

# Annual REPORT

**SBN**  
OFFSHORE

2015



## 6 Financial Report 2015

The interest expenses are disclosed net of US\$ 48 million capitalized interest (2014: US\$ 54 million) related to FPSO projects under construction.

In 2014, the US\$ 29 million impairment of financial asset was related to a dispute with a US-based client on a joint venture (Note 6.3.2 Operating segments). The financial asset remains impaired.

### 6.3.8 Research and Development Expenses

Research and development expenses consist of US\$ 43 million (2014: US\$ 40 million).

The amortization of development costs recognized in the statement of financial position is allocated to the "cost of sales".

### 6.3.9 Income Tax

The relationship between the Company's income tax expense and profit before income tax (referred to as 'Effective tax rate') can vary significantly from period to period considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus profit before taxes and (b) the different statutory tax rates in the location of the Company's operations (c) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available. Consequently, income tax expense does not change proportionally with income before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the Effective Tax Rate is impacted by the unrecognized tax loss.

The components of the Company's (provision) benefit for income taxes were as follows:

#### Income tax recognised in the consolidated Income Statement

	<i>Note</i>	2015	2014
Corporation tax on profits for the year		(31)	(47)
Adjustments in respect of prior years		(1)	(3)
<b>Total current income tax</b>		<b>(32)</b>	<b>(50)</b>
Deferred tax	6.3.16	6	24
<b>Total</b>		<b>(26)</b>	<b>(26)</b>

The Company's operational activities are subject to taxation at rates which range up to 35% (2014: 35%).

The respective tax rates, including fiscal privileges in several countries, tax-exempt profits and non-deductible costs and releases, resulted in an effective tax on continuing operations of 41.4% (2014 : 4.7%). The reconciliation of the effective tax rate is as follows:

#### Reconciliation of total income tax charge

	2015		2014	
	%		%	
Profit/(Loss) before tax		137		678
Share of profit of equity-accounted investees		73		117
<b>Profit/(Loss) before tax and share of profit of equity-accounted investees</b>		<b>64</b>		<b>561</b>
Income tax using the domestic corporation tax rate (25% for Netherlands)	25%	(16)	25%	(140)
<b>Tax effects of :</b>				
Different statutory taxes related to subsidiaries operating in other jurisdictions	(65%)	41	(19%)	109
Withholding taxes and taxes based on deemed profits	24%	(15)	4%	(22)
Non-deductible expenses	131%	(84)	16%	(88)
Non-taxable income	(110%)	70	(17%)	97
Adjustments related to prior years	1%	(1)	1%	(3)
Effects of unprovided deferred tax and tax credits	34%	(22)	(3%)	19
Movements in tax risks provision	0%	0	0%	2
<b>Total tax effects</b>		<b>16%</b>		<b>(10)</b>
<b>Total of tax charge on the consolidated Income Statement</b>		<b>41%</b>		<b>5%</b>

The 2015 Effective Tax Rate of the Company was primarily impacted by unrecognized deferred tax assets on current tax losses.

With respect to the annual effective tax rate calculation for the year 2015, a significant portion of the income tax expense of the Company was generated in countries in which income taxes are imposed on gross revenues, with the most significant one being Angola. Conversely, the most significant countries in which the Company operated during this period that impose income taxes based on income before income tax include the Netherlands, Monaco, Switzerland and the U.S.

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

#### Withholding taxes and taxes based on deemed profits

Withholding Tax and Overseas Taxes (per location)	2015			2014		
	Withholding tax	Taxes based on deemed profit	Total	Withholding tax	Taxes based on deemed profit	Total
Angola	(14)	-	(14)	(13)	-	(13)
Equatorial Guinea	0	-	0	0	-	0
Malaysia	0	-	0	0	-	0
Brazil	-	0	0	0	(8)	(8)
Other <sup>1</sup>	0	(1)	(1)	(1)	-	(1)
<b>Total withholding and overseas taxes</b>	<b>(14)</b>	<b>(1)</b>	<b>(15)</b>	<b>(14)</b>	<b>(8)</b>	<b>(22)</b>

<sup>1</sup> other includes Myanmar, Nigeria and Indonesia

### **Tax returns and tax contingencies**

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company is defending its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the ultimate liability to have a material adverse effect on its consolidated statement of financial position or results of operations, although it may have a material adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the conflict between the Company's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax increase of US\$ 13 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. The increase arises from both adjustments that the Company has agreed with the relevant tax authorities and re-estimates that it has made. It is possible that the ultimate resolution of these matters 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.

### 6.3.10 Earnings / (Loss) per share

The basic earnings per share for the year amounts to US\$ 0.14 (2014: US\$ 2.75); the fully diluted earnings per share amounts to US\$ 0.14 (2014: US\$ 2.75).

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

	2015	2014
Earnings attributable to shareholders (in thousands of US\$)	29,313	575,401
Number of shares outstanding at 1 January	209,695,094	208,747,188
Average number of new shares issued	1,155,957	495,239
<b>Weighted average number of shares outstanding</b>	<b>210,851,051</b>	<b>209,242,427</b>
Potential dilutive shares from stock option scheme and other share-based payments	150,332	176,313
<b>Weighted average number of shares (diluted)</b>	<b>211,001,383</b>	<b>209,418,740</b>
Basic earnings per share	US\$ 0.14	US\$ 2.75
Fully diluted earnings per share	US\$ 0.14	US\$ 2.75

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.

### 6.3.11 Dividends paid and proposed

As previously stated, the Company introduced in 2015 a new dividend policy which consists paying out either in cash or in shares of SBM Offshore at the election of each shareholder between 25% and 35% of the directional net income, provided that positive free cash-flows are expected to be generated during the year of payment. In accordance with this policy but taking account the specific circumstances relating to 2015 including the nature of the non-recurring items, a dividend out of 2015 net income of US\$ 0.21 per share will be proposed to the Annual General Meeting on 6 April 2016, corresponding to 25% of the Company's US \$ 180 million Directional net income adjusted, this year, for non-recurring items. The decreasing level of investments related to the nearing FPSOs under construction completion and their anticipated production in 2016 will generate strong and sustainable free cash flows from first oil onwards.

The annual dividend will be calculated in US dollars, but will be payable in euros. The conversion into euros will be effected on the basis of the exchange rate on 6 April 2016.

In respect of the year ended 31 December 2014, no dividend was paid.