Annual REPORT

SBM OFFSHORE

2015

6.2.6 General Information

SBM Offshore N.V. is a company domiciled in Rotterdam, the Netherlands. SBM Offshore N.V. is the holding company of a group of international marine technology oriented companies. The Company serves globally 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 31 December 2015 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 10 February 2016.

6.2.7 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 1 January 2015.

The separate financial statements incuded in section 6.3 are part of the 2015 financial statements of SBM Offshore N.V. With reference to the separate income statement of SBM Offshore N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

New standards, amendments and interpretations applicable as of 1 January 2015

The Company has adopted the following new standards with a date of initial application of 1 January 2015:

- IFRIC 21 'Levies';
- Annual improvements 2011-2013 cycle.

IFRIC 21 addresses the accounting for a liability to pay a levy if that liability falls within the scope of IAS 37 'Provisions'. The interpretation addresses the obligating event that gives rise to pay a levy, and when a liability should be recognized. The Company is not currently subject to significant levies. The adoption of the interpretation had no significant effect on the financial statements for earlier periods and on the financial statements for the period ended 31 December 2015.

In addition, the IFRS amendments included in the annual improvements 2011-2013 cycle have a negligible impact on the Company's consolidated financial statements.

Standards and interpretations not mandatory applicable to the group as of 1 January 2015

The following standards and amendments are published by the IASB and endorsed by the European Commission, but not mandatory applicable as of 1 January 2015. Application is permitted by the IASB. The Company has decided not to early adopt them.

- Annual improvements: 2010-2012 cycle;
- IAS 19 Amended 'Defined Benefit Plans: Employee Contributions'.

The Company does not expect significant effects of these new standards and interpretations on the financial statements.

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 15 'Revenue from Contracts with Customers': This standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This standard will be mandatory as of 1 January 2018.

IFRS 9 'Financial Instruments': This Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard will be mandatory as of 1 January 2018.

IFRS 16 'Leases': 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. This standard will be mandatory as of 1 January 2019.

The company is analyzing the impacts and practical consequences of these standards future application.

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. They require to make a large number of estimates, especially of the total expected costs at completion, due to the high complexity 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.

The impairment of property, plant and equipment and intangible assets:
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.

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. 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 provide analysis on a regular basis, of current litigations and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligation, taking into account information available and different possible outcomes at the reporting period.

The timing and estimated cost of demobilisation:
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 obligation, these costs are subject to uncertainty. Indeed, cost estimates can vary in response to many factors, including for example new demobilization techniques, the own Company's 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 managements' best estimate of the present value of the future costs required.

Judgements:
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 the Company retains or not the significant risks and rewards of ownership of the asset subject of the lease contract. In applying the criteria provided by IAS 17 'Leases', the Company can make significant judgement to determine whether the arrangement results in a finance lease or an

operating lease. This judgement can have a significant effect on the amounts recognized in the consolidated financial statements.

(b) Leases: accounting by lessor

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

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

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

(c) Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's or cash-generating-unit's (CGU's) fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. An impairment loss is recognized for the amount by which the asset's 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, has 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, grant to the borrower a concession that the lender would not otherwise consider
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- national or local economic conditions that correlate with defaults on the financial assets

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

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

Impairment on trade and other receivables is described later in Section 6.2.7. C. Significant Accounting Policies.

(e) Revenue

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

Construction contracts

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

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

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

Lease and operate contracts

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

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

(f) Construction work in progress

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

(g) Demobilisation obligations

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

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

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

C. Significant Accounting Policies

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

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

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

(b) Consolidation

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

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

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

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

Interests in joint ventures:
The group has applied IFRS 11 'Joint arrangement' to all joint arrangements. Under IFRS 11 investment in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. In determining under IFRS11 the classification of a 'Joint arrangement', the Company assessed that all 'Joint arrangements' were structured through private limited liability companies incorporated in various juridictions. 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. Any excess is accounted for under provisions.

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

The financial statements of the subsidiaries, associates and joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

(c) Non-derivatives financial assets

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

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

Corporate securities relates to:

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

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

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

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

(d) Borrowings (bank and other loans)

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

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

(e) Operating segment information

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

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

The Group has two reportable segments:

- the Lease and Operate segment includes all earned day-rates on long term operating lease and operate contracts. In the case of a finance lease, revenue is recognized during the construction and installation period within the Turnkey segment. As of the commencement date of a finance lease contract, interest income is shown in this segment
- the Turnkey segment includes Monaco, Houston, Schiedam, Kuala Lumpur and Rio regional centres 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 consitute an operating segment as defined by IFRS 8 'Operating segments' and are reported under the 'Other' section in Note 6.3.2 'Operating segments'.

Operating segments are measured under Directional Reporting accounting policies, the main principles of which are the following:

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

The above differences to the consolidated financial statements under IFRS are pointed out in the reconciliations provided in Note 6.3.2 'Operating segments' on the revenue, the EBIT and other significant items, as required by IFRS 8 'Operating segments'.

(f) Foreign currency transactions and derivative financial instruments

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

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

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

In order for a derivative to be eligible for hedge accounting treatment, the following conditions must be met:

- its hedging role must be clearly defined and documented at the date of inception
- its efficiency should be proven at the date of inception 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 should be presented as current; the remainder of the financial derivative should be shown 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 long 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 6.3.29 'Financial Instruments – Fair values and risk management'.

(g) Offsetting financial instruments

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

(h) Provisions

Provisions are recognized if and only if the following criteria are simultaneously met:

- the Company has an ongoing obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation

- the amount of the obligation can be reliably estimated; provisions are measured according to the risk assessment or the exposed charge, based upon best-known elements

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

Warranties 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. This provision is classified as current by nature as it coincides with the production cycle of the Company.

(i) Property, plant and equipment

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

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. With the exception of the Thunder Hawk facility, depreciation is calculated on a straight-line basis as follows:

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

The depreciation charge for the Thunder Hawk facility is calculated based on its future anticipated economic benefits. This results in a depreciation charge partly based on the unit of production method and, for the other part, based on the straight-line method.

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

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

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

(j) Intangible assets

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

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

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

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

- the projects are clearly defined
- the Company is able to reliably measure expenditures incurred by each project during its development
- the Company is able to demonstrate the technical feasibility of the project
- the Company has the financial and technical resources available to achieve the project
- the Company can demonstrate its intention to complete, to use or to commercialize products resulting from the project
- the Company is able to demonstrate the existence of a market for the output of the intangible asset, or, if it is used internally, the usefulness of the intangible asset

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

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

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

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

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

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

(l) Inventories

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

(m) Trade and other receivables

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

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

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

(n) Cash and cash equivalents

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

(o) Share capital

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

(p) Income tax

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

(q) Deferred income tax

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

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

(r) Employee benefits

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

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

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

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

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

Share-based payments: within the Company there are three types of share based payment plans that qualify as equity settled:

- Restricted Share Unit (RSU) / Performance Share Unit (PSU)
- Performance shares
- Matching bonus shares

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

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

6.3 Notes to the Consolidated Financial Statements

6.3.1 Highlights

Partial divestment agreement of FPSO Turritella

On 30 June 2015, the Company entered into an agreement with Mitsubishi Corporation and Nippon Yusen Kabushiki Kaisha for the disposal of 45% of the Company's share in companies incorporated for the purpose of owning and operating FPSO Turritella at the shares nominal value. After the completion of this transaction, the Company has kept the control of its subsidiaries under IFRS 10 'Consolidated financial statements' and the transaction has been therefore accounted for as an equity transaction. As a result, the equity attributable to the shareholders of the parent company has increased by US$ 38 million, and no gain or loss has been recognized in the Consolidated Income Statement prepared in accordance with IFRS standards.

In the operating segments disclosure, the Company has recognized under Directional Reporting accounting principles, the share of construction revenues and gross margin made from the new partners in the company owning FPSO Turritella (Stones Sarl), which was eliminated in consolidation prior to the completion of the divestment.

FSO Yetagun (Myanmar)

In May 2015, the client extended its lease contract of the Yetagun FSO by 3 years, ending May 2018. This extension has been classified as financial lease according to IAS17, triggering a gross margin impact of US $ 16 million on the period in accordance with IFRS standards. In the operating segments disclosure, this extension remains classified as operating lease under Directional Reporting accounting principles, triggering a linear recognition of related revenues and gross margin during the extended lease period.

Review of fleet residual value

The residual values of operating and finance leased assets are reviewed and adjusted, if appropriate at each statement of financial position reporting date. The Company measures the residual value of FPSOs, platforms and other floating facilities as the scrapping values of the assets (based on steel price multiplied by the Light Diplacement Tonne of the facility) after deducting the estimated cost of disposal. The significant decrease of the market steel price at the end of 2015 lead the Company to reduce the residual value of the fleet, resulting in a non-cash impairment of US$ 31 million accountied for in the Consolidated Income Statement prepared in accordance with IFRS standards and an impairment of US$ 13 million in the operating segment disclosures, under Directional reporting accounting principles.

Restructuring

As a result of an on-going review of the cost structure and continued market downturn, the Company has reduced its workforce by approximately 2,000 positions worldwide over the periods of 2014 and 2015. Restructuring costs, accounted for as 'Other operating expense' over the period, represent US$ 55 million, of which US$ 46 million relate to Monaco based employees. The restructuring liabilities represent US$ 8 million as of 31 December 2015 for the Company.

Provision for settlement in Brazil

On 17 March 2015, the Company announced the signing of a Memorandum of Understanding (MoU) with the Brazilian Comptroller General's Office (Controladoria-Geral da União – 'CGU') and the Attorney General's Office (Advocacia-Geral da União – 'AGU'), and explained that this MoU set a framework between the Company, the CGU and the AGU for discussions on a potential mutually acceptable settlement and for the disclosure by SBM Offshore of information relevant to the CGU's investigations.