

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the non-financial information included in the annual report of SBM Offshore N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the events and achievements related thereto for the year ended 31 December 2017

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria.

What we have reviewed

The Non-financial information contains a representation of the policy and business operations of SBM Offshore N.V., Amsterdam regarding sustainability and the events and achievements related thereto for 2017.

We have reviewed the non-financial information for the year ended 31 December 2017, as included in the following sections in the annual report of SBM Offshore:

- Chapter 1: At a glance;
- Chapter 2: Strategy and performance;
- Chapter 3: section 'Compliance'; and
- Chapter 5: Non-financial data.

The links to external sources or websites included in the non-financial information, are not part of the non-financial information itself, reviewed by us. We do not provide assurance over the information outside the non-financial information.

The basis for our conclusion

We conducted our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance engagements on corporate social responsibility reports' ('Assurance-opdrachten inzake maatschappelijke verslagen'), which is a specified Dutch standard that is based on the International Standard on Assurance Engagements 3000: 'Assurance Engagements other than Audits or Reviews of Historical Financial Information. This review is aimed to obtain limited assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the non-financial information' of this assurance report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independence and quality control

We are independent of SBM Offshore N.V. in accordance with the 'Code of Ethics for Professional Accountants, a regulation with respect to independence' ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' – ViO) and other for the engagement relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct' ('Verordening gedrags- en beroepsregels accountants' – VGBA).

We apply the 'detailed rules for quality systems' ('Nadere voorschriften kwaliteitssystemen') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

SBM Offshore N.V. developed its reporting criteria on the basis of the Sustainability Reporting Standards of GRI, as disclosed in section 5.1 'Scope of non-financial information' of the Annual Report. The information in the scope of this assurance engagement needs to be read and understood in conjunction with these reporting criteria. The Management Board is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Inherent limitations

The non-financial information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments based on assumptions. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the non-financial information.

Our review approach

Materiality

Based on our professional judgement we determined specific materiality levels for each relevant part of the non-financial information and the sustainability report as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative aspects and the relevance of information for both stakeholders and the organization.

Based on our professional judgment, we determined materiality levels for specific quantitative information within a bandwidth of 5% to 10%.

We have agreed with the Management Board that we report any deviations observed during the course of our assessment that, in our opinion, are relevant for quantitative or qualitative reasons.

Scope of the group review

SBM Offshore N.V. reports on the non-financial information on a consolidated level. For more details reference is made to section 5.1 'Scope of non-financial information' of the Annual Report. Our review focused on the corporate headquarters and group functions, and the regional centers in Monaco, Brazil, Houston and Malaysia.

The majority of review procedures for this assurance engagement were performed by the central review team. Specific review procedures for certain employment data and compliance were performed by component review teams.

Where the work was performed by component review teams, we determined the level of involvement we needed to have in their work to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our conclusion on the consolidated Non-financial information. The consolidation is reviewed by the central review team in the Netherlands.

Key review matter

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the non-financial information. We have communicated one key review matter to the Management Board and Supervisory Board. Key review matters are not a comprehensive reflection of all matters discussed. We described the Key review matter and included a summary of the procedures we performed on this matter.

The key review matter is addressed in the context of our review of the non-financial information as a whole, and in forming our conclusion thereon. We do not provide a separate conclusion on this matter or on specific elements of the non-financial information. Any comments we make regarding the results of our procedures should be read in this context.

Key review matter	*How our review addressed the matter*
Development of information on absenteeism	
See section 2.8 *Talented People,* 5.1.8 *Scope of non-financial information – Human Resources Reporting,* 5.2.3 *Non-financial indicators – Human Resources and* 5.3 *GRI Content Index*	
Vitality of employees are a material element of SBM Offshore N.V.'s Human Resources (HR) strategy. The rate of absenteeism is a relevant GRI indicator for SBM Offshore N.V. to evaluate the health of employees. Until 2016, this rate was primarily monitored and reported locally and not consolidated for the entire SBM Offshore group. In 2017, the company developed company-wide reporting definitions and started consolidating these data in order to obtain more relevant management information on group level. In order to evaluate the feasibility of reporting performance data, management assessed: ▪ the consistency between reporting entities of registering absence hours; ▪ availability of supporting evidence. The company concluded that the absenteeism rate can only be reported for onshore locations and only for permanent employees that have been employed the entire year. The reported data covers a part of the employees and therefore does not represent the entire company's performance yet. The company aims to align the criteria for recording absenteeism in order to be able to include all employees working onshore as well as offshore and on construction yards in due course. The	In addition to our planned inquiries and analytical procedures, we performed further inquiries to gain sufficient understanding of the precise definitions (and whether these are in line with GRI), the scope and the processes of the reporting of the absenteeism rate. We observed how time is recorded in the different systems of SBM Offshore N.V. to validate our understanding. We challenged management about the feasibility of reporting the absenteeism rate and we discussed whether the reporting scope is representative, since it covers only the onshore employees that were permanently employed the entire year. We obtained an extract of absent time reported through the different systems for all reporting entities, which includes also preliminary data of those out of scope. Based on a sample of employees, we reviewed whether the company adequately selected the employees as per the defined scope for2017, based on the SBM entity, form of contract (permanent or not) and employment period (entire year or not). We also reviewed whether the company adequately applied the company wide reporting definition for all entities in scope, in particular by reviewing, whether: ▪ absence days due to maternity leave were excluded;

Key review matter	How our review addressed the matter
company disclosed a reason for omission from GRI in the GRI Content Index. We consider this a key review matter because it is new information in the annual report on which the company reports, which is complex by nature given the different variables used to calculate, in combination with the fact that registration of absence and scheduled working days differ between reporting entities.	▪ vacation and national holidays were excluded from the calculation of working days; ▪ application of part-time factors were consistently applied. We evaluated whether the company included appropriate disclosures about absenteeism in the annual report including a sufficiently articulated limitation in scope of for the absenteeism rates to only include permanent onshore staff that were been employed for the entire year.

Responsibilities for the Non-financial information and the assurance-engagement

Responsibilities of the Management Board

The Management Board of SBM Offshore N.V. is responsible for the preparation of the Non-financial information in accordance with the Sustainability Reporting Standards of GRI and the internally applied reporting criteria as disclosed in section 5.1 ´Scope of non-financial information´ of the annual report, including the identification of stakeholders and the definition of material topics. The choices made by the management board regarding the scope of the Non-financial information and the reporting policy are summarized in section 5.1 ´Scope of non-financial information´. The management board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Management Board is also responsible for such internal control as it determines necessary to enable the preparation of the Non-financial information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing SBM Offshore N.V.'s reporting process on the annual report.

Our responsibilities for the review of the Non-financial information

Our responsibility is to plan and perform the review engagement to obtain sufficient and appropriate assurance information to provide a basis for our conclusion.

This review engagement is aimed at obtaining limited assurance. In obtaining a limited level of assurance, the performed procedures are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an audit engagement. The assurance obtained in review engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

Misstatements may arise due to irregularities, including fraud or error and 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 Non-financial information. The materiality affects the nature, timing and extent of our review and the evaluation of the effect of identified misstatements on our conclusion.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main procedures include:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organization.
- Identifying and assessing the risks of material misstatement of the Non-financial information, whether due to errors or fraud, designing and performing review procedures responsive to those risks, and obtaining review evidence that is sufficient and appropriate to provide a basis for our conclusion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Developing an understanding of internal control relevant to the assurance engagement in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of SBM Offshore N.V.'s internal control.
- Evaluating the appropriateness of the reporting criteria used and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates made by management and related disclosures in the Non-financial information made by management;
- Evaluating the overall presentation, structure and content of the Non-financial information, including the disclosures.
- Evaluating whether the Non-financial information represents the underlying transactions and events free from material misstatement.
- Interviewing management and relevant staff at corporate and business level responsible for the sustainability's strategy and, policy and performance of sustainability operations.
- Interviewing relevant staff at corporate level and business level, responsible for providing the information in the Non-financial information, carrying out internal control procedures on the data and consolidating the data in the Non-financial information.
- Reviewing internal and external documentation to determine whether the Non-financial information, including the disclosure, presentation and assertions made in the Non-financial information, is substantiated adequately.
- An analytical review of the data and trends submitted for consolidation at corporate level.
- Assessing the consistency of the Non-financial information and the information in the Annual Report not in scope for this assurance report.
- Assessing whether the Non-financial information has been prepared 'in accordance' with the Sustainability Reporting Standards of GRI.

From the matters communicated with SBM Offshore N.V. we determine those matters that were of most significance in the review of the Non-financial information and are therefore the key review matters. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amsterdam, 7 February 2018

PricewaterhouseCoopers Accountants N.V.

drs. E.M.W.H. van der Vleuten RA