SBM OFFSHORE

2012 ANNUAL REPORT

Table of Contents

1 Overview

1.1 Message from the CEO

2012 was a tough year for SBM Offshore, perhaps the toughest in our history. But we can be proud of some important achievements. In several vital respects, SBM is a Company transformed. And we are on route to closure of the legacy projects that mar our financial performance.

Before I review 2012, I want to take a step back, to look at what SBM stands for, and to describe the prize we are pursuing. The global oil & gas industry is heading offshore. From Brazil, to West and East Africa, and the Arctic the future lies in deep-water developments in challenging sea states. In 2000 there were 44 deep-water fields in production. By the end of 2013, the figure is expected to exceed 450, with many development plans envisaging FPSOs as a 30 year plus, life-of-field, production solution. Industry capex is accelerating commensurately with these shifts.

At this time, Majors, National Oil Companies and Independents need an FPSO provider with the accumulated engineering wisdom to solve any challenge, and a track record of operating installed vessels successfully for their entire working life. It is a specialist role, which cannot be performed in-house, and our clients rightly demand dependability of cost and performance.

After a year as SBM's CEO, I am convinced SBM has the right problem-solving focus, and committed project and operating teams to successfully engineer, procure, commission, install and operate the world's most technologically advanced and durable ships. Now grouped around an exclusively FPSO-focused strategy, we must secure the prize of being the global champion in the provision of this vital and exceptionally valuable offshore service.

So what advances did we make in 2012? Let me start with safety. Executing our activities without harm to people or the environment is a pre-requisite to our licence to operate. We made significant progress, reducing the number of incidents with potentially severe consequences by more than 15% during 2012. This is an outstanding demonstration of what we can achieve when focused and working together in teams - and a great achievement on which we can build to eradicate both injuries and the risk of injuries.

The facts of our financial performance are a US$ 75 million net loss for the consolidated result. This loss reflects the impact of two legacy projects wholly outside our core FPSO focus. Across the core of our business we have performed creditably and delivered good results – financially and for our clients.

We are deeply disappointed not to have delivered closure of our legacy projects in 2012. It has taken longer, and cost more than anyone would have liked, but we are committed to bring these to an end. In December, following thorough re-assessment, we wrote off the full value of the Yme project, and made a provision for settlement, at a combined cost of some US$ 600 million. Reaching final agreement with our client will be lengthy and technical, but we are making progress. Arbitration remains an option. On Deep Panuke, we also took a US$ 29 million impairment, to reflect further delays. We are confident that its commissioning will occur in the first half of 2013.

These impairment decisions were tough but essential - and brought an imperative to rebuild our financial strength. In this context we are very pleased with the decision of HAL Investments B.V. to support SBM with a 9.95 per cent equity injection. HAL's intention to underwrite, under clearly specified conditions, a further 10 per cent rights issue, brings us the strategic support of a long term investor. These funds, together with the ongoing non-core disposals programme, and project-secured loans of approximately US$ 2 billion, bring us the vital equity and liquidity support we need.

So what of our achievements within SBM? I spoke last year of transforming our ways of working; both structures and attitudes. A comprehensive shift to integrated project teams, with each leader commanding resources from professional disciplines, has transformed the formerly departmental character of SBM. Moreover, with projects grouped across just four project management and engineering execution centres, we now have effective transparency and accountability. These changes allow for traditional strengths, technological leadership and problem-solving, to be brought more effectively to bear.

Extensive changes in management personnel, including almost the entire Board of Management, have supported these reforms, with large scale promotion from within as well as recruitment from outside.

Turning to attitudes, how we think and act, I have set out three principles: to work as one, to perform and to shape our own future. SBM is already working as one to fix its problems. Teamwork is flourishing; accountability, sharing best practice, structuring work around the client are demonstrably, measurably, clearer.

Compliance is a special aspect of “working as one”. In the modern era, stakeholders expect explicit codes of conduct. We have worked extensively with clients and partners to establish new ways of delivering the best standards of behaviour. It has been encouraging to see the readiness with which the whole Company has accepted these measures into our appraisal structure in 2012.

In 2013, we will complete the transformation of our ways of working, and move SBM Offshore decisively toward attaining its prize. This year we aim to:

- Put the legacy projects behind us.
- See the quality of performance, which so many in the company are delivering, begin to manifest itself in financial results.
- Create a spotlight for the primacy of engineering and technological leadership in leading the shift offshore.
- Restore pride at SBM Offshore in what we do, and in our leadership of the industry.

Pride can have an exceptional role in maintaining standards. It is a self-protecting mechanism: a reason to double check; a reason to help your colleague; a purpose to maintaining a technical edge.

I want everyone here to share in that sense of achievement, and care, in 2013.

Bruno Chabas

1.2 Group Profile

1.2.1 Introduction

SBM Offshore's business is providing floating production solutions to the offshore energy industry, over the full product life-cycle.

With 14 units currently in operation worldwide, over 165 years of cumulative FPSO operational experience and an unrivalled reputation within the industry, SBM Offshore is the market leader in providing leased production floating systems. In addition, SBM Offshore also provides floating production systems on a turnkey sale basis to clients.

Headquartered in Schiedam in Holland, the Group employs over 7,400 people worldwide, spread over five main Execution Centres, eleven operational shore bases, several construction yards and the offshore fleet of vessels.

Overview of Operations

The Group's main activity is the design, supply, installation and operation of Floating Production, Storage and Offloading (FPSO) vessels.

These are either owned and operated by the Group and leased to its clients, in which case the project is financed by the Group and in some cases joint venture partners. Alternatively, the Group also undertakes FPSO projects for clients on a turnkey sale basis, where these vessels can either be operated by the client, or operated by the Group under a separate service contract. In this case financing is provided by the client.

For projects where a FPSO is identified as not being the optimum development solution, the Group has a product portfolio that can offer a range of other floating production solutions. Over several years, the Group has developed a large in-house engineering, procurement and project management capability. This ensures consistency from one project to another and a continuous improvement process to enhance the quality of the products within the Group's portfolio.

Construction work is outsourced to construction yards in locations best suited to each specific project. Local content regulations, where appropriate, are also taken into account when making outsourcing decisions.

The Group owns shares in the Paenal construction yard in Angola, and has also established a joint venture, in Brazil, to utilise the capacity of the Brasa yard as part of the Group's local content strategy.

SBM Offshore considers itself to be the Technology Leader in the industry, and constantly works with clients to push the limits of existing products, and to develop new products to fill key technology gaps. This development work is performed in the five Execution Centres, sometimes in collaboration with technology partners, and in the Group's dedicated R&D laboratory located in France.

The Group's heritage lies in shallow water mooring terminals for the loading and unloading of tankers. This remains an important product line for SBM Offshore, both for the supply and installation of new terminals, as well as the service, overhaul and repair of the large number of terminals already in service around the world.

Business Model

The Group generates profits from two distinct activities:

- Long term 'Lease and Operate' contracts, of the fleet of floating production vessels, to clients.
- The 'Turnkey Sale' of products to clients including installation, overhaul, and repair services to clients.

The cash flows generated by these activities support the significant reinvestment, as equity, in new leased vessels to support growth of the fleet, which is a highly capital intensive activity.

Operational feedback, supplied from the Group's FPSO fleet, is vital and enables further development and improvement of the Group's core competencies i.e. Engineering, Project Management, Installation and Operations.

1.2.2 Organisation

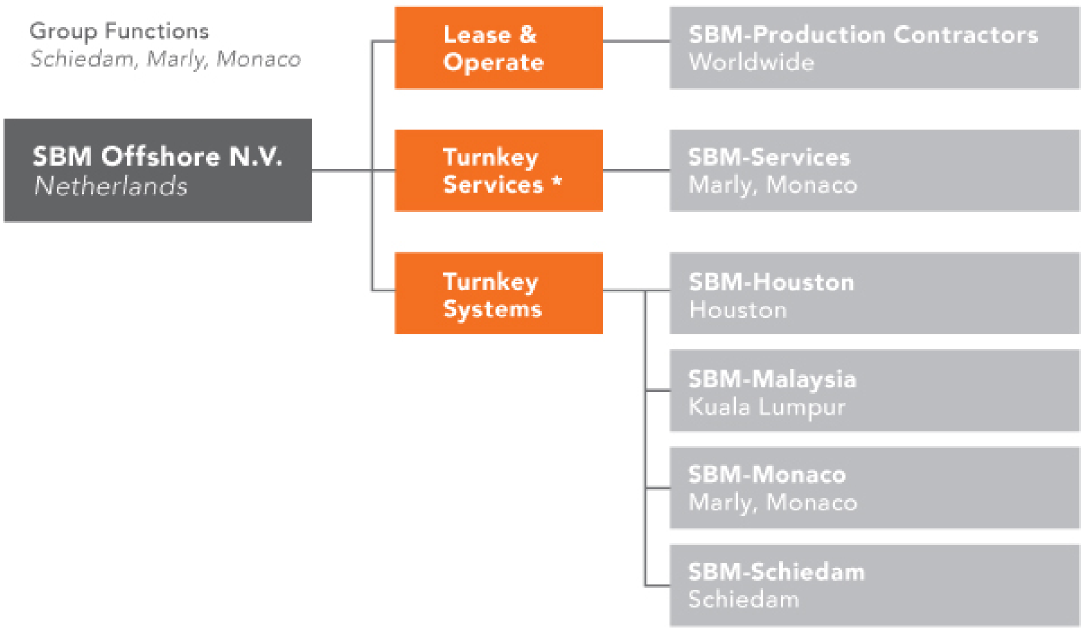
The Group operates through five Execution Centres, each of which is headed by a Managing Director who is accountable for its performance. The principles, rules and guidelines which govern each Execution Centre are clearly defined by Group Functions, and provide a clear framework for its execution activities. Managing Directors and Group Functions report to the Board of Management, individually and as members of the Executive Committee.

Four Group Execution Centres located in Schiedam (Netherlands), Monaco (Monaco), Houston (USA) and Kuala Lumpur (Malaysia), are responsible for Turnkey Systems activities (engineering and project management).

The fifth Execution Centre is responsible for Fleet Operations, located in Monaco, using a de-centralised organisational structure with strong emphasis on local shore base operations in each region.

Turnkey Services activities are managed from several locations but centralised in Monaco within a dedicated Execution Centre. Following a reorganisation during 2012, this Execution Centre's activities are absorbed by the other Execution Centres and will be one part of Turnkey sale activity.

Company Organisation Chart



* Will be integrated in 2013 with Turnkey Systems

1.2.3 Future Focus

SBM Offshore's strategy is focused on high-margin FPSO products, with growth anticipated in its lease fleet as well as in supply of FPSOs and associated FPSO technology. Through strategic and financial partnerships with International Oil Companies, National Oil Companies, local construction yards and financial parties, such as Mitsubishi Corporation, the Group continues to build a competitive edge that will help it secure business and growth in the coming decade. The Group also has a strong focus on technology development for FPSOs to meet the increased complexity and life cycle of FPSO and related products.

In order to maintain high service standards and expand its leading position in the market, SBM Offshore remains focused on research, innovation and development of its products and services and the protection of its Intellectual Property.

1.3 Snapshot 2012

Snapshot 2012

(US$ mln.)	2012	2011	Movement	%	Comment
Financial Results					
Net profit	(74.9)	(440.6)	365.7	83.0%	US$ 598 mln YME related costs in 2012, US$ 978 mln impairments
Net profit per share (US$)	(0.46)	(2.77)	2.31	83.4%	Decreased net loss
Revenue	3,695.2	3,156.8	538.4	17.1%	Increase in Turnkey systems
EBITDA	697.6	813.2	(115.6)	(14.2%)	Provision for YME settlement costs partially offset by capital gains on disposals
EBIT	50.5	(340.6)	391.1		YME and Deep Panuke impacts in 2011 and 2012, offset by divestment gains in 2012
EBIT: Revenue (%)	1.4	(10.8)	12.2		Impairments and non-recurring items effect
Capital expenditure	673.0	840.6	(167.6)	(19.9%)	FPSOs under construction are finance leases
Total Equity	1,539.8	1,349.0	190.8	14.1%	9.95% private placement
Net cash	748.3	164.7	583.6	354.3%	Disposal programme, private placement, USPP
Net debt	1,782.7	1,958.5	(175.8)	(9.0%)	New loans offset by repayments and high year-end cash
Capital employed	3,366.7	3,354.3	12.4	0.4%	Private placement, YME impairment, Net debt reduction
Net Debt: Unadjusted EBITDA	2.56	2.41			Net debt decrease
Net Debt: Total equity (%)	115.8	145.2	(29.4)	(20.2%)	Private placement, YME impairment, Net debt reduction
EBITDA interest cover	10.5	16.3	(5.8)	(35.6%)	Increase of interests associated with new vessels in operation (Aseng, Anchieta)
ROACE (%)	1.5	(9.5)	11		Operating result on stable capital employed
ROE on shareholders' equity (%)	(5.8)	(28.2)	22.4		Decreased net loss
Total orders:					
- Leases	187.6	3,161.4	(2,973.8)	(94.1%)	YME contract taken off backlog
- Turnkey Systems	942.8	5,014.7	(4,071.9)	(81.2%)	1 large turret
- Turnkey Services (*)	191.8	376.1	(184.3)	(49.0%)	To be merged with Turnkey Systems for 2013 onwards
TOTAL	**1,322.2**	**8,552.2**	**(7,230)**	**(84.5%)**	
Backlog:					
- Leases	10,566.0	11,310.2	(744.2)	(6.6%)	Yme derecognition, still represents 11 year's equivalent revenue
- Turnkey Systems	3,790.9	5,329.8	(1,538.9)	(28.9%)	1.5 year's equivalent revenue
- Turnkey Services (*)	180.7	270.0	(89.3)	(33.1%)	To be merged with Turnkey Systems for 2013 onwards
TOTAL	**14,537.6**	**16,910**	**(2,372.4)**	**(14.0%)**	

(*) To be discontinued as a reporting segment for 2013 onwards. The results will be combined with Turnkey Systems.

Snapshot 2012

(US$ mln.)	2012	2011	Movement	%	Comment
Financial Results					
Share price 31/12 (€)	10.52	15.92	(5.40)	(33.9%)	
AEX-index	342.7	312.5	30.2	9.7%	
Market capitalisation (€)	1,988.0	2,729.3	(741.3)	(27.2%)	Share price decrease
Market capitalisation (US$)	2,625.0	3,534.5	(909.5)	(25.7%)	€ weakened against US$
Proposed dividend (US$)					
Dividend Yield (%)					
Enterprise value (EV)	4,407.7	5,493.0	(1,085.3)	(19.7%)	Market capitalisation reduced, reduced net debt
EV : EBITDA	6.3	6.8	(0.5)	(7.4%)	Market capitalisation reduced, reduced net debt
Health and Safety					
Fatalities	0	0			
TRI Offshore Production	25	28	(3)	(10.7%)	Positive development
TRIFR Offshore Production	0.71	1.00	(0.29)	(29.0%)	Target of TRIFR < 0.3
LTIFR Offshore Operations	0.08	0.04	0.04	200.0%	Target of zero lost time injury
TRI Onshore Operations	6	7	(1)	(14.3%)	Positive development
TRIFR Onshore Operations	0.13	0.21	(0.08)	(38.1%)	Target of TRIFR < 0.3
LTIFR Onshore Operations	0.04	0.12	(0.08)	(66.7%)	Target of zero lost time injury
Environment					
CO2 Emissions from Offshore Production in million of tonnes	2.195	1.923	0.272	14.1%	First full year of FPSO Aseng
GHG Emissions from Offshore Production in million of tonnes CO2 equivalent	2.251	2.074	0.177	8.5%	First full year of FPSO Aseng
Human Resources					
Total Employees	7,493	6,220	1,273	20.5%	Increase in permanent staff
Total Offshore Employees	2,256	1,999	257	12.9%	In line with changes in fleet
Total Onshore Employees	5,237	4,221	1,016	24.1%	Increase in permanent staff
Contract / Permanent ratio (%)	21.35	25.20	(3.85)	(15.3%)	Target is 30%
Offshore Production Training hours per permanent employee	47.0	55.3	(8.3)	(15.0%)	
Onshore Operations Training hours per permanent employee	21.0	18.6	2.4	12.9%	

1.4 Stakeholders Information

1.4.1 Share Listing

The shares of SBM Offshore N.V. have been listed on the stock exchange of Amsterdam since 11 October 1965, originally under the name IHC Holland and later as IHC Caland. The shares have been included in the AEX Index of Euronext Amsterdam since 4 March 2003 with a weighting of 0.69% on 31 December 2012. IHC Caland became SBM Offshore in 2005. Options on Company shares have been traded since 7 July 1993 on the Euronext Amsterdam Derivative Markets.

1.4.2 Share Price Development

The share price decreased by 34% from € 15.92 at the start of the year to € 10.52 at 31 December 2012, compared to an increase of the AEX Index of 9.7% over the same period. In US Dollar terms, the decrease of the share price in 2012 was 32.7%, from US$ 20.62 to US$ 13.88.

Average daily liquidity traded via Euronext in 2012 amounted to around 1.92 million shares, equivalent to 286% of the average number of outstanding shares on an annual basis.

Market capitalisation at 31 December 2012 was € 1,988 million compared with € 2,729 million at the end of 2011, a decrease of 27.2%. The equivalent figures in US Dollars show a market capitalisation at the end of 2012 of US$2,625 million, down by 25.7% from US$ 3,535 million at 31 December 2011.

The total number of ordinary shares in SBM Offshore showed the following movements during the year 2012:

Number of Ordinary Shares

Balance 1st January 2011	**171,440,416**
Share issue through private placement	17,111,757
Options exercised	
Bonus, restricted and performance shares	590,042
Balance 31st December 2012	**189,142,215**

1.4.3 Shareholders

As the shares are held through the collective depot as mentioned in the Act on Securities Transactions by Giro (Wet Giraal Effectenverkeer), no detailed information of the shareholders is available. According to information provided by the largest banks and financial institutions, the shares are mainly in the hands of institutional investors.

	Turnover as % of share capital	Highest share price in €	Lowest share price in €	Closing share price in €	Closing share price in US$
2008	309	26.77	8.72	9.35	13.07
2009	193	15.30	9.00	13.78	19.75
2010	161	17.16	11.41	16.77	22.43
2011	176	20.93	11.75	15.92	20.62
2012	286	16.41	7.73	10.52	13.88

In January 2012, as required under the Major Holdings in Listed Companies Disclosure Act, a US company, BlackRock Inc. has disclosed ownership of 5% of the voting rights of the Company and a Canadian company, Sprucegrove Investment Management Limited has disclosed ownership of 5.04% of the shares of SBM Offshore.

On 20 December 2012, following a private placement of 9.95% of the shares outstanding at that date, HAL Investments B.V. reported a total ownership of 13.3% of the shares of SBM Offshore.

At 31 December 2012, current and former employees of the Company owned 1,410,000 shares in SBM Offshore through an Employee Share Ownership Plan (ESOP), representing 0.75% of the outstanding share capital.

With reference to the articles of association, all Shareholders are entitled to attend the General Meetings (GM), to address the GM and to vote. At the GM each Ordinary Share confers the right to cast one (1) vote. Each protective preference share confers the right to cast one (1) vote, when issued. Unless otherwise required by the law and articles of association all resolutions shall be adopted by an absolute majority of votes.

The Annual Report includes several sections in which the Company presents its financial results and other information on its activities, developments and strategy. Financial statements are audited by an external accounting firm. A selection of the Annual Report is printed in hardcopy for distribution and can also be downloaded electronically from the Company's website.

At the AGM, shareholders vote on granting discharge to the Board of Management for the conduct of the Company's businesses and to the Supervisory Board for its supervisory duties during the year under review.

1.4.4 Dividend

In view of the incurred loss over 2012 and in order to preserve and improve the Company's equity position, the Management Board proposes not to distribute a dividend for the financial years 2012 and 2013.

1.4.5 Investor Relations

The Group maintains active communications with its shareholders on several different occasions, events or meetings in order to keep them informed on the general and specifically financial aspects of the business. The information is provided in written form in the Annual Report, in the minutes of meeting of the AGM, in press releases and in presentations for financial analysts- all of which are distributed electronically on the website, via email and in hardcopy format. The Group also addresses shareholders face-to-face during the AGM, at investor meetings, analyst presentations (which are webcasted), and verbally via conference calls.

The Company attended 23 road shows and conferences during 2012.

1.4.6 Stakeholders Engagement

SBM Offshore's primary stakeholder groups are employees, clients and business partners, capital providers, shareholders, suppliers and NGOs, local authorities and local host communities.

The Group encourages and actively maintains open, respectful engagement with its stakeholders, including employee delegates. Non-Governmental Organisations (NGO) and clients along the year and at annual shareholders meetings.

1.4.7 Reporting

Dow Jones Sustainability World Index

For the third consecutive year, SBM Offshore has been selected to be part of the Dow Jones Sustainability Index (DJSI), setting a high sustainability benchmark for investor portfolios. The inclusion in the DJSI World index recognises SBM Offshore's commitment to corporate sustainability leadership in the Oil Equipment and Services sector, which counts only seven companies to have been chosen as a DJSI index participant, out of a universe of 47 companies worldwide. Integration in DJSI demonstrates the Company's commitment to conduct business in a sustainable and responsible manner.

Carbon Disclosure Project

SBM Offshore has participated in the Carbon Disclosure Project (CDP) for the Netherlands since 2009. The Group has also answered to CDP as supplier for the first time in 2012. The Carbon Disclosure Leadership Index assesses the quality and depth of a company's response to the annual CDP questionnaire for its internal management of data related to GreenHouse Gases (GHG) emissions and its understanding of the business-related issues that climate change presents.

Transparantie Benchmark

The ”Transparantie Benchmark” is an initiative launched in 2004 by the Dutch Ministry of Economic Affairs, to improve transparency of corporate social responsibility reporting by Dutch companies.

The Company has been involved since the initiative was launched, as one of The Netherland's largest 500 organisations.

In 2012, SBM Offshore achieved a score of 132 out of a possible 200. SBM Offshore is currently ranked 88th out of the 500 participating organisations.

1.5 Corporate Strategy

1.5.1 Introduction

The International Energy Agency (IEA) and other expert sources expect oil to remain the leading fuel in 2035 with a 27% share (down from 33% today). In the overall energy mix, alongside renewables and biofuels, gas is expected to be the only fossil fuel source to increase its share.

Current global oil and gas production is approximately 87 mb/d. With existing reserves depleting at approximately 6-8% per annum, and a global demand continuing to grow steadily (3-4% p.a.) in non-OECD countries, the industry faces the challenge of providing between 66 mb/d and 85 mb/d of additional oil by the end of 2035.

SBM Offshore is highly dependent on Exploration & Production (E&P) spending. This spending is driven by the oil companies need to replace reserves and develop proven fields in order to realise value. Oil price has an impact on the companies' ability and desire to invest. Low oil prices typically lead to a reduction in exploration whilst a high oil price makes the exploration of additional and smaller fields economical. The global financial crisis of 2008, combined with the steep increase in upstream costs, in the mid-2000s, has led to a decrease in E&P spending and pushed oil companies into delaying investment decisions. These events had a major impact on the oil field services industry. The stabilisation of oil prices, upstream costs, and financial markets have helped to reverse this trend over the last few years with the services industry now characterised by strong growth.

With the increase in discovery and development of offshore oil and gas resources, SBM Offshore operates in the highly demanded and growing segment of Floating Production Units (FPU). In particular, SBM Offshore has developed its core expertise in the industry's preferred solution for deep-water production; the FPSO.

The market for FPSO systems developed as a response to the oil companies' need for more flexible production solutions: production facilities that could be mobilised quickly, were autonomous in terms of oil export, could be deployed on deep-water fields, could be moved from one field to another (after upgrade works), and had low abandonment costs. Today, the FPSO is the dominant floating production solution with approximately 64% of the global fleet of FPUs, a market share that has increased in the past decade representing up to 80% of FPUs built post-2010.

1.5.2 Corporate Strategy

The Group's updated strategic plan, adopted as of 31 December 2012, covers the years 2013 up to and including 2015 (the '3 Year Plan'). The 3 Year Plan draws on extensive analysis of markets, customers and technological developments, as well as in-depth internal analysis across the Group's main functions. The Management Board and the Supervisory Board review the 3 Year Plan annually in light of significant market developments and any other internal/external events that may affect the Group and require a revision of the 3 Year Plan.

The Group's goal and driving ambition is to be the trusted partner of choice in the development of complete offshore floating solutions for the world's energy companies. It is on this basis that the Group intends to maximise shareholder value. The 3 Year Plan consists of the following elements:

1.5.3 *Continued Focus on Core Products with Good Margins*

The Group will continue to focus on supplying complex medium-to-large floating production solutions for the full product life-cycle; from engineering and procurement, through construction, installation and operation to product life extension (including relocation). SBM Offshore targets the high-end of the converted FPSOs sector with facilities requiring large processing capacities (typically above 80,000 bopd) and/or projects with especially demanding challenges (harsh environment, heavy oil etc.). The Group will continue to strengthen its position as the global leader in floating production, mooring systems and production operations.

The full focus of the Group is on the FPSO business, related products and associated Mooring Systems.

The Group has re-focused its organisation to meet the growing demand for larger and more complex floating production facilities that it believes offers the potential to yield high margins. The Group seeks to identify industry-defining technologies and devote the necessary financial and human resources, through selected Product and Technology Development to maintain its technological edge over competitors.

1.5.4 *Strive for a Balanced Portfolio*

The Group engages both in the lease & operation and the turnkey sale of its products. Leasing provides long-term visibility of cash flows and earnings; however, it is capital intensive and requires tight management of complex financial, operational and contractual risks. Turnkey sales contracts generate revenues and profits as the project (i.e. during the construction phase) progresses, minimising capital requirement from the Group. Balancing both types of projects allows the Group to continually improve its track record, while managing its balance sheet exposure. In view of the increased size of projects, long-term partnerships have become particularly important due to the increased capital requirements.

An important advantage of the Group's business model revolves around the full life-cycle aspect of the business. By leasing and operating its assets, the Group can feed back its operational knowledge to its project teams which allows for continuous improvement and innovation. This loop results in further business opportunities such as relocations, vessel refurbishments and other brown-field projects, but it also contributes to an in-depth understanding of the effects of age on components; this results in better life-cycle costing and asset integrity management, based on concrete experience.

The fact that the Group offers both lease and turnkey sale possibilities to its clients is seen as an important benefit in the market place. For large floating production systems, it is essentially the Client's choice to opt for lease or sale, which at times is decided relatively late in the contracting process. However, the financial capacity of the Group combined with its assessment of the overall risk profile of each project defines whether the Group will pursue a prospect and influence the Group's appetite to expose its balance sheet.

The Group aims to grow primarily by expanding organically its lease fleet of FPSOs and it will exceptionally consider acquisitions as opportunities arise meeting our criteria. The Group aims to maintain its leadership in Brazil and Angola and aims to secure new, suitable projects in geographical areas such as the Far East, Australia, North Sea, Mexico, and West Africa to diversify its geographic spread, but keeping in mind its high-end positioning.

1.5.5 Focus on the Bottom Line

The Group is dedicated to provide its stakeholders with an organisational structure that enables and incentivises on-time delivery of projects, within budget.

FPSOs developed by SBM Offshore, and its competitors are not commodity items, as each FPSO must be tailored to the specific requirements of each oil and gas reservoir. Main trends observed during previous years are the increasing complexity of FPSOs, the scale of investment, the doubling and sometimes even tripling of the average FPSO contract life, the use of FPSOs as full life-of-field development systems.

To address this increasing complexity, SBM Offshore has significantly increased staff numbers from 2,500 at the end of 2004 to more than 7,000 in 2012. The Group transformed its organisational structure to maximise its capacity to execute large and complex FPSO projects for clients. This resulted in a consistent organisational structure with the delegation of a broad range of responsibilities for delivery and performance, to the execution level and amendments to the Group's performance and evaluation system. It furthermore results in the streamlining of internal (cross-border) processes, systems and objectives for similar types of projects.

The new organisation allows the Group to focus on its core business and provides the recently strengthened Management Team with the adequate tools to monitor profitability via transparent accountability throughout the organisation. It also encourages best practice sharing / implementation and capitalises on the advantages of a single brand strategy.

1.5.6 Better Risk / Reward Balance

The Group intends to grow selectively and intends to lead the industry sector towards improving the risk and reward balance. Returns over previous years in the FPSO sector are unsustainable and show an imbalance in the risk and reward profile.

The technology required on board recent complex FPSOs is increasingly demanding. FPSOs can re-locate to other fields much faster (after upgrade works) than other production systems; however, the product is not a commodity. As each oil and gas field has very different characteristics, FPSOs are developed as fit-for-purpose solutions, which make them field specific in design, and therefore difficult to relocate without modification. SBM Offshore believes it has a privileged position to demonstrate its qualitative differentiation and provide life-cycle solutions to its clients. SBM Offshore’s products are bespoke solutions with long term commitments from clients to guarantee their oil (cash) flow.

SBM Offshore is the largest and most experienced player in an attractive niche market with high barriers to entry and few players allowing the Group to be selective in its bidding policy.

The Group continues to review the level of risk that is appropriate to be taken in pursuit of strategic objectives and hence what level of exposure across various categories of risks it is appropriate be taken by the E&P players and what by the subcontractors of floating production systems. Especially post Macondo events, excellent HSSE performance remains a priority in the Group’s strategy.

The Group intends to achieve a better risk/reward balance by being increasingly selective in the current market, engaging in more active dialogue with clients on sharing risks with them and only tendering for FPSO projects that meet its stringent risk-return profile. Ultimately the Group’s risk appetite and risk management will be inextricably linked with strategy and the day-to-day business.

1.5.7 Partnerships

The increasing size and complexity of FPSOs has led the Group to form new partnerships to help finance the continuing growth of its lease fleet, and to develop the local content component of FPSO projects. The Group also aims to diversify its capital sources through partnerships. Key commercial partners include Sonangol, MISC, QGOG and GEPetrol; key financial partners include Mitsubishi Corporation, NYK and Itochu; key technical partners include DSME and Synergy. Key technology partners include Linde, Ivanhoe Energy and CompactGTL. Long-term equity alliances are becoming particularly important as the scale and capital requirements of future projects increases.

The Group will continue to enter into partnerships in order to improve its chances of securing new business and to add value to its performance in the long run.

1.5.8 Strengthen the Balance Sheet

Divestment of Non-core Activities

In line with the Group's focused strategy on FPSOs, the Group has conducted a comprehensive review of its asset portfolio to identify non-core assets it can offer for sale. It is the intention of the Management Board to collect approximately US$ 400 million from disposal of non-core assets. The first steps in this divestment plan were taken by the Group in November 2012 with the sale of GustoMSC, to Parcom Capital. GustoMSC specialises in the design and engineering of all types of mobile offshore units, such as jack-up units, semi-submersibles and mono-hull vessels and provides proprietary designs under license, engineering support and the supply of hardware for the offshore industry, but its products and services are not related to the FPSO market.

The Group also sold its installation vessel the Dynamic Installer in 2012 and intends to enter into a sale and lease back transaction to dispose of its Monaco real estate assets in 2013.

Decrease Dependency on Bank Financing

Considering the global debt crisis, it is increasingly difficult to secure long term debt through the Project Financing Market; therefore, the Group is diversifying its sources of funding and will continue to do so in the coming years. A number of banks have already withdrawn from the Structured Asset Financing sector.

As a result of the global financial crisis and weakening of some banks, the Group has started to implement various financing diversification options, both corporate and project based, in addition to partnering with new financial partners for larger projects.

In 2012, SBM Offshore secured a US$ 1.08 billion project loan for FPSO Cidade de Ilhabela and US$ 500 million via US Private Placement of project bonds. The unrivalled reputation and track record of SBM Offshore in providing full product life-cycle, from engineering and procurement, to construction, installation, operation and FPSO life extensions, is invaluable and a strong basis on which to continue to diversify its sources of finance.

In the coming few years the Group intends to boost its equity position thanks to the disposal program for non-core assets and through the expected profit contributions to equity, in order to obtain in the medium term an investment grade credit rating, which will also enable the Group to gain access to the public bond markets.

1.5.9 Corporate Sustainability

Objectives

The Group is committed to conducting business in a sustainable way over the long-term by developing close relationships with local people, communities and businesses in host countries, and by safeguarding the natural environment.

The Group also aims to utilise the best available technologies to reduce Greenhouse Gas emissions, whilst developing renewable energy solutions for the offshore and marine industry.

The Group's strategy is to focus on operational areas where it can make a sustainable impact on the supply chain.

With this in mind, the Group has included the following sustainability related objectives in the Strategic Plan:

- Minimise the Group's carbon footprint.
- Maintain the highest standards for Health, Safety, Security, and Human Resources.
- Serve communities through local content.
- Develop and promote environmentally friendly technology.

The Group has identified additional areas in which it can have an impact on sustainable business development and set appropriate objectives. These objectives will provide a clear focus for future sustainability initiatives and sustainability reporting, these objectives are as follows:

Host Country Sustainability

As a matter of policy, the Group has always recruited its employees locally in all areas of its operations and is committed to further investment in infrastructure and local training.

In recent years, Governments in host countries have demanded higher levels of local content during the construction of SBM Offshore products. The Group aims to meet these demands by subcontracting work at a local level or investing in the development of local fabrication facilities, as it has done in Angola and Brazil.

Supply Chain

The Group strives, in-line with its Code of Conduct, to support fair competition, develop stable long-term supplier relationships, and work with suppliers to improve social and environmental performance.

Develop and Promote Sustainable Technology

Clients using the Group's services, generally specify their own requirements for all aspects of oil and gas field development, including production facilities. Wherever possible, the Company incorporates emissions friendly equipment and processes at the design stage in a cost efficient way.

Reporting Transparency

The Group publishes an annual sustainability report which is incorporated into the Annual Report.

The report contains data and Key Performance Indicators (KPI) calculated using its existing reporting systems. The information is compiled and consolidated using an automated web-based reporting system. The report also considers the implications of results reported and provides updates on active sustainability initiatives throughout the Group.

The Group reports at Global Reporting Initiative (GRI) Level C in accordance with GRI guidelines.

External Assurance

An external auditor verifies some of the Group's sustainability data providing external limited assurance including:

- Atmospheric Emissions.
- Lost Time Injury Frequency Rate.
- Energy Consumption.
- Waste Generation.

The Third party verification report will be available in May 2013 in the Sustainability part of the Group's website.

Strategic Analysis

To benchmark its practices, the Group is subject to an annual Dow Jones Sustainability Index (DJSI) assessment. DJSI World Universe identifies 47 potential candidates in the oil and equipment services but includes only seven; SBM Offshore is one of these seven, the other six organisations are not considered direct competitors of SBM Offshore.

Disclosure

The Group is committed to providing transparent disclosure of the impact of its activities on the environment and its adherence to sustainable business development.

SBM Offshore participates in the following initiatives:

- Dow Jones Sustainability Index.
- Carbon Disclosure Project.
- Transparantie Benchmark (Initiative of the Dutch Ministry of Economic Affairs).

The Group also strives to improve dialogue about sustainability with its Stakeholders. More information about this process can be found in the Stakeholders Information Part.

1.6 Corporate Management Systems & Compliance Table

The Group Management System (GMS) is based on the following internationally recognised standards and regulations:

- ISO 9001: 2008 Quality Management System.
- ISO 14001: 2004 Environmental Management Systems.
- OHSAS 18001: 2007 Occupational Health and Management Systems.
- SBM Offshore Social Accountability Manual (compatible with SA8000 Social Accountability).
- MARPOL Regulations: 2002.
- ISM/ISPS Codes (International Safety Management / International Ship and Port Facility Security).

1.6.1 Quality Management

The GMS defines the corporate management systems and procedures. It is consistently applied in all Execution Centres. All Execution Centres were audited in 2009 by the American Bureau of Shipping (ABS), and all were ISO 9001 compliant.

Looking forward, SBM Offshore aims to ensure that SBM PC Execution Centre, which manages all fleet operations, also becomes ISO 9001 compliant in 2014.

1.6.2 Environment

The Group implements ISO 14001 and seeks accreditation voluntarily. Implementation started in Brazil in 2009 and continued throughout 2010 and 2011. Implementation was completed, in 2012, for the rest of the Group's operations with the exception of FPSO Cidade de Anchieta which came on-stream in September 2012 and should be certified during 2013.

1.6.3 Health, Safety and Security

The Group's Fleet Management System complies with the International Safety Management (ISM) standard and the International Ship and Port Facility Security (ISPS) Code, which is a mandatory requirement.

The Group voluntarily aims to ensure that its operations also comply with the Occupational Health and Safety Standard (OHSAS) 18001, which requires all shore bases and operating units to verify occupational health and safety practices.

In Brazil, during 2009, accreditation was obtained for onshore operations offices, followed in 2010 by accreditation for all FPSOs operating in Brazilian waters.

This standard was progressively implemented onshore and offshore Angola and the rest of the world, with accreditation completed in 2012 (except for FPSOs Cidade de Anchieta and Sanha).

1.6.4 Employment Standards

SBM Offshore endeavours to match the highest level of employment standards for all its employees' in-line with the Group's Code of Conduct and Social Accountability Manual. These standards meet and most often, exceed International Human Rights and International Labour Guidelines.

SBM Offshore does not tolerate child or forced labour, and does not support or work with companies that sustain forced or compulsory labour, in compliance with the UN Universal Declaration of Human Rights, the ILO Conventions, the OECD Guidelines for multinational enterprises and its own Code of Conduct.

1.6.5 Social Accountability

The Group is presently taking steps to ensure all global operations offices comply with the Group's Social Accountability Manual Standard, which is based on SA8000 standards. The standard was implemented in Brazil in 2009, Equatorial Guinea and Malaysia in 2011, and Angola in 2012.

When the Group implemented SA8000 during 2006, Social Accountability International (SAI) informed the SA8000 Advisory Board that verification of the standard would not be allowed in Myanmar, until the International Labour Organisation (ILO) lifted its sanctions. Consequently, a decision was taken to continue the implementation using an in-house Social Accountability Manual, based on the SA8000 framework, which also requires regular, transparent auditing of SBM Offshore's suppliers and subcontractors in Myanmar.

Following an independent audit by Bureau Veritas, the Social Accountability Certificate for Myanmar was issued in February 2010.

Status updates for the implementation and certification of management systems are shown in the Management System Compliance table below:

Management System Compliance Table

Execution Centres	ISO 9001			
Marly	yes			
Monaco	yes			
Schiedam	yes			
Houston	yes			
Kuala Lumpur	yes			

Shorebases	ISM	ISO 14001	OHSAS 18001	Social Accountability
Angola	yes	yes	yes	yes
Brazil	yes	yes	yes	yes
Equatorial Guinea	yes	yes	yes	yes
Malaysia	yes	yes	yes	yes
Myanmar	yes	yes	yes	yes

Offshore Production Fleet

Angola	ISM	ISPS	ISO 14001	OHSAS 18001
FPSO Kuito	yes	yes	yes	yes
FPSO Sanha	yes	yes	no	no
FPSO Mondo	yes	yes	yes	yes
FPSO Saxi Batuque	yes	yes	yes	yes
Brazil	**ISM**	**ISPS**	**ISO 14001**	**OHSAS 18001**
FPSO Cidade de Anchieta	yes	yes	2013	2013
FPSO Brasil	yes	yes	yes	yes
FPSO Marlim Sul	yes	yes	yes	yes
FPSO Capixaba	yes	yes	yes	yes
FPSO Espirto Santo	yes	yes	yes	yes
Myanmar	**ISM**	**ISPS**	**ISO 14001**	**OHSAS 18001**
FSO Yetagun	yes	yes	yes	yes
Equatorial Guinea	**ISM**	**ISPS**	**ISO 14001**	**OHSAS 18001**
FPSO Aseng	yes	yes	yes	Yes

2 Report of the Supervisory Board

2.1 Supervisory Board Report

Message from the Chairman of the Supervisory Board

Dear Shareholders,

As Chairman of the Supervisory Board of SBM Offshore N.V., I am pleased to present you this report of the Supervisory Board on the year 2012.

The year under review was unfortunately characterised by the deterioration of a number of unresolved issues - the “legacy issues” - resulting in a net loss for the year, and by the discovery of potentially improper sales practices.

Yme and Deep Panuke Projects

In a press release of 2 March 2012, it was announced that on both projects, the Company had incurred additional costs due to the re-assessment of work on-site, leading to modifications to be completed both inshore and offshore. During the winter period, progress was significantly slower than anticipated and the Company resolved to take an additional impairment charge of US$ 407 million on top of the recognition of provisions and impairment charges totalling US$ 450 million already taken in the first half of 2011.

In a press release of 13 July 2012, the Company announced that its client Talisman, as operator of the field, had ordered the immediate demobilisation of the Yme platform for safety reasons, following the discovery of cracks in the grouting around the legs of the platform. SBM Offshore repeatedly confirmed the safety of the MOPUstor-type platform. Since that date the platform has remained unattended. The Board of Management led intensive discussions with the client in order to arrive at a joint decision on the way forward. A plan for the repair of the grouting was presented to the Norwegian regulator in October, 2012.

Finally, in a press release of 20 December 2012, the Company announced that on Yme, despite committed effort on both sides, no agreement had yet been reached on the completion of the project. In SBM's view, the balance of expectations was that the platform would be decommissioned. In turn, this led to the decision to reduce the book value of the asset to nil through a US$ 400 million impairment and to take a provision of US$ 200 million as contribution to the cost of a potential decommissioning under Talisman’s responsibility. Furthermore, an additional charge of US$ 29 million was taken with regard to the Deep Panuke MOPU type platform, completion of which was expected to be delayed to the first half of 2013.

Throughout the year under review, the Supervisory Board, directly and through its Audit Committee and Technical and Commercial Committee intensified its supervision with additional meetings, several telephone conferences and further informal contacts, asked and received additional, in some instances weekly reports on progress, challenged the proposals made by the Board of Management and provided advice on all aspects of these legacy issues and the actions which the Management Board had to take.

Potentially Improper Sales Practices

In 2011, SBM Offshore’s Management Board launched a review of the Company’s compliance procedures, including its anti-corruption guidelines, and their implementation. As part of this review, the Company became aware of certain sales practices involving third parties which may have been improper. An investigation was initiated with the assistance of specialist law firms and forensic accountants. The conclusions of this investigation are expected to become available in the course of 2013.

The addition of the position of Chief Governance and Compliance Officer (CGCO) to the Management Board reflected the determination of SBM Offshore's new Chief Executive Officer (CEO), Mr. Bruno Chabas, and of the Supervisory Board to establish a robust compliance culture throughout the Company. The Supervisory Board retained its own outside counsel to receive independent advice and guidance on the adequacy of its supervision in this sensitive matter.

Organisation

Following the former CEO stepping down, the Appointment & Remuneration Committee proposed to appoint as per 1 January 2012 Mr. Bruno Chabas - who had recently joined the Company as a non-statutory director and Chief Operating Officer (COO) - as CEO and statutory director of the Company. This proposal was approved at an Extraordinary General Meeting of shareholders held on 14 December 2011. Under the leadership of the new CEO, a change programme was initiated aimed at focusing the Company on its FPSO core business, and delegating responsibility and the related accountability to the Company's Execution Centres. The entire company organisation was re-designed leading to the replacement of 53 out of the top 120 senior managers and staff by a number of internal candidates and new hires.

Following the discovery of the potentially improper sales practices the new position of Chief Governance and Compliance Officer (CGCO) was created and Mr. Sietze Hepkema, a highly experienced lawyer was appointed. Following the announcement that the former Chief Financial Officer (CFO) would not stand for re-appointment as a member of the Management Board for a second term of office and would leave the Company, a search for a new CFO was initiated and Mr. Peter van Rossum, an experienced CFO of a major AEX and CAC40 company accepted the position. At an Extraordinary General Meeting of shareholders held on 27 June 2012, the proposed appointments were approved. At this Extraordinary General Meeting, shareholders also approved a proposal to amend the Remuneration Policy by introducing more flexibility for the Supervisory Board as regards Short Term Incentives and Long Term Incentives.

This means that the entire Management Board consists of three statutory directors who are new in their position and started working as a team only as from July 2012. The Company and the Supervisory Board feel confident that under the leadership of this top team the Company is well equipped to manage and address the legacy issues and close the issue of possibly improper sales practices.

Strengthening the Company's Balance Sheet

As part of the strategy to refocus the Company's business on FPSO's, the Management Board decided, with the approval of the Supervisory Board, to divest certain non-core businesses and assets. The Company's GustoMSC business was successfully divested on 28 November 2012 and one of the Company's installation vessels, the Dynamic Installer, was sold. A sale and lease back programme for the Company's Monaco offices is ongoing.

On 20 December 2012 the Company achieved a successful private placement of 9.95% of newly issued shares to HAL Investments B.V. who has conditionally underwritten a further issue of 10% of new shares in 2013.

The Supervisory Board counselled and advised the Management Board on these important projects. The Supervisory Board is especially pleased to welcome HAL Investments B.V. as a major shareholder with a long term view, who is aligned with the strategy of the Company.

FPSO Business

Notwithstanding the many issues facing the Group and the strain thus put on the Management Board, the Supervisory Board is pleased to highlight that the Company was successful in winning a number of important contracts. Through its Technical and Commercial Committee, that monitors these projects, the Supervisory Board receives regular progress reports.

Speaking also on behalf of my colleagues in the Supervisory Board, I am confident that as a consequence of the actions taken by the Management Board, under the Supervisory Board's close supervision, the Company is well positioned to resume posting attractive shareholder returns in the future.

Sincerely yours,

H.C. Rothermund

Chairman of the Supervisory Board

2.1.1 *Introduction*

The Supervisory Board of SBM Offshore N.V., hereby presents the Annual Report 2012 incorporating the Financial Statements to be discussed and adopted in the Annual General Meeting of Shareholders on 2 April 2013. The Financial Statements have been audited by the external auditors, KPMG Accountants N.V.. Their findings have been discussed with the Audit Committee and the Supervisory Board in the presence of the Board of Management. The auditors have expressed an unqualified opinion on the Financial Statements.

The Supervisory Directors have signed the 2012 financial statements pursuant to their statutory obligations under article 2:101 (2) of the Dutch Civil Code.

The members of the Management Board have signed the 2012 financial statements pursuant to their statutory obligations under article 2: 101(2) of the Dutch Civil Code and article 5:25c (2) (c) of the Financial Market Supervision Act.

2.1.2 *Composition of the Supervisory Board*

Upon recommendation of the Selection and Appointment Committee, the Supervisory Board proposed to appoint Mr. F.G.H. Deckers and Mr. T.M.E. Ehret as member of the Supervisory Board for a second four year term of office. At the AGM held on 16 May 2012, shareholders approved the proposed re-appointment.

The Supervisory Board is chaired by Mr. H.C. Rothermund, Mr. R. van Gelder is the vice-chairman and Mr. F.J.G.M. Cremers, Mr. F.G.H. Deckers, Mr. T.M.E. Ehret, Mr. F.R. Gugen and Mrs. K.A. Rethy are Supervisory Directors.

2.1.3 Composition of the Committees of the Supervisory Board

	Audit Committee Chairman	Audit Committee Member	Appointment & Remuneration Chairman	Appointment & Remuneration Committee Member	Technical & Commercial Committee Chairman	Technical & Commercial Committee Member
H.C. Rothermund		X	X	X		
			Appointment	Remuneration		
R. van Gelder						X
F.J.G.M. Cremers	X					
F.G.H. Deckers		X				
T.M.E. Ehret					X	
F.R. Gugen			X	X		
			Remuneration	Appointment		
K.A. Rethy						X

2.1.4 Meetings of the Supervisory Board

Meetings and Telephone Conferences

During the course of the year under review, the Supervisory Board held five meetings according to a pre-set meeting schedule. The Board of Management prepares detailed supporting documents and attends the formal meetings of the Supervisory Board. The regular meetings last about five hours. There was regular informal contact between the Chairman and the CEO, as well as regular contact between Supervisory Directors and the members of the Board of Management. Pre-set meetings are usually spread over two days, starting on the first day with the meetings of the Audit Committee, the Technical and Commercial Committee and the Appointment and Remuneration Committee (A&RC). The Company secretary is the secretary of the Supervisory Board and its sub-committees.

Each of the regular Supervisory Board meetings is preceded by a pre-meeting to which the CEO and other members of the Board of Management are invited. The pre-meeting is meant to enhance the effectiveness of the formal Supervisory Board meeting of the next day, taking into account the outcome of the sub-committee meetings which took place during the first day.

In addition to the pre-set meetings as described above, the Supervisory Board and the sub-committees held a significant number of additional meetings and telephone conferences. These meetings and telephone conferences focused on specific subjects, more particularly progress on the Yme and Deep Panuke MOPU projects, the possibly improper sales practices and the actions aimed at strengthening the Company's balance sheet which resulted in the disposal of certain non-core business assets and in the successful private placement of 9.95% new shares to HAL Investments B.V..

The detailed discussion of a number of recurrent items has been delegated to the relevant sub-committees. The chairmen of the sub-committees report at the Supervisory Board meeting on the key points handled by each of the sub-committees and submit resolutions to be taken by the Supervisory Board.

Attendance

With the exception of Mr. R. van Gelder who was prevented to attend two Supervisory Board meetings and meetings of the Technical & Commercial Committee for health reasons, and Mr F.G.H. Deckers for one of the Supervisory Board meetings, the Supervisory Directors attended all of the regular Supervisory Board meetings and the sub-committee meetings. Supervisory Board members who could not physically attend the additional meetings held on specific topics attended the meeting by phone and could follow the proceedings of the meeting and be heard by the other Supervisory Directors.

Location - Visits to Execution Centres

Meetings of the Supervisory Board and of the sub-committees are usually held at the statutory offices of the Company in Schiedam or elsewhere in The Netherlands. In November 2012 the Supervisory Board visited one of the projects under construction in Singapore and subsequently met at the Company's project Execution Centre in Kuala Lumpur, Malaysia. In December 2012 the meeting was held at the Monaco Execution Centre. At the Kuala Lumpur and Monaco project Execution Centres, project management and senior management were interviewed by each of the Supervisory Directors in one-on-one sessions and information about the progress of the major projects and the state of affairs at the respective Centre was received.

In its role of supervising the policies of the Company and advising the Board of Management, the Supervisory Board challenges in a constructive way and with due regard to the interests of all stakeholders the actions and plans of the Management Board concerning the management of the Company's businesses. Communication at the meetings is frank and open.

2.1.5 Main Subjects Reviewed by the Supervisory Board

Standard Items

Standard items on the agenda are:

- The approval of the minutes of the previous meetings and the review and follow-up of actions arising.
- The management and financial report of the Board of Management.
- The operating plan 2013 and Strategic Plan 2013-2015.
- Reports of the Audit Committee, the Technical & Commercial Committee and the Appointment & Remuneration Committee.
- Approval of the Company's 2011 annual results and support for the 2012 half-year results and the Q1 and Q3 trading updates.
- Health Safety Security and Environment and Corporate Social Responsibility matters.
- Mergers & Acquisitions.
- Corporate Governance and Compliance.
- Corporate Social Responsibility (CSR) matters.
- Review of legal claims.

Major Projects, Tenders and Investments

Major projects, tenders and investments are discussed by the Supervisory Board on the basis of the reports of the chairmen of the Audit Committee and of the Technical & Commercial Committee where these projects have been discussed in detail.

MOPU Projects

As mentioned in the 2011 Annual Report, the Supervisory Board decided to intensify the review of events taking place with regard to two of the company's Mobile Offshore Production Unit (MOPU) lease projects, Yme (Norway) and Deep Panuke (Canada) which are under construction. In 2012, this scrutiny was further stepped up, both at the level of the Audit and Technical & Commercial committees and at the level of the Supervisory Board.

Based on the internal reviews and client meeting, an update on the status and forecast of the Yme project was presented by the Board of Management at a meeting held in the afternoon and evening of 23 January 2012. This update provided new insight on the Yme project and it was resolved to inform the financial market that the revised financial consequences were expected to lead to a significant additional adverse impact on the Company's 2011 results.

At the aforementioned meeting of 23 January 2012, the CFO Mr. M.A.S. Miles and the Supervisory Board jointly concluded that he would not be proposed for re-election as CFO and member of the Management Board at the AGM of 16 May 2012.

Whereas good progress was made in the first half to complete the Yme MOPUstor, a major event occurred on 12 July 2012 with the decision of the client to evacuate the platform for safety reasons. Since that date the platform has remained unattended on-site in the North Sea. Intensive discussions with the client took place on ways forward for the Yme platform. Despite every effort on both sides, no agreement was reached and on 20 December 2012 a press release was issued announcing, whilst the dialogue with the client continued, that in SBM's view, the balance of expectation was that the platform may be decommissioned. As a consequence, the book value of the asset was reduced to nil through a US$ 400 million impairment. As part of a settlement the Company expects to have to contribute to the cost of a potential decommissioning under Talisman's responsibility, and has made a provision of US$ 200 million.

In the same press release a progress update on the Deep Panuke project was given, with start-up expected in the first half of 2013. An additional impairment of US$ 29 million was taken.

Potentially Improper Sales Practices

In 2011, SBM Offshore's Management Board launched a review of the Company's compliance procedures, including its anti-corruption guidelines, and their implementation. As part of this review, the Company became aware of certain sales practices involving third parties which may have been improper. Outside counsel and forensic accountants, reporting to both the Management and Supervisory Boards, have been engaged to investigate these practices thoroughly and the internal investigation is ongoing. The Company has also taken the necessary steps designed to terminate any such practices and disclosed its internal investigation to the appropriate authorities.

As an immediate action, the Management Board and the Supervisory resolved to create a Chief Governance and Compliance Officer position at Management Board level. This decision reflected the determination of SBM Offshore's new CEO, Mr. Bruno Chabas, and of the Supervisory Board to establish a robust compliance culture throughout the Company. The Supervisory Board was pleased that Mr. Sietze Hepkema, a highly experienced Dutch lawyer, accepted the position and his appointment received shareholder approval at an Extraordinary General Meeting of shareholders held on 27 June 2012.

Organisation

The new organisation which was designed by the Board of Management at the end of 2011 was rolled out. The four projects Execution Centres Schiedam, Monaco, Houston and Kuala Lumpur and the SBM Offshore Fleet Operations Execution Centre have now clear responsibilities in the offering and project execution phase, and for the operation and maintenance of the fleet. SBM Offshore Services has been integrated in the SBM Offshore Monaco Execution Centre in the course of 2012. Out of the top 120 senior managers, about 53 were replaced through internal promotions or new hires. A new logo and visuals were developed and launched. The Supervisory Board followed up closely the roll out of the change programme.

Operating Plan 2013 and Strategic Plan 2013-2015

An important part of the December 2012 meeting was dedicated to the Company's Operating Plan 2013 and the 2013-2015 Strategic Plan developed by the Management Board which included input provided by senior management at a two day strategy seminar. The plan focuses on the strategy of the Company for achieving long-term growth and enhancing shareholder value, focusing on FPSO's and large turrets, the diversification of the geographical spread, the level of risk appetite, contracting structures and finance strategy.

Financing of the Company and the December Private Placement

The Audit Committee and the Supervisory Board received regular reports from the Board of Management on the status of the Company's finances, compliance with financial covenants and its access to funding.

A special committee was set up consisting of Mr. F.J.G.M. Cremers as chairman, Mr. F.G.H. Deckers and Mr. R. van Gelder to act as focal point for the Management Board on the project to strengthen the Company's balance sheet through a private placement and to liaise with the other members of the Supervisory Board. The special committee reported to the Supervisory Board on progress. Having reached the point where the project became sufficiently concrete for the Supervisory Board to discuss the project in a meaningful and efficient way, the special committee was disbanded and on 19 December 2012 the Supervisory Board after careful debate and with the assistance of specialised advisers gave its support to the proposal of the Management Board for a private placement to HAL Investments B.V. and approved the issue of 9.95% new shares.

Sustainability (CSR)

Sustainability is part of the Technical and Commercial Committee's remit.

The Technical and Commercial Committee received reports on Health, Safety, Security and Environment matters at each of its meetings and reviewed the Company's Sustainability Report as part of the 2011 Annual Report. Key issues and actions arising were reported to the Supervisory Board.

2.1.6 Personal Details and Independence of the Supervisory Directors

The personal details, gender, term of (re)appointment and other board positions of each Supervisory Director are described in the Information section of this report.

The Supervisory Board confirms that all members who served during the year are independent as defined under BP IIII.2.2 of the Corporate Governance Code.

2.1.7 Meetings of the Supervisory Board Committees

Audit Committee

The Audit Committee convened for five regular meetings in 2012 and held one additional meeting which focused on the financing of the Company. The regular Audit Committee meetings are held the day prior to the Supervisory Board meeting, where the Audit Committee Chairman reports on the principal issues discussed, on actions arising and the follow-up on such actions and makes recommendations on those matters requiring a decision by the Supervisory Board. Meetings last three to four hours. The CEO, CFO, CGCO and COO, the Group internal audit manager, the Group Controller and the external auditor attend the meetings. There were regular private meetings of the Audit Committee with the external auditor without management being present.

The main items discussed during the year under review were:

- Annual and half-year Financial Statements and financial data to be included in press releases.
- The dividend policy and the proposal not to pay out a dividend.
- Q1 and Q3 trading updates.
- Analysis of the financial results of ongoing projects.
- The Company's Internal Control Framework and its In Control statement.
- The working and staffing of the internal audit department.
- The Management Letter, the external audit reports and the follow-up of the recommendations of the external auditor.
- The relations with the external auditor, including, in particular, the independence, remuneration and non-audit related services provided to the Company. An analysis of the KPMG fees is disclosed in note 31 to the Financial Statements.
- The performance of the external auditor and the proposal to extend its appointment with one further year.
- The capital structure, debt diversification and financing of the Company.
- The US$ 500 million US Private Placement for the part-financing of the FPSO Cidade de Anchieta.
- Risk management, legal claims and compliance.
- Treasury reports, the working of the treasury department and compliance with bank covenants.
- Information Systems and Information and Communication Technology (ICT).
- Compliance with the Code of Conduct and the launch of the SBM Offshore Integrity Line, a third party operated facility.
- Policies on the reporting of fraud and other irregularities.
- The 2013 operating plan (budget).
- Review of tax planning and fiscal positions.

The Audit Committee paid specific attention to risk management. At each meeting a Risk Management report is presented and discussed and the Audit Committee closely liaises with the Technical and Commercial Committee where the technical and project execution risks are discussed in depth.

The performance of the external auditor KPMG Accountants N.V. was reviewed and the implications of the new Audit Profession Act were discussed. Overall the standard of the audit team, the audit process and fees, and the interaction with the Company's personnel were all found satisfactory given the size, complexity and risk profile of the Company.

In anticipation of the coming into force of the new Dutch Audit Profession Act (WAB) the Management Board intends to start a selection process in the course of 2013 with the aim to submit a proposal for appointment of a new external audit firm at the AGM of 2014.

Appointment and Remuneration Committee

The Appointment and Remuneration Committee met five times in 2012. The meetings of the Appointment and Remuneration Committee are held prior to the Supervisory Board meetings where the respective chairmen report on the selection and appointment matters and on the remuneration matters reviewed by the Committee, on actions arising and the follow-up of such actions and make recommendations on those matters requiring a decision of the Supervisory Board. The meetings are attended by the CEO, the CFO, the CGCO and the Group HR Director. Meetings last about three hours. In addition, there is regular contact between the members of the Committee and the Management Board.

The main subjects discussed by the Appointment and Remuneration Committee were the following matters:

Remuneration

- Assessment of the Remuneration Policy for 2011 (RP 2011), study of and proposal to amend the RP 2011. The proposed amendment received shareholders' approval at the Extraordinary General Meeting of shareholders of 27 June 2012.
- Determination of Short Term and Long Term Incentive amounts by reference to the performance targets agreed with the Board of Management for the year 2011 in accordance with the RP 2011, and the determination of the Short Term Incentive performance targets related to the year 2012 and of Long Term Incentive performance targets related to the vesting period 2012 to 2015 in accordance with the new Remuneration Policy.
- Share based incentives for senior management.
- Benchmarking of the remuneration of the Supervisory Board and the sub-committees.
- Remuneration package for all three new members of the Management Board.
- Negotiation and agreement with the previous CFO in view of the decision not to propose his re-election for a new term of office. The particulars of this agreement are explained in the Remuneration Report of this Annual Report.

Selection and Appointments

- End of term resignation of Mr. F.G.H. Deckers and Mr. T.M.E. Ehret and their re-appointment as a member of the Supervisory Board.
- Selection and proposal to appoint Mr. Sietze Hepkema, Chief Governance and Compliance Officer (CGCO) and Mr. Peter van Rossum, Chief Financial Officer (CFO) as statutory directors of the Company, effective 1 July 2012. This proposal received the approval of shareholders at the Extraordinary General Meeting of Shareholders held on 27 June 2012.
- Succession planning of the Supervisory Board, the Board of Management and senior management positions.
- Review of the new organisational structure of the Company.

Technical and Commercial Committee

The Committee met formally five times and in addition, held telephone conferences. The meetings of the Technical and Commercial Committee last three to four hours and are held prior to the meetings of the Supervisory Board at which the chairman reports on the principal issues discussed, on actions arising and the follow-up of such actions and makes recommendations on those matters requiring a decision by the Supervisory Board. The meetings are attended by the CEO, the COO, the CGCO and the Chief Technology Officer (CTO) and other executives or managers give presentations on specific issues.

The main subjects discussed by the Technical and Commercial Committee were the following:

- Reviewing the risk management report, focusing on technical risks.
- Reviewing the major projects and receiving formal presentations on the Yme, Deep Panuke, FPSO Cidade de Paraty and FPSO Cidade de Ilhabela projects from the respective project management teams.
- Weekly progress reports to the Board of Management and/or the Technical & Commercial Committee.
- Reviewing the Company's Quality Assurance programmes
- Fleet performance and integrity review and action plan.
- Reviewing the bids status and sales prospects.
- The Research & Development Plan.
- Sustainability (CSR) matters which are relevant to the Company with a focus on Health, Safety, Security and Environment management. The Company's performance on Health and Safety improved compared to 2011. The Company maintained its leading position on the Environment front.

2.1.8 *Performance Evaluation*

The Supervisory Board resolved to entrust the performance evaluation of the Supervisory Board as a whole and its individual Directors in the year under review to a specialised external advisory firm. This advisory firm submitted detailed questionnaires to each of the Members of the Supervisory Board, of the Board of Management, the Company secretary and the external auditor. These questionnaires served as a basis for individual interviews. The performance evaluation report listed a number of recommendations. The report and the recommendations were first discussed amongst the Supervisory Directors privately, and the recommendations and conclusions of the report which were relevant to the Board of Management were shared with the Board of Management.

2.1.9 *In Conclusion*

The Supervisory Board regrets that again in 2012 the Company had to take substantial provisions on two legacy projects which led to a negative result for the year 2012, despite the very positive underlying results on the Company's major projects in its core FPSO business. The Supervisory Board is particularly disappointed about the discovery of potentially improper sales practices, but is confident that with the appointment of a Chief Governance and Compliance Officer and the actions taken since his appointment, a robust compliance structure has been designed and is being implemented. The Supervisory Board is pleased with the significant steps taken to strengthen the Company's balance sheet and welcomes HAL Investments as a cornerstone investor in the Company's share capital. The Supervisory Board encourages the Board of Management and all of the Company's staff to continue its dedicated efforts to help the Company further on the road to recovery.

Schiedam, 13 February 2013

Supervisory Board

H.C. Rothermund, Chairman
R. van Gelder, Vice-Chairman
F.J.G.M. Cremers
F.G.H. Deckers
T.M.E. Ehret
F.R. Gugen
K.A. Rethy

2.2 Remuneration Report

2.2.1 Message from the Chairman

Dear Shareholders,

As Chairman of the Appointment and Remuneration Committee (“A&RC”), dealing with remuneration matters, I am pleased to present you this Remuneration Report.

A new Remuneration Policy was adopted at the AGM of 2011 (RP 2011). Due to what we commonly refer to as “Legacy Projects” the Company embarked on a change program which is being rolled out throughout the organisation, with a re-focus on its core-business of producing and leasing FPSO’s. As has been set out in the report of the Supervisory Board elsewhere in this annual report, all the members of the Management Board are newly appointed and took up their positions in the course of 2012, with the last member not joining until Q3.

The challenges and opportunities facing the Company following establishment of plans to deal with the Legacy Projects and the enhancement of the compliance program, as described in the report of the Supervisory Board, have now been translated into key performance targets for the new management team. During the course of this year, it became clear that the new management team, who came onboard after the Legacy Projects’ issues arose, would have to take difficult decisions in the interest of the Company and to the detriment of their own variable remuneration. As the variable remuneration parameters of the RP 2011 were not designed and too rigid to deal with this situation, the A&RC resolved to investigate how best to increase its flexibility.

Various proposals designed to achieve the right level of flexibility were reviewed by the A&RC who retained its own remuneration consultant. As a result of this process a recommendation was made to the Supervisory Board who submitted a proposal to amend RP 2011 to an Extraordinary General Meeting of Shareholders (EGM) held on 27 June 2012 where the proposed amendments were adopted.

These amendments can be summarised as follows:

a STI: The split of the Short Term Incentive ("STI") opportunity was changed from 70% based on Company performance and 30% based on personal performance to allow for up to 2/3 of the STI opportunity to be based on personal objectives and at least 1/3 of the STI opportunity based on Company performance, and

b LTI: next to the performance conditions based on Total Shareholder Return (TSR) and Earnings per Share (EPS), the Supervisory Board was granted the discretionary power to award without exceeding the overall maximum of the Long Term Incentive (“LTI”) opportunity, to each individual director a special incentive (SI) based on the achievement of specific predefined goals.

Following the EGM, performance LTI shares were conditionally awarded to the members of the Management Board i.e. the CEO, the CFO and the CGCO as statutory directors. The number of LTI shares was calculated as provided for by the RP 2011 on the basis of the average closing price of the five trading days following the publication of the annual results 2011 which was EUR 15.696/share. The number of performance LTI shares conditionally awarded to the Management Board was the following:

LTI Shares awarded in 2012

B.Y.R. Chabas, CEO	52,562
P.M. van Rossum, CFO	31,843
S. Hepkema, CGCO	40,962

The share price of EUR 15.696, however, was not representative for the average share price over the year of EUR 11.84 and was significantly higher than the price of EUR 10.91/share at which shares were awarded on 2 July 2012 to senior management, thus resulting in unequal treatment between statutory directors and other senior executives.

Furthermore, two of the three statutory directors had not been recruited to the Company at the time the annual results for 2011 were published and the new Management Board did not come together until 2 July 2012. This means that a strict application of RP 2011 has the unintended consequence of making the new statutory directors accountable for performance before they were even recruited and similarly makes the Management Board accountable for performance dating from before it started as a team.

The Supervisory Board is also mindful of the outstanding performance of the Board of Management in better positioning the Company to deliver long-term value to shareholders, by having in 2012:

- a Taken control of the inherited Legacy Projects.
- b As regards the Yme project fully investigated the range of practical options available, engaged in a constructive manner with the client and made what is believed to be realistic provisions, albeit at very significant cost to the Company.
- c Strengthened the balance sheet by the introduction of a well-respected corner stone investor (HAL Investments), who supports the long term strategy of the Company.
- d As regards the base business, refocused on FPSOs and kept activity sound, particularly with new management controls being introduced.
- e Instituting a change program within the Company to implement a culture of transparency and engagement.
- f Obtained record levels of project financing despite the adverse circumstances.

The A&RC intends to take these circumstances into account, when assessing, early in 2015, the vesting conditions of the LTI shares conditionally awarded in 2012.

Hereafter in this Report, you will find further details on the significant developments regarding remuneration of the Management Board and on the arrangements made with the former CEO and CFO who were not proposed for re-election for another four year term of office at the AGM of 2012.

I hope that this Report will satisfy the expectations of you as shareholders in terms of transparency and clarity and I am looking forward answering any questions which may arise from this Report at the AGM of 2 April 2013.

Yours faithfully,

Francis R. Gugen

2.2.2 Section 1: About the Appointment and Remuneration Committee (A&RC)

At the AGM of 14 April 2010, shareholders were informed of the resolution of the Supervisory Board to merge the Selection and Appointment and the Remuneration Committees into a single Appointment and Remuneration Committee (A&RC). The A&RC consists of two members of the Supervisory Board, Mr. H.C. Rothermund and Mr. F.R. Gugen. Mr. F.R. Gugen chairs the A&RC when dealing with remuneration matters. Mr. H.C. Rothermund chairs the A&RC for agenda items dealing with Selection and Appointment matters.

Both Mr. Gugen and Mr. Rothermund are independent members of the Supervisory Board.

The main subjects discussed by the A&RC during the course of the year under review are set out in the A&RC section of the Supervisory Board report in this Annual Report.

In addition to its supervisory, monitoring and advisory role to the Supervisory Board in matters of selection and appointment, and in matters of remuneration of the Management Board, the A&RC also supervises, monitors and advises on the remuneration policies for senior managers of the Company particularly as it concerns share based remuneration.

2.2.3 Remuneration

Supervisory Board

The following fee level and structure was proposed to and approved by the EGM on 6 July 2010, effective 1 July 2010:

€	
Chairman Supervisory Board	90.000
Vice-chairman Supervisory Board	80.000
Member Supervisory Board	75.000
Chairman Audit Committee	10.000
Member Audit Committee	8.000
Chairman Appointment & Remuneration Committee dealing with Appointment Matters	9.000
Chairman Appointment & Remuneration Committee dealing with Remuneration Matters	9.000
Member Appointment & Remuneration Committee	8.000
Chairman Technical & Commercial Committee	10.000
Member Technical & Commercial Committee	8.000

The Supervisory Board and sub-committee fee levels are to be reviewed every second year. A review was due to be carried out in 2013 but the Supervisory Board has concluded that it would not be appropriate at this time, and in the light of the Company’s current performance, to increase the Supervisory Board remuneration for the year 2013. The actual amount of fees expressed in US dollars, paid to each member of the Supervisory Board is mentioned in note 4 to the consolidated financial statements of this Annual Report.

Board of Management

In 2010, the A&RC conducted a detailed review of the Remuneration Policy 2008 to ensure continued alignment with Company's strategic priorities, remuneration principles, external market developments and best practices. Based on the outcome of this evaluation, a new Remuneration Policy ('RP 2011') was designed. At the Annual General Meeting ('AGM') of Shareholders dated 5 May 2011 the RP 2011 was adopted. RP 2011 applies to the Board of Management which currently consists of the Management Board, being the CEO, the CFO and the CGCO as statutory directors, and of the COO and CTO as non-statutory directors. For a detailed description of the RP 2011, reference is made to the 2011 Annual Report, pages 35-41.

Summary Overview of Remuneration Components

Under RP 2011 the total remuneration consists of the following components:

Remuneration Component & Description	Objective
Base Salary	
Fixed cash compensation based on level of responsibility and performance.	• Attraction
	• Reward for performance of day-to-day activities
Short Term Incentive (STI)	
Variable annual remuneration component paid 80% in cash and 20% in Company shares (bonus shares), sale of which is restricted for a 3-year period.	• Reward previous year's Company and individual performance
At the end of the 3-year restriction period subject to continued employment, Company awards an additional unrestricted matching share for every bonus share held (1:1 match).	• Promote continued employment
	• Share ownership
Long Term Incentive (LTI)	
Variable remuneration component paid in Company shares.	Drive and reward long-term Company performance:
Vesting of shares is based on meeting 3-year Company performance objectives.	• Increase shareholder value.
Two year lock-up after vesting.	• Focus on long-term financial success.
	• Share ownership
	• Promote continued employment.
Pension	
Defined benefit plan.	• Provide competitive post-retirement benefits

Summary of the Amendment to the RP 2011

Bearing in mind the challenges the Company faces as regards Legacy Projects and the enhancement of the compliance program, the Supervisory Board, acting on the recommendation of the Appointment & Remuneration Committee (ARC) proposed amendments to the RP 2011 aimed at enabling greater flexibility. At an Extraordinary General Meeting of Shareholders (EGM) held on 27 June 2012, the proposed amendments to the RP 2011 received shareholders' approval.

Short Term Incentive (STI)

RP 2011 STI Performance Targets

- 70% of the STI opportunity is based on Company performance.
- 30% is based on individual performance objectives.

Amended RP 2011 STI Performance Targets

- Minimum 1/3rd of the STI opportunity is based on Company performance.
- Maximum 2/3rd of the STI opportunity is based on individual performance.
- An appropriate split between the percentage attributable to Company and individual performance shall be set by the Supervisory Board upon recommendation of the A&RC at the beginning of each financial year for each director based on his specific responsibilities, in particular the extent to which each will be responsible for Legacy Projects and compliance enhancement.

Threshold, target and maximum STI opportunities

Threshold, target and maximum STI opportunities expressed as a percentage of base salary remain as specified in the RP 2011 and are as follows:

Board of Management	Threshold STI	Target STI	Maximum STI
CEO	40%	100%	200%
Other Directors	40%	100%	150%

80% of the STI pay-out is paid in cash and 20% is mandatorily paid in Company shares. These STI shares are restricted for a period of three years. At the end of the restriction period and subject to continued employment, the Company awards an additional unrestricted matching share for every STI share held (1:1 match).

Long Term Incentive (LTI)

RP 2011 LTI Performance Targets

- 50% of the LTI award vests based on EPS Growth adjusted for exceptional items if so determined by the Supervisory Board, acting on the advice of the A&R Committee, and
- 50% of the LTI award vests based on TSR relative to the Peer Group. The Company uses the same Peer Group for benchmarking remuneration as well as comparing the TSR performance.

Amended RP 2011 LTI Performance Targets

- 50% of the LTI award vests based on EPS Growth adjusted for exceptional items if so determined by the Supervisory Board, acting on the advice of the A&R Committee, and
- 50% of the LTI award vests based on TSR relative to the Peer Group. The Company uses the same Peer Group for benchmarking remuneration as well as comparing the TSR performance.
- Special Incentive (SI): the Supervisory Board was given the power to award SI’s to individual directors based on the achievement of predefined goals set by the Supervisory Board. The newly introduced SI only allows for vesting of LTI shares up to but not exceeding the maximum LTI opportunity as set out in the table below.

Threshold, Target and Maximum LTI Opportunities

Threshold, target and maximum LTI opportunities expressed as a percentage of base salary remain as specified in the RP 2011 and are as follows:

Board of Management	Threshold LTI	Target LTI as % of base salary	Maximum LTI as % of base salary
CEO	50%	125%	250%
Other Statutory Directors	50%	125%	187.5%
Non Statutory Directors	50%	100%	150%

The target number of performance shares conditionally awarded is determined by dividing the LTI target opportunity outlined in the table above by the average closing price of the Company share over the five trading days following the date of publication of the final results for the previous financial year. It is this number of shares which will be multiplied by the percentage as decided by the Supervisory Board acting upon the recommendation of the A&RC, depending on the score achieved by each individual member of the Management Board at the end of the three year vesting period.

The Remuneration Components

Base Salary

Base salaries for the Management Board are determined by the Supervisory Board upon the recommendation of the A&RC after consideration of various factors as explained in detail in the Annual Report 2011. During the year under review, base salaries per annum for the Management Board were as set out below. The exact amount paid, which takes account of the fact that certain members were appointed during the course of the year, is mentioned in the note 4 to the Annual Accounts. These base salary amounts will be increased for 2013 in line with the market in general with 2.6%.

Base Salary

€	2012
B.Y.R. Chabas, CEO	660,000
P.M. van Rossum, CFO	480,000
S. Hepkema, CGCO	575,000

As none of the Management Board members was in office in 2011, no comparable figures for the year 2011 can be given.

Peer Group

For 2012, the Peer Group remained the same as in 2011 and consisted of the following 18 companies:

Peer Group		
Aker Solutions ASA	Fugro N.V.	Oil States International
Amec PLC	Helix Energy Solutions	Petrofac LTD
BW Offshore LTD	Jacobs Engineering Group	Subsea 7 Inc
Chicago Bridge & Iron Company	KBR	Technip
FMC Technologies	McDermott International	Wood Group PLC
Foster Wheeler AG	Oceaneering International	WorleyParsons

Each year, the A&RC evaluates the Peer Group based on market circumstances (mergers, acquisitions, de-listings, etc.) and recommends adjustments to the Supervisory Board for approval.

Short Term Incentive (STI)

The STI is designed to reward the previous year's Company and individual performance of the Board of Management members. Threshold, target and maximum STI opportunities (payout between threshold and target and between target and maximum is linear) for the Board of Management as a percentage of base salary are as set out under item 2.2.3.4.

CSR Multiplier

In its performance objectives, the Management Board has specific operational Health, Safety, Security and Environment ("HSSE") objectives. As mentioned at the EGM of 27 June 2012, however, due to the urgency of achieving the operational and financial business objectives, it was considered that these objectives should receive the full attention of the Management Board and no other CSR objectives were set. The CSR multiplier is calculated on the Company performance element and, since this the Company performance score was nil, the CSR multiplier outcome is equally nil, despite a marked improvement in HSSE performance.

Long Term Incentive (LTI)

The LTI is designed to reward superior long-term corporate financial performance and shareholder returns and to enhance management retention and commitment.

Reference is made to item 2.2.3.4 for a summary of the amended RP 2011 LTI scheme.

Pensions

During the course of 2011, the A&RC has carried out a study to assess the feasibility, cost and risk of moving the two Management Board members who have a defined benefits scheme to a defined contribution scheme. Since the Management Board members concerned did not stand for reappointment at the AGM, the move under consideration became redundant. Of the current Board of Management, only one of the non-statutory directors has a defined benefits pension plan. Two of the three members of the Management Board and one non-statutory member of the Board of Management participate in a defined contributions pension scheme and will remain in a defined contributions scheme the modalities of which may be amended in the context of the base salary for each member of the Board of Management taking into account the relevant country competitive practice, tax and legal environment.

Scenario Analysis and Proposal to award an additional Number of LTI Shares in 2013

The Dutch Corporate Governance Code requires that the Supervisory Board "shall analyse possible outcomes of the variable income components and the effect on the Board of Management remuneration". This scenario analysis will be conducted on an annual basis to test whether the level of remuneration that could be earned at different levels of performance (threshold, target and maximum), and at different Company share price levels (low, average and high growth) is fair and appropriate in the context of value delivered to shareholders. Based on the analysis, the A&RC, if necessary, will recommend remuneration policy amendments to the Supervisory Board.

Employment Conditions for the current Management Board (Statutory Directors)

The key points of the Services Agreements with the members of the Management Board (i.e. the statutory directors) are summarised below. For a more detailed description of the terms and conditions on the basis of which the members of the Management Board provide their services, reference is made to the agenda of the EGM's held on 14 December 2011 and on 27 June 2012.

Key Points of the Services Agreements with the Statutory Directors

Services contract:	The current statutory directors, members of the Management Board, provide their services on the basis of a services contract and so no employment relation exists between SBM Offshore N.V. and Mr. B.Y.R. Chabas, CEO, Mr. P.M. van Rossum, CFO and Mr. S. Hepkema, CGCO. The pre-existing employment contract which Mr. B.Y.R. Chabas had with an SBM Offshore Group company, Offshore Energy Development Corporation S.A.M., a Monegasque company, was suspended upon the effective date of his nomination by the General Meeting of Shareholders with regard to the time spent in his capacity of statutory director of SBM Offshore N.V.. Since SBM Offshore has an important execution center in Monaco, all three statutory directors provide services as statutory directors of and, in the case of Mr. B.Y.R. Chabas, CEO and Mr. P.M. van Rossum, CFO, also as part-time employee of Offshore Energy Development Corporation S.A.M., a Monegasque SBM Offshore Group company. Upon joining the Company, both Mr. P.M. van Rossum, CFO and Mr. S. Hepkema, CGCO were paid a sign-on premium of EUR 150,000.
Duration:	The services contracts are for renewable periods of four years. The first four year term of office starts in 2012 and the services contracts of the members of the Management Board will expire at their fourth anniversary date in 2016 unless terminated during the course of any four year term by a decision of the General Meeting of Shareholders or upon resignation by the individual concerned. Compensation in case of termination of the services contract by the Company is limited to 1 year base salary, unless this is manifestly unreasonable in the case of dismissal during the first appointment term, in which case the maximum compensation shall not exceed two times the annual base salary.
RP 2011:	The Remuneration Policy as approved by the General Meeting of Shareholders on 5 May 2011 (RP 2011) as amended at the General Meeting of Shareholders on 27 June 2012 and published on the Company's website applies to the services contract of the members of the Management Board, including as regards Short Term Incentives and Long term Incentives; both as described above.
Base Salary:	For the annual base salary of the members of the Management Board reference is made to the table above.
Fringe benefits:	A company car and a housing allowance.
Pension:	The members of the Management Board participate in a defined contributions pension scheme and the Company contributes to Mr. B.Y.R. Chabas' private pension plan at the level of 10% of his base salary and to the private pension plan of Mr. P.M. van Rossum and Mr. S. Hepkema at the level of 20%.
Other conditions:	In accordance with the RP 2011, the services contracts contain an adjustment clause, a claw-back clause and a change of control clause.

Arrangements with the former CEO and CFO

Mr. A.J. Mace, former CEO

The arrangement reached with Mr. A.J. Mace upon his stepping down as CEO of the Company at the end of 2011 was set out in the Annual Report 2011 and was explained at the EGM of 14 December 2011. Mr. A.J. Mace's pre-existing employment agreement was reactivated at terms and conditions which, taken as a whole are significantly less attractive than those he enjoyed as CEO. No compensation was paid upon Mr. A.J. Mace stepping down as CEO.

Mr. M.A.S. Miles, former CFO

In a press release dated 24 January 2012, it was announced that Mr. M.A.S. Miles, CFO, would not stand for reelection at the AGM of 16 May 2012. Mr. M.A.S. Miles was a long term employee of the Company and a mutual termination of his employment was signed on 4 July 2012 the key terms of which are as follows:

€	
Termination Compensation (OEDC SAM Employment Contract)	€ 370,000
4,198 STI 2010 matching shares vesting in 2013	Pro-rata number of shares vesting of 3,934 matching shares on 1st July 2013
2,413 STI 2011 matching shares vesting in 2014	Pro-rata number of shares vesting of 1,457 matching shares on 1st July 2014
STI 2011 (Paid in 2012)	€ 56,700
STI 2012 (To be paid in 2013)	€ 140,000
LTI 2010 vesting in 2013 : conditional award of 28,822 shares	Performance targets were not reached - no vesting
LTI 2011 vesting in 2014 : conditional award of 27,610 shares	Pro-rata number of shares subject to achieving performance criteria to vest in 2014
LTI 2012 vesting in 2015 : conditional award of 8,087 shares	Pro-rata number of shares subject to achieving performance criteria to vest in 2014

SBM OFFSHORE

2.2.4 Actual Remuneration in 2012 of the Members of the Management Board

Actual Remuneration of the Members of the Management Board in 2012

This section provides an overview of the actual remuneration of the members of the Management Board Mr. Bruno Chabas, CEO, Mr. Peter van Rossum, CFO and Mr. Sietze Hepkema, CGCO. In addition, the actual remuneration of Mr. Mark Miles, former CFO is mentioned in the paragraph above.

Costs incurred by the Company in 2012 in respect of the Remuneration of Managing Directors :

€	Base salary	Short-Term Incentive (1)	Expense recognised for share-based payments (NOT ONLY LTI) (2)	Benefits excluding pension payments	Pension payments	Total costs
B.Y.R. Chabas	660,000	117,000	373,000	159,000	90,000	1,399,000
P.M. van Rossum	390,000	n/a	91,000	85,000	48,000	614,000
S. Hepkema	546,000	n/a	149,000	68,000	79,000	842,000

(1) This is the total amount of the Short-Term Incentive, i.e. the part payable in shares (20%) and the part payable in cash (80%) earned in respect of performance year 2011, which was paid in 2012 (93,600€). The amount of the bonus is computed in US Dollars (the Company's functional currency) and then converted for payment in Euros at the average exchange rate on the five trading days following the date of publication of the final results for the year 2012.

(2) The fair value of all share-based payments, i.e. the expense recognised in 2012 as a pro rata over the entire vesting period. Reference is made to note 4 to the financial statements (prepared in US Dollars, being the Company□s reporting currency).

Short Term Incentive (STI)

The STI relating to the performance year 2012 is based on the Economic Profit (EP) of the year 2012, i.e. Return On Average Capital Employed (ROACE) exceeding an assumed Weighted Average Cost of Capital (WACC), adjusted as appropriate for exceptional items and extraordinary circumstances. The Supervisory Board acting on the advice of the A&RC gave consideration to taking account, in these computations, of the Legacy Projects, which would have led to a positive score on the Company performance element in the STI for 2012. However, given the negative results shown in the Annual Accounts in the Financial Report 2012, section 4 of this annual report, and the detrimental effect these have had for shareholders, the Supervisory Board, acting on the advice of the A&RC determined that it would be inappropriate to make such an adjustment. Accordingly, the Company performance criteria which have a weight of 1/3rd of the 2012 STI opportunity, have not been met and therefore, there will be no STI payment in 2012 related to Company Performance in 2012. The Supervisory Board, upon recommendation of the A&RC, scored the individual performance of the members of the Management Board, which element for 2012 was weighted at 2/3rd of the STI opportunity for each member of the Management Board.

Long Term Incentive (LTI)

The value of the conditional award of LTI shares in 2012 equals 125% of base salary. This value, divided by the average closing price of the share over the five trading days following the date of publication of the final results for the previous financial year, determines the number of performance shares conditionally awarded in accordance with the (Amended) RP 2011. It is this number of shares which will be multiplied by the percentage as decided by the Supervisory Board acting upon the recommendation of the A&RC, depending on the score achieved by each individual member of the Management Board at the end of the three year vesting period.

	Target Number of Performance Shares conditionally awarded in 2012 (3)	Threshold - Minimum Vesting Opportunity (Number of Performance Shares)	Maximum Vesting Opportunity (Number of Performance Shares)
B.Y.R. Chabas	52,562	21,024	105,122
P.M. van Rossum	31,843	12,737	47,766
S. Hepkema	40,962	16,645	61,443

(3) The number of LTI shares that vest for the performance period 2012-2013-2014 will be determined in March 2015, upon finalisation of the financial accounts for the year 2014. Following the vesting of performance shares, a lock-up of two years applies to the performance shares.

Share-based Incentives Outstanding as per 31 December 2012

	B.Y.R. Chabas	P.M. van Rossum	S. Hepkema
STI Shares (no matching shares awarded yet, happens only after the 3 year period)			
Awarded in 2012 and vesting in 2014	Number: 1,491	Number: n/a	Number: n/a
	Value at award: € 23,400	Value at award: n/a	Value at award: € n/a
LTI Performance Shares			
Performance shares awarded in 2011 and vesting in 2014	Number: 18,231	Number: n/a	Number: n/a
	Value at award : € 346,662	Value at award: n/a	Value at award: n/a
Performance shares awarded in 2012 and vesting in 2015	Number: 52,562	Number: 31,843	Number: 40,962
	Value at award : € 825,013	Value at award: € 499,808	Value at award: € 642,940

2.3 Information regarding the Supervisory Board Members

2.3.1 Mr. H.C. Rothermund

Mr. Rothermund is Swiss and was born in 1943. In 2003 he was appointed as a Member of the Supervisory Board of SBM Offshore N.V. before being elected Chairman in 2006; his current term of office is 2011-2015.

He is Chairman of the Appointment and Remuneration Committee and since May 2011 Member of the Audit Committee.

He is a former Managing Director of Shell EP International B.V..

He is Member of the Board of Petrotechnics Ltd. and Avisory of Rohol-Aufsuchungs-AG.

2.3.2 Mr. R. van Gelder

Mr. van Gelder is Dutch and was born in 1945. He was initially appointed as a Member of the Supervisory Board in 2005 before being elected its Vice Chairman in 2010. He is also a member of the Technical & Commercial Committee; his current term of office is 2009-2013.

He is a former Chief Executive Officer of Heijmans and former President and Chief Executive Officer of Koninklijke Boskalis Westminster N.V..

He is currently Chairman of the Supervisory Board of Atlas Services Group and VEUO. He is also a member of the Supervisory Board of Heijmans N.V., Koninklijke Ten Cate N.V., and Advisory Council VEP (Value Enhancement Partners).

2.3.3 Mr. F.J.G.M. Cremers

Mr. Cremers is Dutch and was born in 1952. He was appointed as a Member of the Supervisory Board of SBM Offshore N.V. in 2010. He is Chairman of the Group's Audit Committee and his current term of office is 2010-2014.

He is a former CFO of Shell Expro UK and CFO of VNU N.V. where he was also a member of the Board of Management.

He is Member of the Supervisory Board of Nederlandse Spoorwegen N.V.(as Vice Chairman), Royal Vopak N.V., Luchthaven Schiphol N.V., Unibail-Rodamco S.E. and Parcom Capital Management B.V.. He is Member of the Capital Markets committee of the AFM, Member of the Board of Stichting Preferente Aandelen Heijmans and Member of the Board of Stichting Preferente Aandelen Philips.

2.3.4 Mr. F.G.H. Deckers

Mr. Deckers is Dutch and was born in 1950. In 2008 he was appointed as a Member of the Supervisory Board of SBM Offshore N.V.; his current term of office is 2012-2016.

He is a member of the Audit Committee.

He was the CEO of Van Lanschot N.V. (until February 2013).

He is also Chairman of the Supervisory Board of Deloitte Nederland B.V. (since 1 July 2012) and a Member of the Supervisory Board of IBM Nederland N.V. Mr. Deckers is also a Member of the Board of the Netherlands Bankers' Association and the Vlerick School of Management in Belgium.

2.3.5 Mr. T.M.E. Ehret

Mr. Ehret is French and was born in 1952. In 2008 he was appointed as a Member of the Supervisory Board of SBM Offshore N.V.; his current term of office is 2012-2016. He is Chairman of the Technical and Commercial Committee.

He is a former President and Chief Executive Officer of Acergy S.A.

His current Board Memberships include Deputy-Chairman of the Board of Dockwise Ltd., Chairman of Iremis Holdings Ltd., Chairman of ISS Ltd., Non-Executive Member of the Board of Comex S.A., Non-Executive Member of the Board of Green Holdings Corporation, Non-Executive Member of the Board of International Sports Media Ltd., and Member of the Supervisory Board of Huisman B.V..

2.3.6 Mr. F.R. Gugen

Mr. Gugen is British and was born in 1949. In 2010 he was appointed as a Member of the Supervisory Board of SBM Offshore N.V.; his current term of office is 2010-2014.

He is Chairman of the Appointment and Remuneration Committee dealing with remuneration matters, and member of the Appointment and Remuneration Committee dealing with selection and appointment matters.

He is a former CEO and Finance Director of Amerada Hess Corporation in Europe.

He is currently Chairman of the Board of Petroleum Geo-Services ASA and of IGas Energy plc, and Chairman of Chrysaor Limited and Fraudscreen Limited. He is also an advisor to BNRI, a private investment division of Barclays, and Chairman of Raft, a medical research charity and board member of various of its associated companies.

2.3.7 Mrs. K.A. Rethy

Mrs. Rethy is Canadian and was born in 1956. In 2011 she was appointed as a Member of the Supervisory Board of SBM Offshore N.V.; her current term of office is 2011-2015. She is a Member of the Technical and Commercial Committee.

She is a former Senior Vice President, Global Services, of Falconbridge Ltd.

Her current Board Memberships include Director of Equitable trust Company, President of KAR Development Corporation. She is also Chairperson of Katimavik; a not for profit organisation dedicated to youth volunteer service in the community.

3 Report of the Board of Management

3.1 Report of the Board of Management - Introduction

The Group's occupational safety performance has turned the page in 2012 and made significant progress in the reduction of incidents with potentially very severe consequences and improved on its targets of reducing the amount of overall incidents. Even with these performance improvements a number of people were still injured in 2012, which is not acceptable and continued commitment is required to completely eradicate these incidents.

Since mid-year SBM Offshore and Talisman have been involved in intensive discussions on ways forward for the Yme MOPUstor following de-manning of the platform by our client. Despite every effort on both sides, no agreement had been reached by mid-December. However, the dialogue continues with in SBM's view the balance of expectation now shifting from completion to decommissioning of the platform.

This was a departure from previous assumptions and consequently the book value of the asset has been reduced to nil through a US$ 398 million impairment. As part of a final settlement the Group expects to have to contribute to the cost of decommissioning under Talisman's responsibility, and has made a provision of US$ 200 million.

The above mentioned impairment and settlement charges affected the guidance for 2012 Full Year results to an estimated Net Loss of US$ 100 million and a scenario in which banking covenants related to the solvency ratio could have been breached at year end. A US$ 193 million private placement at € 8.50 per ordinary share with HAL Investments B.V. ("HAL") was executed to ensure that banking covenants were met.

In addition and subject to the Group reaching a settlement with Talisman in respect of the Yme project within an agreed period, the arrangement with HAL contains the following elements:

- HAL to pay an additional sum to reflect a higher valuation for the aforementioned private placement shares.
- HAL to underwrite in full an approximate 10% rights offering at the final private placement price.

Securing HAL as a long term strategic investor and their decision to support SBM Offshore by investing substantial new equity provides greater stability for our future development. The equity issue has restored the balance sheet and addressed the effects of the impairment charges.

On 19 February 2013, the Group will send the convocation for its Annual General Meeting (AGM) to be held on 2 April 2013. At this AGM, next to the regular AGM items, a resolution to approve a 10% rights issue will be voted.

Start-up of the Deep Panuke platform has been delayed due to unexpected leaks encountered during final commissioning of previously tested piping systems. The remaining work on the platform has been identified and primarily relates to the re-instalment of piping systems, gas leak testing and commissioning completions. The required repairs, additional contingencies and the impact of delays have resulted in a further impairment charge of US$ 29 million. Start-up of the platform is now expected in the first half of 2013.

The Group will actively continue legal proceedings to minimize the costs to complete and to maximise cost recovery. The outcomes of proceedings will only be known when the litigation, arbitration or negotiation processes have run their course.

In April the Group announced it had initiated an internal investigation into potentially improper sales practices, this investigation is being carried out by outside counsel and forensic accountants. At the same time the Group announced the appointment of Mr. Sietze Hepkema into the Management Board as Corporate Governance and Compliance Officer (CGCO) to lead this investigation among other tasks.

The Group has disclosed this internal investigation to appropriate authorities and has taken remedial action to enhance its compliance programme. Good progress has been made during the year but the investigation is still in progress; typically these types of investigation take 12 to 18 months to conclude.

During 2012, many of the pieces have been put in place to make the cultural transformation successful over the coming periods. A new organisation structure, strategy and ways of working have been implemented and a new management team is in place.

Restoring the risk/reward balance is among the first priorities as the there is a structural imbalance in the industry resulting in disappointing financial results over the last couple of years for all FPSO players. A structural redressing of the balanced risk/reward should lead to less downside risk in the execution of the projects and eventually lead to superior financial returns at historic levels.

In line with the Group’s strategic focus on FPSOs and associated products, divestments were made in non-core assets. GustoMSC was sold for approximately US$ 189 million and the Dynamic Installer, a diving support vessel was sold for US$ 15 million.

Financing was successfully obtained for two lease projects during the year. A total of US$ 1.08 billion was secured with a Limited Recourse Project Loan from a consortium of banks to finance the construction of FPSO Cidade de Ilhabela. The Group also successfully priced its first US Private Placement Project Bond of US$ 500 million to refund investments made in FPSO Cidade de Anchieta.

The liquidity in the market to secure close to US$ 1.7 billion in difficult times through diversified funding has improved the risk profile for the Group to secure funding for future projects.

The Group established a 3 Year Plan in line with the new organisation structure in which Execution Centres will be held responsible for their performance. The plan sets the objectives for performance indicators for financial, commercial, development and human resources in line with the Group objectives.

3.1.1 Organisation

The changes to the organisational structure in order to maximise the capacity to execute large and complex projects has been successfully implemented during the year. The delegation of a broad range of responsibilities, for delivery and performance is in place and operational.

The focus now for 2013 has shifted to improving the performance of the Execution Centres within the context of the Group's principles, rules and guidelines. Each project or FPSO unit constitutes a ‘building block’ within an Execution Centre and each such project or FPSO, is managed by a fully integrated project team.

With consistency in the organisational structure at each Execution Centre, one way of working is in place, which ensures the same processes, systems and objectives are used throughout the Group.

The Group's strategy, values, and brand have now been implemented Group wide and reflect the new organisational structures which promote a one-Group culture, focused on delivering uniform future successes.

3.1.2 Branding

The new global brand and visual identity of the Group was successfully introduced in March 2012. Taking into account full year results for 2011, a modest launch, focusing primarily on internal personnel and clients was considered appropriate.

Internally the new brand signalled the start of the internal transformation processes of organisational changes, new ways of working and strategic focus. The feedback from our clients on the clear strategic focus on FPSOs was very positive.

The Group has defined its brand essence as: the most experienced partner for complete lifecycle solutions.

The Group's core purpose and offer is summed up in the following statement: our people have unrivalled experience and understanding of the needs of the global offshore energy industry, and can confidently supply floating production solutions for the full production lifecycle.

The Group has also defined its vision and driving ambition to be the trusted partner of choice in the development of complete offshore floating solutions for the world's energy companies. This is underpinned by three core values, Team-Energy (Work as One), Success (Perform) and Ambition (Shape our Future).

The new brand and supporting visual identity was launched with the publication of the Group's online Annual Report of 2011 in March 2012.

3.1.3 Risk Management

The Group Risk team is now fully integrated in the new organisation with strong focus on the Risk and Opportunity Management processes. At Execution Centre level, risk delegates have been assigned to the Finance Managers to support management in the process.

During 2012, the Group Risk Management Department achieved the implementation of a risk assessment process, both quantitative and qualitative, which can be applied at proposal and project levels. The forecasts resulting from these simulations help in quantifying areas of risk, reducing estimated uncertainties, and establishing, with the project control team, the appropriate contingency levels during project execution.

3.1.4 HSSE

The TRIFR (Total Recordable Incident Frequency Rate) for 2012 shows a decrease from 2011 figures. This can largely be attributed to the leadership and teamwork throughout the Group under the stewardship of the new Group HSSE Director who has promoted and focused on improving the Company's performance.

Safety remains of paramount importance to the Group, and although the figures are moving in the right direction, the Group's focus will not shift from the greater goal of executing all our projects and operations without due harm to people, plant or the environment.

3.1.5 Sustainability

The Group's transparent reporting on sustainability and corporate social responsibility issues has led again to its inclusion in the Dow Jones Sustainability World Index for the third year in a row. The Group continues to strive for improvement of the reporting scope and implementation of sustainable initiatives.

3.1.6 Local Content

Over the last few years the Group has invested substantially in the construction yards, both in Brazil and Angola. This investment not only increases the yards construction capacities, it also enabled SBM Offshore to meet the stringent local content regulations set by the Brazilian authorities.

During 2012, both construction yards have seen an increase in actual construction works and their focus now for 2013 has shifted to production, to meet the scheduled deliverables for the upcoming FPSOs.

Brazil

Following a complete refurbishment of the yard premises, including offices and equipment, Brasa Yard in Rio de Janeiro has commenced construction of modules for the FPSO Cidade de Ilhabela.

During 2013 up to 14 modules will be constructed at the yard with delivery expected by the 1st quarter 2014. Once completed, a floating heavy lift crane will transfer the modules onto the FPSO deck and the FPSO will then be moored to the Brasa Integration Quayside. At the Brasa Integration Quayside the integration and hook up of the modules on the FPSO will be completed, followed by commissioning.

Once completed, during 2014, the FPSO will be installed in a Pre-Salt production field, Guara Norte, offshore Brazil under a 20 year lease and operate contract.

Angola

The capacity of the Paenal Yard located in Porto Amboim, Angola, is being ramped-up to meet the requirements for the construction of CLOV FPSO modules during 2013 and FPSO N’Goma modules during 2014.

Completion of the installation of a 2,500 tonnes quayside crane is expected during 2013. This important milestone marks the completion of the main infrastructure changes required at the yard and will enable full FPSO module integration, hook up and commissioning activities as well as fabrication of process modules to be carried out.

3.1.7 Operations

Deep Panuke

Following installation of the MOPU offshore Nova Scotia in the summer of 2011, activities have focused on hook up of the system to the subsea facilities, both to the wellheads and the export gas pipe to the shore. Also completion of the process facility and commissioning of the systems for start-up and hydrocarbon gas production was carried out at the same time.

An essential part of commissioning on a gas producing platform is the testing of piping systems, which showed a high percentage of leakage and consequential repairs to be done on systems that had already been tested at the construction yard prior to shipping the facility offshore. The effect of this additional work on top of the existing commissioning activities, with a limited amount of people allowed to work offshore, has pushed start-up of the facility into the first half of 2013.

FPSO Cidade de Anchieta

FPSO Cidade de Anchieta, formally FPSO Espadarte, sailed from Keppel shipyard in Singapore to Brazil for installation on the Baleia Azul field. Completely refurbished and substantially modified, FPSO Cidade de Anchieta achieved first oil in September 2012. The FPSO Cidade de Anchieta is under an 18 year lease and operate contract with Petrobras.

FPSO Espadarte had been operational in Brazilian waters for 12 years prior to being disconnected and towed to Singapore for the refurbishment and modification of its topsides process facilities. Modifications included new modules for gas treatment, water injection, gas turbine generators and flare drums; all required to meet the new field production characteristics.

Following successful completion of the project, finance was secured when the Group priced its first US Private Placement project bond of US$ 500 million for the FPSO Cidade de Anchieta.

FPSO Cidade de Paraty

Hull refurbishment and conversion works were completed at Keppel shipyard in Singapore before the summer and the FPSO sailed to BrasFELS shipyard in Brazil where it arrived in July 2012. Around the same time the process modules were completed in Brazil and subsequently lifted on the deck of the FPSO for integration, hook up and commissioning. Work is now focusing on mechanical completion, commissioning and sail away to the offshore location for installation in the Pre-Salt field ‘Lula Nordeste’ offshore Brazil. This is the first FPSO the Group supplies to Petrobras for the Pre-Salt developments under a 20 year lease and operate contract with Petrobras.

With our Joint Venture partners a Limited Recourse Project Loan has been secured for US$ 1 billion to finance the construction of the FPSO Cidade de Paraty.

FPSO OSX-2

Refurbishment and life extension work started on FPSO OSX-2, formerly VLCC Concorde Spirit, at Keppel Shipyard in Singapore in September 2011.

Critical engineering and procurement activities were completed successfully during the first part of 2012 allowing all construction activities to progress on time. Refurbishment and conversion works on the hull progressed well and fabrication of the modules and turret mooring system is well advanced. Some modules have been lifted onto the deck and integration activities are progressing at the shipyard.

FPSO N'Goma

Mid 2011, FPSO Xikomba was released from its mooring lines on Exxon Mobil’s Xikomba field in Block 15 offshore Angola, and sailed to Keppel shipyard in Singapore.

FPSO Xikomba, now renamed N’Goma, has begun an extensive programme of life extension, refurbishment and upgrading of existing topsides modules and turret mooring system as well as the installation and integration of new topsides modules.

On completion of this work, N’Goma will sail to the Paenal dockyard in Angola where the remaining process modules will be completed and lifted onto the FPSO for integration, hook up and commissioning activities.

Once completed, N’Goma will sail to ENI’s Block 15/06, offshore Angola, to start production.

Shell Prelude FLNG Turret Mooring System

SBM Offshore's participation in the project started at the end of 2008 when Shell selected the Company to handle the design, procurement and construction of the Turret Mooring Systems (TMS) for their FLNG facilities – adding expertise to the Technip Samsung Consortium, which was selected to manage the provision of facilities for up to three FLNGs.

The Prelude Turret will be the largest non-disconnectable internal Turret Mooring System constructed to date. It will be 100 metres high with a diameter of 30 metres and a weight of more than 10,000 tonnes. The completed turret will be capable of bearing mooring loads equivalent to a 10,000 year storm.

Detailed engineering is now well underway, with procurement of key components already started and Turret module fabrication proceeding in Dubai.

QUAD 204 Turret

Construction of the turret mooring system for the QUAD 204 FPSO project is progressing at the Keppel yard in Singapore. Engineering and procurement activities are being finalised.

The turret design is a large internal mounted system with a bogie wheel bearing arrangement, which will moor the FPSO in harsh environmental conditions. The turret consists of a swivel stack, which can handle a total fluid throughput of 320,000 barrels per day and can accommodate 28 flexible and umbilical risers.

Delivery of the turret will take place in various phases to facilitate the FPSO construction sequence during the year 2013.

FPSO Cidade de Ilhabela

The hull of FPSO Cidade de Ilhabela is being refurbished and converted for SBM Offshore at the ChengXi Guangzhou ship repair and conversion yard in Guangzhou, China. The work is being performed satisfactorily and the Group has added more conversion work to the original scope. The FPSO is now scheduled to sail in the summer of 2013 to Brazil for module integration, hook up and commissioning work at the Brasa Integration Quayside in Rio de Janeiro. At the same time modules fabrication has commenced at Brasa yard with steel structures being assembled at the yard and pipe spool fabrication ongoing at selected subcontractors. Upon completion of the modules and arrival of the FPSO in Rio the modules will be lifted onto the FPSO for final completion and commissioning. The unit is scheduled to be installed offshore in the first half of 2014 on the north part of Sapinhoá pre-salt field for a 20 year lease and operate contract.

The FPSO Cidade de Ilhabela is the largest and most complex FPSO the Group has ever undertaken. The topsides process modules will weigh close to 23,000 tonnes, including large and complex gas processing facilities.

Together with our Joint Venture partners a Limited Recourse Project Loan of US$ 1.08 billion has been secured to finance the construction of the FPSO Cidade de Ilhabela.

Ichthys Turret

In February 2012, SBM Offshore was awarded a contract for the engineering, procurement, fabrication and supply of a turret and mooring system for the Ichthys FPSO. The turret and mooring system will be integrated by the client into the Ichthys FPSO and installed offshore NW Australia. The contract also includes assistance during the integration of the turret into the FPSO as well as during installation on the field offshore.

The turret will have a diameter of 19 meters, a height of 85 meters, and a weight of over 7,000 tons. It will accommodate up to 15 risers and will be designed for 40 years of operation without the need for disconnection.

The project team is in place and is focused on engineering, procurement and contracting the main construction work.

Fabrication of the turret, in Singapore, has commenced and is scheduled for completion in the second half of 2014. Installation of the Turret and Mooring system in the field is anticipated in mid-2015.

FPSO Fram

The Group is working on the activities agreed with Shell in the Letter of Interim Award (LOIA) for the supply, lease and operation of a FPSO for the Fram field in the UK sector of the North Sea. The project team has been fully mobilised with the main focus on engineering and procurement of long lead items to secure the preferred schedule.

3.1.8 Turnkey Services

The Turnkey Services Execution Centre contributed positively to the result in line with last year. Order intake is slightly lower compared to last year which is mostly attributable to a low order intake for CALM buoys and offshore contracting.

The Turnkey Services Execution Centre has been integrated into the SBM Monaco Execution Centre in line with the Group's strategic objectives, new organisation structure and new ways of working. The segment will no longer be reported in 2013.

The Dynamic Installer has been divested as its function was not in line with the core FPSO activities of the Group. The Normand Installer achieved good occupancy rates during the year and contributed to revenues as expected.

In April 2011, the Group awarded a contract to Keppel Singmarine in Singapore for the detailed design and construction of a multi-purpose Diving Support & Construction Vessel (DSCV). Delivery is scheduled for the second quarter of 2013. The crew is being selected and preparations for operation have commenced.

The Group's other turnkey services include: engineering, supply, overhaul and maintenance of CALM buoys, swivels, mooring systems, fluid transfer systems and offloading systems which are all Group core or edge FPSO products. These services are performing in line with business objectives and are expected to grow in future.

3.1.9 Lease and Operate

Except for the impact of the Yme MOPU project, the Group's Lease and Operate segment is currently performing very well, with high bonuses obtained on individual contracts. During 2012, the Group's lease FPSO and FSO fleet evolved as follows:

Existing Fleet

- The Group has received a 26 month extension for the lease and operate contract of the FPSO Marlim Sul from Petrobras. This extension began in April 2012, at the end of the initial lease period of 8 years.
- The lease and operate contract for FPSO Kuito is extended on a monthly basis with a further longer period extension of anticipated.

New Contracts

During 2012, the Group secured:

- A Letter of Interim Award (LOIA) from Shell for the supply, lease and operation of a FPSO for the Fram field in the UK sector of the North Sea. The LOIA allows the Group to commence engineering and procurement of long lead items to ensure timely completion of the planned Fram FPSO project, which is subject to a Final Investment Decision.
- A contract from Shell for the engineering, procurement, construction, installation and operation of a Rigless Intervention System (RIS) module on FPSO Espirito Santo, servicing the BC-10 field, offshore Brazil. Rigless Intervention is being developed as a permanent facility to retrieve subsea equipment to the FPSO for maintenance. The RIS is planned to be operational for a first intervention in the second quarter of 2014.
- An 8.5 years lease, operate and maintain contract on FPSO Kikeh for a tie-back of the Siakap North-Petai fields to the FPSO located offshore Malaysia.

In March 2012, Shell and SBM Offshore signed an Enterprise Framework Agreement (EFA) covering a term of five years, with an option to extend for another five years. This agreement covers the supply of small and medium sized FPSOs globally on a lease and operate basis. The Fram FPSO, subject to a Final Investment Decision, will be the first project to be developed under the terms of the EFA.

The total number of lease and operate units in production at year-end 2012 was 14, with five units (Yme excluded) under construction (including one major upgrade prior to relocation). The FPSO Falcon is currently not in use, but is marketed for new contracts.

FPSO Cidade de Anchieta

September 2012 saw FPSO Cidade de Anchieta, an 18 year lease and operate contract for Petrobras, produce its first oil. The FPSO is located in the Baleia Azul field offshore Brazil.

FPSO Yetagun

The Group has previously declared its intention to withdraw from the Myanmar based FSO Yetagun lease and operate contract. This contract was awarded prior to an international campaign to impose sanctions against Myanmar.

The Group is still committed not to extend its existing contract past the existing expiry date as long as international sanctions against Myanmar continue to apply.

The Group has ensured that all operations comply with the highest social accountability standards. The Group commissioned Bureau Veritas to conduct an independent audit of the operators. This audit confirmed full compliance with the Group's Social Accountability Policy.

3.1.10 Members of the Board of Management

The following appointments were made during 2012:

- Managing Director Mr. Bruno Chabas was appointed Chief Executive Officer (CEO) by the Supervisory Board. Previous to this appointment Mr. Bruno Chabas was Chief Operating Officer (COO) of the Company.
- Mr. Jean-Philippe Laurès was appointed Chief Operating Officer (COO) by the Supervisory Board; he also retained the position of Director on the Board of Management. Previous to this appointment, Mr. Jean-Philippe Laurès was Chief Commercial Officer (CCO) and a Director on the Board of Management of the Company.
- Mr. Sietze Hepkema was appointed ‘Chief Governance and Compliance Officer’ (CGCO) and Managing Director of the Management Board of the Company.
- Mr. Peter van Rossum was appointed Chief Financial Officer (CFO) and a Managing Director of the Management Board of the Company.

3.2 Main Activities in Chronological Order

3.2.1 *January 2012*

Yme MOPUStor TM

The Company announced that further significant provisions are to be expected regarding completion of commissioning and hook up activities on the YME MOPUstor™ platform in Norway.

Management

Mr. Bruno Chabas took over as CEO following his appointment as a member of the Management Board during the EGM on 14 December 2011.

Mr. Mark Miles advised the Supervisory Board that he would not seek re-election as CFO at the next AGM on 16 May 2012.

FPSO Marlin Sul Contract Extension

A 26 month extension was agreed with Petrobras for the lease and operating contract for FPSO Marlim Sul in Brazil.

3.2.2 *February 2012*

Ichthys LNG Project Contract Award

A US$ 0.5 billion contract was awarded to SBM Offshore by the Ichthys LNG Project for the engineering, procurement, fabrication and supply of a Turret and Mooring System for their FPSO which will be installed offshore North West Australia in 2015. Large complex turret mooring systems for new build FPSOs are a core company product.

3.2.3 *March 2012*

New Global Brand

The new SBM Offshore global brand and visual identity was launched to unite its worldwide group of companies under one globally consistent brand, with one consistent image, vision and strategy.

The brand essence is to be:

“The most experienced partner for complete lifecycle solutions.”

“Our aim is to be the trusted partner of choice in the development of complete offshore floating production solutions for the world’s energy companies.

We believe we are uniquely positioned in the market because we offer unrivalled expertise within the full product *life cycle of the floating production sector – from engineering to construction, procurement, installation, operations and product life extension.*

We will refocus on growth in our core product line of FPSOs and associated products and services."

Shell Enterprise Framework Agreement

Shell and SBM Offshore signed an Enterprise Framework Agreement (EFA) covering a term of five years, with an option to extend for another five years, to supply small and medium sized FPSOs globally on a lease and operate basis.

3.2.4 April 2012

FPSO Cidade de Ilhabela Contract Award

Petrobras awarded SBM Offshore with a twenty year lease and operate contract for FPSO Cidade de Ilhabela. The FPSO will be moored 300 kilometres offshore Brazil in the Santos basin. First production from the FPSO is planned for the second half of 2014.

Potentially Improper Sales Practices

The Company had become aware of certain sales practices involving third parties which may have been improper. Outside counsel and forensic accountants, reporting to both the Management and Supervisory Boards, have been engaged to investigate these practices thoroughly. The Company has also taken the necessary steps designed to terminate any such practices. SBM Offshore has disclosed its internal investigation to appropriate authorities and is taking remedial action to enhance its compliance programme.

Management

SBM Offshore announced the creation of a new Board of Management position, taken up by Mr. Sietze Hepkema, for Governance and Compliance.

3.2.5 May 2012

Management

SBM Offshore announced the appointment of Mr. Peter van Rossum as Chief Financial Officer (CFO).

3.2.6 June 2012

FPSO Fram Letter of Interim Award

A Letter of Interim Award (LOIA) was received from Shell for the lease and operation of FPSO Fram which will operate in the UK sector of the North Sea. This award re-affirmed SBM Offshore strategy to focus on FPSOs and develop its position as the global leading FPSO provider.

3.2.7 July 2012

Yme MOPUStor TM

A scheduled meeting took place at the SBM Offshore headquarters in Schiedam following Talisman's instruction to evacuate the Yme platform. Representatives of SBM Offshore, Talisman, and the independent Certifying Authority 'Det Norske Veritas (DNV)' discussed the evacuation of the platform and the issue of potential cracks in the grouting around the legs of the platform.

As a consequence of the discussions, SBM Offshore found no reason to change its view that the platform is a safe operating environment.

3.2.8 August 2012

US$ 1.05 Billion Loan Facility - First Tranche

SBM Offshore secured the first tranche of a Limited Recourse Project Loan of US$ 1.05 billion to finance the construction of FPSO Cidade de Ilhabela.

3.2.9 September 2012

First Oil on FPSO Cidade de Anchieta

FPSO Cidade de Anchieta started production offshore and was officially on hire as of the 10 September 2012 under a 18 year lease and operate contract with Petrobras.

3.2.10 October 2012

Yme MOPUStor TM

A joint plan was presented by Talisman and SBM Offshore to the Petroleum Safety Authority Norway regarding repairs of the grouting of the legs of the YME platform.

Commercial Development Agreement with CompactGTL

A Commercial Development Agreement was signed with CompactGTL, the pioneer of modular gas to liquid solutions, to work exclusively together on offshore projects.

FPSO Cidade de Anchieta Refurbishment Finance

SBM Offshore successfully priced its first US Private Placement project bond of US$ 500 million to refund the investment made in FPSO Cidade de Anchieta.

3.2.11 November 2012

Sale of GustoMSC

GustoMSC was sold for approximately US$ 189 million to Parcom Capital as part of the non-core divestment programme of the Company. The sale of GustoMSC closed a chapter in the Company's history and its association with shipbuilding. All remaining activities in The Netherlands are related to FPSOs and grouped under the Schiedam Execution Centre of SBM Offshore.

3.2.12 December 2012

Yme Platform

SBM Offshore announced revised expectations for the outcome of the Yme project together with associated provisions. This resulted in a US$ 398 million impairment charge to write down of the full book value of the Yme platform and a US$ 200 million provision for the Company's estimate of settlement costs.

Deep Panuke Platform

On Deep Panuke a charge of US$ 29 million was taken related to project delays and additional costs to complete the platform.

Private Placement with HAL and Rights Issue

A 9.95% private placement was completed with HAL Investments B.V. at € 8.50 per ordinary share raising US$193 million to ensure that banking covenants were met.

HAL Investments committed to underwrite a 10% equity raising through a rights offering to support the business, subject to the Company reaching a settlement with Talisman in respect of the Yme project within an agreed period.

The agreement stipulates:

- HAL to pay an additional sum to reflect a higher valuation for the aforementioned private placement shares.
- HAL to underwrite in full an approximate 10% rights offering at the final private placement price.

Guidance on 2012 Net Profit and Dividend

The Company announced that the total impairments and other charges will result in a 2012 estimated Net Loss of approximately US$ 100 million.

The Management Board proposes not to distribute a dividend for 2012 and 2013.

3.3 Product and Technology Development

3.3.1 Introduction

The Group's stated Technology Strategy is:

- Our product development plan will be driven by market demand, and will reflect the current and future challenges faced by our clients in the offshore industry.
- We will benefit from our technology developments to improve safety and increase our overall rate of return on investment through reduced costs, increased efficiency and improved performance.
- We will continuously strive to build our competitive advantage by retaining our technology leadership position in the market.

Product and Technology Development expenditure, in 2012, totalled US$ 25 million. The Group continues to focus on enhancing products used in ultra-deep water production, especially those developed for use in highly challenging field's located offshore Brazil, the West Coast of Africa, and in the Gulf of Mexico. The Group continues to invest in the development of very large turret moorings for offshore LNG production, harsh environments, and Arctic conditions.

In 2012, the Group introduced a formal gated review process (Technology Readiness Levels - TRL), for technology development to ensure that new technology is matured through a formal review process before being released to market.

3.3.2 Ultra-Deepwater Systems

The Group continues to develop solutions for ultra-deep water fields across its full product range; these solutions include FPSOs, mooring systems, semi-submersible platforms and steel catenary risers. SBM Offshore products are now operating in water depths approaching 2,500 metres, making them some of the deepest production facilities in the world. The introduction of the turret mooring with steel risers, as pioneered on one of our vessels offshore Brazil, has created the opportunity to produce from High Pressure/High Temperature fields in water depths exceeding 3,000 metres.

FPSO Systems

SBM Offshore positions itself at the top end of the leased conversion FPSO market, focusing on the largest and most complex projects in this market. The majority of the Group's FPSOs are leased and operated by the Group. This allows its clients to benefit from over 165 years of unrivalled cumulative experience in FPSO operations offshore.

Over the years, the complexity of the fleet has grown significantly, and very complex FPSOs now represent the core of the Group's business.

Two of the most complex ultra-deep water FPSO projects for charter to Petrobras for production of pre-salt fields in Brazil are currently under construction. When complete, these will be the largest vessels in SBM Offshore's fleet in terms of throughput and topsides complexity. Both units will include extensive gas conditioning systems, gas phase membranes used for the first time in the fleet, along with large gas and carbon dioxide compression plants for gas re-injection at over 500 bar.

In 2012, SBM Offshore signed a Commercial Development Agreement with UK based CompactGTL Ltd, the pioneer of modular gas to liquid solutions, to work exclusively together on offshore projects. The use of GTL technology for floating production systems has the potential to significantly reduce gas flaring, by transforming associated gas into synthetic crude oil which can be blended in to the produced crude oil. Marketing of this new FPSO product has now started.

Also in 2012, the Group signed a Strategic Alliance Agreement with US based Ivanhoe Energy to develop the concept of an FPSO for the production and processing of ultra-heavy crude oil. This concept will enable offshore production of the very large global reserves of ultra-heavy crude oil.

Mooring Systems

SBM Offshore has maintained its position as world leader in complex mooring systems technology. Throughout 2012, the Group has continued to develop its mooring technology to further strengthen this position looking forward.

The Group’s largest ever internal turret mooring system, supplied for BPs Skarv FPSO in Norway, was successfully commissioned in 2012. This will be followed by the even larger capacity turret mooring system for Prelude FLNG FPSO, which is currently under construction.

The Group is extending the envelope further with two new diverless mooring connection systems, called ARCA and ILMC. These systems contribute to improved offshore safety by avoiding the need for divers, and also assist in increasing the capacity of the chain table by reducing the space needed for the chain hawse. The ILMC was successfully field tested during 2012 and is already planned to be used on a project starting in 2013.

SBM Offshore has developed a fully scalable locking mechanism for use with disconnectable turret moorings. These are most useful for FPSOs located in arctic and hurricane regions, where quick disconnection may be required for safety reasons. The locking device has completed extensive testing in 2012, and is now market-ready.

The Group’s laboratory, located in France, is dedicated to the extensive testing and qualification of advanced fluid swivel and swivel sealing systems, and mooring components. Many of these represent significant advances in the industry, by expanding the allowable operating envelope of turret mooring systems.

The now fully qualified 150 MW High Voltage Electric AC Swivel, for which SBM Offshore received a “Spotlight on New Technology” award at the Offshore Technology Conference in 2011, which allows large turret moored FPSOs to receive high voltage electric power from shore, is now being followed by the development of a similar capacity High Voltage Electric DC swivel. The use of DC will significantly extend the effective distance from shore that can be achieved.

The new swivel design for ultra-high pressure applications, capable of operating up to 800 bar, has undergone a qualification test programme in 2012 and will be market-ready in 2013.

Offshore Floating Solutions

SBM Offshore's Deep Draft Semi™ hull design is now well proven in service, after operating on the Independence Hub and Thunder Hawk fields for several years. Both of these units are connected to subsea wells.

SBM Offshore's 'dry tree' configuration of the Deep Draft Semi™ hull, which allows the use of surface mounted Christmas trees in ultra-deep water fields in Brazil and in the Gulf of Mexico, is approaching the later stages of development and will undergo final model basin testing in early 2013.

This new product has the advantage of overcoming the inherent water depth limitations of TLP platforms, which is tendon related, and consequently offers great potential for the ultra-deep water fields of the future, especially for High Pressure/High Temperature fields where dry trees are preferred.

Risers

As a consequence of the trend towards production operations in ultra-deep water fields and High Pressure/High Temperature fields, there is now a strong industry focus on steel riser systems as an alternative to unbonded flexible risers or hybrid riser towers.

SBM Offshore's FPSO Espirito Santo is the world's first turret moored FPSO to be equipped with steel risers. The Company is now developing an enhanced version of this turret design, with capacity for a greater number of steel risers in ultra-deep water conditions.

SBM Offshore has developed, patented and qualified an enhanced connector device to allow the deployment of steel risers without the need for welding offshore, offering considerable benefits in terms of material selection, installation time, and cost.

3.3.3 Offshore LNG

SBM Offshore has been promoting the development of LNG FPSOs for a number of years. This new technology is now gaining wide acceptance and the first new-build FLNG project, for which SBM Offshore is providing the turret, is under construction.

SBM Offshore has also recently developed, and patented, an innovative midscale FLNG concept. This concept, based on the conversion of LNG tankers, is currently undergoing further rigorous development focusing on reliability and robustness of the technology. With its design capacity of 1.5 to 2.0 million tonnes per annum, this new concept will offer clients a new, and highly economic, approach for exploiting their small and medium sized offshore gas fields, with faster delivery and lower investment than required for other concepts currently on the market.

3.3.4 *Intellectual Property*

The Group maintains a significant Intellectual Property (IP) portfolio including patents, trademarks, and copyrights. The extensive patent portfolio covers a wide range of subjects including FPSO mooring and turret systems, hydrocarbon transfer and processing systems including LNG and gas processing, drilling and riser technologies, and offshore installations.

3.4 Corporate Governance

3.4.1 Corporate Governance Structure

SBM Offshore N.V. is a limited liability company ("Naamloze Vennootschap") incorporated under the laws of The Netherlands with its statutory seat in Rotterdam and is listed on the Amsterdam NYSE Euronext exchange. The Company has a two tier board, a Supervisory Board and a Management Board. Each Board has its specific role and task regulated by the Corporate Governance Code, laws, the articles of association and the Supervisory and Management Board rules.

When applicable, the Company will submit major changes in the corporate governance structure of the Company and in the compliance of the Company with the Corporate Governance Code (CGC) to the General Meeting of Shareholders under a separate agenda item.

3.4.2 Dutch Corporate Governance Code

In this section of the Annual Report, the Company reports on compliance with the Code.

Save as indicated under "Mandates with Third Parties" below, SBM Offshore complies with all applicable principles and best practices provisions.

3.4.3 Management Board

The Management Board consists of three statutory directors, the Chief Executive Officer (CEO), Mr. Bruno Chabas, the Chief Financial Officer (CFO), Mr. Peter van Rossum and the Chief Governance and Compliance Officer (CGCO), Mr. Sietze Hepkema. All three members of the Management Board have taken up their assignment as statutory directors during the year 2012. The statutory directors and non-statutory directors form together the Board of Management. In the year under review the non-statutory directors were the Chief Operating Officer (COO), Mr. Jean-Philippe Laurès and the Chief Technology Officer (CTO), Mr. Michael Wyllie.

Duties of the Management Board

The Company is managed by the Management Board, under the supervision of the Supervisory Board. Each year the Management Board presents to the Supervisory Board, the strategy of the Company and the operational and financial objectives designed to implement the strategy. The Operating Plan 2013 which includes the budget has been discussed with and received the support of the Supervisory Board at the meeting of 12 December 2012 and a special session was dedicated to the Company's strategic plan 2013-2015 on the same day.

Appointment of a Statutory Director (Managing Director)

Managing Directors shall be appointed by the General Meeting of Shareholders (GM). A Managing Director is appointed for a maximum period of four years, and unless a Managing Director resigns earlier, his/her appointment period shall end on the day of the first Annual General Meeting (AGM) that will be held four years after the appointment. A Managing Director may be reappointed for further consecutive terms of up to four years each.

In case of an appointment of one or more Managing Directors, the Supervisory Board may make a binding or a non-binding proposal to the GM. As far as it concerns a binding nomination, the Management Board shall invite the Supervisory Board to make a proposal for at least one alternative candidate within sixty days so that for each appointment a choice can be made between at least two candidates. The Supervisory Board has resolved not to use the option of making a binding proposal for the appointment of Managing Directors unless in situations of threatened or actual unsolicited takeover.

The GM may at all times overrule the binding nature of a proposal by a resolution adopted by an absolute majority of the votes cast, provided such majority represents at least one-third of the issued share capital. If one-third of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting. If a binding nomination has not been made, the GM may appoint a Managing Director at its discretion.

Suspension or Dismissal of a Managing Director

The GM may at any time suspend and dismiss Managing Directors. The resolution to suspend or dismiss a managing director requires an absolute majority of the votes cast at the GM, such majority representing more than one-third (1/3) of the issued share capital. If this majority does not represent at least one-third (1/3) of the issued share capital, a new meeting can be convened in which meeting the resolution can be adopted by an absolute majority of the votes cast.

If either the GM or the Supervisory Board has suspended a Managing Director, then the GM must resolve within three months after the effective date of the suspension, either to remove the Managing Director, or to set aside or maintain the suspension, failing which the suspension shall cease. A resolution to maintain the suspension may be adopted only once and the suspension may be maintained for a period not exceeding three months as from the day on which the GM has passed the resolution to maintain the suspension. If the GM has not resolved within the period set for maintaining the suspension, either to remove the Managing Director or to set aside the suspension, the suspension shall cease.

Risk Management & In Control Statement

The “In Control” statement of the Management Board, other information on Risk Management, internal assurance and reporting systems and procedures are given in the Risk Management Part.

Sensitivity of the Results to External Factors and Variables

This subject is dealt with in the Risk Management Part later in this report.

Regulations concerning Ownership of and Transactions in Shares

The Supervisory Board and Management Board rules contain a provision with regard to the ownership of and transactions in shares in the Company and in shares of Dutch listed companies other than SBM Offshore N.V.. This provision prohibits trading in shares other than those of the Company on the basis of share price sensitive information obtained in the course of managing or supervising the Company’s businesses.

Shares held by Members of the Management Board

For information about the shares (or other financial instruments) held in SBM Offshore N.V. by members of the Management Board, refer to note 4 to the consolidated financial statements.

Conflicts of Interest

The members of the Management Board have a services contract with SBM Offshore N.V.. In these contracts it is stipulated that members of the Management Board may not compete with SBM Offshore N.V.. In addition, the Code of Conduct of SBM Offshore regulates conflict of interest matters and is applicable to members of the Management Board and other employees. The members of the Management Board did not report any conflict of interest during the year 2012.

Mandates with Third Parties

Mr. Bruno Chabas is a non-executive Director of Foraco International S.A.. Mr. Sietze Hepkema was appointed Chairman of the Supervisory Board of the listed company Wavin N.V. following a public offer by Mexichem S.A.B. de C.V. for all the issued and outstanding ordinary shares of Wavin N.V.. Wavin N.V. announced its intention to eventually seek a delisting. During the period that Wavin N.V. remained listed, the Company was no longer compliant with Best Practice II.1.8 of the Dutch Corporate Governance Code. Shareholders were informed of this non-compliance in the agenda of the EGM at which Mr. Sietze Hepkema's appointment as a Managing Director was proposed. The Supervisory Board, however, was of the opinion that this formal non-compliance should not outweigh the benefits to the Company of the proposed appointment of Mr. Sietze Hepkema. Wavin N.V. was delisted in July 2012. Mr. Sietze Hepkema is a non-executive Director of RBS Holding N.V..

Acceptance by the members of the Management Board of no more than two mandates as a Supervisory Board member of a listed company requires the prior approval of the Supervisory Board to prevent conflicts of interest and reputational risks. Other appointments of material importance need to be notified to the Supervisory Board. Members of the Management Board are also appointed to the statutory board of SBM Offshore operational entities. The Company's Code of Conduct does not permit employees and directors to accept gifts of value for themselves or their relatives, to provide advantages to third parties to the detriment of the Company or to take advantage of business opportunities to which SBM Offshore is entitled.

Loans or Guarantees

No loans or guarantees have been provided to members of the Management Board.

Compliance Programme

In a press release of 10 April 2012, the Company announced the creation of a new Management Board position of Chief Governance and Compliance. The Appointment & Remuneration Committee proposed to appoint Mr. Sietze Hepkema, a former Managing Partner at the Allen & Overy law firm of Amsterdam and the appointment was approved by shareholders at an Extraordinary General Meeting held on 27 June 2012. One of the prime responsibilities of the Chief Governance and Compliance Officer is to manage the internal investigation into potentially improper sales practices. This internal investigation is carried out with the assistance of specialist law firms and a forensic accountant. The potentially improper sales practices have been notified to the appropriate authorities and the conclusions of this internal investigation are expected to become known in the course of 2013. The Chief Governance and Compliance Officer created the position of Compliance Officer under whose leadership the Company's compliance programme was redefined. The Company's compliance programme is summarised below.

The compliance programme consists of a number of elements:

Standards / Communication

This part of the programme consists of updating the Company's policies and procedures, the institution of a consultation desk where compliance officers are available to speak to business staff and the initiation during 2012 of the SBM Offshore Integrity Line.

Third Party Integrity Management

This concerns due diligence on third parties which the Company uses in its business, more specifically on agents, customs brokers and other such parties. A procedure has been set up pursuant to which these parties are subject to due diligence to be evaluated in a validation committee consisting of amongst others the CEO and the CGCO. Under these activities also fall an integrity module for supply chain vendors and rolling out the Company's compliance policies in the joint ventures in which it participates.

Training

During 2012, training has been given to approximately 80% of the high risk group. Specific function group training has been developed and rolled out and an e-learning tool has been implemented for all in SBM Offshore.

HR Procedures

The recruitment policies have been re-evaluated to include integrity assessment, specific risk assessments have been made in a variety of HR areas and compliance targets have been made part of the performance objectives and assessment of SBM Offshore executive management.

Risk Assessments

The intention is to do periodic compliance risk assessments. For this purpose new software is being evaluated which would provide consolidated reporting for risk, internal audit and compliance. Ad hoc risk assessments have been carried out during the year.

Internal Controls / Monitoring

The Management Board accepted recommendations from forensic accountants and implemented these in the Company's internal controls and monitoring systems. Also, a gift, hospitality and entertainment tracker has been installed.

Review and Reporting

A protocol has been published to report incidents and act in crisis situations. A procedure for internal investigations and case management has been prepared as well as a guideline for reporting on exemptions.

Code of Conduct and Reporting of Alleged Irregularities

The Company has a Code of Conduct which was updated in January 2010 and is posted on the Company's website. The Company also has a procedure allowing employees to report alleged irregularities with respect to the Code without jeopardising their employment position. The Board of Management decided to create a freephone or web-based reporting facility (the SBM Offshore Integrity Line) which employees can use -anonymously if they wish- in their own language. The facility is operated by an external provider, People Intouch.

The Company has developed a number of anti-corruption initiatives including:

- An Anti-Corruption Policy and Compliance Guide which is posted on the Company's website.
- Guidelines for use of Agents and Commercial Relations with Public Officials.
- Use of standard contracts and anti-corruption clauses in the Company's contracts.
- Creating a Partner and External Relations Management (PERM) Team which performs due diligence on any new Agents/Consultants, Partner and/ or Freight Forwarder/ Custom Brokers contracts/ relationships.
- Conducting routine Internal Audit checks to monitor Code of Conduct compliance.
- Group-wide compliance seminars and web-based training courses.

3.4.4 Supervisory Board

The Supervisory Board currently consists of seven members.

The first term of office of Mr. F.G.H. Deckers member of the Supervisory Board and of the Audit Committee and Mr. T.M.E. Ehret, member of the Supervisory Board and chairman of the Technical & Commercial Committee, expired at the AGM of 16 May 2012. Both members of the Supervisory Board informed the Chairman of their preparedness to stand for re-election. A proposal for their reappointment for a second term of office expiring at the AGM of 2016 received shareholders' approval.

The second term of office of Mr. R. van Gelder expires at the AGM of 2 April 2013.

The Supervisory Board has three sub-committees: the Audit Committee, the Appointment & Remuneration Committee and the Technical & Commercial Committee.

Audit Committee

Mr. F.J.G.M. Cremers is the chairman of the Audit Committee and Mr. F.G.H. Deckers and Mr. H.C. Rothermund are members.

Appointment and Remuneration Committee

This committee is chaired by Mr. F.R. Gugen and Mr. H.C. Rothermund is a member when the committee deals with remuneration matters. When dealing with selection and appointment matters Mr. H.C. Rothermund is chairman and Mr. F.R. Gugen is a member.

Technical and Commercial Committee

In 2010 the Supervisory Board resolved to create a new Technical and Commercial Committee to enable the Supervisory Board to have a better understanding of the Company's exposure to technical risks and to facilitate its supervisory duties of technical and commercial matters. Mr. T.M.E. Ehret is chairman of the Technical and Commercial Committee and Mr. R. van Gelder and Mrs. K.A. Rethy are members.

More information about the matters considered by the Supervisory Board and its committees and personal details of the members of the Supervisory Board can be found in the Report of the Supervisory Board.

Duties of the Supervisory Board

The Supervisory Board challenges in a constructive way and with due regard to the interests of all stakeholders the actions and plans of the Management Board concerning the management of the Company's businesses. The Supervisory Board supervises the management of the Company and its businesses by the Management Board, the effectiveness and the integrity of the internal control and risk management systems and procedures implemented by the Management Board and the general conduct of affairs of SBM Offshore and its businesses. The Supervisory Board assists the Management Board with advice in accordance with the best practices of the Code and the Supervisory Board rules. In the performance of its duties the Supervisory Board is guided by the interests of the stakeholders of the Company, and the enterprises connected therewith.

In addition, certain (material) decisions of the Management Board, as stipulated in the law or articles of association or the Rules of the Supervisory Board, need prior approval of the Supervisory Board.

Appointment of Supervisory Directors

Supervisory Directors are appointed by the GM (General Meeting of shareholders). A Supervisory Director is appointed for a maximum period of four years, and, unless a Supervisory Director resigns earlier, his/her appointment period shall end on the day of the AGM, that will be held four years following the appointment. A Supervisory Director may be reappointed. A Supervisory Director may be a member of the Supervisory Board for a maximum period of twelve years. This period may or may not be interrupted, unless the GM resolves otherwise. If one or more Supervisory Directors are to be appointed, the Supervisory Board may make a binding or a non-binding proposal, as referred to in the articles of association. As far as a binding nomination is concerned, the proposal should offer the choice between at least two candidates.

In case a binding proposal is made, the GM may at all times overrule the binding nature thereof by a resolution adopted by an absolute majority of the votes cast, provided such majority represents at least one-third of the issued share capital. If this proportion of the capital of at least one-third is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, a new meeting may be convened. At that meeting, the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting. The Supervisory Board resolved not to use the option of making a binding proposal for the appointment of Managing Directors unless in situations of threatened or actual unsolicited takeover.

Suspension or Dismissal of a Supervisory Director

A resolution to suspend or dismiss a Supervisory Director may be passed only by the General Meeting with an absolute majority of the votes cast, such majority representing more than one-third (1/3) of the issued share capital. If this majority does not represent at least one-third (1/3) of the issued share capital, a new meeting can be convened in which meeting the resolution can be adopted by an absolute majority of the votes cast.

If the General Meeting has suspended a Supervisory Director, then the GM must resolve within three months after the effective date of the suspension, either to remove the Supervisory Director, or to set aside or maintain the suspension, failing which the suspension shall cease. A resolution to maintain the suspension may be adopted only once and the suspension may be maintained for a period not exceeding three months as from the day on which the General Meeting has passed the resolution to maintain the suspension. If the General Meeting has not resolved within the period set for the maintaining of the suspension either to remove the Supervisory Director or to set aside the suspension, the suspension shall cease.

Conflicts of Interest

The Supervisory Board report mentions how conflict of interest matters are being dealt with. All Supervisory Board members are independent from the Company within the meaning of best practice provision III.2.2 of the Code. None of the members is a member of the management board of a Dutch listed company in which a member of the Management Board of the Company is a Supervisory Board member. There are no interlocking directorships. None of the members represent directly or indirectly a shareholder of the Company or a supplier or customer of the Company. None of the members of the Supervisory Board provides any services to or has any direct or indirect ties with SBM Offshore outside his/her Supervisory Board membership.

In addition to his position as a Supervisory Director of the Company, Mr. T.M.E. Ehret is also a non-executive director of Dockwise Ltd. a supplier of logistical services for large and heavy structures and a member of the Supervisory Board of Huisman B.V., an offshore equipment design and manufacturing company. In the event of any perceived conflict of interest during the discussion of agenda points, Mr. T.M.E. Ehret does not participate in such discussions.

Until 1 February 2013, Mr. F.G.H. Deckers was the CEO of Van Lanschot N.V., a financial institution established in The Netherlands. Kempen & Co., a subsidiary of Van Lanschot N.V. has acted as adviser of the Company and may be retained as adviser for future transactions. Mr. F.G.H. Deckers informed the Supervisory Board that “Chinese walls” are in place within the bank and that he is not involved in the advisory services performed by Kempen & Co. nor would be involved should Kempen & Co. provide services in the future.

Mr. F.J.G.M. Cremers is a member of the Supervisory Board of Parcom Capital Management B.V. with whom the Company entered into a transaction for the sale of its GustoMSC business, which was completed on 28 November 2012. Mr. F.J.G.M. Cremers informed the SB of this possible conflict and did not participate in the decision making regarding the selection of Parcom Capital Management B.V. and the eventual sale of the GustoMSC business to one of its investment funds. Parcom Capital Management B.V. from its side confirmed that Mr. F.J.G.M. Cremers informed its supervisory board of the possible conflict and did not participate in the decision making concerning the acquisition of the Company’s GustoMSC business.

The Supervisory Board feels satisfied there were no conflicts of interest in the year under review.

Regulations concerning Ownership of and Transactions in Shares

The Supervisory Board rules contain provisions concerning the ownership of and transactions in shares held by members of the Supervisory Board in Dutch listed companies other than SBM Offshore N.V..

Remuneration – Shares held by the Members of the Supervisory Board

None of the members of the Supervisory Board receives a remuneration that is dependent on the financial performance of the Company. None of the current members of the Supervisory Board has reported holding shares (or other financial instruments) in SBM Offshore N.V..

The fee level and structure of the Supervisory Board and its sub-committees is published in the remuneration report of this report.

The total remuneration of the members of the Supervisory Board amounted to US$ 789,000 (2011: US$ 812,000). For the individual remuneration, please refer to note 4 to the consolidated financial statements. These amounts are gross amounts per year.

Diversity

The Supervisory Board rules state that the composition of the Supervisory Board shall be such that the combined experience, expertise and independence of its members enables the Supervisory Board to best carry out the full range of its responsibilities.

The Supervisory Board considers that its current composition satisfies the best that is obtainable in this segment in terms of diversity, age, nationality (five different nationalities), financial and business management expertise and international experience in the oil and gas industries. A first step towards gender diversity has been made with the appointment at the AGM of 5 May 2011 of Mrs. K.A. Rethy to the Supervisory Board.

Sustainability / Corporate Social Responsibility

The Company publishes each year a Sustainability report, formerly entitled Corporate Social Responsibility (CSR) report. In this report, the Management Board reports on the different Sustainability issues which are relevant to the Company. CSR issues which are relevant to the Company’s business, more particularly Health, Safety, Security and Environmental matters, but also social engagement matters were discussed with and taken into consideration at the Technical & Commercial Committee and by the Supervisory Board.

3.4.5 *Shareholders*

Share Capital

At the AGM of 5 May 2011 a proposal was submitted to shareholders to amend the Articles of Association to increase the authorised share capital from 200,000,000 ordinary shares to 400,000,000 ordinary shares with a nominal value of EUR 0.25 and from 50,000,000 protective preference shares with a nominal value of EUR 1.00 to 400,000,000 protective preference shares with a nominal value of EUR 0.25, i.e. aligned with the nominal value of the ordinary shares. The preference shares can be issued as a protective measure as explained below in the section on the Stichting Continuiteit SBM Offshore N.V.. The evolution of the number of issued ordinary shares is set out in section 1 under Stakeholders information.

On 20 December 2012, the Company announced having placed 17,111,757 ordinary shares with HAL Investments B.V.. In a notification made the same day to the Autoriteit Financiële Markten, the Dutch financial markets regulator, HAL Trust notified holding (through Hal Investments B.V.) 25,152,814 ordinary shares, or 13.30% of the total issued share capital of the Company.

As per 31 December 2012, 189,142,215 (2011: 171,440,416) ordinary shares are issued. No preference shares have been issued.

General Meeting of Shareholders

Every year the AGM shall be held within 6 months after the start of a new calendar year. The agenda for this meeting shall include the following standard items: (i) the report of the Management Board concerning the Company's affairs and the management as conducted during the previous financial year, (ii) the report of the Supervisory Board and its committees, (iii) the adoption of the Company’s annual accounts, the allocation of profits and the approval of the dividend, (iv) the discharge of the Management Board and of the Supervisory Board, (v) Corporate Governance, (vi) the (re)appointment of the external accountant of the Company, (vii) the delegation of authority to issue shares and to restrict or exclude pre-emptive rights and (viii) the delegation of authority to purchase own shares and (ix) the composition of the Supervisory Board and of the Management Board. In addition, certain specific topics may be put on the agenda by the Supervisory Board.

Extraordinary GMs can be held whenever the Management Board and/or the Supervisory Board shall deem desirable.

The GMs can be held in Schiedam, Rotterdam, The Hague, Amsterdam or Haarlemmermeer (Schiphol).

Agenda of the Meeting

Proposals of persons who are entitled to attend the shareholders meetings will only be included in the agenda if such proposal is made in writing to the Management Board not later than sixty (60) days before that meeting. The proposals can be made by persons who are entitled to attend GMs, solely or jointly representing shares amounting to at least 1% of the issued share capital, or with a market value of at least fifty million euro (€50,000,000), unless this would be contrary to important interests of the Company.

Responsibility of Shareholders

In accordance with best practice IV.4.4. of the Corporate Governance Code, a shareholder shall exercise the right of putting an item on the agenda only after having consulted the Managing Board. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the Company's strategy, e.g. through the dismissal of one or more members of the Managing Board or of the Supervisory Board, the Managing Board shall be given the opportunity to stipulate a reasonable response period which may not exceed 180 days. The Managing Board shall use the response time for further deliberation and constructive consultation under the monitoring of the Supervisory Board and shall closely involve the Supervisory Board in this process.

Attendance and Voting Rights at the Meeting

With reference to the articles of association, all Shareholders are entitled to attend the GMs, to address the GM and to vote. At the GM each Ordinary Share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote. Each protective preference share with a nominal value of EUR 0.25 each shall confer the right to cast one (1) vote, when issued. None of the protective preference shares have been issued to date. Unless otherwise required by the law and articles of association all resolutions shall be adopted by an absolute majority of votes.

The Code's principles also require that proxy voting means are made available, with the intention of maximising shareholder participation in GMs of the Company. At the GM of 5 May 2011 a proxy voting system was provided through the Royal Bank of Scotland (RBS) and Algemeen Nederlands Trustkantoor B.V. (ANT) as independent third party.

At the AGM of 16 May 2012, 89,956,218 ordinary shares participated in the voting, equal to 52.47% (2011: 46.23%) of the then total outstanding share capital of 171,503,723 ordinary shares.

At the EGM of 27 June 2012, 84,174,264 ordinary shares participated in the voting, equal to 49.08% of the then outstanding capital of 171,503,723 ordinary shares.

All the proposed resolutions were approved with a vast majority of the votes. The outcome of the voting was posted on the Company's website on the day following the respective meeting.

Notice to convene a Meeting

The notice for the AGM was published within the required time electronically on the Company website and on www.rbs.com/evoting. Publication of the agenda was announced in a press release.

Dividend

The Management Board is authorised, subject to the approval of the Supervisory Board, to determine each year what part of the profits shall be transferred to the reserves, and what part will be distributed as dividend. The policy of the Company in 2012 was to pay out 50% out of the net result of the Company's continuing operations, realised in the accounting year. Under the policy of the Company, 50% of net income is generally proposed for distribution as dividend but due to the negative result for 2011, no dividend was proposed to the AGM to be held on 16 May 2012. Due to the negative result also for the year 2012, no dividend will be proposed to the AGM in 2013.

Major Shareholders

The Financial Markets Supervision Act (Wet op het financieel toezicht) up to 31 December 2012 imposed a duty to disclose percentage holdings in the capital and/or voting rights in the Company when such holding reaches, exceeds or falls below 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Since 1 January 2013 the threshold for notifying has been lowered to 3% effective from 1 July 2013. Such disclosure must be made to the AFM without delay. After the disclosure to the AFM, the AFM notifies the Company. During the course of 2012, three shareholders notified holding 5% or more of the Company's shares, or notified having reduced their holding to a level below the 5% threshold. The latest notifications were on 5 November 2012 from Sprucegrove Investment Management Ltd. of a holding of 5.02%, BlackRock Inc. on 30 November 2012 of a holding of 4.38% and on 20 December 2012 of HAL Trust of a holding of 13.30%.

3.4.6 Articles of Association

Issue of Shares

The GM or the Management Board if authorised by the GM and with the approval of the Supervisory Board may resolve to issue shares; as long as the Management Board is authorised to issue shares, the GM may not pass a resolution to issue shares.

The GM or the Management Board, subject to the approval of the Supervisory Board, shall set the price and further conditions of issue, with due observance of the provisions contained in the articles of association. Shares shall never be issued below par, except in the case as referred to in section 80, subsection 2, Book 2, of the Dutch Civil Code.

If the Management Board has been designated as the body authorised to issue shares the number and the class of shares must be specified in such designation. Upon such designation the duration of the designation shall be set, which shall not exceed five years. The designation may be extended, from time to time, for periods not exceeding five years. Unless such designation provides otherwise, it may not be withdrawn. A resolution of the GM to issue shares or to designate the Management Board as being authorised to issue shares, shall be valid only if accompanied by a prior or simultaneous resolution of approval by each group of shareholders of the same class whose rights are prejudiced by the issue. Although the duration of the designation as provided by law may be a maximum of five years, the Company adheres to the good practice of limiting this duration to eighteen months. At the AGM of 16 May 2012, the shareholders have delegated the authority to the Managing Directors for a period of eighteen months and subject to the approval of the Supervisory Board to issue ordinary shares up to 10% of the total outstanding shares at that time. In case of Mergers or Acquisitions this percentage is increased to 20%. In the same meeting, the shareholders have delegated the authority to the Managing Directors for a period of eighteen months as from 16 May 2012 and subject to the approval of the Supervisory Board to restrict or withdraw preferential rights of the shareholders in respect of ordinary shares when ordinary shares are being issued. At the AGM of 2 April 2013, a similar proposal to authorise the Management Board to issue shares will be submitted to shareholders for approval.

Repurchase of own Shares

The Management Board may, with the authorisation of the GM and the Supervisory Board and without prejudice to the provisions of sections 98 and sections 98d, Book 2, Dutch Civil Code and the articles of association cause the Company to acquire fully paid up shares in its own capital for valuable consideration. The Management Board may resolve, subject to the approval of the Supervisory Board, to dispose of shares acquired by the company in its own capital. No pre-emption right shall exist in respect of such disposal.

At the AGM of 2012, the shareholders have delegated their authority to the Managing Directors for a period of eighteen months, as from 16 May 2012 and subject to approval of the Supervisory Board, the right to acquire ordinary shares, up to ten percent of the total outstanding shares at that time. At the AGM of 2013, a similar proposal to authorise the Management Board to repurchase own shares will be submitted to shareholders for approval.

Amendment of the Articles of Association

The GM may adopt a resolution to amend the articles of association of the Company by an absolute majority of votes cast, but solely upon the proposal of the Management Board subject to the approval of the Supervisory Board.

3.4.7 Appointment of the Auditor of SBM Offshore N.V.

At the AGM of 2012, KPMG Accountants N.V. was appointed as the auditor of SBM Offshore N.V. for a period expiring at the closure of the accounting year 2013. A thorough review of the external auditor's functioning was carried out by the Audit Committee. The conclusions of this review were positive. In anticipation of the new law on compulsory rotation of external auditors, the Company will start the selection process for a new external audit firm during 2013, for approval at the 2014 GM.

3.4.8 Stichting Continuiteit SBM Offshore N.V.

A Foundation 'Stichting Continuiteit SBM Offshore N.V. (the Foundation), formerly named 'Stichting tot Beheer van Preferente Aandelen in SBM Offshore N.V.', has been established with the objective of using the voting power on any preference shares in the Company which it may hold at any time, in the best interests of the Company and its stakeholders. The Foundation will perform its role, and take all actions required, at its sole discretion. In the exercise of its functions it will however be guided by the interests of the Company and the business enterprises connected with it, and all other stakeholders, including shareholders and employees.

The Foundation is managed by a Board, the composition of which is intended to ensure that an independent judgment may be made as to the interests of the Company. The Board consists of a number of experienced and reputable former senior executives of multinational companies. To be kept informed about the business and interest of the Company, the CEO and/or the CGCO is invited to attend the Foundation meetings to address this agenda item. On a regular basis, the Board members of the Foundation are informed about the developments in legislation.

The Board of the Foundation consists of: Mr. N.W.G. Buis, a former CEO of Smit Internationale N.V., Mr. H.A. van Karnebeek, a former Vice-Chairman of the Board of Management of Akzo, Mr. R. Voogd, a former notary and presently a lawyer, Mr. A.W. Veenman, a former CEO of the Nederlandse Spoorwegen and Mr. C.J.M. van Rijn, a former CFO of Nutreco N.V.. Mr. P.J. Groenenboom, a former CEO of Imtech N.V., and Mr. J.C.M. Hovers, a former CEO of Stork N.V. and of Océ N.V. stepped down as directors of the Foundation after completion of their third four-year term of office.

The Managing Directors, with the approval of the Supervisory Board at that time, have granted a call option to the Foundation to acquire a number of preference shares in the Company's share capital, carrying voting rights, equal to one half of the voting rights carried by the ordinary shares outstanding immediately prior to the exercise of the option, enabling it effectively to perform its functions as it, at its sole discretion and responsibility, deems useful or desirable.

The option was granted on 30 March 1989. In accordance with the by-laws of the Company, shareholders were advised of the reasons for granting this option in the Extraordinary GM of 28 April 1989.

In the same option agreement the Foundation granted a put option to the Company and the Company has decided on 3 March 2011 to definitively waive its rights under the put option. In the course of 2011, the option agreement was amended and restated to reflect the waiver by the Company of its put option and the change of the nominal value of the protective preference shares from EUR 1 to EUR 0.25 and the related increase in the number of protective preference shares as per the amended articles of association of the Company.

In the joint opinion of the Supervisory Board, the Management Board and the Foundation board members, the Foundation is independent as stipulated in clause 5:71 section 1 sub c Supervision Financial Market Act.

3.4.9 The European Directive on Take-Over Bids and the Publication Requirements

To meet the publication requirement as mentioned in the Decree of 5 April 2006 relating to Article 10 of Directive 2004/25/EC on take-over bids of 21 April 2004 of the European Parliament and the Council of the European Union, the following information is provided:

- The articles of association do not provide for any limitation of the transferability of the ordinary shares.
- The voting right is not subject to any limitation.
- No agreement has been concluded with any shareholder that could give rise to any limitation of shares or any limitation of the voting rights.
- The appointment, suspension and discharge of members of the Management Board and Supervisory Board are set out in this 'Corporate Governance' part.
- The procedure for alteration of the articles of association is mentioned in this Corporate Governance part.
- In the services agreement between the Company and each of the members of the Management Board a change of control clause is included. A severance payment amounting to no more than one year base salary will be paid if the employment contract would be terminated due to a change of control by a public take-over bid. The Supervisory Board will have the discretionary power to settle the termination conditions.
- SBM Offshore N.V. has a revolving credit facility of US$ 750 million under which the agreement of the participating banks must be obtained in the event of a change in control of the Company after a public take-over bid has been made.
- Exceptionally, certain vessel charters contain clauses to the effect that the prior consent of the client is required in case of a change of control or merger or where the company resulting from such change of control or merger would have a lower financial rating or where such change of control or merger would affect the proper execution of the contract. In addition, local bidding rules and regulations (e.g.in Brazil for Petrobras) may require client approval for changes in control affecting the charter.

The following information is provided at the Corporate Governance Page on the website of the Company ( ):

- Articles of association.

- Company code of conduct and Anti-Corruption and Compliance Guide.
- Supervisory Board rules, including rules for the three committees of the Supervisory Board.
- Supervisory Board profile and retirement schedule for its members.
- Management Board rules.
- Rules for reporting of alleged irregularities of a general, operational or financial nature (‘Whistleblowing’ rules); these rules are designed to enable employees to report alleged irregularities without jeopardising their employment position and are also available on the Company’s intranet site.
- Remuneration policy.
- Regulations concerning inside information and the holding of and effecting transactions in shares and other financial instruments.
- Agenda, minutes, resolutions and presentations given at previous GMs.

3.5 Risk Management

3.5.1 *Process and Activities*

Introduction

SBM Offshore has developed Governance Risk and Compliance systems following the general principles and recommendation of ISO 31000.

The Group recognises that efficient and effective risk management of all its business and support activities is a prioritised strategic objective.

This is achieved by ensuring that responsibility and accountability are managed at the correct level by business managers charged with effectively implementing risk management within their areas of remit. The Group's Management review and approve these processes and controls to ensure their effectiveness.

The Group endeavours to improve its risk management processes on a continuous basis.

Risk Management Policy

The Risk Management principles that the Group follows are defined in the policy extract below:

SBM Offshore is committed to delivering superior financial returns whilst maintaining a good risk/reward balance.

To meet its objectives and comply with corporate governance principles, SBM Offshore management implements and maintains a pro-active and Group-wide Risk and Opportunity Management System based on the following key principles:

- Risk and Opportunity appetite and tolerance levels are defined by the Board of Management and cascaded to all the entities within the Group.
- All individuals within the Group are fully responsible for the management of Risks and Opportunities within their respective areas of responsibility.
- At Projects, Departments, Business Areas and Corporate Levels, Risks and Opportunities shall be tracked and managed at the appropriate, respective authority level.
- All Group levels, shall proactively, transparently and objectively undertake systematic identification, assessment, treatment and reporting of Risks and Opportunities.
- Risk and Opportunity outcomes are monitored regularly to ensure effectiveness of the processes.
- Lessons learned related to Risk and Opportunity management are collected and shared across the Group, contributing to knowledge, performance and profitability.

Risk and Opportunity Management methodology and tools are spearheaded by the Group Risk team.

All employees are expected to promote an appropriate attitude, where risk and opportunity considerations are a core management activity and an integral part of the SBM Offshore culture.

This Risk Policy shall be reviewed and revisited as required by law, corporate governance principles or when deemed necessary by the Board of Management.

Developments during 2012

Structure

The Group Risk Officer (GRO), appointed in 2011, is now fully integrated and has recruited a completely new team tasked with strengthening the Risk and Opportunity Management processes. The GRO reports to the Chief Governance and Compliance Officer (CGCO).

Risk Team

The Risk Team's primary responsibility is to sustain efforts in defining and implementing appropriate Risk and Opportunity policies across the Group. They will also ensure that risk processes and tools are adequately developed, understood, and utilised. This has been effectively implemented with a strong focus on proposal and project execution being at the core of the Group's business and that teams share the cultural positive attitude towards risks promoted by the management.

Risk Network

At Execution Centre level, risk management responsibilities have been assigned to the Finance Manager. They will support the Managing Director in his/her responsibilities for the management of Risks and Opportunities in his/her Execution Centre. For fleet operation Execution Centre (SBM PC), a Risk Manager has been nominated to develop and support the risk and opportunity processes across the whole fleet.

Sponsorship

During 2012, SBM Offshore joined the Engineering and Construction Risk Institute (ECRI). This gives the Group access to similar types of industry best practices, training, and peers networking for risk management activities. Training sessions facilitated by ECRI have been organised for employees in Houston and Monaco. These sessions will subsequently be extended to all other Execution Centres.

Quantitative and Qualitative Risk Analysis

During 2012, the Group Risk Management Department achieved the implementation of a risk assessment process, both quantitative and qualitative, which can be applied at proposal and project levels. The Group has developed a methodology to quantify the impact of risks which may be included in a cost estimate (proposal) or managed throughout the project execution. This is a statistical method, based on the Monte Carlo simulation programme. The forecasts resulting from these simulations help in quantifying areas of risk, reducing estimated uncertainties, and establishing, with the project control team, the appropriate contingency levels during project execution.

Developments for 2013

Execution Centre Risk Committees

Individual Execution Centre Risk Committees will be created and tasked with responsibility for identifying, assessing, addressing, and monitoring risk & opportunities within their own execution centre. They will work for and report to the Managing Director and Risk Delegate Leadership.

Risk Appetite

Risk Appetite is currently defined in particular through the strategic 3 year plan. The process of implementation is under discussion and will become effective in 2013.

Risk Seminar

A Risk Seminar, attended by key personnel, will be held to promote risk management within the Group and to spread a positive risk culture, which is a key success factor, throughout the company.

Business Continuity

A full review, update, and testing programme of the existing Business Continuity Plans will be launched in 2013.

Reporting - Risk Aggregation

Risk registers are updated on a regular basis for each proposal and project, and major risks and opportunities are reported through the weekly and monthly reports and dashboard to the management team. Similar reports will be generated for each of the fleet units.

A quarterly Risk and Opportunity report is being compiled by the Group's Risk Team and made available to the Board of Management. The report covers proposal, projects and fleet individual risks, as well as Group Functions and Execution Centres.

A similar type of report is produced on a quarterly basis for the attention of the Group's Supervisory Board.

For all risk reporting, specific Risk Key Performance Indicators as well as Key Risks Indicators are being progressively developed and tested to be implemented during the course of 2013.

All risks identified throughout the Group's activities are aggregated and classified in terms of impact and probability.

Risk Profile

The risks inherent in SBM Offshore's core business activities did not change substantially during 2012, although a number of new risks were identified, these include:

- The costs of bringing to close legacy projects, particularly in countries of operation where regulatory standards are most stringent such as Norway and Canada. The evacuation of the YME platform in Norway has put to halt the remaining completion activities. The decision to fully impair the full book value of the YME platform has been made. Discussions with the client are on-going to find an agreement. A provision has been made to cover the cost of a potential decommissioning.
- The potential costs of environmental pollution following events in the Gulf of Mexico have resulted in a tendency for SBM Offshore's clients to try and allocate more potential risks liabilities to the Group. In general, the trend towards tougher contractual requirements has continued during 2012.
- The ongoing compliance investigation into potentially improper sales practices may expose the Group to the risk of penalties or fines.
- An industry wide risk is related to an overall shortage of competencies in the total range of skills required in the Group's activities.
- Recent Internal Audit findings have pointed to some necessary improvements in critical safety issues on several of our vessels. Action has been taken to address these findings across the fleet.

The general nature of the risk categories confronting the Group and the way in which these are managed are explained below.

3.5.2 Risk Categories / Risk Factors

Strategy

The strategy plan has been refocused towards the Group's core business and competency of FPSO and related products.

Irregular Order Intake

Inherent to the oil and gas capital goods business is the irregular order intake of these high value projects. Moving forward, the Group intends to focus its marketing and sales efforts on core products, which have historically yielded good margins. This strategy is in line with market conditions which are currently buoyant.

The Group takes steps to reduce the risks inherent in irregular orders, using the following strategies:

- Concentrating its marketing activities on projects which are most likely to go ahead, given the resources and skills available.
- A continuing emphasis on developing effective, low cost, technology-based solutions to build competitive advantage.
- Directly employing core teams of project managers and competent engineers working alongside contractors supporting its design teams as well as outsourcing detailed engineering to a shortlist of qualified subcontracting firms in low cost countries.
- Diversifying the locations in which projects are executed (Monaco, Houston, Schiedam, Kuala Lumpur, Paenal yard, Rio de Janeiro and Brasa yard) to provide greater flexibility and responsiveness to client needs whilst broadening opportunities to source skills and reduce costs. Projects may be diversified even further in the future in response to local content requirements.
- Growing both its lease and operate, and parts and services businesses to generate predictable and profitable long-term revenue streams.

- Outsourcing construction work to remove the risks inherent in under- utilisation, except in cases where local content offers a way to secure competitive advantage, e.g. the Paenal yard in Porto Amboim, Angola. This yard is operated under a joint venture with Sonangol and DSME to meet local content requirements. A partnership has been established in Brazil, through a JV with Synergy, to secure module and integration yard capacity in the Brasa yard which will be involved in the latest Brazilian Projects construction and integration activities.
- Maintaining R&D investment to develop new technologies and prepare for the next generation of technical and operational needs for FPSOs.

Business Mix between Supply and Lease Contracts

Sales contracts generate revenues and profits during execution. In most instances, related progress payments allow for at least a neutral cash flow which reduces SBM Offshore need for capital. Lease and operate contracts are capital intensive, although lease payments generate long-term stable cash flow, EBIT and net income. SBM Offshore endeavors to maintain a balance between supply and lease contracts, but obviously clients select the contracting method most appropriate to their needs. Financing market constraints may also lead the sale strategy towards one or the other direction depending on the Group's ability to access competitive financing sources.

Cost Structure and Resources

The Group’s flexible structure incorporating globally diversified Execution Centres and a workforce of permanent employees and short term contractors provides protection and potential benefits from macro-economic forces.

The Group’s internal costs are biased towards Europe therefore exposing it to the European economy and Euro fluctuations. Short to medium term risks are managed by forward hedging although the long-term exposure remains. Exposure to the global shortage and high cost of experienced oil-field human resources remains a critical risk. This is minimized over the long-term by human resource development programmes.

In the past, securing contracts with suppliers and contractors in a very buoyant market has been a major challenge, and this situation could happen again. The Group has worked to mitigate this risk by developing its own trained and experienced resources whilst also identifying a wider number of external resource-providers. Pressure on margins is managed by securing long-term relationships, favorable commercial agreements, firm vendor commitments, escalation formulae and options. Such Frame agreements with essential sub-contractors such as construction yards have also been developed and the Group has launched an initiative to open relationship with new yards in China.

Operational

Project Execution Risk

The Group runs risk workshops from project proposal through to completion on every project in order to highlight uncertain, unusual, unique or critical risk factors. These assessments aim to reduce the variability of project outcomes and ensure that resources needed to mitigate or contain critical risks are in place. They also ensure that Group exposure is widely understood. Personnel involved in projects attend workshops tailored to suit their specific needs.

Health, Safety, Security and Environment (HSSE) is high priority for the Group throughout all project stages. The Group seeks to minimise HSSE related incidents through:

- The application of continuously upgraded HSSE standards.

- Risk-based reviews of operations by HSSE professionals.
- Appropriate advice provided by SBM Offshore's Health & Safety staff to reduce risks to employees.
- The development of appropriate security plans for specific geographical locations, in accordance with the International Ship & Port Facility Security (ISPS) Code for the offshore fleet and with country Security and Journey Management plans for onshore locations.

The technical challenges presented by projects are addressed by:

- Employing and developing in-house expertise and hiring external advice as appropriate.
- Strict adherence to the Group Management System, HSSE standards, Corporate Engineering Standards and Quality Assurance Procedures.
- Compliance with the requirements of, and review by, the relevant Classification Society.
- Including provisions in cost estimates and contingencies for particular technical and execution challenges, based on a thorough assessment of the inherent risks. This will be reinforced through the systematic use of probabilistic analysis of impacts and associated risks.

The Group controls execution risks by monitoring the various engineering, procurement, construction, installation and start-up phases. Detailed weekly and monthly reports, forecast procedures and specific reviews such as Independent Project Reviews and Gate Reviews are also used. As a result, it is expected that execution delays can be anticipated and budget overruns prevented. The consequences of accidental events encountered during execution are, where possible, insured under Construction All Risk (C.A.R.) insurance policies. A financial viability verification process is used for clients, major vendors and subcontractors and a tendering process is applied to procure quality equipment at competitive prices.

A key element of the Group's cost control strategy is to own and control adequate means for the installation of offshore floating systems; namely SBM Offshore's installation vessels. This strategy protects SBM Offshore from exposure to non-availability and cyclically high pricing of third party contractors.

The Group maintains a limited inventory of tankers, suitable for conversion projects in the future. Consequently it can provide more accurate cost estimates for future projects, based on a firm price for the hull and a detailed understanding of any necessary refurbishment or conversion work.

The Group operates globally, from different centres around the world. The continuity of operations in each of its principal locations is addressed in plans defining appropriate responses to significant risks, such as fire and re-establishing key functions including IT efficiently. The ability to operate from any of its main Execution Centres using the same tools and systems is one of SBM Offshore's key strengths. Those business continuity plans will be revisited and a testing programme launched in 2013.

Production Operations

The operation of offshore production units, presents environmental, performance, health, security and safety risks which must be identified, assessed, and managed. To formalise and strengthen the management of these risks, a new organisation will be implemented within SBM Production Contractors in 2013.

Performance

If vessel/FPSO fails to perform in accordance with the contract, it is possible that the client will refuse to pay or only partially pay lease and/or operating rates or incentives. The Group seeks to safeguard system uptime by a design process based on direct operating experience. Reliability, Availability, and Maintainability (RAM) modelling, planned and preventative maintenance as well as condition-based monitoring are also designed to maximise uptime. SBM Offshore has operated FSOs/FPSOs for over 200 contract years, with a total operating downtime of less than 1%. This percentage is well below typical contractual allowances and better than industry median performance. Insurance coverage for loss of earnings is only contracted when considered appropriate or when required in relation to debt obligations.

Environmental

Whilst there have been a small number of spill incidents, no significant environmental incidents involving FPSOs or FSOs have occurred anywhere in the world. In general, FPSOs and FSOs have very good environmental track records, however, the consequences of the Macondo Field incident in 2010 focussed industry attention on pollution risks more than before.

Events in Brazil, Nigeria and other countries, though not linked to SBM Offshore, also emphasise this particular risk and highlight the need for SBM Offshore to closely monitor the environmental impact and associated risks of its global activities. The Group acknowledges that non-related incidents can have a knock-on effect on its projects and operations.

The management of pollution risk starts with careful hull selection, conversion and refurbishment followed by formal interrogation of marine, oil and gas process systems design to demonstrate integrity in safety, reliability and operability.

All units presently owned by the Group have design service lives that extend beyond their contractual commitments.

When in service, the general integrity of the fleet is maintained through:

- Strict operating and Risk Management procedures along with preventive maintenance programmes.
- Careful selection and intensive training of high quality personnel, with all positions of responsibility aboard units filled by direct employees.
- A survey programme of Hull and Topsides set by the Classification Societies.
- Management system accreditation and compliance with the requirements of the International Safety Management (ISM) Code 2002.
- Proactive regulatory compliance.

It is important to emphasise that oil and gas offshore production activities have been subject to very strict regulatory regimes for many years, and that the Group is not active in the ownership or operation of drilling facilities, for which major new regulatory changes can be expected.

The Group purchases Protection and Indemnity Club pollution insurance for the maximum available cover. Indemnities effectively capping the exposure well below the insured amount are obtained from clients where possible.

All offshore units are also insured under comprehensive Hull and Machinery insurance packages, providing protection against loss or damage to the unit itself. Insurance for named windstorm damage in the Gulf of Mexico is limited to policies available at a reasonable price bearing in mind risk probability and likely impacts.

Offshore Health and Safety

SBM Offshore has a duty of care to protect the environment and all personnel involved in its operations from potential health hazards posed by hydro-carbon processing and toxic substances in an offshore environment. The employment of internal experts, a robust Group Management System and vessel-specific design along with Operational Safety Case studies are all important elements in evaluating and mitigating health and safety hazards.

In addition, management system codes of practice covering the management of Benzene, Mercury and other hazardous substances, apply onboard FSOs/FPSOs.

Crisis Management

The Management System includes Emergency Contingency Planning, which has procedures for responding in an efficient and predetermined way to any emergency onboard an offshore unit.

The Monaco Emergency Control Centre (MECC) will co-ordinate the management of any emergency, the MECC comprises:

- An Emergency Control Room, under the responsibility of the Production Operations Manager.
- Infrastructure allowing direct lines of communication between all relevant parties.
- A Relative Response Room, allowing direct communication with the families of the offshore crew.
- A Media Response Room.

Corresponding emergency management arrangements are in place in all overseas management offices. The Group holds regular emergency response simulation exercises, involving offshore units, ‘in country’ management offices, the MECC, local facilities, and clients.

Debriefing takes place immediately after an exercise. The debriefing is fully documented and any lessons learned are incorporated into the Emergency Contingency Plan.

Payment Risk

Before agreeing any major contract, experienced legal, financial and risk professionals complete a detailed review of the potential clients credit status and the proposed terms and conditions. Bank and parent company guarantees are negotiated with clients and if doubts remain concerning the client’s financial health, payments due in respect of supply contracts are covered by Letters of Credit.

Payment risks involving banks and insurance companies are managed within reasonable credit limits, adjusted to take into account their credit ratings.

Lease Risk

Ten main risk factors are always evaluated when making a proposal to lease a floating facility to a potential client, these are:

- Credit reliability and exposure limits.
- Country stability, politics and exposure limits.
- Health, safety and security.
- Environmental conditions.
- Contractual rights and obligations.
- Performance criteria.
- Finance availability.
- Insurance availability.
- Tax exposure.
- Residual value exposure.

The Group reduces its exposure in a variety of ways; these include guarantees, limited recourse financing, interest rate swaps and insurance. If necessary, finance structures may be arranged prior to bidding.

Over and above the traditional fixed day-rate lease model, there is an increasing tendency for clients to look to contractors to share risk, sometimes by linking a proportion of revenue to production or even the price of oil. The Group approaches proposals of this kind with extreme caution; firstly, by capping risks to an acceptable level in a worst-case scenario and secondly, by ensuring an appropriate balance between potential risks and rewards. SBM Offshore currently has one lease contract (DeepDraft Semi™ Thunder Hawk for Murphy) under which revenues are partially linked to production throughput.

Residual value relates to the portion of any unit's value that is not depreciated over the initial guaranteed lease period. To assess the possible residual value, the likelihood of the lease being extended and the technical potential and market demand for re-deploying the unit must both be considered. Estimating the residual value has a significant effect on the lease rate calculation.

The Group takes a cautious approach when establishing residual value. Calculation of residual value is based on economic life rather than design life and is set below the estimated future market value. In the past, almost all lease contracts have been extended and to date, no unit has been re-delivered to the Group with a market value lower than its residual book value.

Operating Cost Risk

The Group's model operating contract is largely based on a reimbursable cost principle and an inflation-adjusted fixed fee covering production management costs. The bidding rules set by clients, e.g. Petrobras, require a fixed price contract. In such cases the Group is exposed to cost inflation over the long-term. Contracts of this type are now subject to a formula which compensates for inflation; however, the Group is still exposed to shortfalls between revenue escalation under the formula and actual cost inflation.

The Group takes a conservative approach in its lease pricing but some risk does remain.

Political Risk / Country Risk

The Group carries out risk assessments on countries to identify any potential risks, e.g. political instability. The Group does not hold assets in countries where acceptable insurance cover is unavailable. The Group is exposed to revenue risks in Brazil, Angola and other countries; however, these are reduced through a combination of solid contracting parties or parent guarantee structures and specific country risk insurance. Overall country risk is evaluated objectively against credit limit guidelines relative to total equity. In 2013, a further step will be taken to evaluate country risk in terms of overall rating against a set of specific criteria relating to the specific details of SBM Offshore's operations in those countries.

Some operations take place in regions that present identifiable security risks, including terrorism. In these countries risks are assessed carefully, protection measures put in place and crisis resolution plans established.

Funding Risk

Success in obtaining new 'lease and operate' contracts requires the arrangement of significant amounts of finance. This places pressure on the Group's balance sheet; however, it also provides an excellent opportunity to leverage higher returns on equity. Extensive operational experience, track record, and high quality contracts, ensures that SBM Offshore continues to be well supported by its banks and for the first time in 2012, new project finance was supported by private investors. The funding risks on projects are monitored from project inception and no new lease project requiring finance is bid for or accepted without first having received positive indications of financial support. A five year financial model is used to anticipate longer-term financing requirements and to drive decisions on corporate and project finance.

Long-term debt facilities generally include financial and other covenants to the lenders. If covenants such as financial ratios are not met and the lenders are not willing to agree to a waiver request, premature repayment of the debt could be triggered. In view of the current market situation, several mitigating measures are taken to limit the Group's exposure to volatility in the financial markets, These include:

- Cash / deposits: cash is held with minimum investment grade banks except for limited number of entities where country or joint venture arrangement provides otherwise.
- Loan facilities: bank syndication is represented by approximately 25 solid institutions and the US Private Placement, by 16 investors.
- Derivatives: a counterparty bank default would lead to a cash settlement risk of the derivatives value but would not impact SBM Offshore profit. Moreover, the portfolio is spread amongst a diversified range of banks, approximately 20, and the main counterparty has the best credit quality bank.
- Bank guarantees: total opened bank guarantees are all issued by investment grade banks. All banks have a minimum of A- credit rating which is generally accepted by all clients.

Diversification of financing sources will continue to be a focus for SBM Offshore in the future and has been successfully launched in 2012. It is also anticipated that the Group will continue to share its equity exposure by bringing financial partners into newly-awarded projects.

Litigation

Periodically, the Group encounters disputes with clients. These disputes generally concern contractual requirements and product performance. Most are resolved amicably, but sometimes litigation and arbitration can arise, resulting in additional project costs.

Financial provisions are put in place for any expected negative outcomes, and recoveries are accrued when a positive result can be reliably projected and estimated.

Treasury and Liquidity Risk

The Group is exposed to financial market risks such as fluctuating global currencies and interest rates. The Group's functional and reporting currency is the US Dollar, in line with the global standard currency for offshore revenues.

There are however occasional significant costs and investments denominated in Euros and other non-dollar currencies, resulting in potential exposures on profit and equity. The lease business is particularly capital intensive and substantially financed with floating rate debt, giving rise to interest rate exposures.

Group policy is to minimise profit volatility and hedge all significant currency and interest rate exposures as soon as they arise, using mainly fixed-rate instruments. No speculative activities are engaged in using financial instruments. The market value risk on financial instruments (in particular interest rate swaps) can be significant and, under International Financial Reporting Standards (IFRS) rules, market value variations impact reported equity values or in some cases profitability where the hedge does not accurately match the underlying exposure. The notes to the Financial Statements provide details of financial instrument policies, sensitivities to exchange rate or interest rate movements, accounting treatments and market values.

As a departure from the policy of full hedging, the equity and profit from activities of non-US Dollar denominated subsidiaries are not fully hedged. The resultant volatility is not considered material in the overall financial context.

The Group does not use financial instruments to hedge during the bid phase for prospective projects but instead seeks to mitigate significant foreign exchange exposures through currency adjustment mechanisms in its tender prices. Where this is not possible, the Group is exposed to currency and interest rate risks whilst the bid is valid.

The treasury department prepares a twelve-month forward looking detailed cash plan on a quarterly basis to monitor liquidity and borrowing requirements with a high level two-year cash plan for a longer-term view. The business unit cash plans are built up from the detail of each project to forecast liquidity as accurately as possible. Group Treasury reports cash and debt balances on a weekly basis, identifies and explains material divergences from the plan and takes corrective actions.

Group Treasury reports monthly to the Board of Management and quarterly to the Audit Committee of the Supervisory Board.

3.5.3 *Internal Control and Risk Management*

The Dutch Corporate Governance Code, under section II.1.4, requires that the Management Board examines strategic, operational, legal and regulatory, and financial reporting risks. The Management Board confirms that it is responsible for the Group's risk management and internal control systems and has performed reviews of their operational effectiveness for the year ended 31 December 2012. The outcome of these reviews and analysis as well as planned improvements for 2013, has been shared with the Audit Committee and the Supervisory Board and has been discussed with the Group's external auditors.

The Group's structure with respect to Internal Assurance and the interactions between the key players is summarised in the "three lines of defence" model presented below.

The Group tested compliance with its key controls in the fields of proposals, financial reporting, information systems, HSSE, quality assurance, tax, technical assurance and legal due diligence with satisfactory overall results.

In respect of financial reporting, the Management Board considers that:

- Risk management systems and internal control measures provide reasonable assurance that financial reports do not contain any material inaccuracies.
- There are no indications that risk management systems and internal control measures did not work properly in 2012.

The statements above do not imply that the Group can provide certainty concerning the realisation of business and financial strategic objectives or that its approach to internal control over financial reporting be expected to prevent or detect all misstatements, errors, fraud or violation of law or regulations. In respect of the major impairment charges incurred in 2011 and 2012, financial reporting was based upon the best operational information available throughout the year and was promptly communicated. In respect of the investigation into potentially improper sales practices, investigations are ongoing and no conclusions or updates are available as of the date of this report.

In view of the above, the Management Board believes that it is in compliance with the requirements of II.1.4 of the Dutch Corporate Governance Code taking into account the recommendations of the Corporate Governance Monitoring Committee and the recent best practice provisions of the Amended Code.

3.5.4 Compliance Statement

Due to the implementation of the European Transparency Directive in the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) the Management Board confirms to the best of its knowledge that:

- The annual Financial Statements for the year ended 31 December 2012 give a true and fair view of the assets, liabilities, financial position and profit and loss of SBM Offshore N.V. and its consolidated companies.
- The additional management information disclosed in the Annual Report gives a true and fair view of SBM Offshore N.V. and its related companies as at 31 December 2012 and the state of affairs during the financial year to which the report relates, and the Annual Report also describes the principal risks facing SBM Offshore N.V..

Management Board

Mr. B.Y.R Chabas, CEO
Mr. P.M. van Rossum, CFO
Mr. S. Hepkema, CGCO

3.6 Compliance

3.6.1 *Compliance Objectives*

SBM Offshore N.V. is committed to conducting its business activities in an honest, ethical, respectful, and professional manner. Its ability to achieve sustainable business success is reliant on the Group's commitment to maintaining the highest standards of professional and ethical behaviour, and compliance with laws.

In April 2012, in order to enhance compliance as part of the corporate culture, a Chief Governance and Compliance Officer (CGCO) position was created. The CGCO is member of the Board of Management (BOM) and regularly reports to the BOM and the Supervisory Board on the current status of the Group's compliance activities.

3.6.2 *Investigation*

In the course of an internal review of the Group's compliance procedures, including its anti-corruption guidelines and their implementation, the Group became aware of certain sales practices involving third parties and which may have been improper. Outside counsel and forensic accountants have been engaged to investigate these practices thoroughly and the Group has also taken the necessary steps designed to terminate any such practices. The Group has disclosed its internal investigation to appropriate authorities. The investigation is still on-going. Consequently, at this point it is not possible to provide an estimate of the financial effect or information on possible cash outflows such as fines and penalties, if any.

3.6.3 *Enhanced Compliance Programme and Organisation*

The Group has further enhanced its Compliance Programme to protect the Group and its employees from wrong decisions and to promote compliant conduct. In order to mitigate compliance risks, in particular to prevent corruption, the Group has revised its existing prevention measures and has introduced new policies, processes and systems.

A Compliance Department was established to drive the implementation and execution of the Group's compliance programme, and to ensure the systematic integration of compliance aspects into the Group's business processes. The Compliance Department consists of five permanent members of staff. To further develop the compliance organisation, local compliance champions will be appointed in all Execution Centres. These champions will be the point of contact for compliance issues, within their Execution Centre, and act as the interface between the Execution Centre and the Group Compliance Department. They will also support local management in adhering to the Group's policies and its compliance programme.

3.6.4 *Third Party Integrity Management*

In 2012, the Group fundamentally revised and improved its procedure for identifying and mitigating integrity risks with regard to sales intermediaries. The procedure includes intensive due diligence on existing and new sales intermediaries as well as tightened internal controls around transactions involving sales intermediaries. The due diligence on sales intermediaries is approved by a newly established validation committee consisting of members of the Board of Management and other executives. This procedure is a key element of the Group's third party integrity management.

Going forward, the Group will also conduct a risk-based due diligence on supply chain vendors within the framework of its supplier qualification process.

3.6.5 *Communications and Training*

Employees of SBM Offshore are continually informed about the importance of ethical behaviour and compliance. Senior management regularly issue statements promoting compliance at events, as well as in internal print and online media.

In addition, the Group provides a comprehensive programme of compliance training. In 2012, 3,077 employees received web-based training on the prevention of corruption, and 1,027 employees received in-depth classroom training provided in 23 sessions on corruption prevention.

3.6.6 *Point of Contact*

Employees of SBM Offshore are encouraged to contact the Compliance Department to seek clarification or to report any concerns regarding compliance. In addition, employees can raise concerns anonymously by calling the SBM Offshore Integrity Line. The Integrity Line is a hotline operated by an external provider and available in all relevant languages for employees wishing to bring to the attention of management any perceived breaches of SBM's Code of Conduct and other procedures. Since its inception, 2 incidents were reported which were investigated.

3.6.7 *Risk Assessment*

In 2013, the Compliance Department will perform a systematic risk analysis, including of Execution Centres and other entities within the Group. Key aspects to be analysed and evaluated will include perceived geographic exposures to compliance risks, the control environment, and business processes typically exhibiting higher corruption risks as well as the robustness of any mitigating controls and processes which are in place.

3.6.8 *Internal Controls*

SBM Offshore is committed to ensuring that its anti-bribery related polices and guidelines are properly applied and monitored throughout the Group. The Group will therefore supplement its current internal control framework by additional anti-bribery specific controls. The proper execution of these controls will be tested by the Group’s Internal Audit Function.

3.6.9 *Regulatory Compliance*

The Regulatory Compliance Function has created a process to ensure that the offshore facilities of all Group Projects comply with all applicable conditions of project regulatory approval, host government regulations, statutes, and permitting requirements. Once established, all applicable regulatory requirements are shared with relevant functions such as engineering, construction, supply chain and HSE. Regulatory Compliance also coordinates the activities of the functions involved to safeguard that projects conform to all regulatory requirements throughout their lifecycle.

In some cases external providers are used to acquire the necessary understanding of the requirements under some regulations and to provide specialist advice where needed.

The Regulatory Compliance Function also has responsibility for coordinating the Classification process.

Compliance with the Classification Society Rules in accordance with respective assigned Class notations is defined and achieved according to respective Project terms and conditions.

A classification society is always engaged for floating projects to grant third party approval for engineering, construction and International Marine Organisation Convention certification. The classification society will also conduct regular surveys to ensure that floating units remain within the parameters of their class certificate, which is a requirement for insurance providers as well as for maritime authorities.

3.7 HSSE

3.7.1 *Introduction*

SBM Offshore is committed to protecting people, preventing pollution and safeguarding the environment. The Group strives to offer an incident free workplace to protect its most valuable asset: the men and women responsible for its success.

During 2012, the Board of Management reviewed and endorsed an updated Health, Safety, Security and Environment (HSSE) Policy which clearly re-affirms the Group's commitment to HSSE, as well as extending the HSSE Policy on aspects of Social Performance.

Relevant HSSE workplace controls and procedures are in place to ensure a safe working environment. These are monitored for effectiveness and enhanced where necessary. HSSE plans covering all Group activities and operating environments are also in place.

The Group's safety performance improved during 2012 in comparison to performance in 2011. This improvement was due to a number of interventions which re-iterated the commitment of senior management to safe working objectives; these included timely safety stand-downs, enhanced training and competence, and improvement in Safety Culture throughout the Group.

As a result, the Total Recordable Injury Frequency Rate (TRIFR) improved both in fleet and construction yard operations. The TRIFR Rate for the Group for 2012 was 0.38.

Detailed safety performance data is provided in the Safety Management section.

Actions taken during 2012 to proactively improve safety performance, address ongoing issues, and embed key HSSE programmes across the Group are described further below.

3.7.2 *Health Management*

General

The Group considers workforce health a key priority. It works proactively by implementing initiatives to promote employee health, improve existing health procedures, and to mitigate any health risks.

Offshore Production

All employees working offshore undergo regular age related medical examinations. All offshore units run health and wellbeing programmes and provide gymnasium equipment which employees are actively encouraged to use.

Employees identified as being at risk of contracting Malaria are given advice on appropriate prevention measures and are provided with Prophylaxis medication. They are also offered vaccinations which are recommended for the country or region in which they work. Travel health arrangements are in place that address the country or local health risks and provide the necessary recommendations and practices to reduce these health risks to staff.

Onshore Operations

In addition to the health promotion and travel health programmes already in place, a number of new health and well-being initiatives were maintained and developed during 2012.

These cover:

Stress Management

A workplace Psychologist has been appointed in the Group's Monaco Execution Centre to offer support to employees suffering from stress or related symptoms.

Heat Stress

Measures are in place to counter the effects of heat stress, particularly in countries such as the United Arab Emirates (UAE). These measures may include reductions in working hours, the use of cool rooms, and the provision of cool water.

3.7.3 Safety Management

General

During 2012, the Group continued to improve its safety initiatives with improvements to existing programmes and also the development of new ones. These included a number of actions on leadership and strategy:

- Visible leadership shown by management on safety in the field or on-site through visits and safety tours.
- Enhanced monitoring of potentially severe incidents with early leadership involvement in understanding underlying causes for these incidents.
- Developing a longer term strategy for HSSE in the Group's business activities.

Activities undertaken to strengthen HSSE competencies within the Group included:

- Safe Behaviour Mentoring.
- SBM Offshore Life Saving Rules – Online training.
- Supervisory Safety in Construction – e-learning.
- HSSE Core, Advanced and Commissioning Safety training for onshore project personnel.

You can read more about the safety improvement activities in the operations sections below.

Offshore Production

The fleet of FPSOs recorded a decrease in its TRIFR to 0.71 in 2012 compared to 1.00 in 2011. Also reported was an increase in its Lost Time Incident Frequency Rate (LTIFR) of 0.08 in 2012, compared to 0.04 in 2011 and in its Lost Time Incident Severity Rate (LTISR) of 5.10 in 2012, compared to 0.68 in 2011. Increase in LTISR is explained by two lost time accidents with long recovery periods.

This has resulted in enhancing investigation and monitoring of incidents with high potential.

Offshore fleet operations recorded a year-on-year decrease in recordable incidents. This is attributed to a series of new initiatives that the Group put in place to emphasise management system compliance and at the same time enhance dynamic risk awareness and behaviours.

The methods used to calculate LTIFR and TRIFR are explained in the notes.

The length of operating time achieved without a recordable incident provides a good indicator of safety performance throughout the industry. This is why the Group decided in 2012 to issue Safety Milestone Certificates to any unit achieving a year without incurring a recordable incident.

In 2012, the offshore fleet was awarded with seven certificates for recordable incident-free periods, with one offshore unit, the FPSO Saxi Batuque in Angola, achieving 3 years recordable incident-free

As part of its drive for continuous improvement, SBM Production Contractors, as the operator of the FPSO fleet, has attained compliance recognition by ABS on a voluntary basis for Occupational Health and Safety Assessment Series (OHSAS) 18001. Following a successful implementation of the standard in Brazilian Shore Bases in 2009 and onboard FPSOs managed from Brazil in 2010, the process continued in Angola and for the Rest of the World Fleet in 2011 and 2012.

For further information, see the compliance table in Part 1.6, Corporate Management Systems and Compliance Table.

Compliance to the mandatory International Safety Management (ISM) standard and the International Ship and Port Facility Security (ISPS) Code remains the cornerstone for effective fleet management across the Group.

Readiness to deal with any offshore emergency is also a key element in effective HSSE management. In addition to extensive document procedures required to meet ISM certification, the Group's offshore units also undertake regular emergency exercises at four critical levels:

- Offshore Unit Level.
- Offshore Unit including shore base.
- Offshore Unit including shore base and Monaco Emergency Control Centre.
- Exercises initiated by other authorities, including clients.

During 2011 and 2012, SBM Production Contractors also performed an oil spill response capability review in partnership with a specialist company. Following completion of the review, an action plan will be developed to further enhance the Group's oil spill response capability in 2013.

Onshore Operations

HSSE is an ongoing priority for the Group's four project Execution Centres and shore bases worldwide. Consequently, there have been improvements in training and development, and a number of new programmes launched during 2012 to promote and ensure a safe and healthy working environment for all employees and contractors. These include:

Safe Behaviour Mentoring

This approach is aimed at improving self-awareness, encouraging active involvement of our people at different locations. During 2012 the Group HSSE Department delivered training in the use of the system to 355 site based personnel.

The Safe Behaviour Mentoring system has provided information in two ways. Firstly, as immediate verbal feedback to an employee or co-worker regarding their safe or unsafe acts, and secondly, by systematically recording data relating to both safe and unsafe acts and conditions.

The observations are recorded in the data base with pending actions as required by the situation, this now enables analysis to develop proactive measures in accident prevention. In 2012, over 10,000 observations were made and recorded.

SBM Offshore's Life-Saving Rules

Further improvements to the Life Saving Rules have been made during 2012; these included an online version which can be accessed via the Group's Intranet. This online version allows personnel at remote locations to access the required training which is mandatory for all SBM Offshore personnel.

The e-learning Life Saving Rules have a number of interactive aspects including videos and a quiz which becomes part of the overall assessment. At the end of the assessment the user can then print their certificate and their results recorded in the Company SkillsXP data base.

SkillsXP

SkillsXP is the trade name for the data base used to record all internal and external onshore training that personnel attend. This data base is also used by SBM Production Contractors as a means of recording all offshore training requirements.

During 2012 the Group Execution Centres at Schiedam, Houston and Kuala Lumpur were included on the data base and the training completed by personnel based in these centres recorded in it. Doing so allows the information to be shared at the site locations in Singapore, Norway and China facilitating improvements in planning the training needs of personnel arriving on site.

Supervisory Safety in Construction - e-learning

The Group HSSE department continues to look for opportunities to improve the delivery of training to ensure all personnel, regardless of their location have access to the required training to ensure they continue to work in a safe and healthy environment.

In 2012, there were a number of developments in e-learning such as travel induction for personnel who may have to travel to Nigeria to work on behalf of the Group. The Group HSSE department produced an online e-learning induction that gives personnel the information they need to know if travelling to Nigeria. Importantly, the induction makes them familiar before they travel with the procedures to be followed before, during, and after a visit. Other travel e-learning inductions are planned for early 2013 for Brazil and Angola.

Further modules that have been produced include Supervisory Safety in Construction, this covers two parts;

- Part one: Management Activities.
- Part two: Common Workplace Hazards.

Both of these modules have a number of units covering all aspects of construction.

Further developments for 2013 will be to introduce these and other internal and external training into one Learning Management System (LMS).

Onshore HSSE Training

HSSE Training is on-going in the construction yards and Execution Centres. During 2012, the Group HSSE department issued 3,306 internal certificates for attending various training modules with a further 206 external certificates issued by external course providers.

Internal certificates awarded included SBM Offshore Commissioning Safety which covers five topics relating to our activities, these are:

- Pressure Testing.
- Lock Out and Tag Out.
- Permit to Work.
- Energisation.
- Anchorage Operations.

Process Safety

A structured programme was initiated in 2012 to address the improvement areas in Process Safety Management, commencing with the resourcing of a core team to develop the principles and road map for enhancing Process Safety in the Group. Process Safety Management has been included in the 3 year strategy for HSSE in the business plan.

Safety Results

All construction yards undertaking work for SBM Offshore provide the Group with details of their safety records to support its reporting requirements in this area.

During 2012, the Company expanded the safety recognition programmes through regular awards, milestones and profiling positive contributions during safety days. It continued to recognise periods of time worked at the yards without an LTI, including twelve awards for periods of 1,000,000 exposure hours worked.

In 2012, SBM Offshore recorded in its onshore operations a decrease in its Total Recordable Incident Frequency Rate (TRIFR) to 0.32 in 2012 compared to 0.41 in 2011, as well as a decrease in its Lost Time Incident Frequency Rate (LTIFR) to 0.06 in 2012 compared to 0.11 in 2011.

There were no fatalities resulting from work-related incidents or occupational illnesses connected to Group projects at any of the sub-contractor construction yards.

3.7.4 Security Management

Ensuring the security of employees wherever they work is a key priority for managers and supervisors throughout the Group. The Group's Security Policy is intended to protect our employees wherever they operate in the world.

In those areas of the world identified as 'high risk', risk assessments are always completed before construction contracts for offshore units managed by the Group commence. In addition, the Group's Security Manager monitors global security issues for onshore and offshore operations.

Regular reports are issued concerning security levels and standards around the world on a daily basis.

The Company is keenly aware of its 'Duty of Care' to employees and contractors. Consequently, it sources relevant security information from Drum Cussac and International SOS, as well as embassy and peer security contacts, especially concerning piracy attacks offshore. This becomes more critical when SBM Offshore vessels are operating in what is deemed as a higher risk location.

Offshore Production

Across the lease fleet, the ISPS (International Ship & Port Facility Security Code) is used as the basis of a system that safeguards personnel onboard, and provides overall protection for all Group facilities. During 2012, security drills, exercises and audits were carried out to ensure that the procedures in place to deal with offshore incidents are comprehensive, fit for purpose and regularly tested. These exercises were particularly relevant for 3 offshore projects in Nigeria, namely Bonny (High Risk), and Bonga and Usan (Low Risk).

Transit risk assessments were carried out for the Group offshore units transiting the Indian Ocean, either going to their operating field or returning from the field to a construction yard in Singapore. Security Training was also carried out onboard the FPSO Cidade de Anchieta in Singapore prior to sail away to ensure all the crew were well versed in all aspects of security procedures for her voyage to Brazil. The training requirement was captured during the Security Risk Assessment as being fundamental for safe and secure transit.

Company Security Officers provide advice on security to the operating fleet, focusing their efforts on three main operating areas: Angola, Brazil and the Rest of the World.

Onshore Operations

Some of the countries in which SBM Offshore operates are designated as 'high risk' with respect to personnel security. The Group Security Manager ensures that employees are fully aware of the risks they face, by running regular security briefings in Monaco, updating security files and participating in security risk assessment sessions as necessary.

Throughout 2012, the Group maintained a particular focus on the security aspects of travel between all locations in which it operates. It continued to deploy ISOS/Control Risks for 'Travel Security Services' to monitor all employee business travel security and to establish appropriate procedures for evacuation (including medivac support) if necessary.

Country Evacuations plans have been developed for various countries. The programme will extend to other countries in the coming year. Evacuation plans for all countries will be using a Group-wide approach, which is based on the guidance issued by the International Association of Oil & Gas producers.

3.7.5 Environmental Management

The Group endeavours to operate on its own behalf and on behalf of its clients in the most environmentally sustainable ways possible, in order to minimise damage to local ecosystems.

Offshore Production

The Group is fully aware of the potential environmental impacts associated with handling hydrocarbons offshore and is fully committed to safe operations and environmental protection.

The Group pays particular attention to three key environmental challenges:

- Avoiding oil spills.
- Preventing unnecessary flaring or emissions to sea or air.
- Minimising the use of energy and waste outputs by encouraging reduced consumption and re-use.

Company Policies, Procedures, and Codes of Practice are tailored to provide the fleet with detailed guidelines relating to the safe and effective control of work, ensuring:

- Compliance with local environmental laws.
- Compliance with MARPOL, the international marine environmental convention to minimize pollution of the seas.
- That the Group's Environmental Management Systems (EMS), meet the requirements of ISO 14001.
- Control and reduction of atmospheric and sea pollution emissions along with minimal waste generation.
- Compliance with Company procedures for the safe handling, storage, and disposal of all types of waste, including hazardous waste.
- Increased environmental awareness through training and instruction.

The EMS for the fleet of offshore units complies with ISO 14001 requirements. EMS and stringent Codes of Practices are in place onboard each offshore unit. The Group is committed to identifying potential sources of unwanted emissions, implementing practical preventative measures and tracking emissions that have a direct impact on the environment.

The ambitious plans of the Group to bring its entire fleet into compliance with ISO 14001 was achieved by the end of 2012 with the accreditation audit onboard the FPSO Kuito in Angola. FPSO Cidade de Anchieta is not certified yet. The ISO 14001 certification for this new unit is targeted to be completed in 2013.

The primary emissions from the offshore fleet are Greenhouse Gases (GHG) caused by combustion and flaring (approximately 50% of these emissions) which are operational by-products. Flare emissions are reported by the clients (scope 1) and not SBM Offshore.

During production of oil and natural gas, the most significant components of produced GHG are Carbon Dioxide (CO_2) and Methane (CH_4). Emissions associated with the production of energy used by operating units, such as steam or electricity, are included in the Group's emissions records. The main sources of combustion related GHGs are emissions from steam boilers, gas turbines and diesel engines.

Environmental Loss Statistics

The Company measures all unintentional and intentional emissions to land, sea, and the atmosphere on a regular basis. In 2012, the Offshore Production fleet reported 39 environmental events, of which 29 were contained within the offshore unit, with no release to the sea, while the remaining 10 resulted in releases to the sea.

Total volume released to the sea is estimated to 0.076 cubic metres for 2012 compared to 0.063 cubic metres in 2011.

Emissions to Air

In general, the overall emissions (excluding flaring) increased by 14% in comparison to the previous year

Offshore Production Emissions to Air

	2012	2011	Change +/- %
CO2 from other sources in metric tonnes	**11 Units**	11 Units	
Brazil			
	949,537	1,000,312	(5%)
Asia			
	4,589	4,360	5%
West Africa			
First full year of production of FPSO Aseng	1,240,935	918,477	35%
Total	**2,195,061**	**1,923,149**	**14%**

The CO_2 emissions have increased by 35% compared to 2011 in West Africa as FPSO Aseng started first oil production late 2011 in Equatorial Guinea.

Onshore Operations

The Group has implemented a series of measures and initiatives intended to reduce the environmental footprint of its onshore activities, these include:

Construction Sites

Improved Environmental performance during fabrication at all constructions sites is ensured by focusing Group activities, at construction yards, that hold Environmental Management System (EMS) Certification (ISO 14001).

In addition, compliance with regulatory requirements and contractual HSSE Standards is monitored throughout the project execution phase. Internal environmental audits are carried out as necessary to assess HSSE management standards.

A good example of the structured approach to environmental management in yards is the programme initiated in the new Brasa yard near Rio de Janeiro, Brazil. Please find more information in The Sustainability Initiatives Part.

Offices

Waste segregation programmes have been launched in offices across the Group's Execution Centres. During 2012, the offices in Monaco strengthened their environmental programme with campaigns on reducing energy use. These successful campaigns included reducing the consumption of paper for printing documents and enhancement of, and use of, distant learning/computer based training to reduce travel.

The Schiedam office continues to segregate all IT residual waste for disposal in environmentally sustainable ways. The Houston office operates an IT computer-recycling programme which employees can use to dispose their personal computers if they wish to do so.

Travel

The Group offers 100% reimbursement of parking fees to employees working in Monaco who participate in the car-sharing scheme. The scheme contributes to efforts to reduce car related global CO_2emissions.

The Group continues to operate and expand a Tele-presence network across its global office to reduce the need for work related business travel.

3.8 Human Resources

3.8.1 Introduction

2012 has been a year of transformation at SBM Offshore: a year during which SBM Offshore has re-defined its strategy to concentrate on its core business of FPSOs.

With the aim of ensuring a consistent global quality in all SBM Offshore's services, products and performances and promoting one business model across the Group, new ways of working have been implemented, founded upon autonomy and coherence, accountability and responsibility.

In order to support this new strategy and its continued growth, SBM has restructured its internal organisation during the course of the year via the following initiatives:

- Reinforcement of the role of Execution Centres (operational) and Group Functions (framework and standards).
- Divestment of GustoMSC Execution Centre.
- Integration of SBM-Services into the SBM-Monaco Execution Centre and Group Functions.

Based on its values of team energy, success and ambition, SBM Offshore has further embedded a culture of performance, sending out a clear, consistent message:

- Work as one.
- Perform.
- Shape the future.

3.8.2 Development

SBM Offshore encourages an environment of development and empowerment within which each staff member can contribute his/her skills and talents towards sustaining top performance and achieving rewards and recognition.

In these times of increasingly complex projects and technical challenges when the competition for the best Oil and Gas talent is more intense than ever, it is SBM Offshore's aim to develop from within and retain in-house the technical know-how that SBM Offshore sells to its clients, which remains its greatest asset.

Over the past few years, a series of programmes have been implemented within the framework of the Talent Management and Succession Planning process, thereby building the foundations for SBM Offshore's continued success.

- Our global and local People Reviews take place on a yearly basis and help SBM Offshore to ensure that it has the necessary successors ready for key positions.
- In 2011, SBM Offshore implemented a customised Leadership and Management Development (LMD) programme with the objective of building a common leadership and management culture and reinforcing these skills throughout the Company. Almost 70 participants attended in 2011 with just under 60 attending in 2012.
- In parallel, 2012 has seen the launching of a Middle Management Development Programme (MDP) that embodies the SBM Offshore's ambitions and is inspired by the LMD. Scheduled over a total of 6 days, it focuses on the following key skills: open communication and organisational buy-in, driving results, building and leading teams, decision-making and problem-solving and cross-border collaboration.
- A Mentoring process has also been developed within the framework of these programmes, with the objective of solidly

anchoring the SBM Offshore Management competencies and behaviours across the Group. This personal learning contract includes a 360° survey for the participant (the Mentee) generating 3 strong points and 3 points for improvement. The Mentor and the Mentee then jointly define development objectives and implement actions derived from the programme, culminating in a final individual development plan discussion. Following their active participation, attendees become Mentors for future participants in order to guide and challenge them throughout the process as well as provide continued support beyond the end of the training.

SBM Offshore also continues to offer international career opportunities to a significant number of employees to enhance their experience within the Group.

3.8.3 *Training*

As mentioned earlier, development of the competencies of SBM Offshore's employees through general and specific programmes is key to its performance and to the realisation of its strategic goals.

With these goals in mind, SBM Offshore provides a wide range of training and development opportunities to enhance the skills of its employees in all locations worldwide. The total training hours recorded for 2012 is 166,961 with a total of 4,067 permanent employees being trained on a total of 11,733 courses. In comparison with 2011 figures, 2012 total training hours have increased by 25%.

Onshore Staff

As mentioned above, training policy is based on SBM Offshore's objectives and strategy. In addition to Group's programmes that are provided, the need for training and development is also discussed during the Annual Performance Appraisal session between employee and manager and a specific training plan is developed for execution during the following year.

Training provided by the Company covers both in-house training sessions, which are performed by SBM Offshore's staff or consultants, and external training, which is performed outside the Company by specialised training providers.

The majority of training courses concerns technical and HSSE topics, including use of technical and scientific software. Over the last few years, specific focus has been given to managerial and leadership training with the development of Group's programmes in addition to individual training courses.

Offshore Staff

Given the significant technical and safety requirements of the operations onboard, SBM Offshore considers on-the-job training, distance learning and external courses to be of utmost importance for all its offshore personnel, whether permanent or contractor.

HSSE topics and safety in particular represent the vast majority of training courses that are provided to SBM Offshore's offshore staff.

In addition to the above, specific programmes have been rolled-out in 2012, such as Management and Communications training for OIMs (Offshore Installation Managers) and Superintendents and Supervisory Skills training for Supervisors and people moving to a Supervisory position.

The importance given to development applies not only to long-standing crew and technicians but also to the additional workforce available locally, which needs to familiarise itself with the specifics of SBM Offshore's activities. To meet this need, SBM Offshore supports nationalisation programmes, namely in Brazil, Angola, Equatorial Guinea and Malaysia. These programmes include enrolment of personnel into higher education, technical colleges and professional institutions either in their country of origin or even abroad (e.g. South Africa, Scotland, etc), special leadership and management courses and personal development courses. SBM Offshore has also established process simulators (replicating the central control rooms of the FPSOs) located in Brazil and Angola in order to support our training and development activities; these play a key role in our nationalisation programmes.

3.8.4 Compensation and Benefits

SBM Offshore's compensation and benefits package offered to its personnel remains one of the major elements in its employee attraction and retention policy. Efforts this year have been focused on increasing the alignment between pay and performance.

Indeed, different variable pay programmes are in place for different types of positions:

- A new Short Term Incentive Plan has been designed in 2012: the “SBM Offshore Annual Bonus Plan”. After close review of industry best practices and in order to be aligned with its principles of “Work as One” and “Perform”, SBM Offshore decided to implement a global bonus policy applicable to Senior Managers with predefined threshold, target and maximum payment levels based on individual, Execution Centre and Group performance objectives. The weighting of these three components depends on the employee’s grade level.
  Each employee also has the option of voluntarily deferring up to 20% of the bonus into SBM Offshore shares, thereby becoming eligible for a matching element after a 3-year period subject to the fulfilment of certain conditions.
- A Restricted Share Unit (RSU) Plan is also in place and constitutes the Long Term Incentive Plan for Senior Managers and high potential staff. This Plan rewards employees for helping to create long-term shareholder value. The RSUs vest over a 3-year period with 1/3rd vesting upon each annual anniversary of the grant date. The plan operates on a rolling basis (a new grant is made every year) so there is always a financial incentive for employees to stay with SBM Offshore.
- The Employee Share Ownership Plan, which encourages employees to invest in SBM Offshore's shares, remains an attractive staff benefit, thanks to a significant contribution being paid by the Company.

SBM also has an attractive pension benefit system for all its employees: various pension schemes are in place depending on the country of activity, with the majority being “defined-contribution” plans.

3.8.5 Salary Increases

During the annual cash remuneration review (basic salary and bonus) of the individual staff members, the key factors of local market, annual inflation, Group, EC and individual performance are taken into account.

Salary benchmarking analysis is performed on a regular basis in each market area where SBM Offshore has a strong presence to verify the competitiveness of its compensation package compared with peers in the Oil and Gas industry.

3.8.6 *Employee Wellbeing*

SBM Offshore, conscious of the need to protect its most important asset, is continuously focused on the wellbeing of its personnel and the need to provide a pleasant work environment. In this respect, several initiatives have been implemented over the past few years across our Execution Centres, namely:

- Implementation of International SOS/Control Risks Medical evacuation, repatriation and travel security coverage worldwide.
- Stress management and healthy living presentations to Managers (Monaco, Houston and Schiedam).
- Employee care officer consultations available to employees (Schiedam and Monaco).
- Stop smoking campaigns in Monaco.
- Fitness rooms in Houston and Monaco.
- Organisation of social events at all locations to favour interactio.
- Bicycle plan in Schiedam.
- SBM Nursery: this Monaco-based professionally-run nursery and pre-school structure welcomes 34 children from 3 months to school age.

This comes on top of the safe work environment that SBM Offshore considers as a priority.

3.8.7 *Equal Opportunities*

SBM Offshore's employment policy follows the principles of equal opportunity, thereby preventing any discrimination on the basis of sex, age, race, religion, political or trade union affiliations, nationality or disability. Salary scales are in line with a competency matrix and take into account qualifications and professional experience. SBM Offshore considers this as an attractive element of the recruitment strategy.

The Offshore engineering business has long been male-dominated; however, SBM Offshore has adopted a recruitment strategy to increase the percentage of women employees, including in managerial positions, in the onshore segment over the past 15 years. This initiative has been successful to a certain degree, even though the number of graduates coming out of engineering schools and universities is still predominantly male, and this limits the gender ratio in engineering positions. Moreover, the operating crew onboard production units remains very much male as is the case for all operators in this area of business. The total percentage of female/male permanent employees from both Onshore Operations and Offshore Production was 20% women- 80% men in 2012, which is similar to the previous year. However, it is to be noted that in the Onshore-based population, the total percentage of permanent female employees reaches 23% and in terms of Management positions, the female population represents 21%.

3.8.8 *Social Responsibility*

Indeed, SBM Offshore works hard to integrate social balance and equal opportunities whilst preserving its different cultures. SBM Offshore is committed to being globally aware, promoting local development and operating with integrity. SBM Offshore also believes that social responsibility means investing in the wellbeing of its staff and maximising their opportunities for success by providing stimulating challenges, customised training and high levels of work satisfaction, all within a safe work environment.

3.8.9 Employees' Performance Appraisal

The Annual Performance Appraisals have proven to be a valuable source of information for the Talent Management and Succession Planning processes. The process has been reviewed in 2012 in order to anchor SBM Offshore's new set of values into day-to-day practices and align with its strategic goals.

This review has led to a number of new features with a view to promoting higher value interaction between Managers and their employees:

- Competencies: a simplified and integrated competency framework founded upon the LMD & MDP competencies as well as internal competency matrix and external best practices.
- Performance rating: a new overall performance 5-level rating scale taking into account both tangible achievements and targeted behaviours, i.e. the What (expected results & priorities) and the How (a simplified 8 competencies model).
- Objectives: a framework which promotes the setting of SMART objectives (Specific, Measurable, Achievable, Realistic and Time-bound), aligned with corporate priorities.
- Development: a new section highlighting the employee’s career expectations.

In addition, there is now a direct impact of individual performance on the Short-Term Incentive.

This new process has been experienced by a pilot group (Senior Managers) and following its successful implementation, it will be rolled out throughout the Company in 2013.

3.8.10 Appraisals Figures

At the date of drafting this Report, the performance appraisal completion rate attains 84%. However, it should be noted that the process has been postponed by one month, which means that a number of appraisals are still in progress. It is expected that final figures will be in line with previous year once fully completed.

3.8.11 Global Workforce Information

Headcount

The total headcount is based on all SBM Offshore's personnel (permanent staff and contractors) registered as at 31 December 2012 for Onshore Operations and Offshore Production.

SBM Offshore's headcount totals 7,493 (compared with 6,220 in 2011) and represents an increase of 20.47%.

Following the structural transformation/reorganisation in 2012, SBM Offshore's workforce is distributed geographically over the locations of each of its five Execution Centres:

- SBM Monaco: 923.
- SBM Kuala Lumpur: 604.
- SBM Schiedam: 559.
- SBM Houston: 534.
- SBM PC: 2,256.

and

- The newly-created Group Operations representing 2,348 persons (including SBM Rio & Brasa-BSL: 701 persons as well as Paenal yard: 868).
- Marketing & Sales, Treasury and Group Functions: 269.

The variation in the global headcount can be explained by the increase in personnel (permanent and contractor) at:

- SBM Rio and Brasa-BSL (+620).
- SBM Kuala Lumpur (+164).
- Paenal yard (+270).
- Ramp-up of activities in Guangzhou.
- Fleet (+257) mainly stemming from Cidade de Anchieta FPSO new production unit.
- The decrease in Schiedam due to the divestment of GustoMSC.

At year-end 2012**,** the headcount for permanent contract employees totalled 5,893 employees representing 78.6% of SBM Offshore's workforce and the headcount for contractor staff totalled 1,600 employees representing 21.4% of the workforce.

Workforce Diversity

Over the decades, with its business spreading over 6 continents, SBM Offshore has embraced the challenges offered by different environments and adapted to this cultural mosaic. This need for adaption and in-country development has generated flexibility and diversity at all levels of its workforce. Indeed, SBM Offshore has managed to turn this diversity into strength, building complementarities and synergies amongst its personnel.

SBM Offshore's policy to recruit local-based employees whilst at the same time maintaining competency requirements through training, has led to the employment of just under 90 different nationalities.

In 2012, SBM Offshore is composed of 7 main populations: Brazilian, Angolan, French, Malaysian, Dutch, British and American.

This is explained by the geographical position of the Execution Centres, construction sites and offshore production units.

Absenteeism and Turnover

The average rate of absenteeism related to standard illness has increased in 2012 reaching 3.8% (2.95% in 2011).

The net turnover rate (excluding retirement and fatalities) for 2012 is 11.7% and mainly comprises resignations followed by dismissals; the highest turnover being in Houston and Kuala Lumpur due to the buoyant markets and shortage of skilled resources in these locations.

3.9 Sustainable Initiatives

3.9.1 Local Content

The vast majority of SBM Offshore construction and production activities are located in emerging economies where oil and gas resources can contribute effectively to local social and economic development. Host governments now set minimum levels for local content on oil and gas projects. SBM Offshore has always endeavoured to employ local labour and where possible to purchase equipment and services from local suppliers. SBM Offshore is now working with governments and other industry partners, in several countries, to ensure that local people and communities benefit directly from its presence as a major employer and purchaser of goods and services. If possible and operationally desirable, SBM Offshore works in joint ventures with local partners.

Brasa Fabrication Yard

In 2011, SBM Offshore announced a Joint Venture with Naval Ventures Corp (part of the Synergy Group) to:

- Develop and operate the Brasa fabrication yard and a FPSO integration quayside at Niterói/Brazil for the construction and pre-commissioning of topside modules and other systems and equipment.
- Upgrade, own, and operate the Pelicano 1 floating crane to provide heavy lift solutions and services.

This Joint venture is geared towards meeting stringent local content regulations set by the Brazilian authorities.

Brasa yard is located next to Rio-Niteroi Bridge in Guanabara Bay in the southeast state of Rio de Janeiro. Its unique location provides a comprehensive support infrastructure and access to a large skilled workforce.

The floating crane will be upgraded to meet the heavy lifting (> 500T) requirements for placing FPSO modules and equipment onto a FPSO deck. The heavy lifting capabilities will be unique in Brazil.

Fabrication activities commenced at the Brasa yard started during 2012 with the construction of the topsides modules for the FPSO Cidade de Ilhabela. Approximately 1,600 persons will be directly and indirectly involved in the execution of this project at the yard.

Paenal Fabrication Yard

The purpose of local content initiatives in Angola is to promote and support the domestic market for the supply of products and services to the oil and gas industry. Local Content broadly aims to promote Angolan employment, Angolan ownership of businesses, and Angolan industry, production and services.

In 2003, SBM Offshore entered into a joint venture with Sonangol to create OPS, a new company that jointly operates the Angolan owned fleet of 5 FPSO units. These units provide the Angolan offshore sector with safe, reliable floating production and storage facilities. To date, OPS has offloaded nearly half a billion barrels of oil and liquefied petroleum gas.

In 2007, OPS created Paenal to run a new fabrication and construction yard. The yard, currently under construction, will provide fabrication facilities for topsides modules and FPSO integration in Angola.

The fabrication yard is located approximately 200 km south of Luanda in the Kwanza Sul province on the Atlantic shoreline of Angola. The yard, one of the most modern in Africa, covers an area of 175,000 m^2 and is self-sufficient in terms of power, water and sewage. 2012 data show that the yard has an Angolan local workforce ratio of 80%.

The development of Paenal fabrication yard has been planned in three phases allowing for a steady increase in capability and capacity. When completed, the yard will have a steel work fabrication capacity of some 8,000 – 10,000 tons a year requiring approximately 2 million man-hours. It will be the only yard in Angola capable of fabricating topsides modules with infrastructure large enough to accommodate a VLCC and facilitate integration, hook up and commissioning of Mega FPSO vessels.

In 2011, SBM Offshore (30% equity) and Sonangol (40% equity) signed an agreement giving Daewoo Shipbuilding & Marine Engineering 30% equity in the Paenal Joint Venture. At the same time, further investment was announced to develop the yard and to increase the scope of training to cover a wider range of technical skills to support dramatic growth in the yard's workforce.

2008 saw Paenal awarded its first contract, the supply of two shallow water CALM Buoys. During 2010, Paenal received its first FPSO Topsides Contract; the topsides fabrication and integration of Totals FPSO CLOV. Subsequent contract awards include the topsides fabrication and integration of N'Goma FPSO, and the fabrication of two wellhead platforms for the Mafumeira Sul project.

Paenal fabrication yard recently invested in the acquisition of a 4,500-tonne Heavy Lift Crane with a lifting capacity of 2,500 tonnes. This crane, the largest in Africa, will be installed and commissioned during 2013 and will be exclusively dedicated to serving the oil and gas industry.

During 2012, a prestigious awards ceremony was held in Angola where accolades were presented to companies that had significantly contributed to the advancement of Angola's energy agenda. Paenal received the Fabricator of the Year award for its work at the Porto Amboin yard.

Paenal fabrication yard is one of the most significant investments ever made in this industry in Angola. It delivers a major competitive advantage for the Group and its partners. On completion, this ambitious and groundbreaking venture will strengthen Angola's ability to support its growing offshore oil and gas sector and ensure employment and prosperity for its people.

3.9.2 *Supply Chain in Focus*

SBM Offshore currently operates in 18 countries around the world - but works directly with suppliers from 47 countries. Its principal suppliers are mainly located in Europe, the US, Singapore and Brazil. In 2012, the Company procured 33.5% of all deliverables and services from developing countries.

Vendors who wish to bid for contracts with the Company are assessed using a web-based Vendor Relationship Management (VRM) tool. In addition the Company ensures that its policies and standards regarding business ethics, insurance and other key matters, are covered in the Special Terms & Conditions set for all contracts. These are always shared with potential suppliers at the bidding stage of every project.

Compliance with the Company's Code of Conduct is mandatory for all suppliers and for their subcontractors and agents.

During 2012, the Company made 170 audits of its suppliers using a product classification system, which ranks suppliers from A (main suppliers, such as construction yards) to D (suppliers of less critical equipment or services). All Vendors supplying A to C products are subjected to a quality assessment process; those categorized as A or B, are audited every 3 years. 268 corrective action reports were issued in 2012 following these audits.

Vendor Relationship Management

Suppliers are selected upon compliance with the industry standards and market conditions. The Company's VRM portal is publicly listing the documents required to enter the pre-qualification process hence needed for the evaluation of the supplier and proposed equipment:

- Completed standard Vendor Qualification Questionnaire.
- ISO certifications.
- Quality manual.
- HSE manual.
- Reference lists.
- Organisation charts (Company and Group).
- Brochures, company profile, product descriptions and other relevant marketing materials.
- All QA documentation.

The Company only purchases products or services from suppliers who satisfy the full requirements for VRM pre-qualification. Those who meet the requirements are registered in the SBM Offshore Supply Chain system tool as approved suppliers.

As of year end 2012, more than 11,000 different products and services had been registered.

3.9.3 Brasa Yard : Leading by Example in its Pursuit of Sustainability

Through a joint venture with Naval Ventures Corp, SBM Offshore has been actively involved in the development of the Estaleiro Brasa yard in Brazil, which is capable of delivering complex FPSOs.

The yard is an excellent example of SBM Offshore's commitment to sustainability – the Group has left its ethical and ecological imprint on every step of the yard's development.

Brasa Yard : Fabricating on an Island

As part of the upgrade process a key SBM Offshore objective has been to carefully preserve the fragile environment of the yard's location.

The yard is on an island (Ilha do Caju) within an environmentally sensitive area, Guanabara Bay. To protect this area SBM Offshore has implemented an extensive environmental programme, which is above and beyond the requirements stipulated by Brazilian law.

Brasa's Environmental Improvement Strategy

Civil construction works have been carried out since January 2012 to adapt the Brasa yard premises. Along with these civil construction works, the environmental issues are also undergoing constant changes and improvements are being implemented.

During the civil works, construction waste was generated. The estimated amount of construction waste was 40 tons and the amount of waste handled represents approximately 2,500 truckloads; this waste was donated to other companies for reuse in earth works. Waste soil sampling and analysis were conducted to ensure that the soil donated for reuse was not contaminated.

The removal of trees was necessary and was authorised by the Environment Secretariat of the Niteroi Municipality.

At the Municipality of Niteroi City Park, 140 seedlings (Atlantic forest species) were planted in a nature reserve as environmental compensation for the removal of vegetation. The planting was conducted with the help of a participant ecological walk. Therefore, in addition to helping rebalance the environment, the people who participated gained environmental awareness.

Ecological improvements were made in the facilities during the execution of the civil works and structures were developed as part of the favourable environmental strategy, such as:

- The installation of the compact station for sanitary effluent treatment.
- The installation of rainwater drainage systems.
- The installation of the oil and water separator box where there will be a car wash, waste central and containment gutters for buildings with high risk potential for the environment such as the paint room.

Improvements in more Details

The implementation of the compact station replaced the existing local filter sump system, ensuring greater efficiency in the sanitary effluent treatment process and its proper disposal, reducing the risk of negative impact in Guanabara Bay and meeting requirements under Brazilian legislation regarding the effluent disposal.

Installed along the perimeter, the rainwater drainage avoids rainwater - which can carry contaminants - draining into Guanabara Bay without preliminary treatment. The system consists of gutters, sand boxes, as well as water and oil separator boxes.

The waste central has the capacity to store the waste in an organized and safe manner until its disposal. It has containment gutters to handle possible spills of hazardous materials, draining them to a blind box, which prevents the spilled waste mixing with sewage or rainwater.

Individual Emergency Plan

Another important environmental initiative for the prevention of environmental impacts that could possibly be generated by the Brasa yard is the contract with Oceanpact, a company specialised in performing fast and efficient responses to environmental emergencies in the ocean or along the shorelines. Brasa yard also has an *Individual Emergency Plan,*which provides appropriate responses for all possible scenarios that may occur.

Guanabara Bay Clean Up

The Brasa yard held a week-long event called *Cleaning Guanabara Bay*, which was attended by the Brasa HSSE team. The intention was twofold: firstly to give the yard a tidy appearance by clearing the slopes and the water surface around the site and secondly to promote an environmental campaign against the dumping of solid waste in Guanabara Bay.

3.10 Information regarding the Board of Management

3.10.1 *Bruno Chabas*

Position: Chief Executive Officer

Nationality: French

Born: 1964

Bruno Chabas studied Economics at the University of Economic Sciences Aix-Marseille and graduated in 1988. He followed this by obtaining his MBA from Babson College, Massachusetts, USA, in 1990.

Bruno Chabas started his career in finance, in 1991, working for a Private Equity Company before joining the CIC Group (France). In 1992, he moved to Stolt Comex Seaway where he worked in various managerial positions in the USA, France and the UK, before his appointment as Managing Director. In 1999, Bruno Chabas was appointed Chief Financial Officer of Stolt Offshore, an offshore services company specialising in seabed to surface engineering and construction. In 2002, Bruno Chabas was appointed Chief Operating Officer.

In 2006, Stolt Offshore became Acergy, which was listed on the Oslo Stock Exchange and the NASDAQ until its merger in 2011 with Subsea 7.

Following completion of the Acergy-Subsea 7 merger, Bruno Chabas joined SBM Offshore in May 2011 as Chief Operating Officer. At the EGM on the 14th December 2011, Bruno Chabas was appointed Managing Director and Chief Executive Officer.

3.10.2 *Peter van Rossum*

Position: Chief Financial Officer

Nationality: Dutch

Born: 1956

Peter van Rossum studied Business Economics at the Free University of Amsterdam. In 1982, Peter van Rossum graduated as a Master of Business Economics. Peter has been a Chartered Accountant since 1985.

After graduation, Peter van Rossum started a 24 year career with Shell working in Europe, the Middle East, the USA and Asia. During this time he worked in different positions in all key sectors, these included upstream, downstream, chemicals and corporate.

In 2004, Peter van Rossum joined Woodside Petroleum as a Non-Executive Director. In 2006, Peter van Rossum was appointed Chief Financial Officer of Rodamco Europe N.V., and following the 2007 merger with Unibail, of Unibail- Rodamco S.E., the French/Dutch Real Estate investor, part of the Eurostoxx 50, CAC 40 and AEX indexes.

At the EGM on the 27th June 2012, Peter van Rossum was appointed Chief Financial Officer.

3.10.3 *Sietze Hepkema*

Position: Chief Governance and Compliance Officer

Nationality: Dutch

Born: 1953

Sietze Hepkema studied law at Erasmus University in Rotterdam (1975), before attending Harvard Law School (1977) where he was awarded an LL.M. (Master of Laws).

Sietze Hepkema has spent his career practicing law. Between 1980 and 1987, Sietze Hepkema worked for the international law firm of Graham & James in San Francisco and Singapore.

In 1987, Sietze Hepkema was appointed partner at Benelux Law Firm Loeff Claeys Verbeke, followed by an appointment, in 2000, as senior partner at Allen & Overy. Sietze Hepkema primarily advised on Mergers & Acquisition transactions and Corporate Governance. He sat on the Board of Management and was head of Global Corporate Practice until 2011.

Sietze Hepkema is a member of the Supervisory Board of Royal Bank of Scotland N.V. and Chairman of the Supervisory Board of Wavin N.V..

As from 27 June 2012, Sietze Hepkema joined the SBM Offshore Board of Management in the newly created position of Chief Governance and Compliance Officer (CGCO).

3.10.4 *Jean-Philippe Laurès*

Position: Chief Operating Officer

Nationality: French

Born: 1964

Jean-Philippe Laurès graduated from the INSA (l'Institut National des Sciences Appliquées) in Lyon, France. He was then awarded his PhD from Tufts University, Boston, USA.

After graduating, Jean-Philippe Laurès was a Product Engineer at INDIKOM (MetraviB Instruments), and a Section Leader at the Welding Institute (TWI); one of the world's foremost independent research and technology organisations, with a specialty in welding.

In 1990, Jean-Philippe Laurès joined SBM Offshore, in Monaco, as a structural engineer. He subsequently performed functions of increasing responsibility in Engineering, Operations, and Production & Marketing. In 1997, he was appointed Shore Base Manager in Nigeria, followed in 1999 as Regional Marketing Director in Angola.

He returned to Monaco in 2001 and has subsequently held various managerial positions in Engineering. In 2005, Jean-Philippe Laurès was appointed Area Sales Vice-President of Marketing & Sales, followed in 2007 by a move to SBM Production Contractors (fleet operations) where he held the position of Vice-President. In 2009, Jean-Philippe Laurès was appointed President of SBM Production Contractors.

In 2010, Jean-Philippe Laurès was appointed to SBM Offshore's Board of Management as Chief Commercial Officer, and in January 2012 he was appointed Chief Operating Officer.

3.10.5 Michael Wyllie

Position: Chief Technology Officer

Nationality: British

Born: 1958

In 1980, Michael Wyllie graduated as a Chemical Engineer from Herriot-Watt University in Edinburgh. He is a Fellow of the Institute of Chemical Engineers (IChemE).

After graduating, Michael Wyllie worked for Foster Wheeler Energy, and Total, before joining SBM Offshore in 1995 as a Senior Process Engineer. He subsequently held various engineering management positions, of increasing responsibility, on several major FPSO projects.

In 2002, Michael Wyllie was appointed Chief Engineer based in Monaco; he held this position for four years. In 2006, he was appointed Proposals Director for a major bid, before becoming Worldwide Director of Marketing & Sales in 2008.

In 2010, Michael Wyllie was appointed to the Board of Management as Chief Technology Officer.

4 Financial Report 2012

4.1 2012 Overview

4.1.1 2012 Company Overview

Introduction

Despite multiple challenges, 2012 was a year of significant transformation for the Company. The completion of important changes to the organisational and senior management structure, and further appointments to the Board of Management, have created an organisation with a substantially greater emphasis on accountability, transparency and compliance. Having adopted a more conservative approach to margin recognition, the Percentage of Completion (POC) method for complex projects, the Company continues to embed rigorous accounting and operational disciplines across the business.

2012 was also characterised by the shift in strategy to focus on FPSOs and associated products and services. In its core FPSO activities the Company's assets continued to perform at high levels, with a renewed sense of strategic purpose accompanying the organisational reforms. Significant progress was made in addressing legacy issues, with the announcement in December of SBM Offshore's expectation of a probable de-commissioning of the Yme platform as a difficult but necessary step.

However, order intake across the sector was lower than expected, with a number of prospective orders slipping into 2013, leading to a lower overall order intake for the FPSO industry at large. The technical challenges, large investments and complex contractual structures involved in deep water field developments increasingly led to delays in the process to final investment decision and contract awards.

In line with SBM Offshore's strategy the Company made a number of non-core asset divestments during the period. GustoMSC was sold for approximately US$ 189 million and the Dynamic Installer, a diving support vessel, was sold for US$ 15 million. The Company is further pursuing divestments in non-core assets with the sale and lease back of real estate in Monaco and the COOL hose technology.

The Company has achieved a number of successful financing agreements totalling US$ 1.7 billion, including a Limited Recourse Project Loan from banks of US$ 1.1 billion and a US Private Placement Project Bond of US$ 500 million. The additional liquidity and greater financial flexibility have further improved the Company's risk profile for securing funding for future projects.

Towards the end of 2012, important steps were also taken to restore the balance sheet through a 9.95% private placement with existing shareholder HAL. Subject to the Company reaching a settlement with Talisman in respect of the Yme project before 11 March 2013, HAL will also pay an additional amount to the Company to reflect a revised, higher valuation for the private placement shares, and the Company will raise additional equity by means of a rights offering fully underwritten by HAL of approximately 10% of the issued share capital at the time of the offering, subject also to customary conditions and the approval of the general meeting of shareholders.

HSSE

The Company’s occupational safety record has shown an improvement in 2012, as the Company made significant progress in the reduction of incidents. The TRIFR (Total Recordable Incident Frequency Rate) for 2012 is 0.38 showing a 25% improvement compared to 2011.

Compliance

In April 2012, the Company announced it had initiated an internal investigation into potentially improper sales practices. This investigation is being carried out by outside counsel and forensic accountants. The Company has disclosed this internal investigation to appropriate authorities and has taken remedial action to enhance its compliance programme. Good progress was made during the year but the investigation is still in progress; typically these types of investigation take 12 to 18 months to conclude. Consequently, at this point it is not possible to provide further information or an estimate of the financial impact, if any.

Legacy Projects

Yme

Since the market update on 20 December 2012, SBM Offshore and its client, the platform operator, Talisman, have maintained a constructive dialogue on the future of the project and taken forward the near term process to permit re-manning of the platform. As previously announced, the balance of expectation for SBM Offshore is that the platform will be decommissioned, but until an agreement with Talisman has been reached all options remain open.

Several practical steps to allow the platform to be re-manned have been taken, including the repair of grouting. Subsequently, a close visual inspection (CVI) by a robot has provided good evidence of structural integrity. The Company is currently in discussions with Talisman as to whether further inspection is required before teams can board the platform. Should the parties fail to reach mutual agreement, the ongoing arbitration proceedings will continue.

Deep Panuke

Finalisation and commissioning of this platform is progressing in line with the schedule presented at the time of the Q3 trading update, with the platform expected to be on hire during the first half of 2013.

Strategy

From the start of the year, the Company’s strategy was re-focused on FPSOs and associated products and services. As industry leader, the company strives for an improved risk/reward balance for its FPSO products and services. The Company’s revised focus has resulted in a substantial volume of bidding and tendering activity with an encouraging pipeline of projects in the medium term. There has been slippage of several prospects into 2013, but underlying demand for the Company’s core FPSO offer remains strong, supported by a stable high oil price.

Outlook and Guidance 2013

The underlying momentum in the oil & gas upstream market continues to be strong, driving demand for FPSOs and related products. We are confident in our prospects for 2013, buoyed by the increasing demand for specialist FPSO skills dictated by the growing complexity, scale, costs and associated risks of deep water developments.

Within this context, the Company expects to generate an 8% higher turnover of approximately US$ 4 billion in 2013, of which respectively US$ 3 billion in the Turnkey and US$ 1 billion in the Lease and Operate segment.

Dividend

In view of the reported loss for 2012 and in order to preserve and improve the Group's equity position, the Management Board proposes not to distribute a dividend over fiscal years 2012 and 2013.

4.1.2 Financial Review

Highlights

The consolidated result for 2012 is a net loss of US$ 74.9 million (2011 net loss of US$ 440.6 million). This result includes divestment profits, impairment charges, and other non-recurring items relating to the Yme and Deep Panuke projects which generated a net loss of US$ 473.4 million in 2012 (US$ 857.0 million in 2011). Net loss attributable to shareholders amounts to US$ 79.5 million (US$ 472.7 million loss in 2011).

The loss per share amounted to US$ 0.46 (loss per share of US$ 2.77 in 2011). In view of the loss recorded for the period, and applying the Company's dividend policy, it is proposed not to distribute dividend for 2012.

Following the losses accumulated in 2011 and 2012, the Company strengthened its financial position through a 9.95% private placement with HAL at € 8.50 per ordinary share raising US$ 193 million in December 2012. In addition, subject to the Company reaching a settlement with Talisman in respect of the Yme project before 11 March 2013:

- HAL will pay an additional amount for the private placement shares.
- HAL will underwrite in full an approximately 10% rights offering to all shareholders at the final private placement price, subject to customary conditions and the approval of the general meeting of shareholders.

Net debt at the year-end amounted to US$ 1,782.7 million (US$ 1,958.5 million in 2011) with bank covenants met and available committed bank facilities of US$ 1,300 million.

Total orders in the year come to US$ 1,322.2 million (split 14% / 72% / 14% between the Lease and Operate, the Turnkey Systems and the Turnkey Services segments respectively), compared to the record level US$ 8,552 million achieved in 2011.

Turnover increased by 17.1% to US$ 3,695 million, in comparison with US$ 3,157 million in 2011, mainly as a result of higher Turnkey Systems revenues.

Total order portfolio at the end of the year was US$ 14,538 million compared to US$ 16,910 million at the end of 2011, a decrease of 14% reflecting the combined effect of high revenues, low level of orders in 2012 and de-recognition of the Yme project and GustoMSC divestment. Of this, 73% equal to US$ 10,566 million relates to the non-discounted value of the revenues from the Company's long-term lease contracts in portfolio at year-end.

EBITDA amounted to US$ 697.6 million, representing a 14.2% decrease compared to US$ 813.2 million in 2011 but includes non-recurring items for US$ 72 million.

Operating result (EBIT) increased to US$ 50.5 million profit after the impairment charges, divestment profits and non-recurring items for US$ 499.0 million compared to US$ 340.6 million EBIT loss in 2011 which included US$ 857.0 million of non-recurring items related to the Yme and Deep Panuke projects.

The year was marked by the following financial highlights:

- Order intake of US$ 1,322 million. This figure excludes the Letters of Intent received on several projects awaiting final investment decisions by the client.
- On the Yme project, SBM Offshore and client and operator Talisman have been in intensive discussions since mid-2012. Despite every effort on both sides, no agreement has been reached but the dialogue continues. From these discussions, it has appeared to SBM Offshore that the balance of expectation is that the platform will be decommissioned. The book value of the asset has been fully impaired through an additional US$ 398 million impairment. As the Company expects it may have to contribute to the cost of decommissioning under Talisman's responsibility, it has made a provision of US$ 200 million.
- Completion activities on Deep Panuke progressed slower than expected, with start-up now planned in the first half of 2013. The remaining works on the platform were identified and primarily relate to the re-instalment of piping systems, gas leak testing and commissioning completions. The required repairs, additional contingencies and the impact of delays have resulted in a further impairment charge of US$ 29 million in the period.
- Realisation of the first two milestones of a disposal program announced in 2012 of non-core activities through the sale of Gusto MSC and of the Dynamic Installer, a diving support vessel. These two disposals have resulted in net proceeds of respectively US$ 189 million and US$ 15 million in November 2012, and a total of US$ 128 million of capital gains.
- Capital expenditure and investments in finance leases in 2012 amounted to US$ 1,235 million, which is lower than in 2011 (US$ 1,413 million).
- Satisfactory level of margins on Turnkey Systems and Turnkey Services activities reflecting the good performance of these two segments.
- New financing agreements totalling US$ 1.7 billion including project finance facilities of US$ 1.1 billion for FPSO Cidade de Ilhabela and a successfully priced inaugural US$ 500 million US private placement project bond with 16 institutional investors on the US capital market.

Segmental information in respect of the three core business segments of the Company during 2012 is provided in the detailed financial analysis. Turnover by geographical area is included in the notes to the Financial Statements. As a result from an internal reorganisation effective 1 January 2013, Turnkey Services will be merged with Turnkey Systems into a new Turnkey segment.

Orders

Total orders for 2012 amounted to US$ 1,322 million. This total includes new orders signed for US$ 1,508 million, variation orders signed for US$ 644 million and negative portfolio adjustments resulting from Yme and GustoMSC for US$ 830 million.

The Company continued to capitalise on its strength and expertise in its core FPSO market, securing new orders including:

Turret for Ichthys (Australia)

A contract for the engineering, procurement, fabrication and supply of a Turret & Mooring system for the Ichthys LNG Project, a joint venture between INPEX (76%, the operator) and Total (24%).

FPSO Fram for Shell (UK North Sea)

A Letter of Interim Award (LOIA) from Shell for the supply, lease and operation of a FPSO for the Fram field in the UK sector of the North Sea. The LOIA allows SBM Offshore to commence engineering and procurement of long lead items to ensure timely completion of the planned Fram FPSO project, subject to a Final Investment Decision. Pending Shell's Final Investment Decision, this project is not included in the Company's backlog.

Extension for FPSO Brasil (Brazil)

An extension of the lease and operate contract for FPSO Brasil of 14 months, with a further extension option of up to 4 months.

Rigless Intervention System (RIS) Module for FPSO Espirito Santo

A contract from Shell for the engineering, procurement, construction, installation and operation of a Rigless Intervention System (RIS) module on FPSO Espirito Santo, servicing the BC-10 field, offshore Brazil. The RIS is planned to be operational for a first intervention in the second quarter of 2014.

SNP Tie-back to FPSO Kikeh (Malaysia)

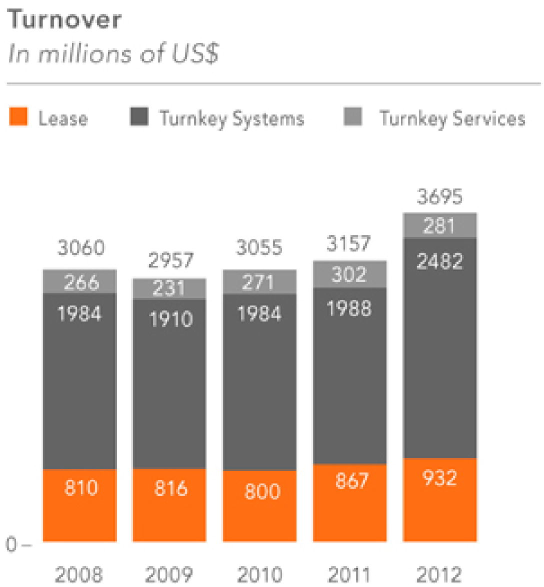
An 8.5 year lease, operate and maintain contract on FPSO Kikeh for a tie-back of the Siakap North-Petai fields to the FPSO located offshore Malaysia.

Extension for FPSO Kuito (Angola)

An extension on the existing lease and operate contract of Kuito FPSO untill February 2013.

Turnover

Total turnover rose significantly in the year due to higher revenues recognised in the Lease and Operate and Turnkey Systems segments.



Turnkey Systems third party turnover of US$ 2,481.7 million rose by 25% and represents 67% of total 2012 turnover (2011: US$ 1,988 million representing 65%). Lease and Operate turnover increased by 7.5% to US$ 932.4 million (25% of total revenues; 26% in 2011) as the first full year of revenues from FPSO Aseng operations and the revenues from September 2012 onwards on FPSO Cidade de Anchieta (previously named FPSO Espadarte) more than compensated for the reduction in day-rate income resulting from the termination of the charter of FPSO Xikomba (August 2011) and of the FPSO Espadarte (June 2012).

Turnkey Services third party turnover decreased by 6.8% to US$ 281.2 million and represents 8% of total revenues (10% in 2011). Turnkey Systems and Turnkey Services are to be merged into one Turnkey segment effective 1 January 2013.

The contract for the FPSO Cidade de Ilhabela is accounted for as a finance lease. The joint venture (JV) is jointly controlled by SBM Offshore, and is consolidated proportionately to the Company's 62.25% share of the JV. Thus turnover recognised is equal to the partners' 37.75% share of the EPCI selling price of the FPSO from SBM Offshore to the JV, plus the Company's share of the fair value of the lease. As at 31 December 2012 the charter contracts with Petrobras were concluded and a US$ 1.1 billion project loan arranged with a syndicate of banks. Drawdowns totalling US$ 270 million (SBM Offshore share) were made during the second half of 2012.

Construction continued for the finance lease FPSO Cidade de Paraty contract (SBM Offshore share 50.5%) throughout 2012. Turnover during construction is equal to the partners' 49.5% share of the investment plus the Company's 50.5% share of the fair value of the lease, all on a percentage of completion basis.

The twelve-year lease contract with ENI for FPSO Xikomba renamed as FPSO N'Goma is also accounted for as a finance lease. Turnover during construction is equal to our partner Sonangol's 50% share of the investment plus the Company's 50% share of the fair value of the lease, all on a percentage of completion basis.

In 2012, total Turnkey Systems turnover recognised in respect of construction of assets accounted for as finance leases amounted to US$ 1,233 million (2011: US$ 1,159 million).

The ongoing charter contracts for FPSOs Aseng, Mondo and Saxi Batuque are similarly accounted for as finance leases. Earned interest in Lease & Operate turnover in 2012 in respect of these contracts amounted to US$ 64 million (2011: US$ 20 million).

Ongoing Construction Contracts

FPSOs

On FPSO Cidade de Paraty all process modules (13,000 tons) have been lifted onto the FPSO and the main focus is on integration, hook up and completion activities at BrasFELS in Brazil before installation and commissioning offshore. The FPSO is on schedule to start production in 2013 and is designed for a production capacity of 120,000 barrels per day on a pre-salt field with high gas content. Financing of a US$ 1 billion project loan was secured in 2011.

On FPSO N'Goma the first phase of the construction works at Keppel shipyard in Singapore is progressing well. The FPSO is expected to arrive on time at Paenal in Angola for lifting of the remaining modules and completion of the FPSO. The schedule foresees a production start in 2014 at a design capacity of 100,000 barrels per day.

On FPSO OSX2 critical engineering and procurement activities were completed successfully during the first half of 2012 allowing all construction activities to progress on time. Refurbishment and conversion works on the hull progressed well and fabrication of the modules and turret mooring system is well advanced. Module lifting and integration activities are progressing at the shipyard for completion in 2013.

On FPSO Cidade de Ilhabela, refurbishment and conversion works in China are progressing in line with expectations. Additional work has been transferred to the yard in Guangzhou prior to sailing to Brasa dockyard in Brazil.

At Brasa, construction of most of the process modules (22,000 tons in total) has commenced in anticipation of the arrival of the FPSO in the second half of 2013, with start-up of the facility expected in 2014. The FPSO has been designed to produce 150,000 barrels per day, with processing of the substantial volumes of associated gas from the pre-salt field for export. Financing of US$ 1.1 billion has been secured with a project loan in 2012.

On FPSO Fram, work is limited to engineering and procurement activities as the contracted scope of the project is still constrained by the LOIA.

Turret Mooring Systems

The three large complex turrets for Prelude FLNG, Quad204 and Ichthys are progressing well and on schedule at their different stages of completion of the project. These three turrets represent a substantial part of the Turnkey Systems segment with delivery of sections commencing in 2013 and will reach completion with the superstructure of Ichthys as last section in 2014. All three turrets contain elements that require advanced technology solutions for high mooring loads; total weight of 11,000 tons with a height of 95 meters for Prelude, fluid throughput of 320,000 barrels per day in the swivel stack on Quad 204 and 40 years of continuous operation in harsh environment on Ichthys.

SBM OFFSHORE

Main Projects Overview

Project	Contract	SBM Share	Oil capacity, Size	POC	Target year	Notes
Deep Panuke, Mopu	8 yrs operate lease	100%	54,000 boe/day		2013	Has faced delays, now in final commissioning, offshore Nova Scotia
Cidade de Paraty, FPSO	20 yrs finance lease	50.5%	120.000 bbl/day		2013	Final phase of hook up and integration of system at BrasFELS in Brazil. Project loan of US$ 1 billion in place.
OSX-2, FPSO	Turnkey sale	100%	100,000 bbl/day		2013	Project nearing completion at shipyard in Singapore
N'Goma, FPSO	12 yrs finance lease	50%	100,000 bbl/day		2014	Refurbishment and upgrade works ongoing. Completion of FPSO at Paenal in Angola scheduled for 2013.
Cidade de Ilhabela, FPSO	20 yrs finance lease	62%	150,000 bbl/day		2014	FSPO in China, refurbishment work satisfactory. Modules construction in Brasa started. Project loan of US$ 1.1 billion in place.
Quad204, Turret	Turnkey sale	100%	90m height, 9,500 tons		2013/14	Progressing well with construction works started in Singapore
Prelude, Turret	Turnkey sale	100%	95m height, 11,000 tons		2014	Fabrication in Dubai started, engineering and procurement still ongoing
Ichthys, Turret	Turnkey sale	100%	85m height, 7,000 tons		2015	In engineering and procurement phase of project. Construction to start in 2013
Fram, FPSO	Lease	tbc	40,000 bbl/day		n.a.	Engineering and procurement started under a LoIA. Full contract still to be awarded.

Legend, Percentage of Completion

< 25% | 25% < 50% | 50% < 75% | > 75%

Order Portfolio

The year-end order portfolio at US$ 14.54 billion is lower by 14.0% from last year's record level of US$ 16.91 billion reflecting the combined effect of high revenues and low level of orders in 2012. The current order portfolio includes US$ 10.57 billion (2011: US$ 11.31 billion) for the non-discounted value of future revenues from the long-term charters of the lease fleet, of which US$ 3.8 billion (2011: US$ 4.5 billion) represents the bareboat element of the operating leases. Approximately 41.7% of the total future bareboat revenues will be generated from the lease contracts which have yet to commence (FPSOs Cidade de Paraty, Cidade de Ilhabela, N'Goma and MOPU Deep Panuke). Following the shift in the balance of expectation for the MOPUstor™ Yme contract and the Company's assumption that the likely scenario for the platform is to be decommissioned, the future revenues of the contract were removed from the Lease & Operate backlog even though a formal settlement has not been reached.

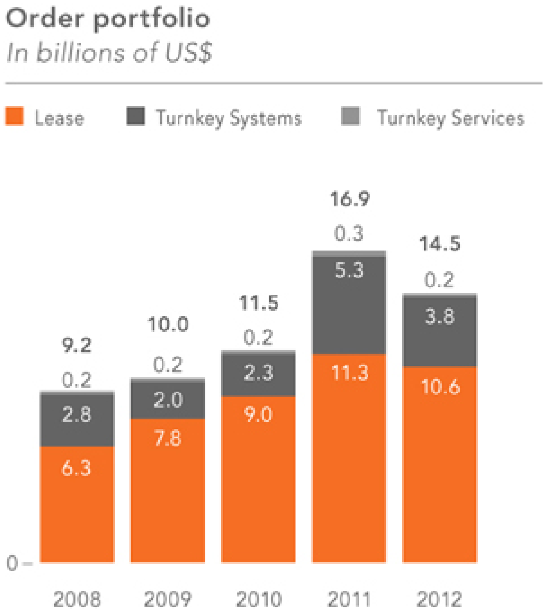
The Turnkey Systems order portfolio decreased (US$ 5.33 billion in 2011) to US$ 3.79 billion, as a result of strong revenues and 2012 order intake representing approximately 1.5 year's equivalent turnover. Turnkey Services backlog decreased by 33% to US$ 0.18 billion (approximately 8 months of turnover).

The Company's order portfolio as at 31 December 2012 is expected to be executed as per table below.

Order Portfolio at 31 December 2012

US$ billion	Turnkey *	Lease & Operate	Total
2013	2.8	1.0	3.8
2014	1.0	0.9	1.9
2015	0.1	0.9	1.1
Beyond 2015		7.7	7.7
Total	**4.0**	**10.5**	**14.5**

** Turnkey Systems and Turnkey Services segments have been merged into one segment "Turnkey".*



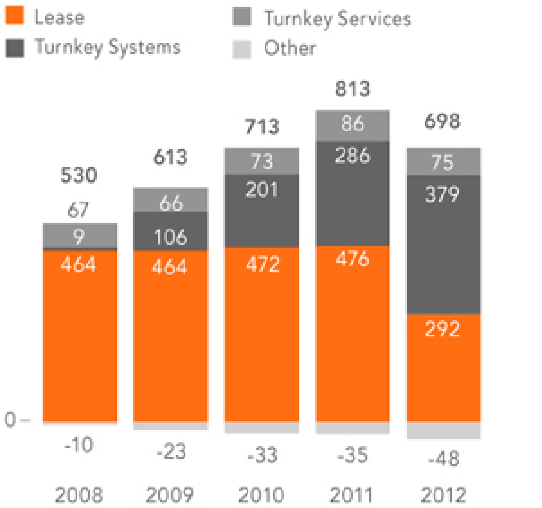
Profitability

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

In recent years, new lease contracts are showing longer durations and are increasingly considered to be finance leases for accounting purposes, whereby the fair value of the leased asset is recorded as a Turnkey Systems “sale” during construction. This has the effect of recognising, in the Turnkey Systems segment during construction, part of the lease profits which would, in the case of an operating lease, be reported through the Lease & Operate segment during the lease.

EBITDA

In millions of US$

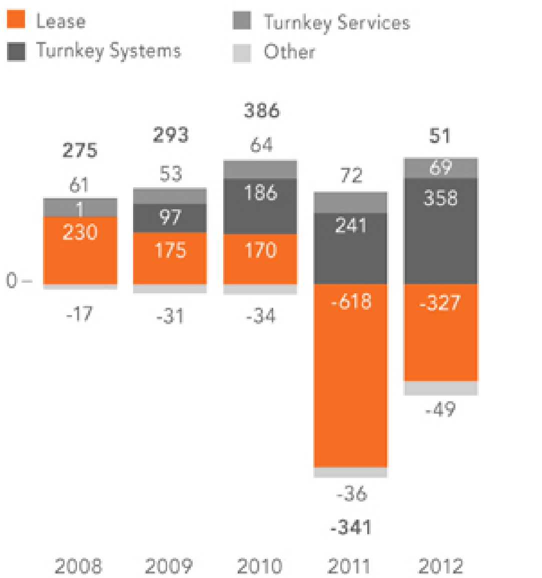


EBITDA in 2012 of US$ 697.6 million (US$ 813.2 million in 2011) consisted of US$ 291.9 million (US$ 476.6 million in 2011) from Lease and Operate activities, US$ 378.5 million (US$ 286.1 million in 2011) from Turnkey Systems, US$ 75.0 million (US$ 85.7 million in 2011) from Turnkey Services, less US$ 47.7 million (US$ 35.2 million in 2011) of non-allocated corporate and other costs.

As a percentage of turnover, EBITDA was 18.9% (2011: 25.8%). Segmental EBITDA margins were for Lease and Operate 31.3% (2011: 55.0%), Turnkey Systems 15.3% (2011: 14.4%) and Turnkey Services 26.7% (2011: 28.4%) excluding intercompany projects. The relative contributions to EBITDA from the three segments were 39% from Lease and Operate, 51% from Turnkey Systems and 10% from Turnkey Services. In 2011, the corresponding split was 56% / 34% / 10%.

EBIT

In millions of US$



The operating profit in 2012 amounted to US$ 50.5 million (EBIT loss in 2011 US$ 340.6 million) with the following highlights:

- Higher contribution from the Turnkey Systems segment, resulting from the capital gain realised upon disposal of GustoMSC reported in the segment, and despite the revised use of accounting estimates for recognising margin on large, complex projects which had the effect of deferring US$ 74 million of gross margin to future years (US$ 57 million in 2011). EBIT margin was 14.4% and 9.6% excluding GustoMSC divestment (12.1% in 2011).
- The performance of the Lease & Operate fleet in operation in 2012 exceeded expectations, although the year was severely impacted by impairment charges and a provision totalling US$ 627 million related to the Yme and Deep Panuke platforms. These impairments resulted from increased project costs for Deep Panuke and from a revised assessment of the Yme contract leading to the full impairment of the asset and an additional provision for decommissioning and settlement; EBIT margin was -35.1% and 32.2% excluding impairment charges and other non-recurring items (30.6% in 2011).
- Good operating performance and stable contribution from the Turnkey Services activities despite lower revenues, resulting also from the gain realised upon disposal of the Dynamic Installer, a diving support vessel. EBIT margin on total turnover was 24.5% (24.1% in 2011).

Non-allocated “Other” income and expenses showed a net cost of US$ 48.8 million in 2012, compared with US$ 36.3 million in 2011.

Net financing costs were in line with expectation at US$ 86.9 million, significantly higher compared to 2011 (US$ 49.9 million) mainly as a result of the FPSOs Aseng and Cidade de Anchieta interest charges associated to start-up of operations in respectively December 2011 and September 2012.

More generally, once production units are brought into service the financing costs are expensed to P&L whereas during construction interest is capitalised. It should be emphasised that the net profit contribution of newly operating leased units is limited by the relatively high interest burden during the first years of operation, although dedication of lease revenues to debt servicing leads to fast redemption of the loan balances and hence reduced interest charges going forward.

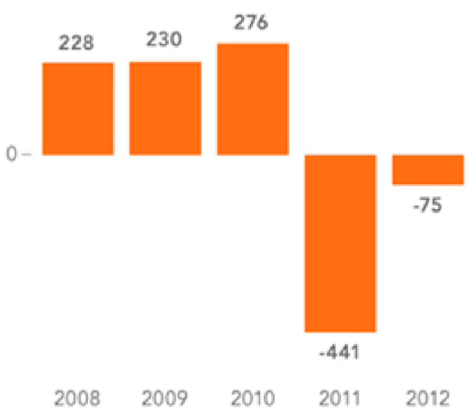
Interest income on the Company’s cash balances was again low in 2012 due to the low level of short-term US interest rates.

Net financing costs include currency variances resulting from assets under construction, project and overhead hedges. These currency variances were much higher in 2012 than in 2011 (US$ 6.6 million profit versus US$ 0.8 million loss for prior year). The average cost of debt came to 5.3% in 2012 (4.5% in 2011).

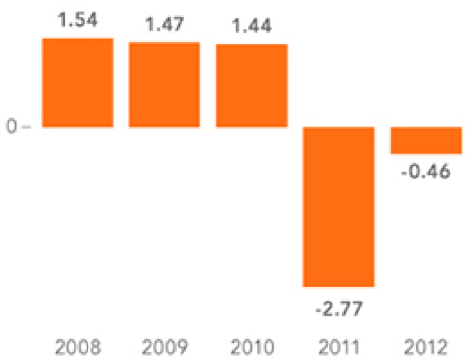
The reported share of profit in associates was nil in 2012 as it was in 2011. In the future the Company’s share of net results in any non-controlled joint ventures (as defined by IFRS 11) will appear in this line item, but at present the Company’s accounting policy for joint ventures continues to be the proportionate consolidation method whereby the Company’s share of each income statement or balance sheet line item is included in the consolidated financial statements.

Income tax in 2012 was US$ 38.5 million (US$ 50.0 million in 2011) including deemed profit taxes and withholding taxes. The decreased tax burden in 2012 derives from deferred tax assets resulting from significant losses reported in 2011 and 2012.

Net result
In millions of US$

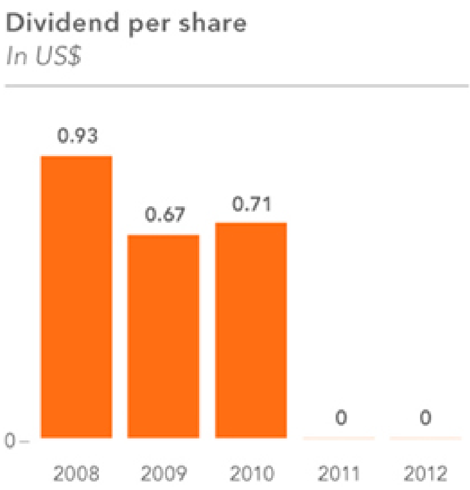


Weighted average earnings per share
In US$



Minority interest in the 2012 net result amounts to US$ 4.6 million, which is well below the 2011 minority share of US$ 32.0 million due to lower reported results from fully consolidated joint ventures where the Company has a minority partner (principally concerns FPSOs Aseng and Capixaba). Net result attributable to shareholders accordingly amounts to a loss of US$ 79.5 million (US$ 472.7 million loss in 2011).

As a consequence of the net loss for the year, the Company does not propose to pay a dividend on account of 2012.



Statement of Financial Position

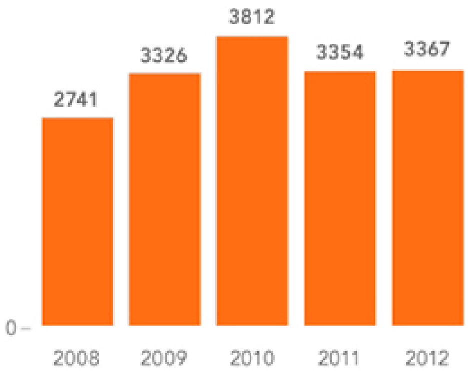
Total assets were US$ 6.3 billion as at 31 December 2012 (31 December 2011: US$ 5.3 billion). The increase is largely a result of the growing investments and activities recorded in 2012, and the proceeds of divestitures of GustoMSC, a non-core design and engineering subsidiary for the value of US$ 189 million, and of the Dynamic Installer, a diving support vessel sold for a consideration of US$ 15 million.

Shareholders' equity increased from US$ 1,283.6 million to US$ 1,468.5 million as a result of the private placement with HAL at the end of December 2012, the net loss for the year, and the positive income in Other Comprehensive Income resulting from the variation of hedging reserve related to financial instruments.

The private placement shares were issued at a price of € 8.50 per ordinary share, equivalent to US$ 11.31 per ordinary share. The equity raising of the private placement with HAL Investments was US$ 193 million. HAL will furthermore pay an additional amount to the Company by way of a share premium contribution ("agiostorting") on the private placement shares, resulting in an adjusted price for the shares, in the event that an Yme settlement with Talisman is reached before 11 March 2013. In that event, the Company will furthermore raise additional equity by means of a rights offering fully underwritten by HAL of approximately 10% of the then issued share capital, subject to customary conditions and the approval of the general meeting of shareholders. The issue price in the rights offering will be equal to the € equivalent of the adjusted private placement price in US$ terms. Additional information on the private placement shares and the potential rights offering is set out in Note 21 'Equity attributable to shareholders' to the Consolidated Financial Statements.

Capital Employed (Equity + Provisions + Deferred tax liability + Net Debt) at year-end 2012 amounts to US$ 3,366.7 million, a slight increase by US$ 12 million (0.4%) compared to last year's level due to the positive contribution to equity in respect of the private placement realised at the end of December 2012, the provision considered in the period for the Yme contract largely offset by the net debt reduction. The ongoing investments in leased production facilities were only partly financed with new debt, and did not have a significant impact on the evolution in capital employed.

Average capital employed
In millions of US$



At 31 December 2012, the Company has undrawn committed long-term bank facilities totalling US$ 1,300 million (Revolving Credit Facility, FPSO Cidade de Paraty - SBM 50.5% share, FPSO Cidade de Ilhabela - SBM 62.25% share, Deep Panuke and Aseng project loans) available for financing capital investment in 2013 onwards.

Net debt at the year-end amounted to US$ 1,782.7 million (US$ 1,958.5 million at 31 December 2011) with net gearing at 115.8% which is significantly lower than last year due to the private placement and divestment proceeds in the second half of 2012 and despite the net loss of the year. The relevant banking covenants (main solvency, net debt/adjusted EBITDA, interest cover) were all met.

As in previous years, the Company has no off-balance sheet financing.

The Company announced in 2012 a plan to sell and lease back its premises owned in Monaco during the course of 2013. As a consequence, the related property, plant and equipment were classified as assets held for sale for their carrying value in the Company statement of financial position as of 31 December 2012. In 2012, the Company also engaged in a process for disposal of its non-core "COOL hose" technology. The related intangible asset was reclassified as an asset held for sale at its carrying value as of 31 December 2012.

The current ratio defined as "current assets / current liabilities" increased to 1.17 due to the increase in cash position and the increasing construction activities on finance lease contracts.

Statement of Financial Position

US$ million	2008	2009	2010	2011	2012
Capital employed	2,740.9	3,325.8	3,811.9	3,354.3	3,366.7
Total equity	1,240.9	1,816.8	2,123.4	1,349.0	1,539.8
Net Debt	1,464.0	1,464.0	1,644.3	1,958.5	1,782.7
Net gearing (%)	118.0	81.0	77.4	145.2	115.8
Net Debt: Unadjusted EBITDA ratio	2.76	2.39	2.31	2.41	2.55
Capital expenditure	999.8	656.0	519.0	840.6	673.0
Current ratio	0.79	0.91	1.48	0.86	1.17
Solvency ratio	NA	NA	39.6	30.0	27.1

Capital Structure

Following two years where impairments and provisions on significant projects resulted in net income losses, the Company executed a successful private placement of 9.95% of the Company's shares with HAL in December 2012. This equity boost was required in order to stay within banking covenants. A further potential rights issue in 2013, as well as non-core asset disposals and passing dividend payments in 2013 and 2014, will provide further equity support. In the medium term, the Company's objective is to strengthen the balance sheet to such a point that it will be able to obtain an investment grade credit rating, in order to access the corporate bond market.

Investments and Capital Expenditures

Total investments made in 2012 amounted to US$ 1,235 million compared to US$ 1,413 million in 2011 and were recorded as:

- Capital expenditures of US$ 673.0 million (US$ 840.6 million in 2011).
- Investments in finance leases for US$ 561.9 million (US$ 572.5 million in 2011).

Total capital expenditures for 2012 (comprising of additions to property, plant & equipment plus capitalised development expenditure) amounted to US$ 673.0 million (2011: US$ 840 million). The majority of this total is related to new investment in the lease fleet (operating leases only) and other ongoing investments for which the major elements are:

- Ongoing expenditure on the conversion and equipment procurement for the MOPU gas platform for EnCana's Deep Panuke field in Canada, and the FPSO Cidade de Anchieta to Petrobras' in Brazil.
- Ongoing investment in the construction of a new diving support and construction vessel for the Turnkey Services division.
- Ongoing expenditure on Phase II of the Angolan construction yard Paenal.
- Ongoing investment on the Brasa integration yard in Brazil.
- Refurbishment of a newly leased office "*Le Neptune*" in Monaco.

Expenditures in 2012 on the FPSOs Cidade de Paraty and Cidade de Ilhabela for Petrobras and on the FPSO N'Goma for ENI are excluded from the total amounts above. Due to the classification of the contracts as finance leases, investment in the units were recorded through construction contracts, with the investments in finance lease to be ultimately recorded in financial fixed assets. The net investment in these finance lease contracts amounted to US$ 561.9 million in 2012 (US$ 572.5 million in 2011) and are reported as investing activities in the consolidated cash-flow statement.

The decrease in property, plant and equipment in 2012 to US$ 2,482 million (31 December 2011: US$ 2,534 million) resulted from capital expenditure in 2012 less depreciation, impairment and amortisation, less the disposal of the Dynamic Installer, a diving support vessel and the reclassification of the Monaco premises and the "Cool Hose" technology as assets held for sale.

The Company's investments comprise the external costs (shipyards, subcontractors, and suppliers), internal costs (man-hours and expenses in respect of design, engineering, construction supervision, etc.), third party financial costs including interest, and such overhead allocation as allowed under IFRS. The total of the above costs (or a proportionate share in the case of joint ventures) is capitalised in the Company's consolidated statement of financial position as the value of the respective facility. No profit is taken on completion/delivery of such a system for a lease and operate contract which is classified as an operating lease, apart from the profit realised by SBM Offshore with external partners on the construction contract with a joint venture proportionally consolidated.

Cash Flow/ Liquidities

US$ million	2008	2009	2010	2011	2012
EBITDA	530.1	613.3	712.4	813.2	697.6
Net liquidities/securities	230.1	146.7	103.4	164.7	748.3
Cash flow from operations	577.0	548.5	981.8	1,157.6	1,143.5
EV: EBITDA ratio at 31/12	6.4	7.7	7.6	6.8	6.3
EBITDA: interest cover ratio	13.1	10.2	8.2	16.3	10.5

Return on Average Capital Employed and Equity

ROACE (Return On Average Capital Employed) was very low but positive at 1.5% and Return On average shareholders' Equity (ROE) at minus 5.8%, both resulting from the major impairment charge and provision taken in 2012. They were also affected by the increase in equity and capital employed due to the Company's private placement achieved in December 2012.

Return on average capital employed
In %

Return on average equity
In %

Cash Flow / Liquidities

EBITDA was lower than the previous year mainly due to the US$ 200.0 million provision taken for the Yme contract.

Net liquidities increased to US$ 748.3 million, of which US$ 76.4 million can be considered as being dedicated to specific project debt servicing or otherwise restricted in its utilisation.

The Enterprise Value to EBITDA ratio at year-end 2012 was at 6.3 lower than the previous year, mainly due to the lower market capitalisation.

Extended Order Portfolio Disclosure

IAS 17 addressing lease contracts had several impacts on the SBM Offshore accounts. As soon as a lease contract transfers substantial risks and rewards incidental to ownership to the client, such contract shall be classified as a finance lease. Increased duration in lease contracts has also led to a growing number of lease contracts being classified as finance leases.

In comparison with an operating lease, the treatment of finance lease accounting differs on several aspects:

- Higher revenue and margin levels recognised upfront during the construction period and a change in the reporting segments: the fair value of the leased asset is recorded as a Turnkey Systems “sale” during construction. This has the effect of recognising, in the Turnkey Systems segment during construction, part of the lease profits which would, in the case of an operating lease, be reported through the Lease & Operate segment during the lease.
- Lower revenue and EBITDA recognition during the lease period: only financial interests associated with the financial asset are recognised as revenues and EBITDA for finance lease contracts instead of the full amount of day-rates recognised as revenues in case of an operating lease contract.
- Large disconnect between P&L revenues and cash inflows leading to the distortion of the reported order portfolio and future cash inflows for the Lease and Operate segment.

To provide more insight in the effects of the above on SBM Offshore’s portfolio, both the traditional lease view and the compulsory IFRS view are shown in the table below. In essence the outcome is that an amount of US$ 2 billion of revenue has been recorded in previous years which are still to be realised in the Company’s future cash flow.

US$ million	Turnkey *			Lease and Operate			Total		
	OL view	FL impact	IFRS	OL view	FL impact	IFRS	OL view	FL impact	IFRS
2013	2.0	0.8	2.8	1.1	(0.1)	1.0	3.1	0.7	3.8
2014	0.8	0.2	1.0	1.0	(0.1)	0.9	1.8	0.1	1.9
2015	0.1		0.1	1.1	(0.1)	0.9	1.2	(0.1)	1.1
Beyond 2015				10.4	(2.7)	7.7	10.4	(2.7)	7.7
	3.0	**1.0**	**4.0**	**13.6**	**(3.0)**	**10.6**	**16.5**	**(2.0)**	**14.5**

** Turnkey Systems and Turnkey Services segments have been merged into one segment "Turnkey".*

Definitions :

OL view : Corresponds to the contribution of all turnkey construction contracts with third-parties plus the contribution of all lease contracts as if all lease contracts were classified as operating lease.

FL Impact : Corresponds to the additional contribution of IAS17 applied to all finance lease contracts.

IFRS : Corresponds to the contribution of all contracts under International Financial Reporting Standards.

4.2 Financial Statements

4.2.1 Consolidated Income Statement

Consolidated income statement (1/3)

in thousands of US$	*Notes*	2012	2011
Revenue	*1*	3,695,223	3,156,826
Cost of Sales	*3*	(3,571,655)	(3,317,774)
Gross margin	*1*	**123,568**	**(160,948)**
Other operating income	*2*	130,639	1,894
Selling and marketing expenses	*3*	(49,611)	(46,722)
General and administrative expenses	*3*	(128,770)	(84,435)
Research and development expenses	*3/6*	(25,349)	(50,408)
Operating profit/(loss) (EBIT)		**50,477**	**(340,619)**
Financial income	*5*	15,640	13,198
Financial expenses	*5*	(102,496)	(63,145)
Net financing costs		**(86,856)**	**(49,947)**
Profit/(Loss) before tax		**(36,379)**	**(390,566)**
Income tax expense	*7*	(38,481)	(50,048)
Profit/(Loss)		**(74,860)**	**(440,614)**

Consolidated income statement (2/3)

		2012	2011
Attributable to shareholders of the parent company		(79,488)	(472,657)
Attributable to non-controlling interests		4,628	32,043
Profit/(Loss)		**(74,860)**	**(440,614)**

Consolidated income statement (3/3)

	Note	2012	2011
Weighted average number of shares outstanding		172,280,556	170,342,173
Basic earnings/(loss) per share	*8*	US$ (0.46)	US$ (2.77)
Fully diluted earnings/(loss) per share	*8*	US$ (0.46)	US$ (2.77)

4.2.2 Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income (1/2)

in thousands of US$	*Note*	2012	2011
Profit/(Loss) for the period		**(74,860)**	**(440,614)**
Cash flow hedges, net of tax	*21*	66,488	(286,882)
Currency translation differences, net of tax		1,978	(6,693)
Other comprehensive income for the period, net of tax		**68,466**	**(293,575)**
Total comprehensive income for the period		**(6,394)**	**(734,189)**

Consolidated statement of comprehensive income (2/2)

		2012	2011
Total comprehensive income:			
Attributable to shareholders of the parent company		(16,376)	(749,500)
Attributable to non-controlling interests		9,982	15,311
		(6,394)	**(734,189)**

4.2.3 Consolidated Statement of Financial Position

Consolidated statement of financial position

in thousands of US$	*Notes*	2012	2011
ASSETS			
Property, plant and equipment	*10*	2,482,160	2,533,666
Intangible assets	*11*	29,225	47,300
Investment in associates		-	41
Other financial assets	*12*	833,771	963,497
Deferred tax assets	*13*	40,682	9,959
Derivative financial instruments	*18*	11,035	9,524
Total non-current assets		**3,396,873**	**3,563,987**
Inventories	*14*	20,318	27,915
Trade and other receivables	*15*	906,309	996,023
Income tax receivable	*16*	293	416
Construction work-in-progress	*17*	1,159,994	499,062
Derivative financial instruments	*18*	25,847	29,158
Cash and cash equivalents	*19*	748,323	173,500
Assets held for sale	*20*	77,431	-
Total current assets		**2,938,515**	**1,726,074**
TOTAL ASSETS		**6,335,388**	**5,290,061**
EQUITY AND LIABILITIES			
Issued share capital		62,412	55,504
Share premium reserve		866,831	674,913
Retained earnings		799,725	875,668
Other reserves		(260,433)	(322,517)
Equity attributable to shareholders of the parent company		**1,468,535**	**1,283,568**
Non-controlling interests		71,264	65,463
Total Equity	***21***	**1,539,799**	**1,349,031**
Loans and borrowings	*22*	1,907,403	1,531,887
Deferred Income	*23*	110,464	74,943
Provisions	*24*	43,662	44,443
Deferred tax liabilities	*13/25*	552	2,352
Derivative financial instruments	*18/28*	228,590	281,400
Total non-current liabilities		**2,290,671**	**1,935,025**
Loans and borrowings	*26*	623,577	600,096
Provisions	*24*	234,942	30,845
Trade and other payables	*27*	1,549,266	1,248,092
Income tax payable		49,032	10,961
Derivative financial instruments	*18/28*	48,101	116,011
Total current liabilities		**2,504,918**	**2,006,005**
TOTAL EQUITY AND LIABILITIES		**6,335,388**	**5,290,061**

4.2.4 Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

in thousands of US$	Outstanding number of shares	Share capital	Share premium	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
	Note 21							
At 1 January 2012	**171,440,416**	**55,504**	**674,913**	**875,668**	**(322,517)**	**1,283,568**	**65,463**	**1,349,031**
Loss for the year	-	-	-	(79,488)	-	(79,488)	4,628	(74,860)
Foreign currency translation	-	1,028	-	-	1,118	2,146	(168)	1,978
Cash flow hedges/net investment hedges	-	-	-	-	60,966	60,966	5,522	66,488
Total comprehensive income for the year	**-**	**1,028**	**-**	**(79,488)**	**62,084**	**(16,376)**	**9,982**	**(6,394)**
Share based payments	-	-	-	11,293	-	11,293	-	11,293
Share issue	17,111,757	5,691	182,990	-	-	188,681	-	188,681
Stock dividend	-	-	-	-	-	-	-	-
Share options/ bonus shares	590,042	189	8,928	(8,172)	-	945	-	945
Cash dividend	-	-	-	-	-	-	(4,181)	(4,181)
Other	-	-	-	424	-	424	-	424
Total transactions with owners of the Company	**17,701,799**	**5,880**	**191,918**	**3,545**	**-**	**201,343**	**(4,181)**	**197,162**
At 31 December 2012	**189,142,215**	**62,412**	**866,831**	**799,725**	**(260,433)**	**1,468,535**	**71,264**	**1,539,799**

Consolidated statement of changes in equity

in thousands of US$	Outstanding number of shares	Share capital	Share premium	Retained earnings	Other reserves	**Total**	Non-controlling interests	**Total equity**
	Note 21							
At 1 January 2011	**168,667,512**	**56,420**	**658,532**	**1,406,301**	**(48,083)**	**2,073,170**	**50,235**	**2,123,405**
Loss for the year	-	-	-	(472,657)	-	**(472,657)**	32,043	**(440,614)**
Foreign currency translation	-	(1,882)	-	-	(4,507)	**(6,389)**	(304)	**(6,693)**
Cash flow hedges/net investment hedges	-	-	-	-	(270,454)	**(270,454)**	(16,428)	**(286,882)**
Total Comprehensive income for the year	**-**	**(1,882)**	**-**	**(472,657)**	**(274,961)**	**(749,500)**	**15,311**	**(734,189)**
Share based payments	-	-	-	9,981	-	**9,981**	-	**9,981**
Stock dividend	2,104,877	733	(733)	-	-	**-**	-	**-**
Share options/ bonus shares	668,027	233	17,114	(7,194)	-	**10,153**	-	**10,153**
Cash dividend	-	-	-	(60,763)	527	**(60,236)**	(83)	**(60,319)**
Total transactions with owners of the Company	**2,772,904**	**966**	**16,381**	**(57,976)**	**527**	**(40,102)**	**(83)**	**(40,185)**
At 31 December 2011	**171,440,416**	**55,504**	**674,913**	**875,668**	**(322,517)**	**1,283,568**	**65,463**	**1,349,031**

Within retained earnings, an amount of US$ 150.8 million (2011: US$ 133.7 million) relates to equity of joint ventures and other non-distributable items and should therefore be treated as legal reserve. Furthermore, a legal reserve of US$ 8.8 million (2011: US$ 18.5 million) should be maintained in respect of capitalised development expenditures and US$ 2.2 million (2011: US$ 1.1 million) in respect of cummulative translation adjustments.

4.2.5 Consolidated Cash Flow Statement

Consolidated cash flow statement

in thousands of US$	2012	2011
Cash flow from operating activities		
Receipts from customers	2,620,374	2,517,081
Payments to suppliers and employees	(1,425,256)	(1,311,288)
Income tax received / (paid)	(51,648)	(48,189)
Net cash from operating activities	**1,143,470**	**1,157,604**
Cash flow from investing activities		
Investment in property, plant and equipment	(643,447)	(799,995)
Investment in intangible assets	-	(5,757)
Investment in finance leases	(552,255)	(572,529)
Additions to funding loans	(4,167)	-
Redemption of funding loans	7,692	41,732
Interest received	-	10,898
Net proceeds from disposal of financial participations	142,572	-
Net proceeds from disposal of property, plant and equipment	15,614	14,450
Net cash used in investing activities	**(1,033,991)**	**(1,311,201)**
Cash flow from financing activities		
Proceeds from issue of shares	188,681	-
Additions to borrowings and loans	1,003,339	617,604
Repayments of borrowings and loans	(616,155)	(290,507)
Dividends paid to shareholders	(4,181)	(60,846)
Interest paid	(98,891)	(49,783)
Direct contribution in equity	424	-
Net cash from financing activities	**473,217**	**216,468**
Net increase/(decrease) in cash and cash equivalents	**582,696**	**62,871**
Cash and cash equivalents at 1 January	164,700	103,421
Net cash increase	582,696	62,871
Currency differences	927	(1,592)
Cash and cash equivalents at 31 December	**748,323**	**164,700**

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

Reconciliation of the cash and cash equivalents as at 31 December

in thousands of US$	2012	2011
Cash and cash equivalents	748,323	173,500
Bank overdrafts	-	(8,800)
Cash and cash equivalents at 31 December	**748,323**	**164,700**

4.2.6 Notes to the Consolidated Financial Statements

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 consolidated financial statements for the year ended 31 December 2012 comprise the financial statements of SBM Offshore N.V. and its subsidiaries (together referred to as 'the Company') and the Company's interest in associates and jointly-controlled entities as at 31 December each year.

The Company serves on a global basis the offshore oil and gas industry by supplying engineered products, vessels and systems, and offshore oil and gas production services. The Company has its listing on the Euronext Amsterdam stock exchange.

Statement of compliance

The consolidated financial statements of SBM Offshore N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations, adopted by the EU where effective for financial years beginning after 1 January 2012. The consolidated financial statements are presented in thousands of US Dollars. The consolidated financial statements have been prepared under the historical cost convention except for:

- derivative financial instruments that are stated at fair value, and
- the defined benefit liability that is recognised as the present value of the defined benefit obligation less the fair value of the plan assets together with adjustments for unrecognised actuarial gains and losses and past service costs.

These consolidated financial statements were authorised for issue by the Board of Management on 13 February 2013.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

(a) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* (2011).

IFRS 10 introduces a single control model to determine whether an investee should be consolidated.

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting:

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.

- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

SBM Offshore has reviewed the treatment of its jointly controlled entities and such analysis leads to the conclusion that the impact of the new standards would be limited on the consolidated financial statements. Most of the Group's jointly controlled entities would qualify as Joint-Operations, with one exception as Joint-Venture.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates in comparison with the existing disclosures.

In December 2012, IFRS 10, IFRS 11 and IFRS 12 were endorsed for use in the EU for financial years starting on or after 1 January 2014. As permitted, the Group will early adopt these standards starting 1 January 2013.

(b) IAS 19 *Employee Benefits* (2011).

On 16 June 2011 the IASB issued a revised version of IAS 19 Employees Benefits, which is effective from 1 January 2013.

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two.

The main impact expected by the Company is related to the treatment of actuarial gains and losses on post-employment defined benefit plans. Under the revised standard, actuarial gains and losses will be recognised directly in other comprehensive income.

The method currently applied by the Company consists of taking the cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions exceeding 10% of the value of plan assets or 10% of the defined benefit obligation, will therefore be discontinued effective 1 January 2013. The amount of accumulated unrecognized actuarial losses was US$ 9,946 thousand as of December 31, 2012. This amount will be recognized through retained earnings in other comprehensive income on 1 January 2013.

(c) IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009).

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional requirements relating to financial liabilities.

The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The impact of initial adoption of IFRS 9 (2010) is under analysis.

Consolidation

Subsidiaries

Subsidiaries are entities (including special purpose entities) controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that presently are exercisable or convertible are considered when assessing whether the Company controls another entity. The figures of the subsidiaries are included in the financial statements from the date that control commences until such control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions and non-controlling interests

The Company applies a policy of recognising trading transactions with non-controlling interests as transactions with external parties. Disposals to non-controlling interests result in gains and losses for the Company and are recorded in the income statement. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the non-controlling interest.

Associates

Associates are those entities for which the Company has significant influence, but not control, over the financial and operating policies. The financial statements include the Company’s share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Company’s share of losses exceeds its interest in an associate, the Company’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company’s investment in associates includes goodwill identified on acquisitions, net of any accumulated impairment loss.

Joint ventures

The Company's interest in joint ventures are accounted for by proportionate consolidation, from the date that joint control commences until the date that joint control ceases. Joint ventures are those entities over whose activities the Company has joint control, established by contractual arrangement.

The Company combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. The Company recognises the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other venturers. The Company does not recognise its share of profits or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions (which are made at arms length), are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Management.

Management has determined the operating segments based on the reports reviewed by the Board of Management that are used to make strategic decisions, comprising information from the individual business units and from a product and services perspective. The Company's reportable segments are identified as follows:

- Lease and Operate
- Turnkey Systems
- Turnkey Services
- Other, consisting of corporate overhead functions and other units

For management purposes, the Company is organised into seven operating units based on their products and services. For financial reporting purposes, the Turnkey Systems segment combines the results of five of these units being SBM Monaco, SBM Houston, SBM Schiedam, GustoMSC (disposed as of 28 November 2012) and SBM Kuala Lumpur.

The Turnkey Systems segment derives its revenues from turnkey supply contracts. Turnkey supply contracts consist of, among others: large production systems, large mooring systems, deepwater export systems, fluid transfer systems, tanker loading and discharge terminals, supply of drilling units, design services and supply of special components and proprietary designs and equipment. The Turnkey Services segment derives its revenues from offshore contracting and after-sales services. The Lease and Operate segment comprises the total of earned day-rates on long-term operating lease and operate contracts. In the case of a finance lease, revenue is recognised during the construction period within the Turnkey Systems segment and, where installation activities are effected, within the Turnkey Services segment. As of the commencement date of the finance lease contract, the interest income is shown in the Lease and Operate segment.

Management monitors the operating results of operating segments separately for the purpose of making decisions about resources to be allocated and for assessing performance. Segment performance is evaluated based on net result, which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Inter-segment revenues are made at prices that approximate market prices.

As a result from an internal reorganisation effective 1 January 2013, the “Turnkey Services” segment will be merged with the “Turnkey Systems” segment into a new “Turnkey” segment.

Foreign currency translation

Functional and reporting currency

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the ‘functional currency’). The functional currency of the offshore oil and gas activities is the US Dollar. The consolidated financial statements are presented in US Dollars, which is the reporting currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

At year-end 2012 the most significant rates were the Euro at US$ 1.3199 (opening 2012: US$ 1.295) and the Brasilian Real at US$ 0.4879 (opening 2012: US$ 0.5366). The average Euro rate amounted to US$ 1.2861 (2011: US$ 1.3926) and the average Brasilian Real rate amounted to US$ 0.5136 (2011: US$ 0.599).

Group companies

The result and financial position of all Group companies that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses are translated at the average exchange rate (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity (Translation reserve).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings of such investments, are taken to Group equity. When an operation denominated in foreign currency is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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. The asset is included in the statement of financial position as property, plant and equipment. Lease income is recognised over the term of the lease on a straight line basis. This implies the recognition of a deferred income when the contractual dayrates are not constant during the initial term of the lease contract.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a financial asset. The difference between the gross receivable and the present value of the receivable is recognised as revenue. Lease income 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. During the construction period of the facility, the contract is treated as a construction contract, whereby the stage of completion method is applied.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment, with the exception of land, which is shown at cost less impairment. 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 asset's carrying amount or recognised 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 demobilisation of the asset. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets are depreciated by using the straight-line method over their anticipated useful life, taking into account a residual value for the vessels and floating equipment, with the exception of the ThunderHawk facility. The depreciation charge for the ThunderHawk facility is calculated based on its future anticipated economic benefits. This results in a depreciation charge partly based on the units of production method and for the other part based on the straight line method. Investment subsidies (with the exception of investment premiums) are directly deducted from the historical costs of the assets.

The anticipated useful lives of the categories of property, plant and equipment are as follows:

Anticipated useful lives of the categories of property, plant and equipment

Land and Buildings (Unless unlimited lives)	30-50 years
Vessels and floating equipment	
- converted tankers, including refurbishment;	10-20 years
-'non-recoverable' investment costs which are incurred for a specific project, e.g. installation costs, transport costs, costs of anchor lines, anchor points, risers etc., are depreciated over the period of the contract to which they relate;	3-15 years
- investments in facilities which include the mooring system, swivel stack, vessel conversion, process equipment if relevant etc. In case of long-term contracts these items are fully depreciated over the contract duration. For shorter-term contracts, a decision is taken as to which percentage of these costs should be depreciated.	3-15 years
Machinery and equipment	5-20 years
Other fixed assets	2-20 years

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

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 on disposals are determined by comparing proceeds (less attributable costs) with the carrying amount. These are included in the income statement and reported on the 'Other Operating Income' line.

Intangible assets

Goodwill

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. All business combinations are accounted for by applying the purchase method. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. In respect of business acquisitions occurring after 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which is the amount recorded under Dutch GAAP.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units are the 7 identified operating units.

Patents

Separately acquired patents are shown at historical cost. Patents acquired in a business combination are recognised at fair value at the acquisition date. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 15 years. The Company assesses at the end of each reporting period whether there is any indication for impairment. If such indication exists, the Company estimates the recoverable amount of the patent and expenses the surplus as an impairment charge of the period.

Research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as an intangible asset when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use it or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available;
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding 5 years. The Company tests for impairment at least annually the carrying amount of capitalised development costs, which are not yet finalised.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). 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.

Recoverable amounts are determined based on value-in-use calculations. These calculations require the use of estimates.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Financial assets

The Company classifies its financial assets in the following categories: the Loans and Receivables, the Available for sale and the financial assets at Fair value through profit or loss. The classification depends on the purpose of the financial asset. Management determines the classification at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables include finance lease receivables, other loans and receivables, and other financial assets.

Impairment of financial assets

The Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting date. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets 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, granting 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 loss 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 been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised 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 recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment on trade and other receivables is described in the accounting policy with respect to trade and other receivables.

Inventories

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

Construction work in progress

Construction work in progress is stated at cost plus profit recognised to date less a provision 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.

Trade and other receivables

Trade receivables are amounts due from customers for sales performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the income statement.

Derivative financial instruments and hedging activities

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such financial instruments are initially recognised at fair value on the date on which a financial contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivative financial instruments are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on financial instruments that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles using quoted market rates. The fair value of interest rate swap contracts is determined by reference to market rates for similar contracts.

For hedge accounting, hedges are classified as:

- fair value hedges when hedging exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge);
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction (cash flow hedge);
- hedges of net investments in a foreign operation (net investment hedge).

At the inception of the transaction, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instruments, the hedged item, or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in the fair value of the hedged item or cash flows and are assessed periodically to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. The Company uses cash flow hedges and hedges of net investments in a foreign operation.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are added or deducted from the recognised value of the hedged item upon its recognition and to the income statement when the hedged transaction affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement.

If the forecasted transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in the note 18 - Derivative financial instruments. Movements in the hedging reserve in equity attributable to shareholders are shown in the note 21 - Equity attributable to shareholders.

Cash and cash equivalents

Cash and cash equivalents consist primarily of highly liquid investments, such as bank deposits. Bank overdrafts are shown in borrowings and bank overdrafts as part of current liabilities in the statement of financial position.

Share capital

Ordinary shares and 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.

When any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

Borrowings (bank loans and other loans)

Borrowings are recognised initially at fair value, measured at amortised cost and classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Deferred income tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or are defined as multi employer plans. The payments in each case are determined by periodic actuarial calculations. 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 recognised as an expense in the income statement as incurred.

The liability recognised 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 unrecognised 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.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions exceeding 10% of the value of plan assets or 10% of the defined benefit obligation are taken to the income statement over the expected average remaining working lives of the employees in the related plan.

Past-service costs are recognised immediately as an expense unless the changes of the pension plan are conditional on remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Other employee benefits

The other employee benefits provisions relate to other post-employment benefit obligations, termination and seniority benefits. Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Seniority benefits are paid upon reaching a pre-determined number of service years. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to present value.

Share based payments

Within the Company there are four types of share based payments: share option plan (until 2008), RSU/PSU (as of 2009), performance shares and matching bonus shares. All types of share based payments qualify as equity settled plans.

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 options that are expected to become exercisable or 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. The proceeds received on exercise of the options net of any directly attributable costs are credited to equity. Fair value of share options is calculated using the average of the Black & Scholes and binomial valuation models.

When equity instruments are exercised the Company issues new shares.

Provisions

General
A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, when appropriate, the risk specific to the liability. Subsequently, the interest accrued on discounted provisions will be recognised as financial expenses. Discounting of provisions mainly concerns fleet demobilisation obligations.

Reorganisation
Provisions for reorganisation costs relate to costs for termination of employment.

Demobilisation obligations
The provision for demobilisation obligations relates to estimated costs for demobilisation of leased facilities at the end of the respective lease period. The net present value of the future obligations is included in property, plant and equipment with a corresponding amount included in the provision for demobilisation. As the remaining duration of each lease reduces, and the discounting effect on the provision unwinds, accrued interest is recognised as part of financial expenses and added to the provision.

Onerous contracts
The provision for onerous contracts relates to contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net costs of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Warranty provision
For most Turnkey sales, the Company grants warranties to its clients. Under the terms of 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 of the system delivered.

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

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

Revenue

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

Construction work in progress

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and margin are recognised in the income statement using the ‘percentage-of-completion method’. Complex projects are subjected to gate reviews before margins can be recognised. These gate reviews occur at an advanced degree of completion in engineering with overall project progress at typically around 25%. Until this point, no margin is recognised, with revenue recognised to the extent of cost incurred. The above applies only for those projects presenting a high risk profile, because of technical novelty, complexity or pricing arrangement agreed with the respective client.

The stage of completion is measured by reference to the total cost incurred up to the end of the reporting period as a percentage of the total estimated cost for each contract, unless the physical progress significantly differs. Conversely, an expected loss on a contract is recognised immediately in the income statement.

As items of revenue, variations in contract work, claims and / or incentive payments shall therefore be recognised using the 'percentage of completion method' provided:

- It is more than probable that the inflow will benefit SBM Offshore;
- the amount can be reliably measured.

With regards to above mentioned criteria, SBM Offshore adopts the following approach for claims:

- Negotiations with a client have reached an advanced stage before the period-end closing;
- Estimates should be confirmed by a third-party (legal opinion, consultancy firm).

However, by reference to *IAS 11 - Construction contracts*, because there are remaining uncertainties, revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable. Consequently, no margin shall be recognised on those variation orders, claims and/or incentives until the uncertainties are removed.

Lease and operate contracts

Revenue of long-term operating lease and operate contracts are reported on a straight-line basis over the period of the contract once the system 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 of 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.

Services rendered

Revenue from services rendered is also recognised using the 'percentage-of-completion method'. The stage of completion is measured by reference to the total cost incurred up to the end of the reporting period as a percentage of the total estimated cost for each contract, unless the physical progress significantly differs. Conversely, an expected loss on a contract is recognised immediately in the income statement.

The same approach as for construction work in progress applies for variations in contract work, claims and / or incentive payments.

Income tax

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

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 recognises 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.

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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

Cash flow statement

To improve visibility to stakeholders, the Company applies the following presentation:

- Finance leases: the structure of cash outflows / inflows is similar to operating lease contracts because no cash is received from the ultimate client during the construction period (to the exception of upfront payments if any) and the investment is actually repaid during the lease period through the bareboat charter. Therefore the Company has aligned its finance lease presentation with operating leases as follows:

- During the construction period: cash outflows are treated as investing activities and not as operating activities
- During the lease period: cash inflows are treated as operating activities and not as financing activities

- Interest-bearing loans to Jointly-controlled entities: given the nature of the commitments, these inflows/outflows are treated as investing activities.

Use of estimates

In the preparation of the financial statements, it is necessary for the management of the Company to make estimates and certain assumptions that can affect the valuation of the assets and liabilities and the outcome of the income statement. The actual outcome may differ from these estimates and assumptions. 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.

In particular, significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are:

- the anticipated useful life and residual value of the leased facilities;
- the lease classification;
- the revenue and margin recognition on construction contracts based on the stage of completion method;
- the impairment of property, plant and equipment and intangible assets;
- the impact of variation orders, incentives and claims from clients where negotiations or discussions are at a sufficiently advanced stage;
- the future costs to complete for construction projects and required contingencies;
- the demobilisation and onerous contract provisions;
- the Company's exposure to litigation with third parties.

Note 1. Segment information

Business information

Sales between segments are carried out at arm's length. The revenue to third parties reported to the Chief Operating Decision Maker is measured in a manner consistent with that in the income statement.

The amounts provided to the Chief Operating Decision Maker with respect to non-current assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment.

Business information

Period ending 31 December 2012

in thousands of US$	Lease and Operate	Turnkey Systems	Turnkey Services	Other	Eliminations and adjustments	Consolidated
Revenue						
Third party	932,356	2,481,712	281,155	-	-	3,695,223
Inter-segment	-	26,169	91,814	-	(117,983)	-
Total revenue	**932,356**	**2,507,881**	**372,969**	**-**	**(117,983)**	**3,695,223**
Gross margin	(298,827)	348,234	74,161	(0)	-	123,568
Other operating income	166	122,748	7,617	108	-	130,639
Selling and marketing expenses	(9,097)	(33,926)	(6,588)	0	-	(49,611)
General and administrative expenses	(18,325)	(55,516)	(5,985)	(48,944)	-	(128,770)
Research and development expenses	(942)	(24,081)	(326)	-	-	(25,349)
EBIT	**(327,025)**	**357,459**	**68,879**	**(48,836)**	**-**	**50,477**
Net financing costs	-	-	-	-	-	(86,856)
Income tax expense	-	-	-	-	-	(38,481)
Profit/(Loss)	**-**	**-**	**-**	**-**	**-**	**(74,860)**
EBITDA						
EBIT	(327,025)	357,459	68,879	(48,836)	-	50,477
Depreciation, amortisation and impairment	618,925	21,005	6,097	1,140	-	647,167
EBITDA	**291,900**	**378,464**	**74,976**	**(47,696)**	**-**	**697,644**
Other segment information						
Impairment charges	426,805	-	-	-	-	426,805
Capital expenditure	511,134	73,898	82,733	5,283	-	673,048
Non-current assets	3,003,913	191,356	149,043	52,561	-	3,396,873

Business information

Period ending 31 December 2011

in thousands of US$	Lease and Operate	Turnkey Systems	Turnkey Services	Other	Eliminations and adjustments	**Consolidated**
Revenue						
Third party	867,219	1,987,981	301,626	-	-	**3,156,826**
Inter-segment	-	1,636	38,208	-	(39,844)	**-**
Total revenue	**867,219**	**1,989,617**	**339,834**	**-**	**(39,844)**	**3,156,826**
Gross margin	(589,652)	338,940	89,764	-	-	**(160,948)**
Other operating income	21	1,782	-	91	-	**1,894**
Selling and marketing expenses	(9,195)	(30,196)	(7,331)	-	-	**(46,722)**
General and administrative expenses	(7,368)	(36,996)	(3,684)	(36,387)	-	**(84,435)**
Research and development expenses	(11,667)	(32,728)	(6,013)	-	-	**(50,408)**
EBIT	**(617,861)**	**240,802**	**72,736**	**(36,296)**	**-**	**(340,619)**
Net financing costs	-	-	-	-	-	**(49,947)**
Income tax expense	-	-	-	-	-	**(50,048)**
Profit/(Loss)	**-**	**-**	**-**	**-**	**-**	**(440,614)**
EBITDA						
EBIT	(617,861)	240,802	72,736	(36,296)	-	**(340,619)**
Depreciation, amortisation and impairment	1,094,508	45,252	12,970	1,119	-	**1,153,849**
EBITDA	**476,647**	**286,054**	**85,706**	**(35,177)**	**-**	**813,230**
Other segment information						
Impairment charges	883,022	27,561	3,359	-	-	**913,942**
Capital expenditure	765,973	26,067	34,331	14,181	-	**840,552**
Non-current assets	3,220,314	126,821	81,773	135,079	-	**3,563,987**
Investments in associates	-	41	-	-	-	**41**

Divestment program for non-core assets

In 2012, the line "Other Operating Income" includes the gains resulting from the first steps of the company's divestment program for non-core assets:

- The Company completed the disposal of GustoMSC, its non-core design and engineering subsidiary, on 28 November 2012 for a total consideration of US$ 189 million. The sale of Gusto MSC was a further step in enabling SBM Offshore to pursue its FPSO-driven strategy, allowing its Dutch execution Centre in Schiedam to focus exclusively on FPSOs and FPSO-related products.

- The support vessel Dynamic Installer was sold in November 2012 for a total consideration of US$ 14.8 million.

Deep Panuke and YME projects

In 2011 the Company reported severe impairment charges associated mainly to an impairment of US$ 857 million in relation to the completion of two jack-up platforms for the Norwegian Yme field and the Canadian Deep Panuke field as a result of the reassessment of planning of completion, additional workscope and related future costs and recoveries from legal proceedings.

Completion activities on Deep Panuke are progressing, with start up expected in the first half of 2013. The remaining work on the platform has been identified and primarily relates to the reinstallment of piping systems, gas leak testing and commissioning completions. These works are labour intensive as each system needs to be reinstalled and tested. All work on the platform must be carried out with a small crew, reflecting the limited numbers permitted aboard the structure. The required repairs, additional contingencies and the impact of delays have resulted in a further impairment charge of US$ 29 million in 2012.

In 2012, SBM Offshore and Talisman have been in intensive discussions on ways forward for the Yme MOPUstor. Despite every effort on both sides, no agreement has yet been reached. As the dialogue continues, the balance of expectation is that the platform will be decommissioned. This is a departure from previous assumptions and consequently the book value of the asset has been fully impaired, leading to an additional US$ 398 million impairment charge in 2012. As part of a settlement the Company expects to have to contribute to the cost of decommissioning under Talisman's responsibility, and has made a provision of US$ 200 million. The Company will confirm the outcome which could be materially different from the position taken at year-end 2012, as soon as final agreement is reached.

Geographical information

The classification by country is determined by the final destination of the product.

The revenue by country can be analysed as follows:

Geographical information (revenue by country)

in thousands of US$	2012	2011
Netherlands	25,957	9,052
Angola	633,232	475,357
Australia	137,566	118,226
Brazil	1,810,239	1,279,764
USA	128,211	131,804
Norway	53,302	12,164
Malaysia	105,024	73,188
Equatorial Guinea	141,879	567,212
Nigeria	69,165	85,135
Other	590,648	404,924
Total revenue	**3,695,223**	**3,156,826**

The non-current assets by country can be analysed as follows:

Geographical information (non-current assets by country)

in thousands of US$	2012	2011
Netherlands	7,638	11,572
Angola	217,875	231,085
Brazil	1,132,245	998,502
USA	288,590	335,623
Equatorial Guinea	681,375	810,277
Norway	2,005	211,668
Canada	574,749	504,508
Malaysia	146,444	137,370
Nigeria	59,355	60,417
Other	286,597	262,965
Total non-current assets	**3,396,873**	**3,563,987**

Reliance on major customers

There are several major customers identified in the Lease and Operate segment, the Turnkey Systems segment and the Turnkey Services segment. Total revenue from the top three major customers amounts to US$ 2,029.2 million (2011: US$ 1,659.9 million).

Note 2. Other Operating Income

Other Operating Income

in thousands of US$	2012	2011
Gains from sales of financial participations, Property, plant and equipment	127,818	598
Others	2,821	1,296
Total Other Operating Income	**130,639**	**1,894**

The gain from sales of Investments, Property, plant and equipment include, for a major part, gains resulting from the disposal of GustoMSC and the Dynamic Installer support vessel in 2012.

Note 3. Information on the nature of expenses

The table below sets out expenses by nature for all items included in EBIT for the years 2012 and 2011:

Information on the nature of expenses

in thousands of US$	*Note*	2012	2011
Expenses and construction contracts		(1,703,120)	(1,310,821)
Employee benefits expenses	*4*	(762,113)	(653,616)
Selling expenses		(29,073)	(17,756)
Depreciation, amortisation and impairment		(647,168)	(1,153,849)
Other operating costs		(633,911)	(363,297)
Total expenses		**(3,775,385)**	**(3,499,339)**

The line "Other operating costs" for 2012 includes the provision of US$ 200 million for contribution to the cost of decommissining of the Yme MOPUstor.

Note 4. Employee benefits expenses

Information with respect to employee benefits:

Employee benefits expenses

in thousands of US$	2012	2011
Wages and salaries	(450,575)	(378,183)
Social security costs	(56,195)	(49,643)
Contributions to defined contribution plans	(35,700)	(37,147)
Increase in liability for defined benefit plans	(2,156)	(2,423)
Increase / (Decrease) in liability for other employee benefits	438	(1,025)
Equity settled transactions (share based payments)	(11,293)	(9,981)
Other employee benefits	(206,632)	(175,214)
Total employee benefits	**(762,113)**	**(653,616)**

Other employee benefits include, for a major part, expenses related to contract staff.

Pensions and other post-employment benefit plans

The Company has defined benefit pension plans, based on final salary. The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated statement of financial position.

Net benefit expense recognised within employee benefits is:

Pensions and other post employment benefit plans (net benefit expense recognised within employee benefits)

	2012	2011	2012	2011	2012	2011
in thousands of US$	Pension plans		Other employee benefits		Total	
Current service cost	1,922	1,905	-	-	1,922	1,905
Interest cost on benefit obligation	2,240	2,269	-	-	2,240	2,269
Expected return on plan assets	(2,421)	(2,138)	-	-	(2,421)	(2,138)
Other	415	387	(438)	1,025	(23)	1,412
Net benefit expense	**2,156**	**2,423**	**(438)**	**1,025**	**1,718**	**3,448**

The benefit (asset)/liability included in the statement of financial position is:

Pensions and other post employment benefit plans (benefit asset/liability included in the statement of financial position)

	2012	2011	2012	2011	2012	2011
in thousands of US$	Pension plans		Other employee benefits		Total	
Defined benefit obligation	72,144	75,272	5,983	6,432	78,127	81,704
Fair value of plan assets	(58,691)	(66,638)	-	-	(58,691)	(66,638)
	13,453	**8,634**	**5,983**	**6,432**	**19,436**	**15,066**
Unrecognised net actuarial gains/(losses)	(9,946)	(6,264)	-	-	(9,946)	(6,264)
Benefit (asset)/liability	**3,507**	**2,370**	**5,983**	**6,432**	**9,490**	**8,802**

The historic overview of the deficit / (surplus) of the pension plans can be displayed as follows:

Pensions and other post employment benefit plans (historic overview of the deficit / surplus of the pension plans)

in thousands of US$	2012	2011	2010	2009	2008
Present value defined benefit obligation	72,144	75,272	72,267	70,336	57,195
Fair value of plan assets	(58,691)	(66,638)	(67,137)	(67,431)	(48,173)
Deficit / (Surplus)	**13,453**	**8,634**	**5,130**	**2,905**	**9,022**

Changes in the present value of the pension plans defined benefit obligation are as follows:

Pensions and other post employment benefit plans (changes in the present value of the pension plans defined benefit obligation)

in thousands of US$	2012	2011
Opening defined benefit obligation	75,272	72,267
Interest cost	2,240	2,269
Current service cost	1,922	1,905
Benefits paid	(4,493)	(2,868)
Actuarial (gains)/losses on obligation	10,366	3,934
Other movements / deconsolidation*	(15,146)	498
Exchange differences on foreign plans	1,983	(2,733)
Closing defined benefit obligation at 31 December*	**72,144**	**75,272**

** Mainly includes the deconsolidation of GustoMSC pension plan following disposal of the subsidiary.*

Changes in the fair value of plan assets of the pension plans are as follows:

Pensions and other post employment benefit plans (changes in the fair value of plan assets of the pension plans)

in thousands of US$	2012	2011
Opening fair value of plan assets	(66,638)	(67,137)
Expected return	(2,421)	(2,138)
Contributions by employer	(1,569)	(3,433)
Contribution by employee	(324)	(650)
Benefits paid	4,493	2,868
Actuarial (gains)/losses	(4,171)	1,044
Other movements / deconsolidation*	13,244	518
Exchange differences on foreign plans	(1,305)	2,290
Closing fair value of plan assets at 31 December	**(58,691)**	**(66,638)**

** Mainly includes the deconsolidation of GustoMSC pension plan following disposal of the subsidiary.*

The actual return on plan assets is US$ 3.9 million (2011: US$ 1.1 million).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Pensions and other post employment benefit plans (major categories of plan assets as a percentage of the fair value of total plan assets)

	2012	2011
	%	%
Cash	5.0	5.0
Real estate	5.0	5.0
Alternative investments	5.0	5.0
Equities	20.0	20.0
Bonds	65.0	65.0
	100.0	**100.0**

The principal assumptions used in determining pension benefit obligations for the Company's plans are shown below:

Pensions and other post employment benefit plans (principal assumptions used in determining pension benefit obligations)

	2012	2011
	%	%
Discount rate	2.00	2.75
Expected rate of return on assets	2.00	2.75
Future salary increases	4.00	4.00
Future pension increases	-	-

The overall expected rate of return on assets is determined on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The Company expects to contribute US$ 2.0 million to its defined benefit pension plans in 2013 (2012 : US$ 1.8 million).

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$ 12.7 million (2011: US$ 13.3 million).

The performance-related part of the remuneration, comprising both STI and LTI components, equals 27% (2011: 42%).

The remuneration (including the Management Board which is largely Euro denominated), was affected by the strengthening US$ in 2012 (8% higher average rate than in 2011).

The total remuneration and associated costs of the Managing Directors (which includes the economic crisis charge levied in the Netherlands in the amount of US$ 14,000) and other key management personnel (non-statutory directors and management of the main subsidiaries) can be specified as follows:

Remuneration Key management personnel of the Company

						2012	2011
in thousands of US$	Salary and emolu-ments	Termination benefits	Bonus (cash and shares)	Pension costs	Valuation of share-based payments*	Total	Total
B.Y.R. Chabas	1,054	-	150	116	479	1,799	-
S. Hepkema	790	-	-	101	192	1,083	-
P.M. van Rossum	610	-	-	62	117	789	-
M.A.S. Miles	572	476	73	28	(107)	1,042	1,283
Other key management personnel	5,164	-	1,558	362	1,031	8,115	12,060
Total remuneration	**8,190**	**476**	**1,781**	**669**	**1,712**	**12,828**	**13,343**

* Including true-ups on performance and employment conditions

The bonuses are performance related, based on Economic Profit. There are no guarantees or obligations towards or on behalf of the Board of Management.

Share Option Plan

The Share Option Plan, which was terminated in 2008, has been replaced by Performance Shares and Restricted Shares schemes. Options were granted at market value, a three year vesting period, and a subsequent two year exercise period. Currently two years of vested and exercisable options are outstanding.

The number of outstanding options for both 31 December 2012 and 31 December 2011 can be summarised as follows:

Share option plan (number of outstanding options)

Year	Granted	Number at 1 January 2012	Exercised in 2012	Forfeited / expired in 2012	Number at 31 December 2012	Exercise price in €
2007	1,771,000	1,507,000		1,507,000		25.91
2008	1,699,300	1,455,100			1,455,100	25.82
Total		**2,962,100**		**1,507,000**	**1,455,100**	
Weighted average exercise price in €		25.87		25.91	25.82	
Average price at exercise in €						

Share option plan (number of outstanding options)

Year	Granted	Number at 1 January 2011	Exercised in 2011	Forfeited / expired in 2011	Number at 31 December 2011	Exercise price in €
2006	1,578,000	1,369,000	326,500	1,042,500		19.05
2007	1,771,000	1,507,000			1,507,000	25.91
2008	1,699,300	1,535,100		80,000	1,455,100	25.82
Total		**4,411,100**	**326,500**	**1,122,500**	**2,962,100**	
Weighted average exercise price in €		23.75	19.05	19.53	25.87	
Average price at exercise in €			20.35			

The remaining average contractual life of the outstanding options as at 31 December 2012 is 0.37 years (2011: 0.87 years).

The end of vesting periods and expiry dates of the stock options are as follows:

Share option plan (end of vesting periods and expiry dates of the stock options)

Year	End of vesting period	Expiry date
2007	17 May 2010	17 May 2012
2008	15 May 2011	15 May 2013

Information with respect to the options granted to the (Former) Managing Directors, key management personnel and other personnel for the year 2012:

Share option plan (options granted to the Managing directors, key management personnel and other personnel)

	Number at 1 January 2012	Exercised in 2012	Forfeited / expired in 2012	Number at 31 December 2012	Exercisable
A.J. Mace	44,000		44,000		
Weighted average exercise price in €	25.91		25.91	25.82	
Average price at exercise in €					
Other key management personnel	434,000		220,000	214,000	214,000
Weighted average exercise price in €	25.87		25.91	25.82	
Average price at exercise in €					
Other personnel	2,484,100		1,243,000	1,241,100	1,241,100
Weighted average exercise price in €	25.87		25.91	25.82	
Average price at exercise in €					

Information with respect to the options granted to the (Former) Managing Directors, key management personnel and other personnel for the year 2011:

Share option plan (options granted to the Managing directors, key management personnel and other personnel)

	Number at 1 January 2011	Exercised in 2011	Forfeited / expired in 2011	Number at 31 December 2011	Exercisable
A.J. Mace	88,000		44,000	44,000	44,000
Weighted average exercise price in €	22.48		19.05	25.91	
Average price at exercise in €					
Other key management personnel	638,000	26,000	178,000	434,000	434,000
Weighted average exercise price in €	23.69	19.05	19.05	25.87	
Average price at exercise in €		20.45			
Other personnel	3,685,100	300,500	900,500	2,484,100	2,484,100
Weighted average exercise price in €	23.79	19.05	19.65	25.87	
Average price at exercise in €		14.19			

For all presently outstanding options, vesting is solely subject to fulfilling the continued employment condition.

Performance Shares

Performance shares introduced in 2005, and subsequently amended in 2008 and 2011 under renewed Remuneration Policies form part of the LTI for Board of Management members, and are subject to performance conditions. From 2008 until 2011, this was 100% based on an EPS growth threshold. From 2011, this was changed into 50% on EPS growth, and 50% on relative Total Shareholder Return (TSR) in comparison with the peer group defined in the 2011 Remuneration Policy. Performance shares vest three years after the provisional award date, and must be retained for two years from the vesting date.

As from 2008, under the Remuneration Policy 2008, the number of conditional performance shares awarded was such that their value is equivalent to 100% of the Managing Directors' base annual salary of the previous year, assuming "At target" EPS growth performance over the three year period following the period of reference. For the performance period 2010-2012, the EPS growth threshold of 5% was not achieved and consequently no performance shares have been issued to Board of Management members who were part of the LTI scheme in 2010.

As from 2011, under the Remuneration Policy 2011, the number of conditional performance shares awarded is such that their value is equivalent to 125% of the Managing Directors' base annual salary of the previous year, assuming "At target" EPS growth/TSR performance over the three year period following the period of reference. In 2012, the conditional awards were 52,562 shares for Mr. B. Chabas, 40,962 for Mr. S. Hepkema, 31,843 shares for Mr. P. van Rossum, 8,087 shares for Mr. M. Miles, the latter to the pro rata of his employment period (these numbers include shares on a non-statutory basis for part of the year, for Mr. S. Hepkema, as well as Mr. M. Miles). If the threshold average EPS growth/TSR over 2012 to 2014 is not achieved, these shares will not vest. The maximum possible award is 250% of the conditional award for the CEO, and 187.5% for other Managing Directors.

PSU and RSU plans

In 2009, new plans were approved by the Supervisory Board and implemented, replacing the previous Share Option Plan for senior employees. Under these plans, shares in the Company are awarded annually to eligible employees. The number of shares granted under the RSU plan in 2012 is 702,500 (2011: 500,340). Furthermore, under a one-time amendment to the RSU plan, an additional number of 720,000 RSU shares were granted, vesting only at the end of 3 year continuing service and subject to a 2-year lock-up period following such vesting. No shares were granted under the PSU in 2012 (2011 : nil).

The annual award is based on individual performance. Concerning the PSU plan, a performance condition applies, based on a combination of EBIT margin and EBIT growth over a 3-year performance period. When at target, the conditionally granted number of shares will vest; a matrix of outcomes has been adopted including threshold and maximum vesting levels at 25% and 150% respectively of the at-target grant. The RSU plan has no performance condition, only a service condition, and will vest over a three year period, with 1/3 vesting on each anniversary date of the original grant date.

Main assumptions included in the calculation for the PSU and RSU plans are:

PSU and RSU plans

	2012
Expected departures (tranche 1/2/3)	0% / 2.5% / 5%
Fair value at grant date (excluding entitlement to dividends during vesting period), 1 July 2012	€ 10.39 / € 9.91/ € 9.46

For the additional RSU grants, departures and fair value equal those of the 3rd tranche, as these vest on the same date.

Matching Shares

Under the STI plans for the Board of Management, management and senior staff of Group companies, 20% of the STI is or can be paid in shares. For Board of Management members, this share based element is compulsory but for other senior staff the scheme is optional. 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 100% for Board of Management members and 95% for other senior staff.

The amounts recognised in EBIT for all share-based payment transactions can be summarised as follows, taking into account both the provisional awards for the current year and the additional awards related to prior years:

in thousands of US$	**Share option plan**	**Performance shares and RSU / PSU**	**Matching shares**	**Total**
Instruments granted	-	9,988	677	10,665
Performance conditions	-	528	100	628
Total expenses 2012	**-**	**10,516**	**777**	**11,293**

in thousands of US$	Share option plan	Performance shares and RSU / PSU	Matching shares	**Total**
Instruments granted	1,059	7,048	764	**8,871**
Performance conditions	-	1,003	107	**1,110**
Total expenses 2011	**1,059**	**8,051**	**871**	**9,981**

Rules of conduct with regard to inside information are in place to ensure compliance with the Act on Financial Supervision. These rules forbid e.g. the exercise of options or other financial instruments during certain periods defined in the rules and more specifically when the employee is in possession of price sensitive information.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board amounted to US$ 789,000 (2011: US$ 812,000) and can be specified as follows:

Remuneration of the supervisory board

		Basic remuneration		Committees		Total	
in thousands of US$		2012	2011	2012	2011	2012	2011
H.C. Rothermund	Chairman	116	125	22	20	138	145
R. van Gelder	Vice-Chairman (from 14 April 2010)	103	111	10	11	113	122
F.G.H. Deckers		96	104	10	11	106	115
T.M.E. Ehret		96	104	13	14	109	118
F.J.G.M. Cremers	From 15 April 2010	96	104	13	14	109	118
F.R. Gugen	From 6 July 2010	96	104	12	13	108	117
K.A. Rethy	From 5 May 2011	96	70	10	7	106	77
Total		**699**	**722**	**90**	**90**	**789**	**812**

There are no options granted and no assets available to the members of the Supervisory Board. There are neither loans outstanding to the members of the Supervisory Board nor guarantees given on behalf of members of the Supervisory Board.

Number of employees

Number of employees (by business segment)

	Average	Year-end	Average	Year-end
By business segment:	2012		2011	
Lease and operate	1,528	1,665	1,314	1,390
Turnkey Systems (including other)	3,531	4,012	2,858	3,049
Turnkey Services	216	216	213	216
Total	**5,275**	**5,893**	**4,385**	**4,655**

Number of employees (by geographical area)

	Average	Year-end	Average	Year-end
By geographical area:	2012		2011	
The Netherlands	470	429	490	511
Worldwide	4,805	5,464	3,895	4,144
Total	**5,275**	**5,893**	**4,385**	**4,655**

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. The employees working for joint ventures are included for 100% in the numbers above.

Note 5. Net financing costs

Net financing costs (financial income)

in thousands of US$	2012	2011
Interest income	6,010	10,900
Net forex exchange gain	8,447	2,298
Interest rate swap result	1,183	-
Financial income	**15,640**	**13,198**

Net financing costs (financial expenses)

in thousands of US$	2012	2011
Interest expenses	(91,636)	(59,633)
Interest addition to provisions	(1,088)	(1,361)
Net ineffective portion in fair value of cash flow hedge	(9,772)	(2,151)
Financial expenses	**(102,496)**	**(63,145)**

The financial expenses are net of US$ 40.5 million capitalised interest (2011: US$ 43.8 million).

In 2012, the 'Net ineffective portion in fair value of cash flow hedge' line was mainly related to the fair value of the interest rate swap for the Deep Panuke project loan.

Note 6. Research and development expenses

Research and development expenses consist of US$ 25.3 million (2011: US$ 50.4 million) charged directly to other operating expenses. In 2011, this figure included an impairment charge of US$ 20.2 million related to FLNG and renewable energy products and was triggered by the change in product focus in the Company strategy.

The amortisation of development costs is allocated to the cost of sales.

Note 7. Income tax

Tax recognised in the consolidated Income Statement

in thousands of US$	2012	2011
Tax charged in the Income Statement :		
Current tax :		
Corporation tax on profits for the year	(69,651)	(46,684)
Adjustments in respect of prior years	(156)	-
Total current tax	**(69,807)**	**(46,684)**
Deferred tax	31,326	(3,364)
Total	**(38,481)**	**(50,048)**
Attributable to :		
Continuing operations	(38,481)	(50,048)
Discontinued operations	-	-
Total	**(38,481)**	**(50,048)**

The Company's operational activities are subject to taxation at rates which range up to 35% (2011: 35%).

The respective tax rates, including fiscal privileges in several countries, tax-exempt profits and non-deductible costs and releases, result in an effective tax burden on continuing operations of 106% (2011: 13%), calculated as 'Income tax expenses' divided by 'Profit before tax' in the income statement. The reconciliation of the effective tax rate on continuing operations is:

Income tax

	2012		2011	
in thousands of US$	%		%	
Profit before tax		**(36,379)**		**(390,566)**
Income tax using the domestic corporation tax rate	25	9,095	25	97,642
Effect of tax rates in foreign jurisdictions (including withholding tax)	(211)	(76,819)	(37)	(144,822)
Non-deductible expenses	(8)	(2,881)	(1)	(2,868)
Non-taxable income	88	32,124	-	-
Recognised tax income / expense	**(106)**	**(38,481)**	**(13)**	**(50,048)**

Note 8. Earnings per share

The basic loss per share for the year amounts to US$ (0.46) (2011: loss per share of US$ (2.77)); the fully diluted earning / loss per share amounts to US$ (0.46) (2011: loss per share of US$ (2.77)). 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

	2012	2011
Number of shares outstanding at 1 January	171,440,416	168,667,512
Stock dividend	-	1,228,325
New shares issued (stock options and other share-based payments)	324,443	446,336
Shares issued (private placement)	515,697	-
Weighted average number of shares 31 December	**172,280,556**	**170,342,173**
Potential dilutive shares from stock option scheme and other share-based payments	-	-
Weighted average number of shares (diluted) at 31 December	**172,280,556**	**170,342,173**

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 Board of Management and other senior management.

Note 9. Dividends paid and proposed

Dividends paid and proposed

in thousands of US$	2012	2011
Cash dividend declared and paid during the year		
Final dividend for 2011	-	
Final dividend for 2010		60,763
	-	**60,763**
Proposed for approval of the AGM		
Final dividend 2012	-	
Final dividend 2011		-
	-	**-**
Dividend per share		
Final dividend 2012	US$ 0.00	
Final dividend 2011		US$ 0.00

As a consequence of the financial loss incurred during the year, the decision has been made not to distribute any dividends to shareholders in respect of the year ended 31 December 2012.

In respect of the year ended 31 December 2011, no dividend was paid either, as a result of the loss incurred.

Note 10. Property, plant and equipment

The movement of the property, plant and equipment during the year 2012 and 2011 can be summarised as follows:

Property, plant and equipment

	2012					
in thousands of US$	Land and buildings	Vessels and floating equipment	Machinery and equipment	Other fixed assets	Assets under construction	Total
Cost	123,636	2,664,600	42	120,479	2,076,340	4,985,097
Accumulated depreciation and impairment	(25,026)	(1,417,189)	(41)	(71,421)	(937,754)	(2,451,431)
Book value at 1 January	**98,610**	**1,247,411**	**1**	**49,058**	**1,138,586**	**2,533,666**
Additions	233	14,957	-	8,531	649,327	673,048
Disposals	(656)	(8,004)	-	(748)	-	(9,408)
Depreciation	(3,381)	(197,119)	-	(15,118)	-	(215,618)
Impairment	-	-	-	-	(426,805)	(426,805)
Exchange rate differences	895	-	(1)	257	(50)	1,101
Other movements / deconsolidation	(63,689)	497,882	-	2,328	(510,345)	(73,824)
Total movements	**(66,598)**	**307,716**	**(1)**	**(4,750)**	**(287,873)**	**(51,506)**
Cost	38,147	3,156,557	43	116,170	2,197,793	5,508,710
Accumulated depreciation and impairment	(6,135)	(1,601,430)	(43)	(71,862)	(1,347,080)	(3,026,550)
Book value at 31 December	**32,012**	**1,555,127**	**-**	**44,308**	**850,713**	**2,482,160**

Property, plant and equipment

2011

in thousands of US$	Land and buildings	Vessels and floating equipment	Machinery and equipment	Other fixed assets	Assets under construction	**Total**
Cost	123,152	2,829,375	43	111,087	1,342,203	**4,405,860**
Accumulated depreciation and impairment	(22,252)	(1,316,887)	(41)	(61,597)	(63,273)	**(1,464,050)**
Book value at 1 January	**100,900**	**1,512,488**	**2**	**49,490**	**1,278,930**	**2,941,810**
Additions	3,071	57,698	-	11,274	762,752	**834,795**
Disposals	-	(21,915)	-	(48)	-	**(21,963)**
Depreciation	(3,642)	(214,882)	(1)	(15,367)	-	**(233,892)**
Impairment	-	(19,303)	-	-	(874,482)	**(893,785)**
Exchange rate differences	(2,718)	(0)	0	(1,026)	(655)	**(4,399)**
Other movements / deconsolidation	999	(66,675)	(0)	4,735	(27,959)	**(88,900)**
Total movements	**(2,290)**	**(265,077)**	**(1)**	**(432)**	**(140,344)**	**(408,144)**
Cost	123,636	2,664,600	42	120,479	2,076,340	**4,985,097**
Accumulated depreciation and impairment	(25,026)	(1,417,189)	(41)	(71,421)	(937,754)	**(2,451,431)**
Book value at 31 December	**98,610**	**1,247,411**	**1**	**49,058**	**1,138,586**	**2,533,666**

In 2011 the Company reported severe impairment charges associated mainly to an impairment of US$ 857 million in relation to the completion of two jack-up platforms for the Norwegian Yme field and the Canadian Deep Panuke field as a result of the reassessment of planning of completion, additional workscope and related future costs and recoveries from legal proceedings.

In 2012, the Company has recorded an aggregate of US$ 426.8 million impairment charges, which consist of :

- Yme platform for US$ 398.2 million;

- Deep Panuke platform for US$ 28.6 million;

The developments on these two projects are described in note 1.

In 2012, the line 'Other movements/deconsolidation' mainly relates to the classification of the Real Estate assets in Monaco as asset held for sale (please refer to note 20), the transfer of the FPSO Cidade De Anchieta from Assets under construction to Vessels and floating equipment following first oil, and the deconsolidation of GustoMSC Property, Plant and Equipment following the disposal of the subsidiary.

In 2011, the line 'Other movements/deconsolidation' mainly relates to allocation of inventory tankers to awarded projects.

Property, plant and equipment at year-end include:

- Nine (2011: nine) integrated floating production, storage and offloading systems (FPSOs), each consisting of a converted tanker, a processing plant and one mooring system; one of the FPSOs is in lay up at the end of December 2012 (2011: one);
- Two (2011: two) floating storage and offloading systems (FSOs), consisting of a converted or newbuild tanker and mooring system including the fluid transfer system;

- Two second-hand tankers (2011: two) and nil barge (2011: one);
- One semi-submersible production platform (2011: one);
- Two MOPU(stor) facilities under construction (2011: two);
- The ‘Normand Installer’ and a new DSCV currently under construction, two deepwater installation vessels;

An amount of US$ 29.6 million (2011: US$ 34.8 million) third party interest has been capitalised during the financial year under review as part of the additions to property, plant and equipment.

The fair value of the major part of the property plant and equipment cannot be estimated precisely but is expected to be in excess of carrying values. Fair value information is therefore not included in the notes to the financial statements.

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 2013 and 2030.

Leased facilities included in the 'Vessels and floating equipment' amount to:

Leased facilities included in the Vessels and floating equipment

In thousands of US$	**2012**	2011
Cost	3,036,330	2,506,764
Accumulated depreciation and impairment	(1,574,397)	(1,369,401)
Book value at 31 December	**1,461,933**	**1,137,363**

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 Bare Boat receipts

in thousands of US$	**2012**	2011
Within 1 year	505,181	437,822
Between 1 and 5 years	1,498,626	2,055,530
After 5 years	1,777,420	2,035,784
Total	**3,781,227**	**4,529,136**

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

Note 11. Intangible assets

Intangible assets

2012				
in thousands of US$	**Development costs**	**Goodwill**	**Patents**	**Total**
Cost	45,042	25,047	12,633	82,722
Accumulated amortisation	(6,422)	-	(8,843)	(15,265)
Accumulated impairment	(20,157)	-	-	(20,157)
Book value at 1 January	**18,463**	**25,047**	**3,790**	**47,300**
Additions	-	-	-	-
Amortisation	(3,903)	-	(842)	(4,745)
Impairment	-	-	-	-
Other movements/deconsolidation	(13,284)	-	-	(13,284)
Exchange rate differences	(46)	-	-	(46)
Total movements	**(17,233)**	**-**	**(842)**	**(18,075)**
Cost	8,085	25,047	12,633	45,765
Accumulated amortisation and impairment	(6,855)	-	(9,685)	(16,540)
Book value at 31 December	**1,230**	**25,047**	**2,948**	**29,225**

Intangible assets

2011				
in thousands of US$	Development costs	Goodwill	Patents	**Total**
Cost	40,658	25,048	12,633	**78,339**
Accumulated amortisation	(2,414)	-	(8,001)	**(10,415)**
Book value at 1 January	**38,244**	**25,048**	**4,632**	**67,924**
Additions	5,757	-	-	**5,757**
Amortisation	(5,173)	-	(842)	**(6,015)**
Impairment	(20,157)	-	-	**(20,157)**
Exchange rate differences	(209)	-	(0)	**(209)**
Total movements	**(19,782)**	**-**	**(842)**	**(20,624)**
Cost	45,042	25,047	12,633	**82,722**
Accumulated amortisation and impairment	(26,579)	-	(8,843)	**(35,422)**
Book value at 31 December	**18,463**	**25,047**	**3,790**	**47,300**

All development costs arose from internal development and relate principally to LNG products.

In 2012, the line 'Other movements/deconsolidation' mainly relates to the deconsolidation of GustoMSC intangible assets following the disposal of this subsidiary, and the classification of the COOL Hose system development costs as assets held for sale (please refer to note 20).

In the course of 2011, the Company has revisited its strategy regarding FLNG and renewable energy products. Given the relative lack of commercial applications in the near future, it has been decided to reduce the carrying value of the hose investment in the Cryogenic Offshore Offloading & Loading (COOL) system to a level which may be obtained in a possible divestment of the technology. In addition, the development work performed on renewable wave energy was not considered to be mature enough to justify capitalising such costs as intangible assets. These two items triggered a combined impairment charge of US$ 20.2 million that was recognised as part of Research and development expenses.

In the course of 2012, the Company has pursued the strategy by initiating a process for the sale of its non-core COOL Hose system technology. Negotiations with interested parties are ongoing and the Company anticipates a disposal before the end of 2013. The carrying value of the related intangible asset has therefore been reported as assets held for sale as of 31 December 2012.

Amortisation of development costs is included in 'Cost of sales' in the income statement and amounts to US$ 3.9 million (2011: US$ 5.2 million).

Goodwill relates to the acquisition of the Houston based subsidiaries. The recoverable amount is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using estimated growth rates (2%). Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks (8%).

Note 12. Other financial assets

Other financial assets

in thousands of US$	**2012**	2011
Non-current portion of finance lease receivables	720,919	856,589
Other financial assets	112,852	106,908
Total	**833,771**	**963,497**

The maximum exposure to credit risk at the reporting date is the fair value of the interest-bearing loans and the finance lease receivables (2012: US$ 833.8 million, 2011: US$ 963.5 million) taking into account the risk of recoverability. None of the amounts are past due, and no reserve for partial impairment (2011: nil) is netted with the carrying amount. The company does not hold any collateral as security.

Non-current portion of finance lease receivables

Non-current portion of finance lease receivables relate to the finance leases of the FPSO Mondo and FPSO Saxi Batuque which were taken into production during the course of 2008 and the FPSO Aseng which started production in November 2011. 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)

in thousands of US$	*Note*	**2012**	2011
Gross receivable		1,099,808	1,309,419
Less: Unearned finance income		(242,303)	(305,621)
Total		**857,505**	**1,003,798**
Of which			
Current portion	*15*	136,586	147,209
Non-current portion		720,919	856,589

Included in the gross receivable is an amount related to unguaranteed residual values. No allowances for expected uncollectible minimum lease payments are deducted.

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)

in thousands of US$	**2012**	2011
within 1 year	190,765	210,760
between 1 and 5 years	708,572	796,579
after 5 years	200,471	302,080
Total Gross receivable	**1,099,808**	**1,309,419**

The table above does not include the amounts to be invoiced on the finance lease contracts that were awarded during the course of 2011 or 2012 which, at the end of 2012 were not yet delivered and therefore are included in 'Construction contracts'.

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)

in thousands of US$	**2012**	2011
Gross receivable	190,765	210,760
Less: Unearned finance income	(54,179)	(63,551)
Current portion of finance lease receivable	**136,586**	**147,209**

Other financial assets

The item 'Other financial assets' relates to interest-bearing loans that have a remaining term of more than one year, essentially interest-bearing loans to joint ventures. Weighted average effective interest amounts to 5.72% (2011: 5.66%).

Note 13. Deferred tax assets

The deferred tax assets and liabilities and offsetting of assets and liabilities can be summarised as follows:

Deferred tax assets (summary)

	2012	2011	2012	2011	2012	2011
in thousands of US$	**Assets**		**Liabilities**		**Net**	
Property, plant and equipment	6,271	2,863	-	-	6,271	2,863
Intangible assets	(1,950)	(284)	-	(1,664)	(1,950)	(1,948)
Tax losses	25,650	-	-	-	25,650	-
Construction contracts	5,251	2,035	-	-	5,251	2,035
Other	5,460	5,345	(552)	(688)	4,908	4,657
Book value at 31 December	**40,682**	**9,959**	**(552)**	**(2,352)**	**40,130**	**7,607**

Expected settlement of amounts relating to deferred tax positions is within one year US$ 8.6 million (2011: US$ 0.4 million), between one and five years US$ 21.2 million (2011: US$ 2.5 million) and after five years a settlement of US$ 0.5 million (2011: settlement US$ (0.3) million). The deferred tax losses are expected to be recovered, based on the anticipated profit in the order book in the applicable jurisdiction.

The Company has available tax losses that are not valued in a deferred tax asset for nil (2011: nil).

Deferred tax assets per locations are as follows:

Deferred tax assets (per locations)

	2012	2011	2012	2011	2012	2011
in thousands of US$	**Assets**		**Liabilities**		**Net**	
Netherlands	4,698	2,109	(552)	(2,352)	4,146	(243)
USA	9,969	7,671	-	-	9,969	7,671
Switzerland	25,650	-	-	-	25,650	-
Other	365	179	-	-	365	179
Book value at 31 December	**40,682**	**9,959**	**(552)**	**(2,352)**	**40,130**	**7,607**

Note 14. Inventories

Inventories

in thousands of US$	2012	2011
Materials and consumables	17,485	19,622
Goods for resale	2,833	8,293
Total	**20,318**	**27,915**

There is no material difference between fair value and cost as stated above.

In 2012 there was no write-down of inventories to net realisable value included in the income statement (2011: nil). There was no reversal of previous inventory write-offs (2011: nil).

Note 15. Trade and other receivables

Trade and other receivables (summary)

in thousands of US$	*Note*	2012	2011
Trade debtors		406,974	510,386
Taxes and social security		27,776	23,607
Other receivables		84,688	75,441
Accrued income in respect of delivered orders		63,636	99,711
Current portion of finance leases	*12*	136,586	147,209
Other prepayments and accrued income		186,649	139,669
Total		**906,309**	**996,023**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables as mentioned above. The Company does not hold any collateral as security. Trade debtors do not include any retention (2011: nil).

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)

in thousands of US$	2012	2011
Netherlands	6,171	2,409
Angola	147,587	55,604
Australia	47,088	20,737
Brazil	100,474	263,627
USA	12,480	9,260
Norway	8,508	1,043
Malaysia	16,989	11,897
Equatorial Guinea	13,812	12,361
Nigeria	4,885	19,051
Other	48,980	114,397
Total trade debtors	**406,974**	**510,386**

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

Trade debtors (trade debtors balance)

in thousands of US$	2012	2011
Nominal amount	425,294	523,184
Impairment allowance	(18,320)	(12,798)
Total Trade debtors	**406,974**	**510,386**

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

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

	2012		2011	
in thousands of US$	Nominal	Impairment	Nominal	Impairment
Not past due	217,095	(575)	378,628	(8,308)
Past due 0-30 days	118,788	-	38,091	-
Past due 31-120 days	36,422	(466)	53,114	(162)
Past due 121- 365 days	42,962	(14,190)	39,146	(3,047)
More than one year	10,027	(3,089)	14,205	(1,281)
Total	**425,294**	**(18,320)**	**523,184**	**(12,798)**

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 independent customers for whom there is no recent history of default or the receivable amount can be offset by amounts included in current liabilities.

For the amounts that are impaired, the movements in the allowance for impairment for trade debtors are as follows:

Trade receivables (impairment allowance)

in thousands of US$	2012	2011
At 1 January	**(12,798)**	**(4,853)**
Addition	(15,607)	(12,447)
Recognised expenses	8,875	1,497
Released to profit	1,231	2,969
Foreign exchange difference	(21)	36
At 31 December	**(18,320)**	**(12,798)**

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 allowance is not discounted when created. 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.

Note 16. Income tax receivable

Apart from deferred taxation, no receivables have a duration of more than 1 year. For an explanation of the deferred tax position reference is made to note 13 - Deferred tax assets.

Note 17. Construction work in progress

Construction work in progress

in thousands of US$	*Note*	2012	2011
Cost incurred		4,304,016	3,363,352
Instalments invoiced		(3,445,477)	(3,160,271)
Instalments exceeding cost incurred	*27*	301,455	295,981
Total		**1,159,994**	**499,062**

The cost incurred includes the amount of recognised profits and losses to date. The instalments exceeding cost incurred comprise the amounts of those individual contracts of which the total instalments exceed the total cost incurred. The instalments exceeding cost incurred are reclassified to other current liabilities. Advances received from customers are included in other current liabilities. For both aforementioned details, reference is made to note 27 - Trade and Other payables.

Note 18. Derivative financial instruments

For a description of the financial risk management objectives and policies, reference is made to note 30 - Financial Risk Management.

At 31 December 2012 in the ordinary course of business and in accordance with its hedging policies, 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 variable interest rate bearing debt.

The fair value of the derivative financial instruments included in the statement of financial position can be summarised as follows:

Derivative financial instruments

	2012	2011	2012	2011	2012	2011
in thousands of US$	**Assets**		**Liabilities**		**Net**	
Interest rate swaps cash flow hedge	2,670	6,888	221,794	237,641	(219,124)	(230,753)
Forward currency contracts cash flow hedge	34,093	23,797	51,461	158,819	(17,368)	(135,022)
Forward currency contracts fair value hedge	119	7,014	3,390	748	(3,271)	6,266
Commodity swap cash flow hedge	-	983	46	203	(46)	780
Total	**36,882**	**38,682**	**276,691**	**397,411**	**(239,809)**	**(358,729)**
Non-current portion	11,035	9,524	228,590	281,400	(217,555)	(271,876)
Current portion	25,847	29,158	48,101	116,011	(22,254)	(86,853)

The ineffective portion recognised in income statement (see note 5 - Net financing costs) arises from cash flow hedges and amounts to US$ 9.8 million (2011: US$ 2.1 million). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

Forward currency contracts

The notional principal amounts of the outstanding forward currency contracts at 31 December 2012 were US$ 1.8 billion (2011: US$ 3.2 billion) of which US$ 1.4 billion will mature in the next 12 months.

Gains and losses recognised in the hedging reserve on forward currency contracts as of 31 December 2012 are recognised in the income statement in the period or periods during which the hedged transaction affects the income statement. This is mainly within 12 months from the statement of financial position date unless the gain or loss is included in the initial amount recognised 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 recognised in the carrying amount of the cost incurred on construction contracts in which case recognition is based on the ‘percentage-of-completion method’.

Interest rate swaps

The principal amounts of the outstanding interest rate swap contracts at 31 December 2012 were US$ 1.4 billion (2011: US$ 1.8 billion) and US$ 2.8 billion (2011: US$ 3.5 billion) including forward-start contracts.

The most important floating rate is US$ 3-month LIBOR. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2012 will be continuously released to the income statement until the final repayment of the bank borrowings (see note 21 - Equity attributable to shareholders) . Details of interest percentages of the long-term debt are included in the note 22 - Loans and borrowings.

Note 19. Cash and cash equivalents

Cash and cash equivalents

in thousands of US$	**2012**	2011
Cash and bank balances	206,236	158,542
Short-term deposits	542,087	14,958
Total	**748,323**	**173,500**

The cash and cash equivalents dedicated for debt and interest payments amounts (restricted) to US$ 76.4 million (2011: US$ 48.2 million). Short-term deposits are made for varying periods up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Note 20. Assets held for sale

Real estate assets in Monaco within the Other segment are presented as Non-Current Assets held for sale following the commitment of the Group's Management to a plan to sell and lease back these facilities. Efforts to sell the assets have commenced, and a sale is expected by June 2013.

Intangible Assets presented as Non-Current Assets held for sale are mainly made of the COOL hose technology (please refer to note 11).

There are no cumulative incomes or expenses included in other comprehensive income relating to Non-Current Assets held for sale.

Note 21. Equity attributable to shareholders

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

Issued capital

The authorised share capital of the Company is two hundred million euro (EUR 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 (EUR 0.25) each and four hundred million (400,000,000) Protective Preference Shares, with a nominal value of twenty-five eurocent (EUR 0.25) each.

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

Issued capital

	2012	2011
Outstanding at 1 January	**171,440,416**	**168,667,512**
Share issue	17,111,757	-
Exercise employee share options	-	326,500
Share issue re stock dividend	-	2,104,877
Share-based payment remuneration	590,042	341,527
Outstanding 31 December	**189,142,215**	**171,440,416**

The Company signed an agreement with HAL Investments B.V. on the 21th of December 2012, including the following:

1. A private placement of 17,111,757 new ordinary shares, at € 8.50 per ordinary share, fully placed with HAL Investments B.V. providing for an equity raising of US$ 193 million (excluding transaction costs).

2. Subject to the Company reaching an agreement with Talisman in respect of a definitive solution for the Yme Platform before 11 March 2013:

- HAL Investments B.V. will pay an additional amount to the Company to reflect a revised, higher valuation for the Private Placement Shares. It is expected that this additional amount will be paid by HAL to the Company by way of a share premium contribution on the Private Placement Shares, resulting in an adjusted price for the Private Placement Shares (the "Adjusted Issue Price"). Based on US$ 200 million of settlement costs, the Adjusted Issue Price is expected to be the US$ equivalent of € 11.00 per Private Placement Share, which price shall be decreased (and in case of a negative outcome of the formula, the price will be increased) by the amount that is the outcome of the following formula: (the actual cash cost of the Company paid or payable pursuant to the Yme Agreement minus US$ 200,000,000) divided by the number of currently issued ordinary shares (172,030,458). This Adjusted Issue Price will in any event never be lower than the Initial Issue Price (€ 8.50);
- The Company will, subject to customary conditions, raise additional equity by means of a Rights Offering. In the Rights Offering the Company will offer new ordinary shares representing approximately 10% of the share capital issued at that date, to those shareholders that are shareholders in the Company at the date of record and that are allowed to participate in the Rights Offering under applicable securities laws (the "Eligible Shareholders"). The issue price in the Rights Offering is equal to the € equivalent of the Adjusted Issue Price, calculated on the basis of the exchange rate on the last business day before the general meeting of shareholders to approve the Rights Offering. HAL is expected to irrevocably commit to participate in the Rights Offering on a pro rata basis and to fully underwrite the Rights Offering, on customary terms and conditions, by committing to subscribe for the number of shares corresponding to the number of subscription rights that

are not exercised or not paid for in the Rights Offering. The Rights Offering will be submitted for approval to the general meeting of shareholders. HAL is expected to irrevocably commit to vote in favour of the resolutions to be adopted by the general meeting of shareholders in connection with the Rights Offering;

- The underwriting price will be equal to the adjusted Private Placement price in US$ terms.

All shares issued were fully paid at 31 December 2012.

Of the ordinary shares 1,491 shares were held by managing directors, in office as at 31 December 2012 (31 December 2011: 83,078).

Share premium

The share premium reserve is fully available for distribution free of taxes for shareholders, and amounts to € 699.6 million (31 December 2011: € 555.1 million).

Other reserves

The other reserves comprise the hedging reserve and the foreign currency translation reserve. The movement and breakdown of the other reserves can be stated as follows:

Other reserves

in thousands of US$	Hedging reserve	Translation reserve	Total other reserves
Balance at 1 January 2011	**(53,116)**	**5,033**	**(48,083)**
Cash flow hedges			
Recognised in equity	(351,792)	-	(351,792)
Transfer to financial income and expenses	13,353	-	13,353
Transfer to construction contracts and property, plant and equipment	67,276	-	67,276
Net investment hedge	709	-	709
Currency translation differences			
Group companies	-	(3,980)	(3,980)
Balance at 31 December 2011	**(323,570)**	**1,053**	**(322,517)**
Cash flow hedges			
Recognised in equity	18,037	-	18,037
Transfer to financial income and expenses	13,082	-	13,082
Transfer to construction contracts and property, plant and equipment	29,847	-	29,847
Net investment hedge	-	-	-
Currency translation differences			
Group companies	-	1,118	1,118
Balance at 31 December 2012	**(262,604)**	**2,171**	**(260,433)**

Hedging reserve

The hedging reserve consists of the effective portion of cash flow and net foreign investment hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Note 22. Loans and borrowings

Bank interest-bearing loans and other borrowings

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

Bank interest bearing loans and other borrowings (movement)

in thousands of US$	*Note*	**2012**	2011
Non-current portion		1,531,887	1,471,260
Add: Current portion		591,296	276,471
Remaining principal at 1 January		**2,123,183**	**1,747,731**
Additions		1,018,993	663,430
Redemptions		(616,155)	(290,507)
Transaction and amortised costs		4,959	2,529
Movements		**407,797**	**375,452**
Remaining principal at 31 December		**2,530,980**	**2,123,183**
Less: Current portion	*26*	(623,577)	(591,296)
Non-current portion		**1,907,403**	**1,531,887**
Transaction and amortised costs		39,554	27,514
Remaining principal at 31 December (excluding transaction and amortised costs)		**2,570,534**	**2,150,697**
Less: Current portion		(633,200)	(600,095)
Non-current portion		**1,937,334**	**1,550,602**

The bank interest-bearing loans and other borrowings have the following forecasted repayment schedule, excluding the transaction costs and amortised costs amounting to US$ 39.6 million (2011: US$ 27.5 million):

Bank interest bearing loans and other borrowings (forecasted repayment schedule)

in thousands of US$	2012	2011
Within one year	633,200	600,095
Between 1 and 2 years	360,579	392,495
Between 2 and 5 years	832,648	963,530
More than 5 years	744,107	194,577
Balance at 31 December	**2,570,534**	**2,150,697**

The bank interest-bearing loans and other borrowings include at 31 December:

in thousands of US$	Original repayment period	Interest per annum on the remaining loan balance	Remaining loan balance 2012	Remaining loan balance 2011
US$ project finance facilities drawn:				
October 2006 (FPSO Capixaba)	6 ½ years		-	54,590
May 2010 (FPSO Capixaba relocation)	6 years	5.44%	200,000	200,000
December 2006 / March 2008 (FPSO Kikeh)	7 years	5.00%	65,482	96,025
November 2007 / March 2008 (FPSO Mondo)	6 years	4.25%	1,437	13,095
April / May / September 2008 (FPSO Saxi Batuque)	6 years	3.70%	6,266	36,572
September 2007 / March 2009 / July 2009 (Thunder Hawk)	5 ½ years	5.60%	83,998	141,297
November 2008 / February 2009 (FPSO Espirito Santo)	6 ¼ years	4.47%	139,323	185,710
December 2010 (FPSO Aseng)	5 years	5.92%	321,486	360,521
June 2012 (Normand Installer)	5 years	3.87%	38,257	-
October 2012 US Private Placement (FPSO Cidade de Anchieta)	15 years	6.57%	500,000	-
US $ guaranteed project finance facilities drawn:				
June 2009 (MOPU Deep Panuke)	5 ¼ years	7.58%	220,697	214,153
July 2011 (FPSO Cidade de Paraty)	10 years	5.45%	452,157	284,563
August 2012 (FPSO Cidade de Ilhabela)	10 years	6.03%	269,714	-
Revolving credit facility				
US $750 million revolving credit facility	5 years	variable	-	230,000
Other				
Other long term debt			271,717	334,171
Remaining principal at 31 December			**2,570,534**	**2,150,697**

Annual interest rates comprise fixed interest rate payment on financial derivatives.

The 'Other long term debt' includes loans received from minority partners in subsidiaries.

For the project finance facilities, the respective vessels are mortgaged to the banks. Interest expensed on long-term debt during 2012 amounted to US$ 87.4 million (2011: US$ 53.8 million) and interest capitalised amounted to US$ 40.5 million (2011: US$ 43.8 million).

The following important financial covenants apply to facilities currently outstanding, as agreed with the respective lenders, and (unless stated otherwise), relate to SBM Offshore N.V. consolidated financial statements, these can be summarised as follows:

- Leverage Ratio (Consolidated Net Borrowings : (adjusted) EBITDA < 3.75)
- Solvency (Tangilble Net Worth : Total Tangible Assets > 25%)
- Interest Cover Ratio (Net Interest Payable : (adjusted) EBITDA > 5.0)
- Consolidated adjusted EBITDA of SBM Holding Inc.SA > 75% of same at SBM Offshore N.V. level

Covenants

in thousands of US$	**2012**	2011
Tangible Net Worth	1,701,913	1,559,839
Total Tangible Assets	6,269,281	5,204,079
Solvency	27.1%	30.0%
Consolidated Net Borrowings	1,843,894	1,992,722
Adjusted EBITDA (SBM Offshore N.V.)	916,115	893,505
Adjusted EBITDA (SBM Holding Inc. SA)	876,270	834,323
As a percentage of SBM Offshore N.V. -level	96%	93%
Leverage Ratio	2.01	2.23
Net Interest Payable	86,855	49,947
Interest Cover Ratio	10.5	17.9

The Company has no ‘off-balance sheet’ financing through special purpose entities. All long-term debt is included in the Consolidated statement of financial postion.

No carrying amount of long term debt were in default at the statement of financial position date nor at any time during the year. During the year 2012 and 2011 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 authorised for issue.

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

in thousands of US$	2012	2011
Floating rate:		
Expiring within one year	147,146	175,326
Expiring beyond one year	1,152,586	740,437
Total	**1,299,732**	**915,763**

Note 23. Deferred income

Deferred income

in thousands of US$	2012	2011
Deferred income on operating lease contracts	110,464	74,943
Deferred income	**110,464**	**74,943**

The revenue for one of the operating lease units reflects a degressive day-rate schedule. As income is shown in the income statement on a straight-line basis with reference to *IAS 17 - Leases*, the difference between the yearly straight-line revenue and the contractual day rates is included as deferred income. The deferral will increase then stabilise until 2019 when the release of the deferral will commence.

Note 24. Provisions

Provisions (summary)

in thousands of US$	*Note*	2012	2011
Demobilisation		34,154	35,623
Onerous contract		200,000	-
Warranty		34,942	30,845
Employee benefits	*4*	9,490	8,802
Reorganisation		18	18
Total		**278,604**	**75,288**
of which			
Non-current portion		43,662	44,443
Current portion		234,942	30,845

The movements in the provisions, other than those on employee benefits described in the note 4 - Employee benefits expense, are:

Provisions (movements)

in thousands of US$	Reorganisation	Demobilisation	Onerous contracts	Warranty
Balance at 1 January 2011	**60**	**34,263**	**-**	**29,850**
Arising during the year	-	-	-	17,130
Unwinding of interest	-	1,360	-	-
Utilised	(43)	-	-	(16,117)
Released to profit	-	-	-	-
Currency differences	1	-	-	(18)
Balance at 31 December 2011	**18**	**35,623**	**-**	**30,845**
Arising during the year	-	3,000	200,000	65,542
Unwinding of interest	-	685	-	-
Utilised	-	-	-	(61,442)
Released to profit	-	(2,450)	-	-
Currency differences	-	-	-	(3)
Other	-	(2,704)	-	-
Balance at 31 December 2012	**18**	**34,154**	**200,000**	**34,942**

Reorganisation provision

The provision for reorganisation costs was established in 2003 in relation to the closure of van der Giessen-de Noord N.V., for which the obligations were substantially discharged in prior years.

Demobilisation

The provision for demobilisation relates to the costs for demobilisation of the F(P)SO fleet at the end of the respective lease periods. The obligations are valued at net present value, and on a yearly basis interest is added to this provision. The recognised interest is included in financial expenses (see note 5 - Net financing costs). The net present value is calculated at the inception date of the lease, at a rate of 4.31% which is unchanged compared with last year. Expected outflow of amounts is within one year: US$ 4.4 million (2011: US$ 4.5 million), between one and five years US$ 13.2 million (2011: US$ 15.6 million) and after five years US$ 16.6 million (2011: US$ 15.5 million).

Onerous Contracts

The provision for Onerous Contract established in 2012 relates to the expected contribution to the cost of decommissioning of the YME MOPUstor platform. The final cost may vary significantly once final agreement is reached with Talisman.

Warranty

For most Turnkey sales, the Group gives warranties to its clients. Under the terms of the contracts, the Group 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.

Note 25. Deferred tax liability

For an explanation of the deferred tax liability reference is made to note 13 - Deferred tax assets.

Note 26. Loans and borrowings

Loans and borrowings

in thousands of US$	*Note*	2012	2011
Bank interest-bearing loans and other borrowings	22	623,577	591,296
Bank overdrafts		-	8,800
Total		**623,577**	**600,096**

The fair values of the borrowings and bank overdrafts are equal to their carrying amount, as the impact of discounting is not significant.

For interest percentages, guarantees and other information, reference is made to note 22 - Loans and borrowings.

The Company maintains lines of credit for financial derivatives, bank guarantees and bank overdrafts, secured by SBM Offshore N.V. or SBM Holding Inc. S.A. guarantees.

Note 27. Trade and other payables

Trade and other payables (summary)

in thousands of US$	*Note*	2012	2011
Trade payables		205,460	258,659
Other payables		78,275	53,999
Taxation and social security costs		8,827	9,673
Pension costs		15,650	11,439
Instalments exceeding cost incurred	*17*	301,455	295,981
Advances received from customers		95,366	180,796
Accruals regarding delivered orders		87,408	74,000
Non-trade payables and accrued expenses		756,825	363,544
Total		**1,549,266**	**1,248,091**

The contractual maturity of the trade payables is as follows:

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

in thousands of US$	2012	2011
Within 1 month	182,388	204,558
Between 1 and 3 months	14,787	49,508
Between 3 months and 1 year	2,462	2,209
More than one year	5,823	2,384
Total Trade payables	**205,460**	**258,659**

Note 28. Derivative financial instruments

For a detailed explanation of the derivative financial instruments reference is made to note 18 - Derivative financial instruments.

Note 29. Commitments and contingencies

Guarantees

Under the terms of financing arrangements and as security for credit facilities made available to several subsidiaries, property of these Group companies has been mortgaged and movable assets and current assets have been given in lien to the Group's bankers.

At 31 December 2012, outstanding bank guarantees amounted to US$ 479.6 million (31 December 2011: US$ 537.1 million).

As at 31 December 2012, the company had US$ 14.6 million guarantees outstanding on behalf of the entity GustoMSC and its subsidiaries which will be released in early 2013.

Commitments

Certain investment commitments have been entered into principally the FPSO Xikomba relocation, the FPSO Cidade de Paraty, the FPSO Cidade de Ilhabela and the Deep Panuke MOPU. At year-end, the remaining contractual commitments for acquisition of property, plant and equipment and investment in leases amounted to US$ 817.4 million (2011: US$ 580.9 million).

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

Commitments

	2012				2011
in thousands of US$	< 1 year	1-5 years	> 5years	Total	Total
Operating lease	7,308	5,352	-	12,660	6,427
Rental and leasehold	20,784	63,348	103,730	187,862	164,292
Total	**28,092**	**68,700**	**103,730**	**200,522**	**170,719**

Contingent liabilities

The Company reported with a press release on 10 April 2012 that it had become aware of certain sales practices involving third parties which may have been improper. Outside counsel and forensic accountants have been engaged to investigate these practices thoroughly and the Company has taken the necessary steps to prevent any possibly improper practices from occurring. The Company has disclosed its internal investigation to the appropriate authorities. The investigation is still ongoing. Consequently, at this point it is not possible to provide further information or an estimate of the financial effects such as penalties or fines, if any.

In the course of the execution of the contract with Talisman for the Yme MOPUstor platform and aside of the ongoing discussions with Talisman for a potential settlement, the Company and Talisman have been engaged since December 2011 in an arbitration process regarding their respective claims in respect of costs incurred, by both parties, and loss of production. This arbitration procedure is expected to take several years, unless parties come to a mutual overall settlement agreement. An estimate of financial outcome cannot be made.

Note 30. Financial 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.

The Company's activities expose it to a variety of financial risks, market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise 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 by the Board of Management. Generally the Company seeks to apply hedge accounting in order to manage volatility in the profit and loss account. 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 overdraft, 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.

Risk management is carried out by a central treasury department under policies approved by the Board of Management and the Supervisory Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries and the CFO. The 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 trading 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, interest rates and equity prices 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 optimising 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 by an operating unit in currencies other than the unit’s functional currency. The Company requires all its operating units to use forward currency contracts to eliminate the currency exposure on any significant individual transaction for which payment is anticipated more than one month after the Company has entered into a firm commitment for a sale or a purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Company’s policy not to enter into forward contracts until a firm commitment is in place.

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The Company’s exposure to foreign currency risk was as follows based on notional amounts:

Foreign exchange risk (summary)

In local currency x 1,000	31 December 2012 EUR	SGD	BRL	31 December 2011 EUR	SGD	BRL
Fixed assets	86,250		29,954	86,965		11,249
Current assets	250,310	30,214	112,962	149,980	1,340	53,505
Long term liabilities	(4,324)			(1,923)		
Current liabilities	(102,949)	(23,318)	(222,578)	(129,795)	(23,870)	(30,526)
Gross balance sheet exposure	**229,287**	**6,896**	**(79,662)**	**105,227**	**(22,530)**	**34,228**
Estimated forecast sales	767			16,788		
Estimated forecast purchases	(555,846)	(345,107)	(567,617)	(727,363)	(666,356)	(973,489)
Gross exposure	**(325,792)**	**(338,211)**	**(647,279)**	**(605,348)**	**(688,886)**	**(939,261)**
Forward exchange contracts	507,591	323,682	619,247	670,716	685,218	982,794
Net exposure	**181,799**	**(14,529)**	**(28,032)**	**65,368**	**(3,668)**	**43,533**

The increase in the EUR gross statement of financial position exposure arises from the disposal of the GustoMSC entities. The cash will likely be converted and reinvested in a US dollar subsidiary of SBM Offshore N.V. in the course of 2013.

The estimated forecast sales and purchases relate to project revenues and expenditures for up to 3 years.

Overhead expenses are 100% hedged for the coming year, and 66% (2011: 66%) hedged for the year thereafter. Included in the statement above are the overhead expenses for one year and the corresponding forward exchange contracts. The following significant exchange rates applied during the year:

Foreign exchange risk (exchange rates applied)

	2012	2011	2012	2011
	Average rate		**Closing rate**	
EUR 1	1.2861	1.3926	1.3199	1.2950
SGD 1	0.8004	0.7962	0.8187	0.7709
BRL 1	0.5136	0.5990	0.4879	0.5366

The sensitivity on equity and income statement resulting from a change of 10 percent of the US Dollar's value against the following currencies at 31 December 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 2011.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
in thousands of US$	10 percent increase	10 percent decrease	10 percent increase	10 percent decrease
31 December 2012				
EUR	1,814	(1,814)	(121,979)	121,979
SGD	1,186	(1,186)	(27,553)	27,553
BRL	(874)	874	(26,782)	26,782
31 December 2011				
EUR	2,609	(2,609)	(102,734)	102,734
SGD	349	(349)	(51,035)	51,035
BRL	729	(729)	(48,856)	48,856

Interest rate risk

The Company's exposure to risk for 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 was:

Interest rate risk (summary)

in thousands of US$	2012	2011
Fixed rate instruments		
Financial assets	906,830	1,054,251
Financial liabilities	(608,847)	(94,594)
Total	**297,983**	**959,657**
Variable rate instruments		
Financial assets	63,527	56,455
Financial liabilities	(1,961,687)	(2,056,103)
Financial liabilities (future)	(865,988)	(1,499,934)
Total	**(2,764,148)**	**(3,499,582)**

Interest rate risk (exposure)

in thousands of US$	2012	2011
Variable rate instruments	(2,764,148)	(3,499,583)
Less: IRS contracts	2,808,071	3,437,352
Exposure	**43,923**	**(62,231)**

At 31 December 2012, it is estimated that a general increase of 100 basis points in interest rates would increase the Company's profit before tax for the year by approximately US$ 5.3 million (2011: increase of US$ 1.5 million) since 105.5% (2011: 88.3%) of the debt relating to the Lease and Operate is hedged by fixed interest rate swaps.

The sensitivity on equity and 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 2011.

Interest rate risk (sensitivity)

	Profit or loss		Equity	
in thousands of US$	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2012				
Variable rate instruments	527	(161)		
Interest rate swap	4,743	(3,746)	98,681	(97,139)
Sensitivity (net)	**5,270**	**(3,907)**	**98,681**	**(97,139)**
31 December 2011				
Variable rate instruments	(425)	159		
Interest rate swap	1,930	(2,147)	114,051	(151,431)
Sensitivity (net)	**1,505**	**(1,988)**	**114,051**	**(151,431)**

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

	2012		2011	
in thousands of US$	Assets	Liabilities	Assets	Liabilities
AAA	-	-	-	-
AA+	-	-	-	-
AA	-	-	440	88,091
AA-	5,022	56,361	13,347	53,942
A+	10,884	127,395	7,780	94,351
A	19,851	59,053	16,071	121,986
A-	652	15,099	325	19,620
BBB+	-	-	-	-
BBB	-	18,425	-	19,227
BBB-	-	-	-	194
Non-investment grade	473	358	719	-
Derivative financial instruments	**36,882**	**276,691**	**38,682**	**397,411**
AAA	118	-	4	-
AA+	-	-	-	-
AA	-	-	-	-
AA-	242,658	-	11,845	-
A+	294,235	-	62,575	8,800
A	125,036	-	64,837	-
A-	25,040	-	1	-
BBB+	-	-	-	-
BBB	22,450	-	-	-
BBB-	-	-	6,640	-
Non-investment grade	38,786	-	27,598	-
Cash and cash equivalents and bank overdrafts	**748,323**	**-**	**173,500**	**8,800**

The Company has amended its policy on cash investment in 2012 and limits per counterparty were set to: A- and A rating US$ 25.0 million, A+ rating US$ 50 million, AA- and AA rating US$ 80 million and AA+ and above rating US$ 100 million. Cash held in BBB rating is diversified amongst the 3 largest banks in Brazil and cash held in 'Non-investment grade' is mainly held in primary banks in Angola and Nigeria.

For trade debtors the credit quality of each customer is assessed, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Management. At statement of financial position date there is one customer that has an outstanding balance with a percentage over 10% of the total of trade and other receivables. Reference is made to note 15 - Trade and Other receivables for information on the distribution of the receivables by country and an analysis of the ageing of the receivables.

As set out in the paragraphs above, the Company aims by managing interest rate and currency risks to reduce the impact of short-term fluctuations on the Company’s earnings. Over the longer-term however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

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 and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. As of 31 December 2012, the future interest cash flows for borrowings and derivative financial instruments are based on forecast Libor rates provided by primary info-providers.

Liquidity risk

in thousands of US$	*Note*	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2012					
Borrowings and Derivative financial instruments (ex finance lease liabilities)		749,724	470,701	1,146,813	1,034,592
Trade payables	27	199,637	5,823	-	-

Liquidity risk

in thousands of US$	*Note*	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2011					
Borrowings and Derivative financial instruments (ex finance lease liabilities)		543,947	549,658	1,243,769	387,420
Trade payables	27	256,275	2,384	-	-

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 and 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.

During 2012, the Company’s strategy which was unchanged from 2011, was to target a gearing ratio between 50% and 60%. This target is subject to maintaining headroom of 20% of all banking covenants. The gearing ratios at 31 December 2012 and 2011 were as follows:

Capital risk management

in thousands of US$	**2012**	2011
Total borrowings	2,530,981	2,123,184
Less: net cash and cash equivalents	(748,323)	(164,700)
Net debt	**1,782,658**	**1,958,484**
Total equity	1,539,799	1,349,031
Total capital	**3,322,457**	**3,307,515**
Gearing ratio	53.7%	59.2%

Fair value estimation

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).

Derivative financial instruments are the only assets and liabilities valued at fair value and they can be categorised as level 2 (2011: level 2). The derivative financial instruments are not traded in an active market. The fair value of these instruments is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Other risks

In respect of controlling political and credit 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. In respect of credit risk, bank or parent company guarantees are negotiated with customers. Furthermore, limited recourse project financing removes a large part of the risk on long term-leases.

Note 31. Auditor's Fees and Services

KPMG fees included in Other operating costs related to the Company's external auditor can be summarised as follows:

Auditor's fees and services

in thousands of US$	2012	2011
Audit fees	1,452	1,092
Audit related fees	356	39
Tax fees	177	280
Other	513	120
Total	**2,498**	**1,531**

Note 32. Events after the balance sheet date

The Deep Panuke project loan facility has been prepaid in full on 31 January 2013.

Note 33. List of Group companies

In accordance with legal requirements a list of Group companies which are included in the consolidated financial statements of SBM Offshore N.V. has been deposited at the Chamber of Commerce in Rotterdam.

Note 34. Interest in joint ventures

The Company has several joint ventures. Included in the consolidated financial statements are the following items that represent the Company's interest in the assets, liabilities, revenues and expenses of the joint ventures:

Interest in joint ventures (summary)

in thousands of US$	2012	2011
Non-current assets	645,463	717,168
Current assets	1,510,522	782,456
Non-current liabilities	(1,262,509)	(916,086)
Current liabilities	(489,560)	(420,835)
Net assets / (liabilities)	**403,916**	**162,703**
Income	451,561	369,915
Expenses	(349,723)	(288,209)
Net income / (expenses)	**101,838**	**81,706**

Included in the figures above are the following significant joint ventures:

Interest in joint ventures (significant JV)

	% of ownership	Consolidation method	Reporting date
Gas Management (Congo) Ltd.	49.00	Proportionate	31 December
Malaysia Deepwater Floating Terminal (Kikeh) Limited	49.00	Proportionate	31 December
Malaysia Deepwater Production Contractors Sdn Bhd.	49.00	Proportionate	31 December
Solgaz S.A.	49.00	Proportionate	31 December
Anchor Storage Ltd.	49.00	Proportionate	31 December
Advanced Deep Sea Installation Inc.	49.90	Proportionate	31 December
Normand Installer S.A.	49.90	Proportionate	31 December
Sonasing Sanha Ltd.	50.00	Proportionate	31 December
Sonasing Kuito Ltd.	50.00	Proportionate	31 December
Sonasing Xikomba Ltd.	50.00	Proportionate	31 December
Sonasing Mondo Ltd.	50.00	Proportionate	31 December
Sonasing Saxi Batuque Ltd.	50.00	Proportionate	31 December
OPS-Serviços de Produção de Petroleos Ltd.	50.00	Proportionate	31 December
OPS Sucursal de Angola	50.00	Proportionate	31 December
FPSO Firenze Produção de Petróleo Ltda.	50.00	Proportionate	31 December
FPSO Mystras - Produção de Petróleo Ltda.	50.00	Proportionate	31 December
South East Shipping Co. Ltd.	75.00	Proportionate	31 December
FPSO Brasil Venture S.A.	51.00	Proportionate	31 December
SBM Operações Ltda.	51.00	Proportionate	31 December
SBM Systems Inc.	51.00	Proportionate	31 December
SBM Ship Yard Ltd.	33.33	Proportionate	31 December
PAENAL - Porto Amboim Estaleiros Navais	30.00	Proportionate	31 December
OPS Production Ltd	50.00	Proportionate	31 December
Brazilian Deepwater Floating Terminals Ltd.	51.00	Proportionate	31 December
Brazilian Deepwater Production Ltd.	51.00	Proportionate	31 December
Brazilian Deepwater Production Contractors Ltd.	51.00	Proportionate	31 December
Operações Marítimos em Mar Profundo Brasileiro Ltd	51.00	Proportionate	31 December
Vasilikos LNG Ltd	51.00	Proportionate	31 December
Tupi Operações Marítimos Ltda	50.50	Proportionate	31 December
Tupi Nordeste SARL	50.50	Proportionate	31 December
Tupi Nordeste Holding Ltd	50.50	Proportionate	31 December
Guara Norte SARL	62.25	Proportionate	31 December
Guara Norte Holding Ltd	62.25	Proportionate	31 December
Guara Norte Operacoes Maritimas Ltda	62.25	Proportionate	31 December
Tupi Nordeste Ltd	50.50	Proportionate	31 December
Estaleiro Brasa Ltda	50.00	Proportionate	31 December
Brasil Superlift Servicos Icamento Ltda	50.00	Proportionate	31 December
SNV Offshore Ltd	50.00	Proportionate	31 December

Note 35. Related party transactions

During 2012, 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 - Employee benefits expense.

4.2.7 Company Balance Sheet

Company balance sheet

in thousands of US Dollars	*Notes*	2012	2011
ASSETS			
Property, plant and equipment	*1*	146	1
Investment in Group companies and associates	*2*	1,056,721	1,269,148
Other financial Assets		3,960	-
Total non-current assets		**1,060,827**	**1,269,149**
Other receivables	*3*	416,328	26,150
Income tax receivable		6,355	-
Cash and cash equivalents		505	5
Total current assets		**423,188**	**26,155**
TOTAL ASSETS		**1,484,015**	**1,295,304**
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Issued share capital		62,412	55,504
Share premium reserve		866,831	674,913
Retained earnings		640,086	723,433
Legal reserves		161,810	153,287
Other reserves		(262,604)	(323,569)
Shareholders' equity	*4*	**1,468,535**	**1,283,568**
Provisions	*5*	552	688
Total non-current liabilities		**552**	**688**
Other current liabilities	*6*	14,928	11,048
Total current liabilities		**14,928**	**11,048**
TOTAL EQUITY AND LIABILITIES		**1,484,015**	**1,295,304**

4.2.8 Company Income Statement

Company income statement

in thousands of US Dollars	2012	2011
Company result	(15,787)	(15,402)
Result of Group companies	(184,626)	(457,255)
Result of divestment of group companies	120,925	-
	(79,488)	**(472,657)**

4.2.9 Notes to the Company financial statements

General

The separate financial statements are part of the 2012 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.

Principles for the measurement of assets and liabilities and the determination of the result

SBM Offshore N.V. uses the option provided in section 2:362 (8) of the Netherlands Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of SBM Offshore N.V. are the same as those applied for the consolidated financial statements. These consolidated financial statements are prepared according to the standards laid down 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 ('Summary of significant accounting policies') for a description of these principles. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method.

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

1. Property, plant and equipment

The movement in the property, plant and equipment during the year can be summarised as follows:

Property, plant and equipment

in thousands of US$	2012
Cost	333
Accumulated depreciation and impairment	(332)
Book value at 1 January 2012	**1**
Additions	142
Depreciation	-
Currency differences	3
Total movements	**145**
Cost	485
Accumulated depreciation and impairment	(339)
Book value at 31 December 2012	**146**

2. Investment in Group companies and associates

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

Investment in Group companies and associates

in thousands of US$	2012	2011
Balance at 1 January	1,269,148	2,023,855
Reclassification to other receivables	(44,631)	(53,164)
Investments at net asset value	**1,224,517**	**1,970,691**
Result of Group companies	(184,626)	(457,255)
Investments and other changes	59,099	(270,437)
Divestments	(66,506)	-
Dividends received	(22,416)	(11,871)
Currency differences	1,338	(6,611)
Movements	**(213,111)**	**(746,174)**
Balance at 31 December	1,056,721	1,269,148
Reclassification to other receivables	(45,315)	(44,631)
Investments at net asset value	**1,011,406**	**1,224,517**

The reclassification to other receivables relates to the negative equity value of van der Giessen-de Noord N.V. and XNK.

The investments and other changes relate to investments in subsidiaries and other direct equity movements.

3. Other receivables

Other receivables

in thousands of US$	2012	2011
Amounts owed by Group companies	411,154	23,537
Other debtors	5,174	2,613
Total	**416,328**	**26,150**

4. Shareholders' equity

For an explanation of the shareholders equity, reference is made to the consolidated statement of changes in equity and note 21 - Equity attributable to shareholders.

The legal reserve consists of:

Legal reserve

in thousands of US$	2012	2011
Joint venture equity non-distributable	150,805	133,772
Capitalised development expenditure	8,834	18,463
Translation reserve	2,171	1,052
Total	**161,810**	**153,287**

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.

5. Provisions

Provisions

in thousands of US$	2012	2011
Deferred tax liability	552	688
Total	**552**	**688**

6. Other current liabilities

Other current liabilities

in thousands of US$	2012	2011
Amounts owed to Group companies	5,808	5,421
Taxation and social security costs	1,878	5,319
Other creditors	7,242	308
Total	**14,928**	**11,048**

Commitments and contingencies

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

The Company is head of a fiscal unity in which almost all Dutch Group companies are included. This means that these companies are jointly and severally liable in respect of the fiscal unity as a whole.

Schiedam, 13 February 2013

Management Board:
B.Y.R. Chabas, CEO
P.M. van Rossum, CFO[1]
S. Hepkema, CGCO[2]

Supervisory Board:
H.C. Rothermund, Chairman
R. van Gelder, Vice-Chairman
F.J.G.M. Cremers
F.G.H. Deckers
T.M.E. Ehret
F.R. Gugen
K.A. Rethy

[1] As from 02 July 2012

[2] As from 02 May 2012

4.3 Other Information

4.3.1 *Appropriation of Result*

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

1. When drawing up the annual accounts, the Board of Management shall charge such sums for the depreciation of the Company's fixed assets and make such provisions for taxes and other purposes as shall be deemed advisable.

2. Any distribution of profits pursuant to the provisions of this article shall be made after the adoption of the annual accounts from which it appears that the same is permitted.

The Company may make distributions to the shareholders and to other persons entitled to distributable profits only to the extent that its shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law.

A deficit may be offset against the statutory reserves only to the extent permitted by law.

3. a. The profit shall, if sufficient, be applied first in payment to the holders of 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.

3. 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 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 basis points.

4. The management board is authorised, subject to the approval of the supervisory board, to determine each year what part of the profits shall be transferred to the reserves, after the provisions of the preceding paragraph have been applied.

5. The residue of the profit shall be at the disposal of the general meeting of shareholders.

6. The general meeting of shareholders may only resolve to distribute any reserves upon the proposal of the management board, subject to the approval of the supervisory board.

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

Appropriation of result

	2012
Profit/Loss attributable to shareholders	(79,488,000)
In accordance with Article 29 clause 4 to be transferred to retained earnings	(79,488,000)
At the disposal of the General Meeting of Shareholders	**-**

As a consequence of the loss incurred during the year, the decision has been made not to distribute any dividends to shareholders in respect to the year ended 31 December 2012.

4.4 Independent Auditor's Report

4.4.1 *To the Annual General Meeting of Shareholders of SBM Offshore N.V.*

Report on the Financial Statements

We have audited the accompanying financial statements 2012 of SBM Offshore N.V., Rotterdam as set out in section 4.2. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Management in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SBM

Offshore N.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of SBM Offshore N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other Legal and Regulatory Requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Management, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Board of Management, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 13 February 2013

KPMG Accountants N.V.

P.W.J. Smorenburg RA

4.5 Key Figures

Key figures

in millions of US Dollars, unless stated otherwise	*Note*	2012	2011	2010	2009	2008
Turnover		3,695.2	3,156.8	3,055.8	2,956.5	3,060.3
New orders		1,322.2	8,552.2	4,531.9	3,799.9	4,365.5
Order portfolio at 31 December		14,537.6	16,910.0	11,501.5	10,032.3	9,246.9

Results

Net profit/(loss) (continuing operations)		(74.9)	(440.6)	276.0	230.0	227.9
Dividend				119.8	110.2	135.4
Operating profit (EBIT)		50.5	(340.6)	386.5	293.4	275.1
EBITDA		697.6	813.2	712.4	613.3	530.1
Shareholders' equity at 31 December		1,468.5	1,283.6	2,073.2	1,802.6	1,234.7
Net debt		1,782.7	1,958.5	1,644.3	1,464.0	1,464.0
Capital expenditure		673.0	840.6	519.0	656.0	999.8
Depreciation, amortisation and impairment		647.2	1,153.8	326.0	319.8	255.0
Number of employees (average)		5,274.5	4,385.0	3,787.0	3,539.0	3,263.0
Employee benefits		762.1	653.6	608.1	585.0	590.8

Ratios (%)

Shareholders' equity : net assets		38	39	54	57	46
Current ratio		117	86	148	91	79
Return on average capital employed		1.5	(9.5)	11.0	9.7	11.0
Return on average shareholders' equity		(5.8)	(28.2)	12.4	14.6	17.7
Operating profit (EBIT) : net turnover		1.4	(10.8)	12.6	9.9	9.0
Net profit/(loss) : net turnover		(2.0)	(14.0)	9.0	7.8	7.4
Net debt : total equity		116	145	77	81	118
Enterprise value/EBITDA		6.3	6.8	7.6	7.7	6.4

Information per share (US$)

Net profit/(loss)	*1*	(0.46)	(2.77)	1.44	1.47	1.54
Dividend				0.71	0.67	0.93
Shareholders' equity at 31 December	*2*	7.76	7.49	12.29	10.96	8.48

Share price (€)

- 31 December		10.52	15.92	16.77	13.78	9.35
- highest		16.41	20.93	17.16	15.30	26.77
- lowest		7.73	11.75	11.41	9.00	8.72
Price / earnings ratio	*2*	NA	NA	15.8	14.7	8.5
Number of shares issued (x 1,000)		189,142	171,440	168,668	164,460	145,614
Market capitalisation (US$ mln)		2,625.0	3,534.5	3,783.5	3,248.9	1,902.9
Turnover by volume (x 1,000)		481,719	287,478	259,924	279,932	448,354
Number of options exercised			326,500	1,328,153	604,400	759,200
Number of shares issued re stock dividend			2,104,877	2,628,848	4,221,744	1,300,774
Number of shares issued		17,111,757			13,896,880	

1 Based upon weighted average number of shares.

2 Based upon number of shares outstanding at 31 December.

5 Performance Indicators

5.1 Reporting Scope

The main Financial, Social, Health, Safety, Security and Environmental indicators are listed in the following pages of the report. Financial and HSSE data is presented for both 2011 and 2012 to allow comparison. Human Resources data is presented for 2012 to facilitate the understanding.

However, to highlight medium term trends, the Group has in some cases decided to show multiple years of reporting.

5.1.1 Health, Safety and Security Reporting

Performance indicators are applied to the Group for both Onshore Operations and Offshore Production. Indicators take into account all permanent employees, part-time employees, locally employed agency staff in the fabrication sites, offices, and offshore workers, i.e. all people working for SBM Offshore. Shore bases were added in 2012. Dynamic Installer vessel is reported until its sale in November 2012.

HSSE incident reporting is registered and managed through the Group's Single Incident Reporting System (SIRS) database.

SIRS is a reporting system that is used to collect data on all incidents on all units operated by the Group. SIRS is a web based application which allows data entry from anywhere in the world.

The Group also reports incident data from subcontractor's construction facilities if the incident is related to a SBM Offshore project.

Manhours are calculated differently for Offshore Production, Onshore Operations, and Onshore Construction.

The Group uses manhours records and SIRS data to calculate Health and Safety performance indicators set by SBM Offshore.

Accident and Incidents are reported based on the incident classifications as defined by OGP, (Oil and Gas Producers).

The SIRS system will also record an incident that is classed as environmental, i.e. any unwanted release of pollutants to the environment.

In addition to the SIRS monitoring application; the Monthly HSSE Report issued by the Group Head of HSSE consolidates HSSE records and events for the Group, covering onshore and offshore.

5.1.2 *Environmental Reporting*

The environmental performance of the Group’s eleven offshore units is reported after taking into account the following reporting boundaries:

- Units in the Group's fleet producing and/or storing hydrocarbons under lease and operate contracts during 2012.
- Units in which the Group exercises full operational management control.
- Units in which the Group has full ownership or participates in a Joint Venture (JV) partnership, where the Group controls 50% or more of the shares.

Offshore production environmental performance results are chosen according to the performance indicators relative to GRI. This includes Greenhouse Gases, referred to as GHG, which are N2O (Nitrous Oxide), CH4 (Methane) and CO_2 (Carbon Dioxide), in addition to other non-GHG air emissions, such as CO (Carbon Monoxide), NOx (Nitrogen Oxide), SO_2(Sulphur Dioxide) and VOC (Volatile Organic Chemicals).

The calculation of air emissions from offshore production units is by the method recommended by Oil & Gas UK (OGUK).

The Group uses the WRI Greenhouse Gas Protocol (GHG Protocol) method to calculate CO_2 equivalents.

CO_2equivalency is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2that would have the same global warming potential (GWP), when measured over a specified timescale (generally, 100 years). For further information on the GHG protocol and country specific calculation methods, please refer to their website: http://www.ghgprotocol.org/calculation-tools.

Environmental spills to air (except gas leaks which are not quantifiable), water or land from the offshore production units are reported.

All reported air emissions exclude flaring, as this factor, related to the produced fluids from the oil/gas reservoirs, is reported by the Company’s clients.

5.1.3 *Human Resource Reporting*

The Group’s Human Resource data covers the global workforce and is broken down into parts which are; operating units, employment type, gender, and age. The performance indicators report the workforce status at year ending 31 December 2012.

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 onboard the offshore production units.

Performance Reviews / Skills Management / Training

In order to ensure people development and optimal distribution of resources within the Group, the Group conducts annual performance reviews for all employees. Globally, the Group uses the Hay Competency system to grade and evaluate all permanent staff.

As a complementary parallel to this long-established annual performance review, the Talent Management and Succession Planning programmes have been launched in 2009. A process called “People Review” is in place to discuss the strengths, development needs and potential future career paths of SBM Offshore employees, taking into account certain criteria, and identify those who have the potential to take on greater leadership roles today and tomorrow.

The total training hours for all Group staff are included in this report. Training costs are reported for the fist time in 2012.

5.2 Performance Indicators

5.2.1 Economic

Share Price

Listed as SBM Offshore N.V. on the Euronext Stock Exchange, Amsterdam	2012	2011
Revenue as % of share capital	286	177
Highest share price in €	16.41	20.93
Lowest share price in €	7.73	11.75
Closing share price in €	10.52	15.92
Closing share price in US$	13.88	20.62

Financials

In million of US$ (unless stated otherwise)	2012	2011
Net Profit	(74.9)	(440.6)
EBIT	50.5	(340.6)
EBITDA	697.6	813.2
Capital expenditure	673.0	840.6
Total equity at year end	1,539.8	1,349.0
Revenue	3,695.2	3,156.8
Total assets at year end	6,335.4	5,290.1
Shareprice (€) at year end	10.52	15.92
AEX-Index at year end	342.7	312.5
Market Capitalisation US$ at year end	2,625.00	3,534.50

5.2.2 Health, Safety, Security (H.S.S.)

SBM Offshore Occupational Health and Safety

	2012	2011
Average absence due to normal illness (percentage days lost through illness per employee)	3.80%	2.95%
Total consolidated million manhours SBM Offshore (including subcontractors)	43.64	36.15
Total consolidated million manhours Onshore Operations (excluding Subcontractors)	8.94	6.75
Total consolidated million manhours Offshore Production	7.06	5.57
Total consolidated million manhours Subcontractors	27.64	23.83
Total Recordable Incident Frequency Rate SBM Offshore (including subcontractors)	0.38	0.50
Lost Time Accident Frequency SBM Offshore (including subcontractors)	0.06	0.10
Lost Time Accident Frequency Onshore Operations	0.06	0.12
Lost Time Accident Frequency Offshore Production	0.08	0.04
Death during service (natural causes- non work-related)	8	4
Fatalities (death resulting from a work-related incident or illness)		

2012 Subcontractor Manhours

	Manhours
Projects	27,641,407

SBM OFFSHORE

Health, Safety and Security

		2012	2011
HSS Accident Statistics for Onshore Operations			
Exposure Hours		8,936,419	6,746,698
Fatality	FAT		
Lost Time Incident	LTI	2	4
Restricted Work Case	RWC		1
Medical Treatment Case	MTC	4	2
Near Miss	NM	9	4
LTI Days Lost	Days Lost	34	12
Lost Time Incident Severity Rate	**LTISR**	**0.76**	**0.36**
Lost Time Incident Frequency Rate	**LTIFR**	**0.04**	**0.12**
Total Recordable Incidents	**TRI**	**6.00**	**7.00**
Total Recordable Incident Frequency Rate	**TRIFR**	**0.13**	**0.21**
HSS Accident Statistics Offshore Production			
Exposure Hours		7,064,937	5,573,445
Fatality	FAT		
Lost Time Incident	LTI	3	1
Restricted Work Case	RWC	11	9
Medical Treatment Case	MTC	11	18
Near Miss	NM	98	63
LTI Days Lost	Days Lost	180	19
Lost Time Incident Severity Rate	**LTISR**	**5.10**	**0.68**
Lost Time Incident Frequency Rate	**LTIFR**	**0.08**	**0.04**
Total Recordable Incidents	**TRI**	**25.00**	**28.00**
Total Recordable Incident Frequency Rate	**TRIFR**	**0.71**	**1.00**
HSS Accident Statistics for Subcontractors (Fabrication/Conversion Yards)			
Exposure Hours		27,641,407	23,828,497
Fatality	FAT		
Lost Time Incident	LTI	9	13
Restricted Work Case	RWC	33	37
Medical Treatment Case	MTC	10	6
Near Miss	NM	33	63
LTI Days Lost	Days Lost	95	120
Lost Time Incident Severity Rate	**LTISR**	**0.69**	**1.01**
Lost Time Incident Frequency Rate	**LTIFR**	**0.07**	**0.11**
Total Recordable Incidents	**TRI**	**52.00**	**56.00**
Total Recordable Incident Frequency Rate	**TRIFR**	**0.38**	**0.47**

5.2.3 Environmental data

Environmental Data Offshore Production, Recordable Spills

	2012	2011
Offshore Production Units	11	12
Contained Spills Onboard	29	5
External Spills to Environment	10	6
Volume released to the sea in cubic metres	0.076	0.063

GHG Emissions excluding Flaring

			2012
Values expressed in millions of tonnes CO2 equivalent	CO2	CH4	N2O
Brazil			
FPSO Marlim Sul	0.210	0.001	0.004
FPSO Brasil	0.162	0.001	0.003
FPSO Cidade de Anchieta	0.019	0.001	0.001
FPSO Capixaba	0.331	0.002	0.007
FPSO Espirito Santo	0.227	0.001	0.004
Asia			
FSO Yetagun	0.005	0.001	0.001
West Africa			
FPSO Aseng	0.285	0.002	0.007
FPSO Mondo	0.362	0.002	0.007
FPSO Saxi Batuque	0.332	0.002	0.007
FPSO Kuito	0.151	0.001	0.003
FPSO Sanha	0.111	0.001	0.002
Total	**2.195**	**0.014**	**0.046**

Other Atmospheric Emissions excluding Flaring

Values expressed in tonnes	CO	NOx	SO2	VOC's
				2012
Brazil				
FPSO Marlim Sul	207	439	5	3
FPSO Brasil	168	380	6	3
FPSO Cidade de Anchieta	35	133	13	4
FPSO Capixaba	350	730	8	5
FPSO Espirito Santo	235	492	6	3
Asia				
FSO Yetagun	12	52	6	1
West Africa				
FPSO Aseng	303	636	5	5
FPSO Mondo	378	777	4	5
FPSO Saxi Batuque	347	710	4	4
FPSO Kuito	124	327	69	5
FPSO Sanha	111	239	15	2
Total	**2,272**	**4,915**	**141**	**41**

Greenhouse Gas Emissions Comparison

Values expressed in tonnes	2012	2011
Number of Offshore Production Units	11	11
N2O	177	147
CH4	667	580
CO2	2,195,061	1,923,150

Source: DEFRA - Environmental Key Performance Indicators; Reporting Guidelines for UK Business; Chapter 4. Page 28 4.1 Emissions to Air KPI 1 Greenhouse Gases

Non Greenhouse Gas Emissions Comparison

Values expressed in tonnes	2012	2011
Number of Offshore Production Units	11	11
CO	2,272	1,930
NOx	4,915	4,066
SO2	141	135
VOC	41	30

Regional CO2 Emissions

Values expressed in tonnes	2012	2011
Number of Offshore Production Units	11	11
Brazil	949,537	1,000,312
Asia	4,589	4,360
West Africa	1,240,935	918,477
Total	**2,195,061**	**1,923,149**

Indirect Energy Consumption

	2012	2011
Electrical Usage		
Total electrical usage kWh	10,808,748	10,846,367
Total electrical usage tonnes C02 equivalent	4,276	4,290
Heating Fuel Consumption		
Total heating fuel consumption in kWh	262,562	213,501
Total office energy consumption		
Total office energy consumption in kWh	**11,071,310**	**11,059,868**
Total office energy consumption in tonnes CO2 equivalent	**4,346**	**4,347**

Calculated using World Resource Insititute Greenhouse Gas Protocol: www.ghgprotocol.org/calculation-tools

5.2.4 Human Resources (H.R.)

Permanent Headcount by Gender

	Female	Male	Total	Ratio of Females
SBM- Schiedam	92	337	429	21%
SBM- Houston	141	360	501	28%
SBM- Malaysia	172	412	584	29%
SBM- Monaco	220	542	762	29%
SBM-PC	196	1,469	1,665	12%
SBM Offshore- Group Functions	115	144	259	44%
SBM Offshore- Group Operations	245	1,448	1,693	14%
Onshore	**985**	**3,243**	**4,228**	**23%**
Offshore (including supporting activities based onshore)	**196**	**1,469**	**1,665**	**12%**
Total	**1,181**	**4,712**	**5,893**	**20%**

Permanent and Contractors Employees Headcount

	Headcount Permanent Employees	Headcount Contract Employees	Total Headcount Employees	Ratio of Contract Employees
SBM- Schiedam	429	130	559	23%
SBM- Houston	501	33	534	6%
SBM- Malaysia	584	20	604	3%
SBM- Monaco	762	161	923	17%
SBM-PC	1,665	591	2,256	26%
SBM Offshore- Group Functions	259	10	269	4%
SBM Offshore- Group Operations	1,693	655	2,348	28%
Total	**5,893**	**1,600**	**7,493**	**21%**

Permanent Employees Headcount by Age Brackets

	Under 30 Years	30-50 Years	Above 50 Years
SBM- Schiedam	60	298	71
SBM- Houston	48	314	139
SBM- Malaysia	166	378	40
SBM- Monaco	158	530	74
SBM- PC	297	1,001	367
SBM Offshore- Group Functions	26	190	43
SBM Offshore- Group Operations	658	904	131
Total	**1,413**	**3,615**	**865**

Permanent Employees Headcount by Seniority

	Under 5 Years	Between 5 to 10 Years	Between 10 to 15 Years	Above 15 Years
SBM- Schiedam	227	104	70	28
SBM- Houston	266	177	43	15
SBM- Malaysia	426	146	11	1
SBM- Monaco	440	174	92	56
SBM- PC	1,099	377	142	47
SBM Offshore- Group Functions	129	60	36	34
SBM Offshore- Group Operations	1,587	56	26	24
Total	**4,174**	**1,094**	**420**	**205**

Permanent Part Time Employees Headcount

	% Part Time employees	% Female Employees	% Male Employees
SBM- Schiedam	18%	53%	47%
SBM- Atlantia	0%	0%	0%
SBM- Malaysia	0%	0%	0%
SBM- Monaco	4%	96%	4%
SBM- PC	0%	60%	40%
SBM Offshore- Group Functions	7%	100%	0%
SBM Offshore- Group Operations	0%	100%	0%
Total	**2%**	**70%**	**30%**

Permanent Employees Turnover Headcount

	Net Turnover Headcount	Net Turnover Rate
SBM- Schiedam	41	9.6%
SBM- Houston	94	18.8%
SBM- Malaysia	83	14.2%
SBM- Monaco	53	7.0%
SBM- PC	227	13.6%
SBM Offshore- Group Functions	36	13.9%
SBM Offshore- Group Operations	156	9.2%
Total	**690**	**11.7%**

Net turnover calculation excludes retirement and fatalities

Permanent Employees Turnover by Category

	Turnover Headcount	Total Headcount Permanent	Turnover Rate
Resignation	480		8.2%
Dismissal and undefined	210		3.6%
Net turnover	**690**	**5893**	**11.7%**
Retirement	27		
Fatalities non work related	8		
Fatalities work related			

Net turnover calculation excludes retirement and fatalities

Permanent Employees Turnover by Age Brackets

	Net Turnover Headcount	Net Turnover rate
Age <30	192	13.6%
Age 30-50	398	11.0%
Age >50	100	11.6%
Total	**690**	**11.7%**

Net turnover calculation excludes retirement and fatalities

Employees Training Hours

	Total Number of Training Hours	Total Training Hours per Permanent Employee
SBM- Schiedam	17,539	40.9
SBM- Atlantia	17,238	34.4
SBM- Malaysia	16,544	28.3
SBM- Monaco	21,315	28.0
SBM- PC	77,942	46.8
SBM Offshore- Group Functions	5,952	23.0
SBM Offshore- Group Operations	10,431	6.2
Offshore	**77,942**	**46.8**
Onshore	**89,019**	**160.7**
Total	**166,961**	**207.5**

Employees Training Hours for Offshore only

Total training hours for 2012	77,942
Training indicator hours/ permanent employees	46.8

Permanent Employees Performance Appraisals and Skill Mapping and Developping Process

Employees Headcount eligible to performance appraisals	5,028
Performance appraisals completed	84%
Employees headcount eligible to people review	447
People review indicator	86%

Women Men Equality

% of Women in management position	13.2%
% of Women in management position Offshore	6.4%
% of Women in management position Onshore	21.1%
Ratio basic salary women/ men for Onshore	86%

Total Training Costs in Thousand US$

Training cost	2012
Total training costs in US$ thousand	8,662.1

5.3 Notes

5.3.1 Note 1

The exposure hours, incidents and frequency rates shown below include all hours recorded on TREG (including SBM-PC) and any incidents recorded at SBM offices and premises.

5.3.2 Note 2

FAT: Fatality

LTI: Lost Time Incident

RWC: Restricted Work Case

MTC: Medical Treatment Case

NM: Near Miss

Days Lost: LTI Days Lost

LTISR: Lost Time Incident Severity Rate

LTIFR: Lost Time Incident Frequency Rate

TRI: Total Recordable Incidents

TRIFR: Total Recordable Incident Frequency Rate

5.3.3 Note 3

The Total Recordable Incidents is the sum of the Fatalities, Lost Time, Restricted Work Case and Medical Treatment Case incidents, but exclude First Aid Case and Near Miss Incidents.

TRI = FAT+LTI+RWC+MTC

TRIFR = (TRI x 200,000)/ EH

Where:

TRI = Total Recordable Incidents

200,000 = base for 100 equivalent full-time workers

(Working 40hrs per week, 50 weeks per year)

EH = Exposure Hours, total hours worked by all employees

LTIFR = (LTI x 200,000)/ EH

Where:

LTI = the number of Lost Time Incidents

200,000 = base for 100 equivalent full-time workers

(Working 40hrs per week, 50 weeks per year)

EH = Exposure Hours, total hours worked by all employees

LTISR = (Days Lost x 200,000)/ EH

Where:

Days Lost = LTI Days Lost

200,000 = base for 100 equivalent full-time workers

(Working 40hrs per week, 50 weeks per year)

EH = Exposure Hours, total hours worked by all employees