Boskalis
Dredging & Marine Experts

ANNUAL REPORT 2016

# ANNUAL REPORT 2016

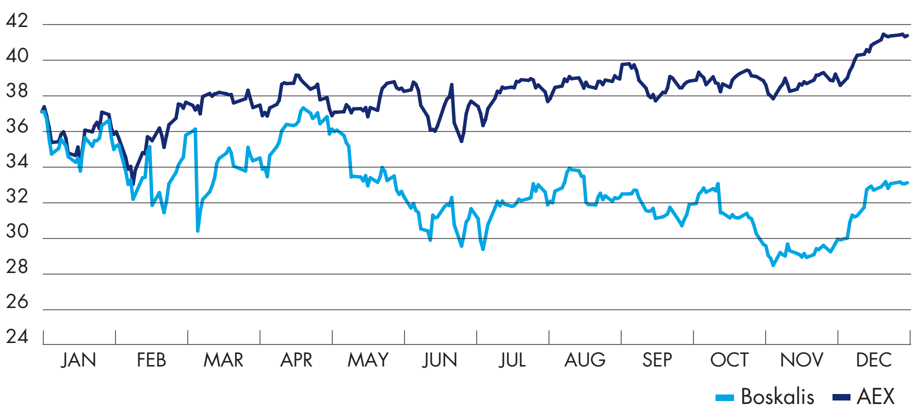

# KEY FIGURES

| (in EUR million, unless stated otherwise) | 2016 | 2015 |
|---|---|---|
| Revenue | **2,596** | 3,240 |
| Order book | **2,924** | 2,490 |
| EBITDA | **660.5*** | 884.7 |
| Net result from joint ventures and associates | **11.3*** | 43.3 |
| Depreciation and amortization | **277.2** | 278.6 |
| Operating result | **384.6** | 577.3 |
| Impairments | **842.6** | 14.5 |
| EBIT | **-458.1** | 562.8 |
| Net profit | **276.4*** | 440.2 |
| Net profit/loss | **-563.7** | 440.2 |
| Net group profit/loss | **-561.8** | 443.5 |
| Cash flow | **464.0** | 765.4 |
| Shareholders' equity | **3,121** | 3,714 |
| Personnel (headcount) | **6,960** | 8,268 |
| **RATIOS (IN PERCENTAGES)** | | |
| EBIT as % of revenue | **14.8*** | 17.4 |
| Return on capital employed | **9.1*** | 10.8 |
| Return on equity | **8.1*** | 12.8 |
| Solvency | **56.1** | 56.3 |
| **FIGURES PER SHARE (IN EUR)** | | |
| Profit | **2.16*** | 3.54 |
| Dividend | **1.00** | 1.60 |
| Cash flow | **3.62** | 6.16 |

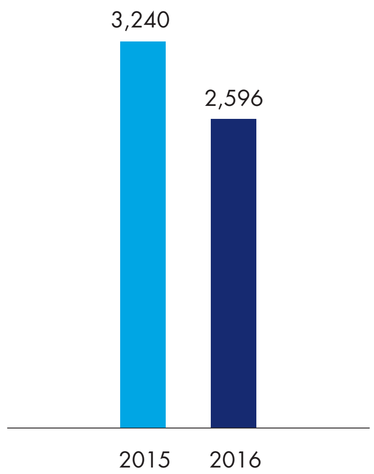
** Excluding impairments*

| SHARE INFORMATION | 2016 | 2015 |
|---|---|---|
| (Share price in EUR) | | |
| High | **37.60** | 49.21 |
| Low | **27.89** | 35.70 |
| Close | **32.99** | 37.63 |
| Average daily trading volume | **492,459** | 468,176 |
| Number of issued ordinary shares at year-end (x 1,000) | **130,077** | 125,627 |
| Average number of outstanding shares (x 1,000) | **128,205** | 124,182 |
| Stock market capitalization (in EUR billion) | **4.291** | 4.727 |

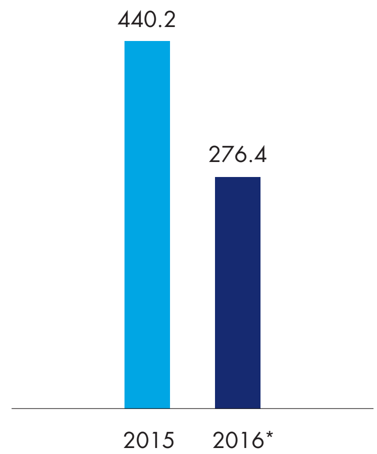
**DEVELOPMENT BOSKALIS SHARE PRICE 2016, AEX-INDEX REBASED TO BOSKALIS** (in EUR)



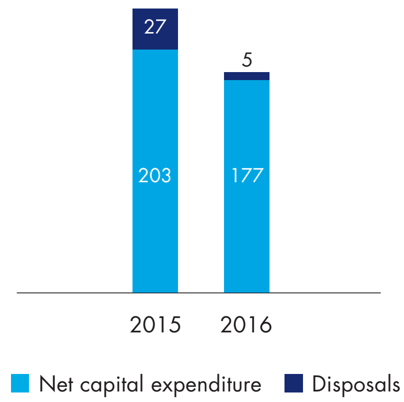
**REVENUE** (in EUR million)



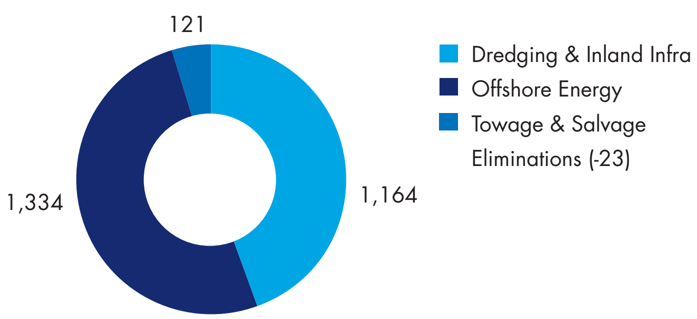

**NET PROFIT** (in EUR million)



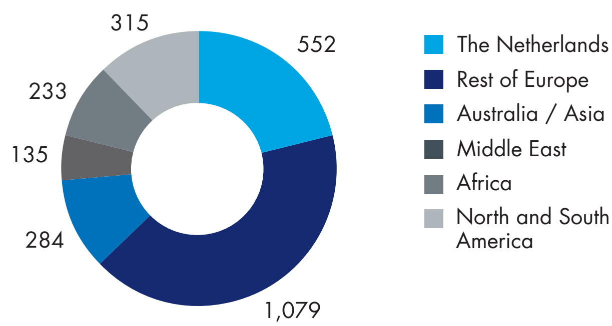

**CAPITAL EXPENDITURE** (in EUR million)



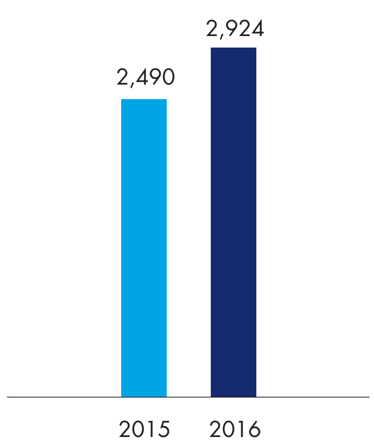

**REVENUE BY SEGMENT** (in EUR million)



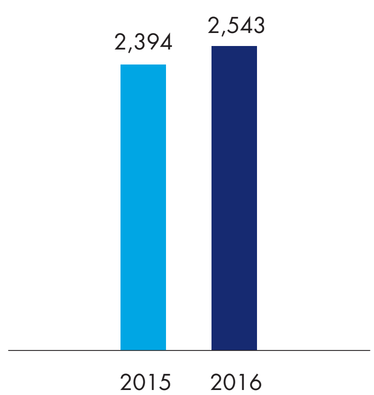

**REVENUE BY GEOGRAPHICAL AREA** (in EUR million)



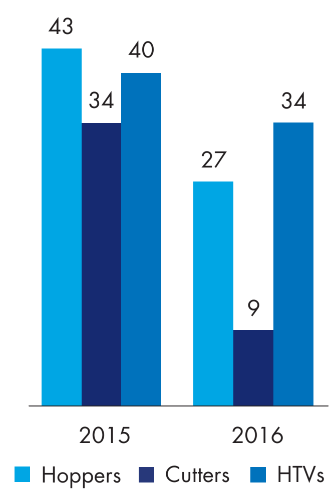

**ORDER BOOK** (in EUR million)




**ACQUIRED ORDERS** (in EUR million)




**FLEET UTILIZATION** (in weeks per year)



# ANNUAL REPORT 2016

This annual report contains forward-looking statements. These statements are based on current expectations, estimates and projections of Boskalis' management and information currently available to the company. These forecasts are not certain and contain elements of risk that are difficult to predict and therefore Boskalis does not guarantee that its expectations will be realized. Boskalis is under no obligation to update the statements contained in this annual report. Some of the projects referred to in this report were carried out in cooperation with other companies.

# TABLE OF CONTENTS


Trailing suction hopper dredger Strandway.

# CHAIRMAN'S STATEMENT

**Dear shareholders,**
**2016 marked the transition from a period of growth and prosperity to one of stagnation and rationalization. Early 2016 we saw dark clouds gather on the horizon, but looking back at the year the storm is more extreme than we expected. Right now it is fair to say that we are in the midst of it. These market conditions were reason for us to take an extra critical look at the book value of our assets, in particular at the offshore oil and gas related activities. While the resulting impairment charges reflect the near-term outlook, we remain optimistic for the medium to long term outlook of our business. Our net profit, adjusted for the EUR 840 million impairment charges net of taxes, amounted to EUR 276 million and in view of our strong balance sheet we propose a dividend per share of EUR 1.00 based on that profit level.**

## DEVELOPMENTS IN CORE ACTIVITIES

### DREDGING & INLAND INFRA

After a number of extremely successful years with substantial results from Gorgon and Suez, the Dredging & Inland Infra division experienced a relatively quiet year caused by unforeseen delays in tenders, projects and start-up dates. This resulted in the lowest utilization rate of the dredging fleet in many years.

We nevertheless successfully acquired new projects, particularly in the Netherlands. Examples include the reinforcement of the Wadden Sea dike between Eemshaven and Delfzijl as well as the Wadden Sea dike on the island of Texel; the alliance contract for the reinforcement of the Markermeer dikes; and the wonderful Marker Wadden project. The Marker Wadden is a group of artificial islands that will ensure the ecological restoration of the Markermeer lake and enable nature to flourish. In December a large number of small and medium-sized projects were acquired, including the reinforcement of the Houtrib dike.

In Brazil a new contract was acquired in Porto Açu for a sizable dredging project that ensures good utilization of our large trailing suction hopper dredgers. We also won a EUR 300 million contract to dredge a 16-kilometer-long trench for the construction of the Fehmarnbelt tunnel between Germany and Denmark. However, this project is not expected to commence in the coming years as the required environmental permits have yet to be issued by the German authorities. Furthermore, at the start of 2017 a letter of intent was signed for the very sizable Duqm Port development in Oman. A great project for our new mega cutter Helios to sink its teeth into.

## OFFSHORE ENERGY

The largest market change we experienced in 2016 was at Offshore Energy. We saw the market and order intake dry up more and more, but we were still very busy with numerous projects from the order book. We set a new record transporting the FPU Likouf for the expansion of the Moho Nord oil field. At 80,500 tons, it was the heaviest cargo that the Dockwise Vanguard had ever transported. In addition, we transported two topsides and various platform modules with six Dockwise vessels from South Korea to the Clair oil field west of the Shetland Islands. And for the Hebron project in Canada various platform modules were transported by the Blue Marlin and installed using the Taklift 6 sheerleg crane.

The acquisition of the VolkerWessels offshore activities was finalized at the start of July. This transaction strengthened our position in the growing offshore wind energy market considerably. As a result of the acquisition we executed two large offshore wind farm projects on a 100% basis in 2016: Veja Mate and Wikinger. Furthermore, the Offshore Energy division was able to secure impressive new offshore wind projects such as the Aberdeen Offshore Wind Farm for Vattenfall and the Hornsea Offshore Wind Farm Project One for DONG. We will transport and install the jacket foundations using our new 3,000 ton crane vessel – a Dockwise transport vessel that is currently being converted. Our subsidiary VBMS also acquired numerous contracts and will install the export cables for the Borssele offshore wind farms on behalf of Dutch grid operator TenneT.

## TOWAGE & SALVAGE

At Towage we established the European harbor towage joint venture between SMIT and KOTUG in the first half of the year. The 50/50 joint venture operates 64 tugs in eleven ports in four countries. This was an important step in the execution of our strategy aimed at developing and expanding regional partnerships. Today we offer towage services in 90 ports around the world with some 425 vessels through our four towage joint ventures.

At Salvage it was a quieter year after the previous record years. However, a number of impressive projects were executed, including salvaging the car carrier Modern Express in the Bay of Biscay to help prevent a major environmental disaster and refloating the 19,000 TEU container ship Indian Ocean on the Elbe River.

## SAFETY AND QUALITY

In our sixth NINA year we once again made important progress expanding the rollout of this global safety program. In addition, we introduced the Mooring and Safe Mind workboxes containing practical training methods and tools.

Great strides were also made with the development of our new quality system, the Boskalis Way of Working. Aimed at harmonizing various business processes and support systems, the Boskalis Way of Working quality system will be introduced in the course of 2017.

## ADAPTING TO THE NEW REALITY

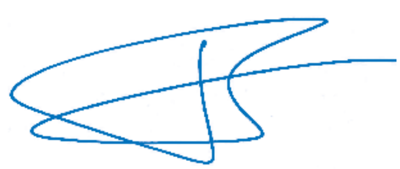
All the hard work and many new projects acquired during the year could, however, not prevent more and more gaps from appearing in our fleet schedules. Considering the prospects going forward, we came to the inevitable conclusion that we have to align the size of the fleet with the market. After a comprehensive study we decided to take 24 vessels out of service: ten at Dredging and fourteen at Offshore Energy. This was a difficult decision, particularly for the 650 colleagues affected. In close consultation with the Works Council we carefully completed the advisory process and agreed on a fair social plan.

## PREPARING FOR THE FUTURE

We expect the current market environment to persist in the coming years. In order to respond to this outlook and to prepare ourselves for the period that follows we have been working hard on our 2017-2019 Corporate Business Plan, the main points of which can be found in this annual report.

With the right focus and optimization of our existing business portfolio we can successfully steer the company through this difficult period. Results will be lower than in the extremely profitable previous years but our financial position is very strong and healthy with nearly EUR 1 billion in cash at the end of 2016. We will continue to generate a strong cash flow in the coming years which, in turn, will provide opportunities. Where these opportunities will present themselves, we will invest to strengthen the company selectively. Not only for the coming years, but also most certainly for the period thereafter when the market is expected to pick up again.

On behalf of the Board of Management I want to thank all our colleagues for their commitment and great efforts in 2016, as well as our clients, partners and shareholders for the trust and confidence they place in us.



Peter Berdowski

# BOSKALIS AT A GLANCE

The 80,500 ton Moho Nord FPU Likouf floated-off from the Dockwise Vanguard by the Boskalis AHTs Union Bear, Union Lynx and Union Boxer offshore Gabon. The Vanguard was kept in position by Smit Lamnalco tugs SL Rima and Lamnalco Weaver.

# COMPANY PROFILE

**Royal Boskalis Westminster N.V. (Boskalis) is a leading dredging & marine expert creating new horizons for all its stakeholders.**

In addition to our traditional dredging activities we offer a broad range of maritime services for the offshore energy sector. Furthermore, we provide towage services as well as emergency response and salvage-related services.

As a partner we are able to realize complex infrastructural works for our clients within the chain of design, project management and execution on time, safely and within budget, even at vulnerable or remote locations around the world. We strive for sustainable design and realization of our solutions.

Demand for our services is driven by growth in global trade, growing energy consumption, growth in world population and climate change. Boskalis operates worldwide but concentrates on those regions that have the highest growth expectations. This spread gives us both a solid foundation and the flexibility to be able to secure a wide range of projects, as well as providing good prospects for balanced and sustained growth. Our main clients are oil, gas and wind energy companies, mining companies and related EPC contractors and subcontractors, governments, port and terminal operators, shipping companies, insurance companies and international project developers.

Boskalis has 11,700 employees, including associated companies. The safety of our employees and those of our subcontractors is paramount. Boskalis operates its progressive global safety program No Injuries No Accidents (NINA), which is held in high regard in the industry and by our clients. We operate on behalf of our clients in 90 countries across six continents. Our versatile fleet consists of more than 900 vessels and floating equipment, including associated companies. Our head office is based in the Dutch city of Papendrecht. Royal Boskalis Westminster N.V. shares have been listed on Euronext Amsterdam since 1971 and are included in the AEX-Index.

# ACTIVITIES

**Boskalis is renowned for its innovative approach and specialist knowledge of environmentally friendly techniques. With our great expertise, multidisciplinary approach, versatile state-of-the-art fleet and extensive experience in engineering and project management we have proven time and again that we are able to realize complex projects on time, safely and within budget, anywhere in the world.**

## DREDGING & INLAND INFRA

Traditionally, the core activity of Boskalis is dredging. This involves all activities required to remove silt, sand, clay and other layers from the sea- or riverbed and reusing it elsewhere where possible, for example for coastal protection or land reclamation. The services we provide also include the construction and maintenance of ports and waterways, and coastal defense and riverbank protection. In addition, Boskalis is active in the extraction of raw materials using dredging techniques and dry earthmoving.
In the Netherlands, Boskalis also operates as a contractor of dry infrastructure projects. This involves the design, preparation and execution of large-scale civil infra works, such as the construction of roads and railroads, bridges, aqueducts, viaducts and tunnels in addition to dike and riverbank related projects. In doing so, we also perform specialist works such as soil improvement and remediation.

## OFFSHORE ENERGY

With its offshore contracting capabilities and services Boskalis supports the activities of the international energy sector, including oil and gas companies and providers of renewable energy such as wind power. We are involved in the engineering, construction, maintenance and decommissioning of oil and LNG import/export facilities, offshore platforms, pipelines and cables and offshore wind farms. In performing these activities Boskalis applies its expertise in the areas of heavy transport, lift and installation work, as well as diving and ROV services complemented with dredging, offshore pipeline, cable and rock installation. Our subsidiary VBMS is a leading player in the European market for offshore cable installation.

## TOWAGE

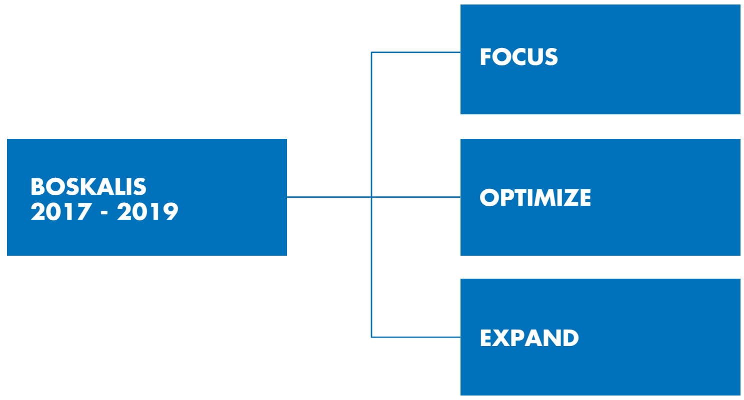
We provide assistance to incoming and outgoing oceangoing vessels in ports around the world through joint ventures with regional partners: Keppel Smit Towage in Asia, Saam Smit Towage in the Americas and KOTUG SMIT Towage in Northwest Europe.
In addition we offer a full range of services for the operation and management of onshore and offshore terminals through Smit Lamnalco. These services include assistance with the berthing and unberthing of tankers at oil and LNG terminals as well as additional support services such as pilotage, subsea inspection and maintenance, firefighting, and the coupling and uncoupling of terminal connections. With a versatile fleet of over 400 vessels we assist vessels in around 90 ports in 36 countries, including oil and chemical tankers, container ships, reefers, ro-ro vessels and mixed cargo ships.

## SALVAGE

Through SMIT Salvage we provide services relating to marine salvage and wreck removal. SMIT Salvage provides assistance to vessels in distress and is able to spring into action at any time and anywhere in the world. We are able to do so by operating out of four locations which are strategically situated along the main international shipping routes: Houston, Cape Town, Rotterdam and Singapore. The removal of shipwrecks or damaged offshore platforms almost always takes place at locations where the wreck forms an obstruction to traffic or presents an environmental hazard. We have the advanced technology and expertise needed to remove hazardous substances such as heavy fuel oil from wrecks and boast a successful track record in salvaging vessels and platforms under challenging circumstances.

# STRATEGY

**Boskalis operates around the world and is a leading player in the fields of dredging, offshore energy and maritime services. The company is a leader in its market segments thanks to its ability to deliver innovative all-round solutions combined with a broad portfolio of specialist activities. Its versatile maritime assets with value-adding potential are the cornerstone of the Boskalis business model. Systematic execution of the strategy, which is reviewed regularly in light of relevant market developments, is a key factor in Boskalis' success.**




Our strategy is elaborated in our three-year business plan. Following a review in early 2017 a new Corporate Business Plan was formulated for the period 2017-2019. Based on three strategic pillars – Focus, Optimize and Expand – the plan is a logical progression from the 2014-2016 plan. At the same time, developments both within our organization and in our markets mean that circumstances have changed drastically compared to when we formulated our previous plan. Internally, that plan was strongly focused on aligning and adapting the organization following two major acquisitions, while the external focus was primarily aimed at opportunities in the offshore oil and gas market. Three years on, the organizational changes have been implemented: the acquired companies have been integrated, successfully supported by a new divisional structure, harmonized ERP systems and improved ICT infrastructure. From an external point of view, however, the unforeseen collapse in the oil price in the intervening period means that conditions in the oil and gas market are now very different than they were three years ago. At a macro level volatility has increased and this unpredictability impacts our business in the short term. However, the long-term development of the macro trends that drive our business remains positive.

## MARKET DEVELOPMENTS

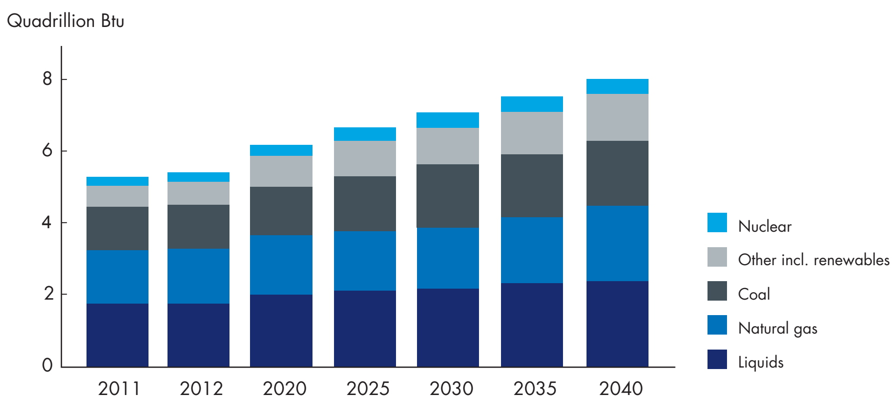



Figure 2: Continued dependence on fossil fuels (source: IEA)

## BUSINESS DRIVERS

The Corporate Business Plan 2017-2019 was formulated with a clear eye on the long-term megatrends that underpin the Boskalis business model. These business drivers are structural growth and rising prosperity of the global population, which in turn drives growth in global trade and demand for raw materials and energy.

Global warming also continues to create business opportunities for Boskalis, with a growing need for flood protection measures and land reclamation.

These macro trends are the key drivers of long-term growth for our activities, irrespective of unpredictable and potentially less favorable developments in the shorter term in some of the regions and markets where Boskalis is active.

| | Dredging & Inland Infra | Offshore Energy | Towage & Salvage |
|---|---|---|---|
| Growing world trade | ● | ◐ | ● |
| Growing energy consumption | ◐ | ● | ● |
| Population growth | ● | ○ | ○ |
| Climate change | ● | ○ | ○ |

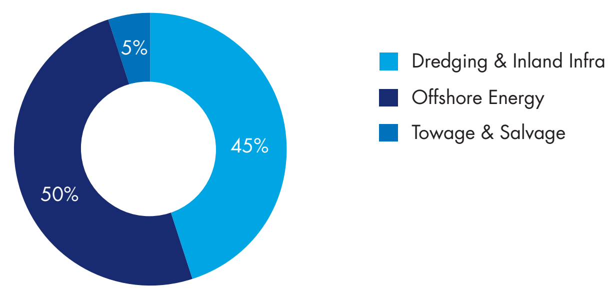
Figure 3: Boskalis business drivers and related activities

**A closer look at our business drivers**
The world economy is forecast to grow at around 3-4% annually and current projections suggest that seaborne trade will continue to roughly keep pace. Boskalis is also benefiting from the trend towards larger vessels with deeper drafts. In ports these vessels require deeper access channels and larger and deeper berths and turning basins, creating primarily opportunities in the area of dredging.

Energy demand continues to increase and although part of this demand can be served from existing sources, new investments are required to meet future demand. While renewables are expected to see further growth as a result of the energy transition, the dependence on fossil fuels will remain significant with absolute volumes in this segment expected to grow (see figure 2). Against this backdrop, the share of offshore oil and gas in the energy mix is seen remaining stable and an associated increase in investments in exploration and production is expected. A large part of these investments will take place in regions with shallow water where development and production costs per barrel are more favorable.

Underpinning the aforementioned drivers is the growth in the global population, projected to rise to 8.5 billion by 2030. With half of the global population living within 60 kilometers of the coast and 75% of major cities worldwide located on the coast, the pressure on available land is huge. Furthermore, many of these coastal regions are at risk from our fourth business driver, climate change.

Climate change issues have risen up the agenda, partly as a result of the Paris Agreement (COP21) that came into force in November 2016. Climate change is compelling governments on several continents to take steps to protect their populations against flooding and rising sea levels. The World Bank and the Intergovernmental Panel on Climate Change (IPCC) have warned that huge investments are needed to mitigate against climate change, with adaptation costs estimated at a startling USD 82 billion per year. Opportunities for Boskalis in this area include potentially greater demand for coastal defense and riverbank protection projects.



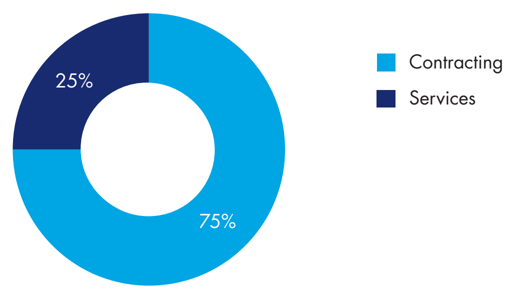




Figure 4: Revenue breakdown by activity and type of revenue

## STRATEGIC FRAMEWORK

The Boskalis strategy is a logical progression from our mission and vision.

*We are a leading dredging and marine contracting and services expert that creates new horizons for all our stakeholders. We do so by offering a unique combination of people, vessels and activities. We provide innovative and competitive solutions for our clients in the offshore industry, ports and coastal areas, always maintaining the highest standards of safety and sustainability.*

In light of the market outlook the strategic course for the coming period will be based on three pillars: Focus, Optimize and Expand.

### FOCUS

The Focus pillar of our strategy is aimed at:
- Value-Adding Assets
- Specific market segments

**Value-Adding Assets**
Boskalis' strength lies in deploying its own assets combined with additional capabilities to add value for our clients. Boskalis will sustain its success as long as we use our broad range of equipment, staff and competencies to provide a balanced service to the various client groups both at the top and the lower end of the market. However, their requirements vary widely, both within and between the market segments.

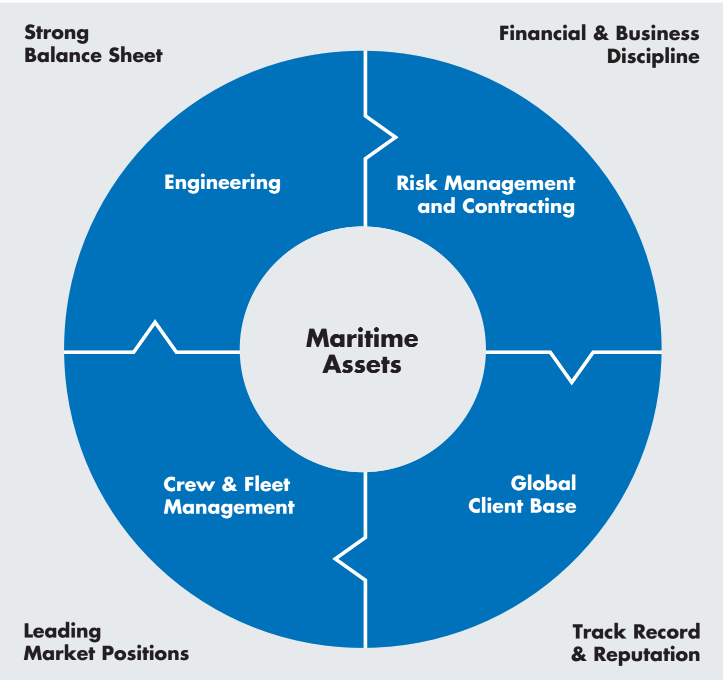



Figure 5: Interrelated core competencies

We seek to achieve the optimum balance between margin maximization and fleet utilization by operating our assets at various points on the S curve (see figure 6). We have clients who need us to deliver integrated, innovative services or turnkey solutions. In order to meet these client requirements we need competencies that complement and reinforce one another, such as risk management and engineering. In addition, we need to be able to act as lead contractor, and project management experience is essential. In the contracting segment with its higher margin potential we expressly position ourselves towards the top of the S curve.
The more straightforward services assets are positioned at the lower end of the S curve. Certain of these services support contracting projects but the bulk of the business is third-party services revenue. Here the emphasis lies on sustaining fleet utilization levels whilst maintaining a responsible risk profile, with cost leadership being an important prerequisite.

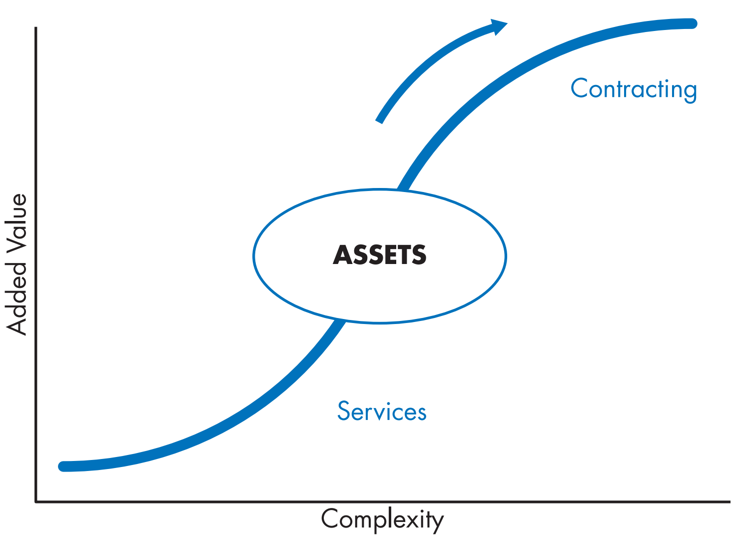



Figure 6: S curve – creating value with assets

The S curve concept is dynamic in time and we therefore need to be critical with regard to the scope for adding sufficient value to assets at the bottom of the S curve. A structural shift in supply and demand can for example cause a former value-adding asset to be structurally repositioned lower on the curve. If this results in an asset becoming a commodity that cannot be moved up the S curve, we will consider divesting it. Conversely, modifying an existing asset or deploying it in a new market segment – for example in conjunction with our high-value contracting activities – can result in it being repositioned higher on the curve. Boskalis manages its portfolio of assets actively to be able to respond to such market dynamics. The essence of our value-adding asset concept is that we aim to move up the S curve.

**Activity and Market focus**
Our core activities are focused on geographic regions and market segments that offer us the greatest opportunities whereby we provide our services on both a combined and a standalone basis. Our mix of activities gives us a broad geographical scope. Some of our activities, such as Dredging, Transport, Towage and Salvage, have a truly global reach, while others have a regional focus. For example, our Inland Infra activities are concentrated on the Dutch market and Offshore Wind is focused on Northwest Europe, while our Installation & Intervention activities and Subsea Services cover a wider geographical scope spanning Northwest Europe, Africa and the Middle East.

## OPTIMIZE

The Optimize pillar of our strategy is aimed at enhancing effectiveness and efficiency across the organization.

**Effectiveness**

Selective tendering
Setting priorities is crucial to effectively meet the requirements of our global client base. Specifically, we need to be critical and selective in the (pre)tender phase, devoting attention and resources to those tenders that are of greatest interest to Boskalis.

Operational/contractual excellence
Once a tender has been won, we must ensure we make the right choices. Forward planning is essential but we must also see to it that our project managers deliver precision work, following the brief. This means delivering what we promised the client.
Within Towage we have successfully established regional joint ventures. Within and between these joint ventures, there is an opportunity to be gained through benchmarking the individual operations. By establishing benchmarks and sharing best practices we can improve the operational performance of our Towage business.

Organizational alignment

Over the previous business plan period, good progress was made in streamlining the organization in order to reinforce the focus on the business. A new organizational structure was put in place with three divisions, each with its own operational support functions such as engineering, fleet management and crewing. In light of the company's growth, further alignment of the structure is now needed. A subdivision will be made within the Offshore Energy division to distinguish between the more contract-based Installation & Intervention activities and the more short-term focused Transport & Services business.

Boskalis Way of Working

The Boskalis Way of Working (WoW) is the new quality system aimed at harmonizing various business processes and support systems. The overriding objective of our WoW system is to give our staff the best possible support in achieving operational excellence when concluding and executing commercial contracts. Operational excellence in this context means achieving compliance with the internal and external control requirements imposed on our primary project process with the minimum waste of time and effort. The WoW system will be implemented in the early stage of the business plan period.

**Efficiency**

Fleet rationalization program

In light of the deteriorated market conditions a fleet rationalization study was conducted in the first half of 2016. Because these conditions are expected to persist in the coming years the decision was taken to adapt the size and composition of the Boskalis fleet. In the period up to mid-2018 a total of 24 vessels will be taken out of service: ten at Dredging and fourteen at Offshore Energy. As a result, around 650 jobs (FTEs) will be lost worldwide, mostly involving crewmembers of the vessels concerned. As per the end of 2016 more than 250 of these jobs had been discontinued. The timing of the remaining workforce reduction is partly dependent on factors including the current deployment of vessels and legislation.

More variable crewing costs

In order to maintain a cost-efficient business proposition we will be looking at ways of making our crewing model more flexible and variable without compromising safety and quality. Options under consideration include a more flexible crew-planning model whereby crew can be deployed across a pool of vessels and greater flexibility in crew composition by training crew from the Baltic States and the Philippines for more senior positions.

Head office cost reduction program

In the wake of the fleet rationalization program we will also review our cost base at head office. A comprehensive cost study will therefore be conducted in the first half of 2017. While the objective of this study will be to reduce costs where possible, it will also take the organization's growth ambitions into consideration. The cost review should therefore be seen in the broader context of our organizational alignment and strategic agenda.

**EXPAND**

The Expand pillar of our strategy applies to all three Boskalis divisions with an emphasis on Offshore Energy. While the short-term outlook for certain areas of the market remains challenging, we are confident that the tough market conditions will also create opportunities. Existing players are likely to run into difficulties, creating opportunities that we can benefit from. There are various ways in which we can grow the business, and we will consider our options as and when opportunities arise. Ways of expanding include:

- building new assets, although this will only be considered for unique assets that cannot be purchased second-hand, or buying existing assets in the market;
- bolt-on acquisitions of players that hold an interesting market position and preferably bring a combination of assets and know-how;
- consolidation, an area where we are keen to play an active role. Consolidation would be focused on markets where we already hold a strong position. This category tends to be difficult to influence, and is the most opportunity-driven of the three.

**Dredging & Inland Infra**

Dredging & Inland Infra, the traditional core activity of the company, is focused on market segments with structural growth. The rate at which the market is expected to grow is modest, but the industry characteristics are compelling. Boskalis holds an important share of this heavily consolidated market and has a very strong global presence, putting it in a good position to take advantage of forthcoming prospects.

Based on recent market assessments, Boskalis estimates the global dredging market for hopper and cutter projects to have a contract value in the order of EUR 51 billion, with the bulk of the identified projects expected in the next five years. In addition to these projects, there is an addressable market of more than EUR 15 billion for climate change-related civil and dry infrastructure projects, most of which are concentrated in Europe.

To position itself for these opportunities, Boskalis will make investments to maintain and where appropriate expand its market position. In terms of the fleet, investments are centered on completion of the newbuild mega cutter suction dredger Helios, scheduled for the second half of 2017, plus the construction of a sister vessel. We will also look at expanding our Inland Infra business in the Netherlands and specifically applying the know-how we have built up in the Dutch market to international dredging projects. Boskalis will also continue to keep an eye out for interesting consolidation opportunities involving acquisitions of regional dredging players if and when such opportunities present themselves.

**Towage & Salvage**

Towage is dependent on the rate of growth of seaborne trade and the number of vessel movements through ports. Over the last few years, the emphasis of Boskalis has been on the establishment of regional joint ventures, with the focus on an efficient cost and capital structure. With all the towage activities now having been transferred to these joint ventures, the next step will be the further expansion of our geographic footprint. Opportunities may be pursued by and through one of the regional joint ventures or by Boskalis directly.

The volume of work for Salvage is by its nature unpredictable. Nevertheless, Boskalis will leverage its global footprint and permanent presence in ports around the world to grow its Emergency Response business. Furthermore we will use our own assets and apply our expertise in both engineering and contract and risk management to secure wreck removal contracts.

**Offshore Energy**

The Expand pillar of our strategy remains strongly geared to Offshore Energy. Despite the sharp decline in the oil price and the cutback in capital expenditure by the offshore oil and gas industry over the last couple of years, specific segments in this market remain attractive for Boskalis.

Boskalis offers a broad range of capabilities, which can be subdivided into contracting-focused Installation & Intervention (I&I) activities and the more short-term-focused Transport & Services (T&S) business. Given the nature of the contracting business, where we are expected to take on a broader responsibility with a higher reward potential, the I&I activities are positioned higher on the S curve and are therefore an area where we want to pursue further development.

Installation & Intervention

Within the contracting-focused I&I segment we have identified an addressable market of EUR 23 billion in the next five years. The I&I market comprises installation and decommissioning of floating and fixed structures, landfalls and offshore wind-related activities. The competitive landscape for the installation and decommissioning of floating and fixed structures is highly fragmented, with the combined market share of traditional global Engineering, Procurement, Construction and Installation (EPCI) players estimated to be less than 40%. Many of the other players are active with just one or two key assets and due to the market downturn an increasing number of them are suffering from weak financial performance and overleveraged balance sheets. This presents us with an opportunity to step into this market and to position ourselves as an attractive independent player just below the EPCI contractors with a geographic focus on Northwest Europe, Africa and the Middle East.

The offshore wind market has taken off in earnest in recent years but despite an impressive drop in cost per kWh the economics of offshore wind remains dependent on government subsidies. The total size of the market for wind-related I&I in Northwest Europe is not expected to grow beyond the current annual EUR 1.5-1.7 billion. Boskalis' share in this ranges from around 10% (foundations) to around 35% (cables) and the company is committed to maintaining a strong presence in the European market.

For the installation market, we are currently investing in converting an existing heavy transport vessel into a 3,000 ton transport and installation crane vessel. The multifunctional vessel will be deployed for the installation of wind turbine foundations, topsides and jackets and will also be suited for decommissioning activities as well as wreck removal projects. A sister vessel is also scheduled for conversion into a 3,000 ton crane vessel in the second half of the business plan period. For the floating installation market, we will seek to position ourselves higher on the S curve by adding contracting assets such as construction support vessels. This could be achieved by acquiring assets in the market or by acquiring a player in the fragmented installation market.

Subsea Services

Boskalis has over the years developed a modest but successful position in the subsea services market, focusing on survey and UXO clearance, diving and Inspection, Repair and Maintenance

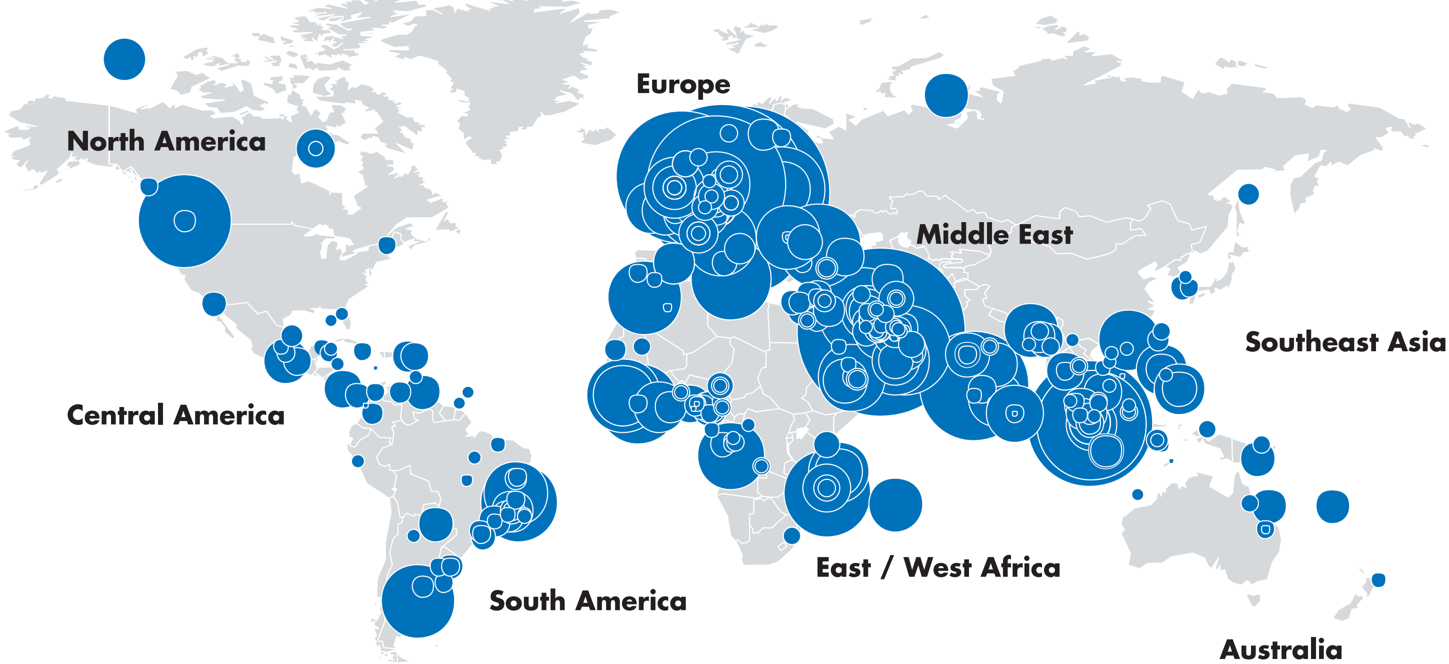



Figure 7: Identified dredging and climate change-related projects as well as offshore installation and intervention projects

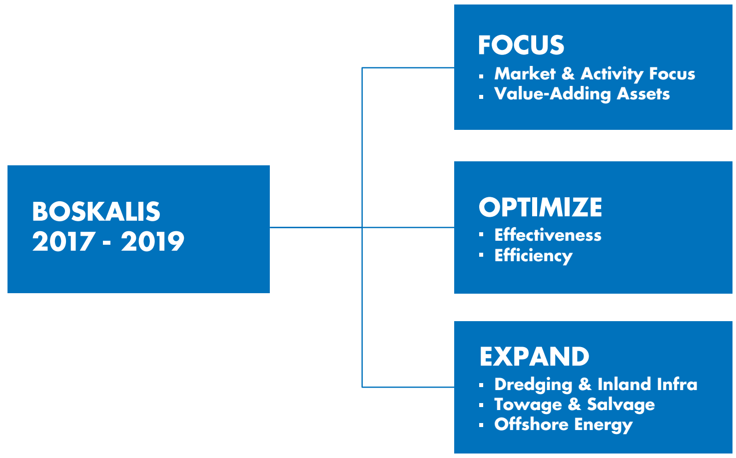



Figure 8: Strategic framework for 2017-2019

(IRM) work in shallow water regions in Northwest Europe, Africa and the Middle East. The annual revenue of the global shallow water IRM market is estimated at EUR 6.5 billion, of which EUR 3 billion in the regions where Boskalis is currently active. This is another highly fragmented market, with the vast majority of players operating just one or two survey and diving support vessels in a region. With numerous players also being financially stretched, we see opportunities for expanding our position in Northwest Europe, Africa and the Middle East by acquiring assets or by acquiring a player with assets.

The global shallow water SURF (Subsea, Umbilicals, Risers and Flowlines) market is similar in size to the IRM market with estimated annual revenue of EUR 2.3 billion in Northwest Europe, Africa and the Middle East. Based on the market outlook and Boskalis' existing subsea contracting capabilities, we want to look into a gradual expansion into the shallow water SURF market and will explore acquisition opportunities to achieve this.

Transport

Boskalis has a global leading position in heavy marine transport through Dockwise and is also active in long-distance ocean towage. In the past, demand in this market consisted of high-value long-term contracts requiring high-end engineering know-how, generally related to oil and gas production, complemented by straightforward short-term transport contracts for exploration rigs or ports and marine-related work. However, the sharp drop in the oil price has led to a decline in short-term contracts and capital expenditure freezes by the oil majors have put a further squeeze on the number of high-value long-term contracts. The effect of this volume decline has been compounded by a further influx of new transport capacity. As a result, the low end of the heavy marine transport segment is suffering from a structural supply and demand imbalance.

In light of the above we are redefining our market position. At the high end of the market we can still offer a unique proposition with our Type 0 and I vessels. Our scale is also unparalleled in terms of number of transport assets and the combination of heavy marine transport with long-distance towage. Going forward, we will continue to market this value-adding proposition.
However, following the aforementioned developments in the market the smaller heavy marine transport vessels as well as the large AHTs are now considered to be commodity assets. As a consequence, a substantial impairment charge was taken on the value of these assets in 2016. In accordance with the S curve philosophy we will seek forms of collaboration and/or consolidation similar to initiatives seen in comparable maritime shipping markets. Where possible we will also seek to reposition low-end assets higher on the S curve as we are doing for example with the conversion of two Type II transport vessels into 3,000 ton crane vessels.

## IN CONCLUSION

Boskalis is entering the 2017-2019 business plan period on a very solid basis, with a net debt-free balance sheet and over EUR 900 million in cash at end-2016. Despite the challenging outlook our operating model based on our own assets means that we will continue to generate a healthy cash flow. In addition we have a strong global client base, highly committed and passionate employees and a state-of-the-art, versatile fleet.

While we expect the operating environment to remain challenging during the business plan period, we want to use this period to invest counter-cyclically – sowing the seeds so we can reap the benefits in the future. We will therefore continue to invest prudently in the business. Total capital expenditure over the three-year period is projected at around EUR 750 million, in line with depreciation. This amount excludes any asset acquisitions, bolt-on acquisitions or consolidation opportunities that may arise.

A healthy balance sheet is essential in our line of business. We believe a net debt/EBITDA ratio in a range of 1 to 1.5 through the cycle to be appropriate for our mix of activities. We expect to remain below this range during the business plan period, both as a matter of prudence and in order to have the flexibility to expand if opportunities present themselves.

We remain committed to our shareholders and will maintain our current dividend policy, which is based on distributing 40-50% of the net profit from ordinary operations in cash or in shares. As an additional measure, we will repurchase the same number of shares that are distributed as stock dividend to prevent dilution.

# SHAREHOLDER INFORMATION

**We strive to inform our stakeholders as completely as possible and to provide insight into the strategic direction and performance of the company. These efforts should allow for an accurate valuation of the Boskalis share over time.**

## INVESTOR RELATIONS POLICY

Providing clear, transparent, accurate and timely information to our stakeholders is something we value highly. We consider our financial stakeholders to include existing and potential shareholders, other investors, banks and brokers as well as the media. Relevant information is equally and simultaneously provided to all interested parties and is made available through annual, semi-annual and quarterly updates, press releases, presentations to investors and the Boskalis website. To build and maintain long-term relationships with our stakeholders we organize roadshows, attend conferences and accommodate meeting requests and conference calls where feasible, while adhering to all legal disclosure regulations and obligations.

Bilateral meetings and conference calls with analysts and existing or potential shareholders are not held during ‘closed periods’. Our policy of holding bilateral meetings with shareholders is set out in the Investor Relations section of our corporate website.

## OPEN DIALOGUE

Following the publication of the annual and half-year results, we host comprehensive plenary analyst meetings which are also made available through a webcast. Following important announcements, we also contact shareholders proactively and we maintain regular contact with major investors and analysts, for example by providing the opportunity, where feasible, to visit a project or a vessel.

In 2016 we expanded the geographic coverage of our roadshows and investor conferences. We participated in conferences in the Netherlands, China, France, Norway, Switzerland and the UK. Roadshows for institutional investors were organized in Belgium, Canada, Finland, France, Germany, Hong Kong, Ireland, Luxemburg, the Netherlands, Japan, South Korea, Switzerland, Taiwan, the UK and the US. In addition, a large number of investor meetings were held at our head office in the Netherlands. In 2016 more than 350 meetings were held with investors.

Boskalis is covered by all the major Benelux brokers. We are in frequent contact with their analysts, who play a key role in distributing information to their clients about the markets in which Boskalis operates.

On 10 May, 2016 we held our Annual General Meeting (AGM) of Shareholders, in addition to two Extraordinary General Meetings (EGM) of Shareholders held on 17 August and 10 November respectively. More information on the AGM and EGMs can be found in the Report of the Supervisory Board.

## DIVIDEND POLICY

The main principle underlying the Boskalis dividend policy is to distribute 40% to 50% of the net profit from ordinary operations as dividend. At the same time Boskalis aims to achieve a stable development of the dividend in the longer term. The choice of dividend – in cash and/or entirely or partly in shares – takes into account both the company's desired balance sheet structure and the interests of shareholders.

## EQUITY

On 10 May 2016 the AGM approved a proposal to pay out 45% of the 2015 net profit, equivalent to EUR 1.60 per ordinary share. The dividend was paid in ordinary shares, unless shareholders opted to receive the dividend in cash. Seventy-two per cent (72%) of the 2015 dividend was distributed in the form of stock.

During 2016 the number of issued and outstanding ordinary shares increased by approximately 4.45 million, all of which were issued for stock dividend. As a consequence, the issued share capital as at 3 June 2016 was around EUR 104 million, consisting of 130,076,852 ordinary shares with voting rights with a nominal value of EUR 0.80 each.

On 17 August 2016 the Extraordinary General Meeting of Shareholders approved a reduction of the authorized capital of Boskalis and the nominal value of the ordinary shares and the cumulative protective shares. On 9 December 2016 this capital reduction was implemented through an amendment of the Articles of Association of the company. The authorized capital amounts to EUR 4.8 million with 240 million ordinary shares and 80 million cumulative protective shares, with a respective nominal value per share of EUR 0.01 and EUR 0.03.

## LISTING AND INDICES

Royal Boskalis Westminster N.V. is publicly listed on Euronext Amsterdam (ticker BOKA.AS), where Boskalis shares and options can be traded. Boskalis shares are included in the AEX-Index as well as indices such as the Euronext Next 150 index, STOXX Europe 600 Index and the MSCI Europe Index.

## MAJOR SHAREHOLDERS

The following shareholders are known, based on the public register of the AFM, to have been holders of at least 3% in Boskalis share capital as at 31 December 2016:
HAL Investments B.V.: 35.45%
Sprucegrove Investment Management Limited: 5.16%
Blackrock Inc.: 4.38%
Marathon Asset Management: 3.57%
Oppenheimer Funds, Inc.: 3.07%

Besides these large shareholders, an estimated 15% of the shares are held by shareholders in the UK, 13% in the US and Canada and the remainder in mainly the Netherlands, Norway, Germany, France, Switzerland and Hong Kong.

## DUTCH INVESTOR RELATIONS AWARD

At the presentation of the Dutch IR Awards 2017 in early January 2017 Boskalis received an honorable award. Martijn Schuttevâer, Director of Investor Relations at Boskalis, was chosen as best IR professional in the AEX-Index, as he was in 2015 and 2013. The Dutch IR Awards are presented by the Dutch Society for Investor Relations (NEVIR) to companies and professionals that excel in maintaining their relationships with investors and analysts by means of good and clear disclosure, accessibility, knowledge and reliability.

## SHARE PERFORMANCE

In 2016, around 126 million Boskalis shares were traded on Euronext Amsterdam (2015: 120 million). The average daily trading volume in 2016 was in excess of 492,000 shares. In the course of the year, the share price fell by 12% from EUR 37.63 to EUR 32.99. The market capitalization declined 9% compared to the end of 2015 to EUR 4.29 billion.

## FINANCIAL AGENDA 2017

| | |
|---|---|
| 8 March | Publication of 2016 annual results |
| 10 May | Trading update on first quarter of 2017 |
| 10 May | Annual General Meeting of Shareholders |
| 12 May | Ex-dividend date |
| 15 May | Record date for dividend entitlement (after market close) |
| 29 May | Final date for stating of dividend preference |
| 1 June | Determination and publication of conversion rate for dividend based on the volume weighted average share price on 30 and 31 May and 1 June (after market close) |
| 6 June | Date of dividend payment and delivery of shares |
| 17 August | Publication of 2017 half-year results |
| 10 November | Trading update on third quarter of 2017 |

# BOSKALIS GETS PORTSMOUTH READY FOR ARRIVAL OF NEW AIRCRAFT CARRIERS

**In 2017 the port of Portsmouth will become the home of two new aircraft carriers. Boskalis was responsible for widening and deepening the port and the entrance channel. The main challenge involved detecting and removing large quantities of obstructions and unexploded ordnance (UXO). The local project team developed advanced equipment for this work in collaboration with colleagues from UXO detection and clearance specialist Boskalis Hirdes.**

"Portsmouth is not only a busy container and ferry port, it is also home to many navy vessels," said Boskalis project leader Gerrit Jan van den Bosch. "The British Royal Navy is building two huge aircraft carriers, the Queen Elizabeth and the Prince of Wales, and Portsmouth will be their home port. Boskalis was appointed by the Defence Infrastructure Organisation, a part of the British Ministry of Defence, to prepare the port for the arrival of these ships."

### CHALLENGE

The project included the clearance, widening and deepening of the port and its entrance channel. The navigation channel was too narrow and shallow for the aircraft carriers and needed to be widened from 200 to 500 meters and deepened to 11 meters. The inner harbor and the turning basin were also deepened.
A large proportion of the dredging work, which involved a volume of 3.1 million cubic meters, was executed by the trailing suction hopper dredger Shoalway and the backhoe dredger Manu Pekka.

"The challenge was that the port area was littered with obstructions, including ordnance," said Van den Bosch. "The history of Portsmouth as a military port dates back to the Middle Ages. Since then all sorts of things have ended up on the

Dredging work by the trailing suction hopper dredger Shoalway in the port of Portsmouth.

seabed: from cannons and cannonballs to anchors and ship parts. On top of all that, large numbers of German sea mines were placed in the Solent strait during the Second World War and approximately 40,000 bombs were dropped. The entire area had to be inspected and cleared to prevent risks and delays in the dredging work. We were working with colleagues from Boskalis Hirdes, which specializes in the detection and clearance of UXO."

## ADVANCED SURVEYS

The inspection of the port began in November 2015. About 800 objects were detected using traditional survey techniques such as side-scan sonar and magnetometer survey. A crane vessel then brought the objects to the surface. "We, however, also unintentionally retrieved a German sea mine with 700 kilograms of explosives," said Van den Bosch. "It was made of aluminum and so it escaped detection by our equipment. Sea mines can still explode and we therefore switched to an advanced survey technique known as Sub-Tem that is also used to detect non-ferrous metals. This technology was developed for use on land, but we adapted it for use underwater. It worked perfectly. More than 12,000 different objects – weighing in total more than 1,100 tons – were removed from the seabed."

## RISKS

"Given the risks, our NINA safety program played a leading role on this project," Van den Bosch continued. "Portsmouth is a busy port with a lot of leisure shipping. To keep the public at bay, the Smit Stour was put on patrol. We worked with a team of certified UXO divers who didn't start to work until we were certain they were not exposed to any danger." A light-sensitive underwater camera was fitted to the grab of a pontoon's crane to obtain a clear picture of the objects on the seabed. A pump was also fitted to the grab that was used like a vacuum cleaner to carefully remove the sand from around obstructions, which could be a torpedo, bomb or sea mine. That process was monitored with the camera. "The UXO divers came into action only if we couldn't make a clear assessment of the object on the seabed with the camera," Van den Bosch added. "If the divers believed that the object was indeed UXO, then it was removed and disposed of by the Royal Navy's own UXO divers. We also found all sorts of other objects that could disrupt the dredging work, such as anchors and big bundles of twisted steel cables."

## LAYER BY LAYER

The dredging work was done layer by layer. "The Sub-Tem surveys allowed us to inspect the seabed to a depth of two meters," Van den Bosch explained. "We repeatedly conducted intensive investigations of the area to make sure we didn't miss anything. Then we removed the objects we found and dredged out that layer of soil before investigating the next layer. It was a time-consuming approach but the number of objects found dropped as we removed more material and then things started to speed up." More than 80 Boskalis colleagues were at work in Portsmouth, which is now ready for the arrival of the aircraft carriers in 2017.

# REPORT OF THE SUPERVISORY BOARD

Construction of the Marker Wadden nature restoration project in the Netherlands.


Boskalis
Boskalis

# REPORT OF THE SUPERVISORY BOARD

**The Supervisory Board wishes to thank all employees and the Board of Management of Boskalis for the great efforts they have shown in 2016, especially considering the current market conditions.**



In accordance with Article 26 of the Articles of Association of Royal Boskalis Westminster N.V., the Supervisory Board presents the 2016 annual report to the Annual General Meeting of Shareholders. The annual report, including the report of the Board of Management, the statement of directors' responsibilities and the financial statements, was drawn up by the Board of Management. The financial statements are accompanied by the report of the company's external auditor Ernst & Young Accountants LLP, which is included on pages 132 to 136 of this report.

We recommend the following to the Annual General Meeting of Shareholders:
- The adoption of the financial statements, including the appropriation of profit or loss.
- The discharge of the members of the Board of Management in respect of their management activities during 2016.
- The discharge of the members of the Supervisory Board for their supervision of management during 2016.
- The distribution to shareholders of a dividend of EUR 1.00 per ordinary share to be paid in ordinary shares, unless the shareholder opts to receive a cash dividend.

## COMPOSITION OF THE BOARD OF MANAGEMENT

The Board of Management consisted of four members at the start of the 2016 reporting year. On 10 May 2016 Mr. Verhoeven has resigned his function as member of the Board of Management due to retirement. From that date onwards the Board of Management consists of three members. No further changes to the composition of the Board of Management occurred during the year under review.

## COMPOSITION OF THE SUPERVISORY BOARD

At the start of 2016 the Supervisory Board consisted of six members. At the Extraordinary General Meeting of Shareholders on 10 November 2016, the Extraordinary General Meeting of Shareholders considered the appointment of Ms. I. Haaijer on the recommendation of the Supervisory Board. Supported by the Works Council, the Extraordinary General Meeting of Shareholders appointed Ms. Haaijer as member of the Supervisory Board for a period of four years. No further changes to the composition of the Supervisory Board occurred during the year under review. As from 10 November 2016 the Supervisory Board consists of seven members.

## ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board held five regular meetings with the Board of Management of the company and scheduled one additional meeting. The attendance rate at the meetings of the Supervisory Board is 100%. The Supervisory Board also met several times without the Board of Management being present and there was regular telephone and one-on-one contact between the chairman of the Supervisory Board and the chairman of the Board of Management. In two meetings one Supervisory Board member did not attend part of the discussions due to a potential conflict of interest. The Supervisory Board held its meetings to discuss the annual and half-year results in the presence of the external auditor, Ernst & Young Accountants LLP.

Permanent items on the agenda of the Supervisory Board are the development of the results, the balance sheet, the safety performance, and the industry and market developments.

Within the context of the market developments the order book and potential large projects as well as the status of important contracted projects were discussed. During the year under review subjects addressed included among others the impact of the low oil price and the continuing uncertain market conditions on the company. The Supervisory Board discussed the contracting of large projects such as the award of the Fehmarnbelt Tunnel project between Germany and Denmark, the additional work for the Porto Açu project in Brazil, the Duqm New Refinery project in Oman, the Texel and Houtrib dike projects in the Netherlands as well as the installation of subsea cables for the wind farm projects of Borssele I & II in the Netherlands and East Anglia in the United Kingdom, the decommissioning of the Viking and Vulcan oil platforms on the North Sea and the installation of foundations for the Aberdeen wind farm in the United Kingdom. The Supervisory Board also informed themselves on the execution of projects such as the installation of foundations for the Veja Mate and Wikinger wind farm projects in Germany, the transport of the FPU Likouf for the expansion of the Moho Nord oil field offshore Congo, the transport of two topsides and various platform modules from South Korea to the Clair oil field near the Shetland Islands in the United Kingdom.

Furthermore, the financial settlement effects of projects, which were already technically completed, such as the Suez Canal Expansion project in Egypt, were discussed. In discussing these projects the Supervisory Board devoted attention to the various operational, geopolitical, societal, environmental and financial risks, and, where applicable, judged provisions made by the Board of Management.

Other topics under scrutiny in 2016 included the corporate budget, liquidity, acquisition and investment/divestment proposals, the organizational structure and the staffing policies. Specific attention was paid to the company's policy on safety, health and the environment and the societal aspects of doing business.

The Supervisory Board received presentations by senior managers within the company to inform themselves on the developments in the areas of Logistical Management, Subsea Services and Salvage.

The Supervisory Board discussed in 2016 the amendment of the Articles of Association to cancel the voluntary large company regime as well as a reduction of the nominal share capital of Boskalis. The Extraordinary General Meeting of Shareholders adopted the proposals of the Supervisory Board thereto on 17 August 2016.

Attention was also paid to corporate social responsibility, with a comprehensive discussion by the Supervisory Board of the Boskalis Corporate Social Responsibility report. In 2016 the General Code of Business Conduct, the Supplier Code of Conduct and the Whistleblower Policy were revised due to new legislation. The Supervisory Board also addressed several times the policy and relevant developments in relation to anti-corruption and integrity.

The Supervisory Board examined the company's strategy and the risks associated with it. The development of the new Corporate Business Plan for the period 2017-2019 was extensively discussed.

The Audit Committee regularly assessed the structure and operation of the internal risk management and control systems associated with the strategy and discussed these with the Supervisory Board.
No significant changes to the internal risk management and control systems were made during the year under review. Further information about the company's risk management can be found on pages 49 to 54 of this annual report.

In 2016, the Supervisory Board gave consideration to the acquisition of the assets of STRABAG Wasserbau and the offshore activities of VolkerWessels, the sale of SMIT Amandla Marine in South Africa and Aannemingsbedrijf Markus B.V., as well as the establishment of the joint venture KOTUG SMIT Towage to operate harbor towage services in Germany, the Netherlands, Belgium and the United Kingdom.

Furthermore, considerable attention was paid by the Supervisory Board to the interest in Fugro N.V. Albeit that the activities of Fugro are consistent with the company's strategy and are a good fit with Boskalis' activities, it has been decided in December 2016 to sell down the holding in Fugro in steps, due to the continuing uncertain market conditions and the position of the Fugro management, which reduced the uncertainty in the Boskalis share.

During the year under review the share buy-back program proposed by the Board of Management to acquire its own shares in the company was also discussed by the Supervisory Board. The decision was taken to suspend the share buy-back program in light of the changed market conditions for an indefinite period of time.

The Supervisory Board paid a working visit to Portsmouth in the United Kingdom during the year under review. During this visit the Supervisory Board familiarized itself with the activities of the various Boskalis business units in the United Kingdom operating in the areas of dredging and infrastructure, wind farm construction and ordnance clearance. In the course of doing so extensive attention was paid to the market trends and possible new projects in the region. In addition, the Supervisory Board visited the Portsmouth dredging project aimed at widening and deepening the port and the entrance channel to prepare for the berthing of two new aircraft carriers.

A number of Supervisory Board members met with the Works Council to discuss the results, the corporate strategy, the market developments, the fleet rationalization program and the reduction of related workforce, the establishment of the proposed joint venture with KOTUG and the stake in Fugro.

The Supervisory Board has three core committees – the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee. The committees performed their tasks as follows:

## AUDIT COMMITTEE

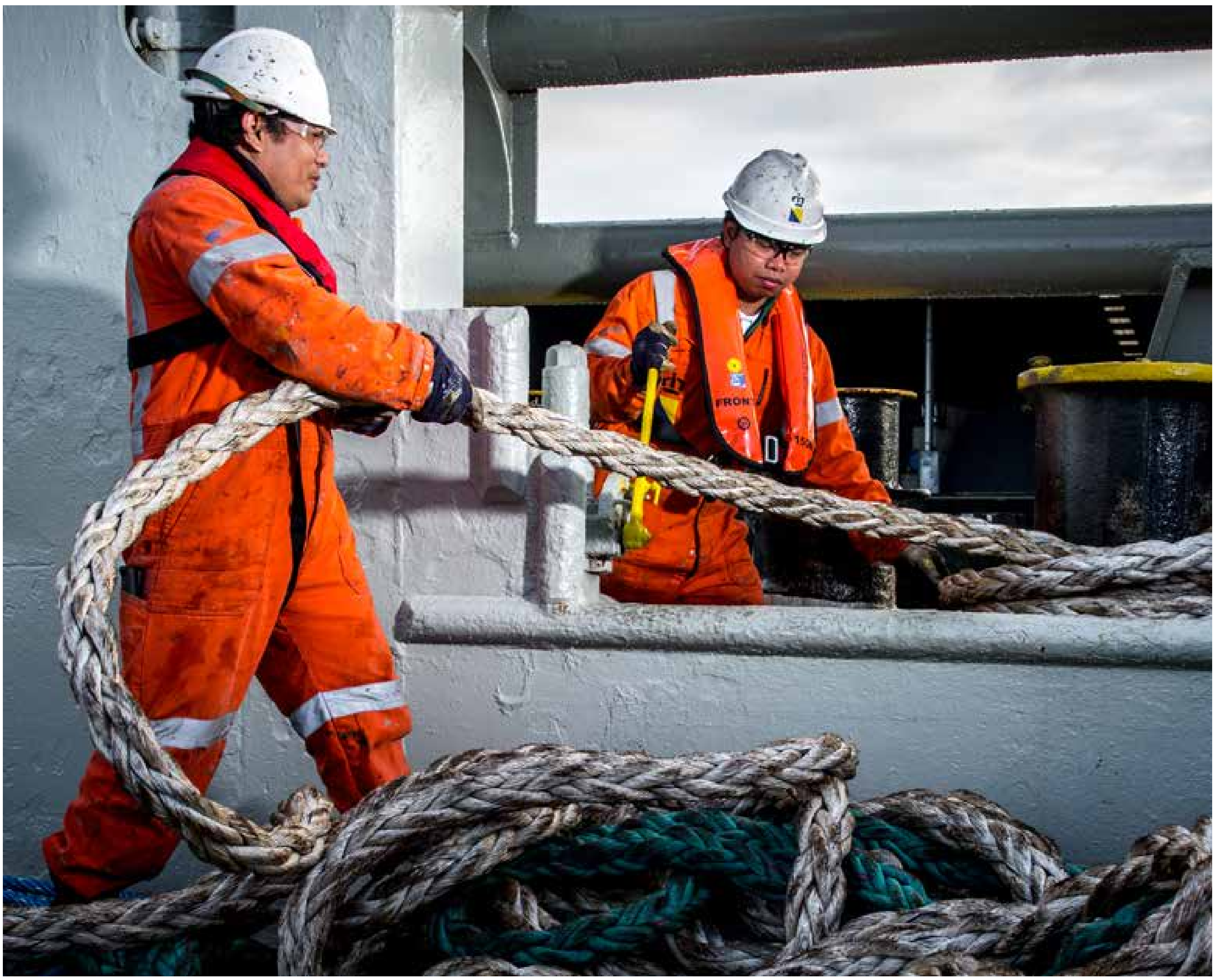
**Members of the Audit Committee**

At the beginning of the year under review the Audit Committee consisted of three members: Mr. Niggebrugge (chairman), Mr. Van Wiechen and Mr. Van der Veer. On 10 November 2016 Mr. Van der Veer stepped down as a member of the Audit Committee, and was succeeded by Ms. Haaijer. Mr. Niggebrugge fulfills the role of financial expert in the Audit Committee.

**Duties and responsibilities of the Audit Committee**

The main duties of the Audit Committee are to advise the Supervisory Board on:

- Supervising, monitoring and advising the Board of Management concerning the operation of the internal risk management and control systems, including the supervision of compliance with the relevant legislation and regulations, and supervision of the operation of the codes of conduct.



- Supervising the provision of financial information by the company, the tax planning, the application of information, communication and communication technology, and the financing of the company.
- Maintaining regular contacts and supervising the relationship with the external auditor as well as the compliance with and implementation of the external auditor's recommendations.
- Nominating an external auditor for appointment by the General Meeting of Shareholders.
- The financial statements, the annual budget and significant capital investments by the company.
- Supervising the functioning of the internal audit function.

**Activities during 2016**
The Audit Committee met in full on three occasions during 2016. Regular topics discussed during these meetings included: the 2015 financial statements, the (interim) financial reporting for the 2016 financial year, the results relating to large projects and operating activities, developments in IFRS regulations, risk management and control, developments in the order book, cost control, share price developments, and the financing and liquidity of the company.

Other topics of discussion included the impact of the situation on the financial markets, insurance matters, the company's tax position and relevant tax developments, the internal control procedures and administrative organization, the relevant legislation and regulations and the Corporate Governance Code. The follow-up of the Management Letter issued by the external auditor as part of the audit of the 2015 financial statements was also discussed.

In addition, the Audit Committee focused more specifically on the recognition in the accounts of the stake in Fugro N.V., the acquisitions of the assets of STRABAG Wasserbau and the offshore activities of VolkerWessels and the divestments related to the joint venture KOTUG SMIT Towage and SMIT Amandla Marine.

Furthermore, attention was paid to the progress of the projects aimed at the further strengthening and integration of the accounting and reporting systems within the group as well as the management of internal financial processes and the ICT systems.

The Audit Committee also addressed the information security within the company as well as a new procedure to prevent data leaks.

In the Audit Committee the activities performed by the internal auditor during 2016 as well as the internal Audit Plan for 2017 have been discussed with the internal auditor. Other topics of discussion included a review of the scope of the internal audit function.

In addition to the chairman of the Board of Management and the Chief Financial Officer, the Group Controller and the external auditor were also present at the meetings of the Audit Committee.

During the year under review meetings were also held with the external auditor without the company's Board of Management being present. The Audit Committee discussed with the external auditor the audit fees as well as the audit approach. The Audit Committee also established the independence of the external auditor.

Reports and findings of the meetings of the Audit Committee were presented to the entire Supervisory Board.

## REMUNERATION COMMITTEE

**Members of the Remuneration Committee**
The Remuneration Committee consists of two members, with Mr. Van Woudenberg as chairman and Mr. Niggebrugge as a member. In the year under review no changes were made to this composition of the Remuneration Committee.

The Remuneration Committee regularly availed itself of the services of an independent remuneration adviser and has ascertained that this remuneration adviser does not provide advice to the members of the Board of Management.

**Duties and responsibilities of the Remuneration Committee**
The Remuneration Committee performs the following duties:

- Putting forward a proposal to the Supervisory Board with regard to the remuneration policy to be pursued for the Board of Management. The policy is submitted for approval to the General Meeting of Shareholders.
- Investigating whether the adopted remuneration policy is still up-to-date and proposing policy adjustments where necessary.
- Putting forward proposals to the Supervisory Board with regard to the remuneration of individual members of the Board of Management (this in accordance with the remuneration policy adopted by the General Meeting of Shareholders).
- Compiling the remuneration report on the remuneration policy pursued, subject to adoption by the Supervisory Board.

**Activities during 2016**
The Remuneration Committee met twice during 2016, with both members having attended each of the meetings. The Committee also held regular consultations outside these meetings.
Further details of the activities of the Remuneration Committee can be found in the Remuneration Report 2016 (www.boskalis.com).

Reports and findings of the meetings of the Remuneration Committee were presented to the entire Supervisory Board.

**Remuneration policy for the Board of Management**
The remuneration policy for the Board of Management was adopted by the Extraordinary General Meeting of Shareholders on 21 January 2011. The remuneration policy is consistent with the strategy and core values of Boskalis, which are centered on long-term orientation and continuity and take into account the interests of Boskalis' shareholders, clients, employees as well as the 'wider environment'. In 2016 the remuneration policy was applied in accordance with the remuneration policy as last adopted by the Extraordinary General Meeting of Shareholders on 21 January 2011. The full text of the remuneration policy can be found on the Boskalis website.

**Remuneration policy for the Supervisory Board**
The remuneration policy for the Supervisory Board was adopted by the General Meeting of Shareholders on 10 May 2012. In 2016 the remuneration was applied in accordance with the remuneration policy as adopted.

## SELECTION AND APPOINTMENT COMMITTEE

**Members of the Selection and Appointment Committee**
Early 2016 the Selection and Appointment Committee consisted of two members, with Mr. Hessels acting as chairman and Mr. Van Wiechen as member of this committee. On 10 November 2016 Mr. Van der Veer joined the Selection and Appointment Committee as member. At the end of 2016 the Selection and Appointment Committee consisted of three members.

**Duties and responsibilities of the Selection and Appointment Committee**
The duties of the Selection and Appointment Committee concern the following matters:
- Drawing up selection criteria and appointment procedures with respect to members of the Supervisory Board and members of the Board of Management of the company.
- Conducting a periodic assessment of the size and composition of the Supervisory Board and the Board of Management and drawing up the Profile.
- Conducting a periodic assessment of the functioning of individual members of the Supervisory Board and Board of Management and reporting thereon to the Supervisory Board.
- Proposing appointments and re-appointments.
- Supervising the policy of the Board of Management with respect to selection criteria and appointment procedures for the senior management of the company.

**Activities during 2016**
In 2016, the Selection and Appointment Committee held two meetings, whereby all members joined. In addition, the members consulted by telephone on several occasions. During the year under review, the Selection and Appointment Committee discussed the balanced composition and succession planning of the Board of Management and the composition and size of the Supervisory Board, bearing in mind the Profile and retirement rota. In that regard the Selection and Appointment Committee proposed to the Supervisory Board to increase the Supervisory Board from six to seven members. Therefore a vacancy in the Supervisory Board needed to be filled. The Supervisory Board simultaneously informed the shareholders and the Works Council of the resulting vacancy. The Selection and Appointment Committee, after a careful selection process, found Ms. I. Haaijer prepared to fill this vacancy. The Supervisory Board adopted this recommendation by the Selection and Appointment Committee and proposed to the Extraordinary General Meeting of Shareholders on 10 November 2016 that Ms. Haaijer be appointed for a period of four years until 2020 given her extensive management experience which she has gathered at a diverse group of international stock listed companies. This proposal was made in accordance with the law, the Articles of Association of the company and the Profile of the Supervisory Board. The recommendation to appoint Ms. Haaijer had the full support of the Works Council. The Extraordinary General Meeting of Shareholders appointed on 10 November 2016 Ms. Haaijer for a period of four years until 2020.

The company arranged an induction program for Ms. Haaijer in January 2017.

In the year under review no appointments or re-appointments were due for the Board of Management.

Reports and findings of the meetings of the Selection and Appointment Committee were presented to the entire Supervisory Board.

## DUTCH CORPORATE GOVERNANCE CODE

Since the introduction of the Dutch Corporate Governance Code (the "Code") in 2004, the principles of proper corporate governance and best practice provisions set out in the Code have regularly been discussed at Supervisory Board meetings. The principal points of the Boskalis Corporate Governance policy can be found on pages 58 and 59 of this annual report.

In the opinion of the Supervisory Board, the provisions of the Code regarding the independence of the members of the Supervisory Board have been complied with.

The Supervisory Board considers Mr. Van Wiechen not to be independent in light of the Code, due to the fact that he fulfills the position of director at HAL Investments B.V., which company holds as at 31 December 2016 a major interest of 35.45% in the share capital of Boskalis.

Outside the presence of the Board of Management the Supervisory Board discussed the performance of the Board of Management. It also discussed the performance of the Supervisory Board, the chairman of the Supervisory Board, the three committees and the individual members of the Supervisory Board as compared to the Profile. This evaluation was conducted by means of a questionnaire as well as through collective and bilateral discussions between the members of the Supervisory Board, the chairman of the Supervisory Board and the chairman of the Board of Management. In its opinion the Supervisory Board is functioning well.

The Supervisory Board wishes to thank the employees and the Board of Management of Boskalis for the great efforts they have shown in 2016, especially considering the current market conditions.

Papendrecht / Sliedrecht, 7 March 2017

Supervisory Board

Mr. J.M. Hessels, chairman
Mr. H.J. Hazewinkel, deputy chairman
Ms. I. Haaijer
Mr. M. Niggebrugge
Mr. J. van der Veer
Mr. J.N. van Wiechen
Mr. C. van Woudenberg


32M
31M
30M
29M
28M
27M
26M
25M
24M
23M
22M
21M

# MULTIFUNCTIONAL F3000: COMBINING LIFTING CAPACITY WITH DECK SPACE

**The coming years will see a growing number of wind farms being built in deep water. A unique transport and installation crane vessel, due to enter service at the end of 2017, will give Boskalis a valuable asset in this market. The existing Dockwise heavy transport vessel Finesse is currently being converted for this purpose and will be deployed on the Hornsea Project One offshore wind farm project which was acquired in 2016. However, the multifunctional vessel will also be well suited for deployment on oil and gas installation work, decommissioning tasks and wreck removals.**

"With this vessel we are anticipating two trends in the market for renewables and offshore projects: demand for lower costs and fast turnaround times. The new vessel checks both these boxes," said Pim Nelemans, director of Design, Tendering & Engineering at the Boskalis Offshore Energy division. The Finesse will be equipped with a 3,000 ton rotating mast crane, dynamic positioning (DP2), a helicopter deck and additional accommodation for up to 150 people. "The combination of the high lifting capacity with a huge deck area of 165 by 43 meters is unique," said Nelemans. "Wind farms are being built further and further offshore mainly using jack-up vessels, whose legs have to be positioned on the seabed. However, these vessels are limited to a water depth of several tens of meters, which is exactly why we have opted for this 'floating' solution. We expect that this will also allow us to offer a more cost-effective alternative."

Artist's impression of the F3000 carrying monopile foundations and transition pieces for an offshore wind farm.

## LOGISTIC ADVANTAGES

The deployment of floating sheerleg cranes and jack-up vessels for the construction of offshore wind farms makes for very complex logistics. Constant trips back and forth using tugs and barges are needed to deliver the jackets or monopiles for installation. "The advantage of the F3000 is that it allows us to position and transport a large number of jackets or monopiles on the 6,500-square meter deck. Two 7.5 MW Rolls-Royce engines enable the vessel to reach a speed of 12 knots. After arrival at the location, installation work can start immediately, without having to wait for the time-consuming process of extending the legs of a jack-up vessel. Fewer transport movements are required, resulting in huge logistic benefits. Moreover, it results in a sharp reduction in fuel consumption and carbon emissions, a factor that is increasingly important to many clients. Another big advantage is that the DP2 system enables us to reposition the vessel quickly. Compared to jack-up vessels the F3000 will also be deployable in less favorable wave conditions, resulting in time savings, good workability and a predictable operating process. The helicopter deck means that offshore work can continue uninterrupted during crew changeovers," said Nelemans.

## HORNSEA PROJECT ONE OFFSHORE WIND FARM

Boskalis will deploy the F3000 for the transport and installation of the foundations for part of the Hornsea Project One offshore wind farm, which is being built 120 kilometers off the coast of Yorkshire, UK. Execution of the contract, which was awarded to Boskalis by DONG Energy Wind Power A/S in 2016, will start in the second half of 2018. "Before then we expect to be able to deploy the vessel on other projects," said Nelemans. "The Hornsea project was a major factor in our investment decision. We were in talks with DONG for quite some time about the possibility of using a large transport and installation crane vessel for the transport and installation of the foundations on this project. Gradually everyone became more and more convinced of the economic benefits of this concept."

## INSTALLATION, DECOMMISSIONING AND SALVAGE WORK

The F3000 is also ideally suited for the installation of topsides and jackets as well as decommissioning activities, such as the dismantling and immediate removal of existing oil and gas installations or obsolete wind farms. "We also expect to deploy the vessel on subsea and salvage work," said Nelemans. "The spacious accommodation means that we are able to house a large number of specialists, such as divers and welders."

## F3000 SPECIFICATIONS

| | |
|---|---|
| Crane lifting capacity: | 3,000 tons |
| Available deck space: | 6,500 m$^2$ |
| Total installed power: | 25 MW |
| Transit speed: | 12 knots |
| Dynamic positioning: | Kongsberg DP2 |
| Accommodation: | 150 people |

# REPORT OF THE BOARD OF MANAGEMENT


Installation of the 4,200 ton Thien Ung platform topside by the sheerleg crane Asian Hercules III offshore Vietnam.

# FINANCIAL PERFORMANCE

Royal Boskalis Westminster N.V. achieved a net profit, adjusted for the EUR 840 million impairment charges net of taxes, of EUR 276 million in 2016, in line with expectations. Including impairment charges the company reported a net loss of EUR 564 million (2015: net profit of EUR 440 million).

Revenue declined by 20 per cent to EUR 2.60 billion (2015: EUR 3.24 billion). Adjusted for consolidation, deconsolidation and currency effects, revenue was down 26 per cent.

EBITDA amounted to EUR 660 million and the operating result was EUR 385 million, both adjusted for impairment charges (2015 EBITDA: EUR 885 million and operating result: EUR 577 million).

Given that 2015 was still an exceptionally good year with strong fleet utilization rates and outstanding project margins the transition to and contrast with 2016 was equally exceptionally large.

Dredging & Inland Infra had a quiet year. The sharp decline in revenue was partly due to a very busy 2015 with the execution of the Suez Canal project, but also reflects the conditions in the market. Moreover, revenue and fleet utilization were negatively impacted by the suspension of work on the Pluit project in Indonesia. The results on projects in progress were reasonable.

Revenue rose at Offshore Energy due to the addition of the offshore activities acquired from VolkerWessels. These activities also made a good contribution to the result. The remaining activities made a reasonable to good contribution despite the deteriorated market conditions.

Towage & Salvage reported a lower result compared to the previous year, partly as a result of deconsolidation effects at Towage. Salvage had a good but very quiet year.

The order book increased to EUR 2.92 billion (end-2015: EUR 2.49 billion).


Dredging work by the world's largest and most efficient backhoe dredger Magnor.

## OPERATIONAL AND FINANCIAL DEVELOPMENTS

As a result of the strongly deteriorated market conditions and outlook in the offshore energy sector, non-cash impairment charges of in total EUR 842.6 million, including those within joint ventures, have substantially impacted the Boskalis 2016 annual result. For comparison purposes the operating result, share in result joint ventures and associates and EBITDA, as well as the divisional results have where applicable been adjusted for impairment charges. Excluding the after tax impairment charges of EUR 840.1 million, the 2016 net profit amounts to EUR 276.4 million. The dividend proposed for 2016 has been based on this adjusted net profit.

### REVENUE

During the past year revenue decreased by 20% to EUR 2.596 billion (2015: EUR 3.240 billion). Following a very busy 2015, organic revenue declined in all three divisions, mainly as a result of the prevailing market conditions. Adjusted for consolidation, deconsolidation and currency effects, revenue declined by 26%.

In line with the first half of 2016 Dredging & Inland Infra also had a quiet second half. The sharp decline in revenue compared to the previous year was partly due to a very strong 2015, with the completion of the Suez Canal project, but it was also a reflection of market conditions. Furthermore, revenue and fleet utilization levels were adversely affected by the suspension of work on the Pluit project in Indonesia.

The Offshore Energy segment reported an increase in revenue, which was fully attributable to the acquisition of the VolkerWessels offshore activities. Adjusted for this acquisition and for the effects of the divestment of SMIT Amandla Marine, revenue was lower with 15%.

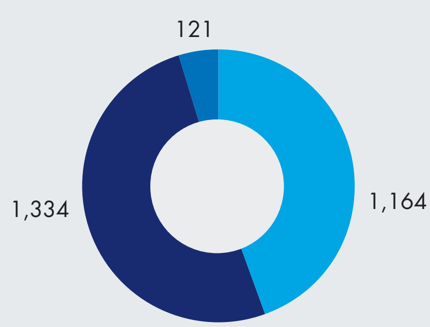
The revenue decline of the Towage & Salvage segment was partly attributable to the elimination of revenue from the European harbor towage services. Following the transfer of these activities at the start of the second quarter into the KOTUG SMIT Towage strategic joint venture, only our share in the net result is recognized from the second quarter onwards. Revenue at Salvage was lower due to a generally weak emergency response market and the absence of larger wreck removal projects. In 2015 two large wreck removal projects were executed.

### RESULT

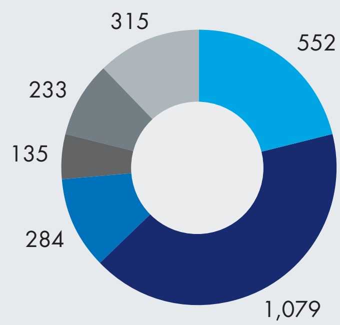
In 2016 the operating result before interest, taxes, depreciation, amortization and impairment charges (EBITDA) totaled EUR 660.5 million (2015: EUR 884.7 million). The EBITDA includes the contribution from our share in the net result of joint ventures and associated companies, adjusted for impairment charges taken within joint ventures.

The operating result fell 33%, to EUR 384.6 million (2015: EUR 577.3 million).

| REVENUE BY SEGMENT | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Dredging & Inland Infra | 1,164.5 | 1,727.2 |
| Offshore Energy | 1,333.7 | 1,233.4 |
| Towage & Salvage | 121.4 | 294.9 |
| Eliminations | -23.1 | -15.2 |
| **Total** | **2,596.3** | 3,240.3 |




| REVENUE BY GEOGRAPHICAL AREA | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| The Netherlands | 552.2 | 640.2 |
| Rest of Europe | 1,078.6 | 779.3 |
| Australia / Asia | 283.7 | 540.1 |
| Middle East | 134.6 | 250.5 |
| Africa | 232.6 | 615.3 |
| North and South America | 314.6 | 414.9 |
| **Total** | **2,596.3** | 3,240.3 |



The operating result includes our share in the net result of joint ventures and associated companies (adjusted for impairment charges), which amounted to EUR 11.3 million (2015: EUR 43.3 million). This decline was largely attributable to the results related to our investment in Fugro, which on balance amounted to EUR 30.1 million loss (2015: EUR 3.1 million loss).

After pre-tax impairment charges of EUR 842.6 million (2015: EUR 14.5 million), the EBIT amounted to a negative EUR 458.1 million (2015: positive EUR 562.8 million).

Within Dredging & Inland Infra, lower revenues and an associated decline in equipment utilization led to a lower result. The results on projects in progress or in the process of being completed were reasonable.

Offshore Energy achieved a still satisfactory result, despite worsened market conditions. This result was supported by a strong contribution from offshore wind projects, including the VolkerWessels activities that were acquired mid-2016.

Towage & Salvage closed the year with a lower result as a consequence of the deconsolidation of the European harbor towage activities, a lower result from several joint ventures and associated companies, and a lower level of activity of Salvage.

Non-allocated group income and expenses amounted to a positive EUR 6.5 million (2015: negative EUR 51.8 million). In addition to the usual non-allocated head office costs this included a book profit on the KOTUG SMIT transaction (EUR 34.0 million pretax), a book profit from the revaluation to fair value of our existing 50% share in VBMS (EUR 39.8 million) on acquiring the remaining 50% of VBMS, a book profit on the sale of SMIT Amandla Marine (EUR 8.3 million) and the results related to our investment in Fugro (EUR 30.1 million loss).

| RESULT BY SEGMENT (EBIT) | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Dredging & Inland Infra | **119.7** | 299.5 |
| Offshore Energy | **209.5** | 250.5 |
| Towage & Salvage | **48.8** | 79.1 |
| Non-allocated group income and expenses | **6.5** | -51.8 |
| Impairment charges | **-842.6** | -14.5 |
| **Total** | **-458.1** | 562.8 |

## NET PROFIT

EBIT was a negative EUR 458.1 million. Net financing expenses, including a non-recurring cost of EUR 40.3 million related to the early repayment of the 2010 US Private Placement, amounted to EUR 71.3 million, resulting in a pre-tax loss of EUR 529.4 million.

The net loss attributable to shareholders was EUR 563.7 million, compared to a profit of EUR 440.2 million in 2015.

For the purpose of determining the dividend, the net loss attributable to shareholders will be adjusted for the post-tax effect of impairment charges of EUR 840.1 million, resulting in an adjusted net profit of EUR 276.4 million.

## ORDER BOOK

In 2016 Boskalis acquired, on balance, EUR 2,543 million worth of new contracts, excluding the effects from acquisitions and divestments. At the end of the year the order book, excluding our share in the order books of joint ventures and associated companies, stood at EUR 2,924 million (end-2015: EUR 2,490 million).

| ORDER BOOK | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Dredging & Inland Infra | **1,892.5** | 1,506.9 |
| Offshore Energy | **1,023.9** | 975.2 |
| Towage & Salvage | **7.5** | 7.9 |
| **Total** | **2,923.9** | 2,490.0 |

## DREDGING & INLAND INFRA

*Construction, maintenance and deepening of ports and waterways, land reclamation, coastal defense and riverbank protection, underwater rock fragmentation and the extraction of minerals using dredging techniques. Construction of roads and railroads, bridges, aqueducts, viaducts and tunnels including earthmoving, soil improvement and remediation – mainly in the Netherlands.*

| DREDGING & INLAND INFRA | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Revenue | **1,164.5** | 1,727.2 |
| EBITDA | **223.0** | 400.4 |
| Net result from JVs and associates | **3.6** | 2.9 |
| Operating result* | **119.7** | 299.5 |
| Order book at year-end | **1,892.5** | 1,506.9 |

** Excluding impairments*

## REVENUE

Revenue in the Dredging & Inland Infra segment amounted to EUR 1,164 million (2015: EUR 1,727 million).

| REVENUE BY MARKET | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| The Netherlands | **465.9** | 455.2 |
| Rest of Europe | **272.7** | 287.9 |
| Rest of the world | **425.9** | 984.1 |
| **Total** | **1,164.5** | 1,727.2 |

**The Netherlands**

In 2016 revenue in the Dutch market increased to EUR 465.9 million. Both the first and second half of the year saw a lot of work performed on various Room for the River projects. The SAAone project (A1-A6 motorway) and the Buitenring Parkstad Limburg projects also delivered a good contribution to revenue. The first phase of the construction of the Marker Wadden nature reserve island, commissioned by Dutch environmental organization Natuurmonumenten, in the Markermeer lake commenced in 2016.

Construction of the artificial island Punta Pacifica 2 in Panama.

**Rest of Europe**
Revenue in the rest of Europe amounted to EUR 272.7 million. In the home markets (Germany, the UK, Sweden and Finland) numerous smaller and medium-sized projects were executed on various port-related capital and maintenance projects, as well as dredging activities for various offshore wind farms. The largest project was the deepening of the approach channel and inner harbor area of Portsmouth harbor, in preparation for the arrival of two new aircraft carriers for the UK's Royal Navy.

**Rest of the world**
Outside of Europe revenue amounted to EUR 425.9 million. This was sharply down on the EUR 984.1 million reported for 2015, which was an exceptionally strong year, with a substantial contribution from the Suez Canal project. The decline in revenue was due to the absence of a similarly large project and a market characterized by pressure on volumes and delays, both in the award of new projects and in projects under execution. Activities related to the Pluit project in Jakarta Bay, Indonesia were suspended in early 2016, due to a dispute between the Indonesian authorities and the client and have yet to recommence. Countries where Boskalis was furthermore active include Singapore (Finger Pier I), South Korea (Incheon), Australia (Melbourne), Kuwait, Angola, Mexico (various port-related activities) and Panama (Punta Pacifica 2 artificial island).

## FLEET DEVELOPMENTS

Utilization of the hopper and cutter fleet was considerably lower than in the previous year, in line with the lower volume of work and as a result of repairs. The hopper fleet had an effective annual utilization rate of 27 weeks (2015: 43 weeks), with the cutter fleet utilization rate at 9 weeks (2015: 34 weeks).

In light of market conditions and after completion of its fleet rationalization study, Boskalis announced at the start of July that ten dredging vessels would be taken out of service in the 2016-2018 period. These include trailing suction hopper dredgers and cutter suction dredgers. The fleet rationalization will be implemented through the scrapping, sale and/or lay-up of vessels. Five of the ten vessels have been scrapped or sold.

## SEGMENT RESULT

Dredging & Inland Infra achieved an EBITDA of EUR 223.0 million, with an operating result of EUR 119.7 million (2015: EUR 400.4 million and EUR 299.5 million, respectively).

Given the increasingly challenging market the results from dredging projects were reasonable. The result was negatively impacted by the considerably lower fleet utilization rate compared to the previous years. In addition, in 2016 there was a lower contribution from financial settlements on projects that were technically completed at an earlier stage, including former projects in Australia, Africa and the Middle East. Such settlements are not uncommon, although size and timing is unpredictable.

## ORDER BOOK

At the end of the year the order book stood at EUR 1,893 million (end-2015: EUR 1,507 million). Noteworthy projects include the dredging activities for the Fehmarnbelt tunnel between Germany and Denmark, the construction of artificial islands near Makassar (Indonesia), the deepening of Porto do Açu (Brazil), the construction of the Bremerhaven Offshore Terminal (Germany), the reinforcement of the Wadden Sea dike on the Dutch island of Texel and the reinforcement of the Wadden Sea dike between Eemshaven and Delfzijl (the Netherlands), as well as numerous medium-sized projects in the Netherlands. On balance EUR 1,522 million of new work was acquired during the course of the year.

After the close of the year Boskalis was awarded a large dredging project for the development of the port of Duqm (Oman) and a contract for the deepening of the port of Santos (Brazil). The new mega cutter Helios, which is due to be commissioned mid-2017, will be deployed on the Duqm project.

| ORDER BOOK BY MARKET | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| The Netherlands | **723.5** | 747.1 |
| Rest of Europe | **590.4** | 219.8 |
| Rest of the world | **578.6** | 540.0 |
| **Total** | **1,892.5** | 1,506.9 |

## OFFSHORE ENERGY

*Offshore dredging and rock installation projects, heavy transport, lift and installation work, diving and ROV services in support of the development, construction, maintenance and dismantling of oil and LNG import/export facilities, offshore platforms, pipelines and cables and offshore wind farms.*

| OFFSHORE ENERGY | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Revenue | **1,333.7** | 1,233.4 |
| EBITDA | **374.6** | 418.4 |
| Net result from JVs and associates | **2.2** | 7.0 |
| Operating result* | **209.5** | 250.5 |
| Order book at year-end | **1,023.9** | 975.2 |

** Excluding impairments*

### REVENUE

Revenue within the Offshore Energy segment increased to EUR 1,334 million (2015: EUR 1,233 million). The offshore activities acquired from VolkerWessels were fully consolidated as

from the beginning of the second half of the year. The revenue contribution of these activities was EUR 291 million, of which EUR 121 million was related to the 50% share of VolkerWessels in the Veja Mate and Wikinger offshore wind farm projects that were largely completed in 2016. The activities of SMIT Amandla Marine were deconsolidated with effect from 1 December, following the sale of our share in the company.

Marine Contracting, which includes Dockwise's long-term Heavy Marine Transport activities and the Transport & Installation projects, had a busy year. The two largest projects were the transport and installation of the foundations for offshore wind turbines for the Veja Mate and Wikinger projects. These projects were initially acquired in 50/50 joint venture with VolkerWessels but were completed on a 100% basis following the acquisition of the offshore activities of VolkerWessels. Other notable projects include the transport and installation of modules for the Hebron (Canada) and Clair Ridge (United Kingdom) offshore developments, the Thien Ung topside installation (Vietnam) and various FPU/FPSO projects (Moho Nord, Madura and East Hub).

Subsea Contracting had a quiet first half of the year, but in the second half the Gasco pipeline project was started in Abu Dhabi. Various rock installation works were executed for offshore wind projects, including the Veja Mate project.

Logistical Management gradually slowed down in 2016, following a number of very busy years. The number of transports declined as work on the Wheatstone and Ichthys projects in Australia was completed. In the second half year a number of transports were carried out for Yamal LNG in Russia.

Within Transport & Marine Services, the challenging market conditions are increasingly being felt. The high-end Dockwise vessels were well utilized throughout the year, albeit at lower rates, whilst the low-end heavy marine transport vessels and wet towage activities were most affected by lower demand and highly competitive rates. Utilization levels for the other equipment, including the floating sheerleg cranes and Giant barges, were reasonable to good, albeit at lower prices.

Market conditions for Subsea Services remained difficult, in particular on the North Sea, but despite competitive pressures the performance was good. In addition to deploying equipment on own offshore wind energy projects and ordnance clearance projects in Northwest Europe, Subsea Services saw a project for Dubai Petroleum extended and was involved in projects for Total, Maersk and ConocoPhilips.

## FLEET DEVELOPMENTS

In 2016 the Dockwise fleet achieved a utilization rate of 66% (2015: 76%). Two Type II closed stern vessels were laid up with effect from the end of 2016. In line with market conditions the utilization rate of the ocean-going tugs was low, with two of the five vessels laid up. The cable-laying vessels, Diving Support Vessels and the Rockpiper (fallpipe vessel) all saw good utilization levels.

In light of market conditions and after completion of its fleet rationalization study, Boskalis announced at the start of July that fourteen vessels would be taken out of service in the 2016-2018 period. These include anchor handling tugs, ocean-going tugs and heavy transport vessels. The fleet rationalization will be implemented through the scrapping, sale and/or lay-up of vessels. Six of the fourteen vessels have been scrapped or sold.

In order to respond to opportunities in the offshore installation market, Boskalis is converting an existing heavy transport vessel into a crane vessel. The Finesse, a Type II open stern heavy transport vessel, is being modified for this purpose and will be equipped with features including dynamic positioning, additional accommodation and a rotating mast crane with a lifting capacity of 3,000 tons. The combination of a large amount of deck space for transport and a large lifting capacity for the installation of foundations will provide Boskalis with a unique installation vessel. The vessel will also be deployable on transport and installation activities in the offshore wind sector, oil and gas industry, as well as on decommissioning and salvage projects. The vessel is expected to be ready for deployment from the end of 2017. For more information please refer to pages 28 and 29.

## SEGMENT RESULTS

In 2016 EBITDA for the Offshore Energy segment amounted to EUR 374.6 million, with an operating result of EUR 209.5 million (2015: EUR 418.4 million and EUR 250.5 million, respectively). The offshore activities acquired from VolkerWessels contributed EUR 30.4 million to EBITDA and EUR 24.9 million to the operating result.

The deteriorated market conditions in the oil and gas sector predominantly impacted results in the services business units, with the short-term wet towage and short-term Heavy Marine Transport activities under most pressure.

The segment result includes our share in the net result of joint ventures and associated companies, particularly VBMS for the period preceding the full acquisition, and Asian Lift. The contribution from these activities was EUR 2.2 million (2015: EUR 7.0 million). The Asian Lift joint venture in Singapore continues to be adversely affected by the decline in demand from the offshore sector and the resulting pressure on utilization and prices.

## ORDER BOOK

At the end of 2016 the order book, excluding our share in the order books of joint ventures and associates, stood at EUR 1,023.9 million (end-2015: EUR 975.2 million). The sale and deconsolidation of the SMIT Amandla Marine business resulted in EUR 80 million of revenue being removed from the backlog. The offshore activities acquired from VolkerWessels were added to the order book with effect from 1 July.

On balance EUR 950.6 million of new work was acquired during the year. Acquired projects included a gas pipeline trenching and backfilling contract in Abu Dhabi, transport contracts for the Johan Sverdrup oil field and the Yamal LNG project, a balance of plant contract for Aberdeen Offshore Wind Farm, the installation of foundations for Hornsea Offshore Wind Farm Project One and numerous cabling contracts for wind farms including Borssele Alpha. Boskalis will deploy its new 3,000 ton crane vessel on the Hornsea OWF Project One.

After the close of the year Boskalis was awarded the cabling contracts for the East Anglia ONE and EnBW Hohe See offshore wind farms.

## TOWAGE & SALVAGE

*Towage: towage services and berthing and unberthing of oceangoing vessels in ports and at offshore terminals, management and maintenance both above and below the surface of onshore and offshore oil and gas terminals and associated maritime and management services.*
*Salvage: providing assistance to vessels in distress, wreck removal, environmental care services and consultancy.*

| TOWAGE & SALVAGE | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Revenue | **121.4** | 294.9 |
| EBITDA* | **55.1** | 96.2 |
| Net result from JVs and associates* | **35.5** | 36.3 |
| Operating result* | **48.8** | 79.1 |
| Order book at year-end | **7.5** | 7.9 |

** Excluding impairments*

### REVENUE

Revenue within the Towage & Salvage segment declined to EUR 121.4 million (2015: EUR 294.9 million). The drop was largely due to the further implementation of the Towage strategy, aimed at transferring all the harbor towage activities to joint ventures. The joint venture with KOTUG, combining both partners' European harbor towage activities, became effective at the start of April. Consequently, the European harbor towage activities were deconsolidated from the start of the second quarter and from that date our share in the net result of the new KOTUG SMIT Towage joint venture is recognized under results from joint ventures and associated companies.

SMIT Salvage started the year with a number of impressive and successful emergency response assignments, such as rescuing a ro-ro carrier that had gone adrift in the Bay of Biscay, refloating a 19,000 TEU container ship on the Elbe River near the port of Hamburg in Germany and refloating a stranded oil rig off the coast of Scotland. After a busy start of the year, the remainder of the year was considerably weaker, as a result of a relatively low level of emergency response projects coming to the market. Contrary to the previous years, no major wreck removal projects were executed or added to the order portfolio. As a result, revenue at Salvage declined by around 50%.

### SEGMENT RESULT

EBITDA generated within the Towage & Salvage segment totaled EUR 55.1 million, with an operating result of EUR 48.8 million (2015: EUR 96.2 million and EUR 79.1 million, respectively).

The Salvage result was positively impacted by the financial settlement of salvage projects that were executed in previous years. Such settlements are a common part of the salvage business, but size and timing of settlements are unpredictable.

The segment result includes our share in the net result from joint ventures and associated companies, particularly Smit Lamnalco, Keppel Smit Towage, Saam Smit Towage and, as from the second quarter, KOTUG SMIT Towage. The contribution from these activities was EUR 35.5 million (2015: EUR 36.3 million). The contribution to the result from both Smit Lamnalco and Keppel Smit Towage stayed behind previous years, due to the difficult market conditions.

### ORDER BOOK

At end-2016 the order book, excluding our share in the order books of joint ventures and associated companies, stood at EUR 7.5 million (end-2015: EUR 7.9 million). The order book relates solely to the Salvage business unit.

## HOLDING AND ELIMINATIONS

*Non-allocated head office activities.*

| HOLDING AND ELIMINATIONS | 2016 | 2015 |
|---|---|---|
| (in EUR million) | | |
| Revenue | **-23.2** | -15.2 |
| EBITDA | **7.7** | -30.3 |
| Impact Fugro | **-30.1** | -3.4 |
| Net result from JVs and associates excluding Fugro | **0.0** | 0.3 |
| Operating result* | **6.5** | -51.8 |

** Excluding impairments*

### SEGMENT RESULT

The operating result mainly includes the usual non-allocated head office costs, as well as various non-allocated (in many cases non-recurring) income and expenses.

In accordance with IFRS the transfer of the SMIT Towage Northwest Europe activities into the joint venture with KOTUG must for accounting purposes be treated as a divestment transaction of group companies, followed by the acquisition of a 50% share in a joint venture. This divestment of SMIT Towage Northwest Europe resulted in a book profit of EUR 34.0 million before taxation and EUR 37.0 million after taxation.

In accordance with IFRS, the acquisition of the remaining 50% share in VBMS was treated for accounting purposes as a divestment of Boskalis' existing 50% share, followed by the acquisition of 100% of the shares of a new group company. The divestment of the 50% share resulted in a book profit of EUR 39.8 million.

Early December, Boskalis sold SMIT Amandla Marine. This transaction resulted in a EUR 8.3 million book profit.

Boskalis' share in Fugro is accounted for in the Holding and Eliminations segment. Up until 13 December 2016, when the shareholding was reduced to below 20%, Fugro was accounted for as an associate. As per 13 December, our 9.38% holding in Fugro is reported as a financial instrument. On balance, a negative result of EUR 30.1 million was recognized related to our investment in Fugro in 2016.

## OTHER FINANCIAL INFORMATION

### DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

As a result of the strongly deteriorated market conditions and outlook in the offshore energy sector, non-cash impairment charges of EUR 842.6 million pre-tax (EUR 840.1 million post tax), including those within joint ventures and associates, have been accounted for. These charges are almost entirely related to the services part of Boskalis' offshore oil and gas activities. Of the total amount, EUR 362.8 million is related to an impairment of vessels and EUR 382.3 million to an impairment of goodwill. The remaining amount of EUR 97.5 million was primarily related to associates and joint ventures, in particular Smit Lamnalco (EUR 89.2 million).

Depreciation and amortization amounted to EUR 277.2 million (2015: EUR 278.6 million). Impairment charges, excluding associates and joint ventures, amounted to EUR 748.5 million (2015: EUR 14.5 million, excluding the Fugro impairment charge).

Depreciation, amortization and impairments totaled EUR 1,025.7 million (2015: EUR 293.1 million, excluding the Fugro impairment charge).

### INCOME FROM JOINT VENTURES AND ASSOCIATES

Our share in the net result from joint ventures and associates was EUR 11.3 million, excluding impairment charges taken within the joint ventures (2015: EUR 43.3 million). This result relates mainly to our share in the net results of Smit Lamnalco, VBMS (first half year only), the Singapore partnerships with Keppel (Keppel Smit Towage, Maju Maritime and Asian Lift), Saam Smit Towage, KOTUG SMIT Towage (as from the second quarter) and Fugro (until 13 December). The decrease in our share of the net result from joint ventures and associates compared to 2015 is mainly caused by the net effect of the results related to our investment in Fugro (EUR 30.1 million). Our share in the net results including impairment charges within the joint ventures was EUR 82.9 million negative.

### TAX

The tax charge declined to EUR 32.4 million (2015: EUR 87.5 million). The effective tax rate, adjusted for impairment charges, was 11.1% (2015: 16.0%) and 17.0%, if adjusted for the net result from joint ventures and associates, the book profit on the KOTUG SMIT transaction, the book profit from the revaluation to fair value of our existing 50% share in VBMS and the book profit on the sale of SMIT Amandla Marine.


The ro-ro carrier Modern Express moored in the port of Bilbao, Spain following the successful salvage operation by SMIT Salvage in the Bay of Biscay.

## CAPITAL EXPENDITURE AND BALANCE SHEET

In 2016 a total amount of EUR 182.1 million was invested in property, plant and equipment (2015: EUR 230.4 million), excluding the vessels acquired by way of the acquisition of STRABAG Wasserbau and the VolkerWessels transaction. Within Dredging, the construction of the new mega cutter Helios is progressing well, with delivery expected mid-2017. In 2016 the jumbo backhoe dredger Magnor was taken into service. Investments within the Offshore Energy segment included the start of the construction of an offshore transport and installation crane vessel, for which a F-class heavy transport vessel is currently being converted. This vessel is expected to be commissioned late 2017.

In 2016 divestments were made totaling EUR 5.4 million.

Capital expenditure commitments at the end of the year were EUR 62 million (end-2015: EUR 108 million). These commitments relate to the aforementioned mega cutter Helios and the F-class crane vessel.

In 2016 Boskalis used EUR 55.8 million in cash for the dividends related to the 2015 financial year (2015: EUR 47.6 million) for those shareholders who opted to receive a cash dividend. This represented around 28% of the dividend, with the remaining 72% being distributed in the form of 4,449,790 new ordinary shares. As a consequence, the total number of outstanding ordinary Boskalis shares equaled 130,076,852 at the end of 2016.

The cash flow amounted to EUR 464.0 million (2015: EUR 765.4 million). The cash position at the end of the year was EUR 965.3 million (year-end 2015: EUR 793.7 million). The solvency ratio remained stable, at 56.1% (year-end 2015: 56.3%).

The interest-bearing debt totaled EUR 762.6 million at year-end. The resulting net cash position was therefore EUR 202.7 million, excluding cash held under assets held for sale. At the end of 2015 the gross and net debt position was EUR 963.0 million and EUR 169.3 million respectively.

The largest component of the interest-bearing gross debt position relates to US Private Placements (USPPs), including an accrued liability for the early repayment of the USPP 2010 (USD 433 million and GBP 11 million). In January 2017 Boskalis executed an early repayment of its USPP 2010 and repaid the outstanding amount in full, including an amount of EUR 30.0 million as 'make whole' payment to the investors for interest foregone and EUR 9.9 million costs from unwinding the associated cross currency swaps. This USPP loan was placed in 2010, with a tenor of 7, 10 and 12 years and was used for the partial financing of the acquisition of SMIT Internationale N.V. At repayment, the average coupon on the outstanding loans was 5.1%. The costs incurred for the make whole and unwind of the cross currency swaps are accounted for as a financial expense in 2016. Boskalis has a second USPP in USD, for an amount equivalent to EUR 308 million still outstanding, with a remaining term of six years.

Boskalis must comply with a number of covenants as agreed with the syndicate of banks and the USPP investors. These covenants were comfortably met as at end-2016. The main covenants relate to the net debt : EBITDA ratio, with a limit of 3, and the EBITDA : net interest ratio, with a minimum of 4. At 31 December 2016 the net debt : EBITDA ratio stood at -0.3 (net cash position) and the EBITDA : net interest ratio at 15.

## OTHER DEVELOPMENTS

### FUGRO

In 2016 Boskalis decreased its share in Fugro N.V., from 28.6% to 9.4%, through the sale of (certificates of) shares, with total cash proceeds of EUR 237 million. A large part of this reduction was achieved in December 2016 through an accelerated bookbuild via which 12.7 million (15%) certificates of shares in Fugro were placed with institutional investors at EUR 14.50 per share. As a consequence, under IFRS Boskalis is not deemed to have significant influence anymore and the remaining investment has therefore been reclassified as an available-for-sale financial asset. The book value of this investment at year-end was EUR 115.4 million (EUR 14.55 per share).

On 28 February 2017 Boskalis sold its remaining share in Fugro. This share was sold through an accelerated bookbuild via which 7.9 million (9.4%) certificates of shares in Fugro were placed with institutional investors at EUR 14.50 per share. The total proceeds amounted to EUR 115.0 million.

### VOLKERWESSELS OFFSHORE ACTIVITIES

The acquisition of the maritime and offshore wind energy-related activities of VolkerWessels was closed on 1 July. The acquisition concerns Stemat, VSI (Volker Stevin International) and the remaining shares in VBMS, a joint venture in which Boskalis already had a 50% share. The transaction price was EUR 180 million. Due to the cash position of the companies involved and as a result of the full consolidation of VBMS, the effect on the net debt position on the date of acquisition was limited to EUR 78 million. The activities are fully consolidated in Boskalis' financial statements from the third quarter.

## DIVIDEND PROPOSAL

In determining the dividend for 2016 it was decided to adjust the net result for the non-cash impairment charges.

The choice of dividend form (in cash and/or fully or partly in shares) takes into account the company's desired balance sheet structure as well as the interests and wishes of the shareholders. In light of this, the 2016 dividend will once again be distributed in a choice of cash or ordinary shares. In order to prevent the resulting dilution, the number of shares that will be issued in early June for this purpose will subsequently be repurchased.

Boskalis will propose to the General Meeting of Shareholders that a dividend of EUR 1.00 per share be distributed in the form of ordinary shares, unless the shareholder opts to receive a cash dividend (2015: EUR 1.60 per share).


GP Anti-Shock

# VBMS: EXCELLENT PROSPECTS FOR THE COMING YEARS


**Offshore cable-laying company VBMS became a 100% subsidiary of Boskalis in July 2016. In a short space of time the company evolved to become a leader in the European offshore cable market. Based on the credo 'We do what we promise' VBMS has built an excellent track record in recent years on projects in the areas of offshore wind energy and the installation and maintenance of interconnectors for the oil and gas market. In 2016 VBMS posted an 80% rise in revenue.**

"In the space of a few years we have grown to become a leading contractor of offshore cable-laying projects," said managing director Arno van Poppel. "Our strength lies in safe working practices and listening carefully to our clients. Our 300 employees take pride in contributing to the development of wind energy." VBMS deploys three state-of-the-art cable-laying vessels and innovative equipment developed in-house, such as the BSS-I and II burial tools and the Trenchformer, a specialized unmanned vehicle developed to lay and bury long interconnector and export cables in a single run. "By investing a lot of time in engineering and simulations we deliver all projects on time and within budget. We owe our success to the fact that we do what we promise," said Van Poppel.

Cable installation activities by the cable-laying vessel Ndurance.

## OFFSHORE WIND

VBMS generates 90% of its revenue from the offshore wind sector. "This sector has experienced massive growth in a short space of time," said Van Poppel. "When the first offshore wind farms were built, some ten years ago, the price of a megawatt hour exceeded 220 euros. On the Dutch Borssele III and IV wind farms, whose export cables will be installed by VBMS, the price has fallen to just 55 euros per megawatt hour. That means that the costs of wind energy have fallen by 75%." As a consequence Van Poppel expects that the time will come when the sector is no longer dependent on government subsidies.

## END-TO-END SOLUTIONS

In the offshore wind sector VBMS delivers end-to-end solutions for the electrical infrastructure of wind farms, both offshore and for the connection from offshore to onshore. In 2016 the company achieved a substantial 80% increase in revenue from projects including Sandbank, Nordergründe, Rampion, Galloper, Egmond, Aberdeen, Borssele and Blyth. And the order book is well filled for the next few years. "Offshore wind projects have a very long lead time," said Van Poppel. "We are already tendering for projects that will commence in 2024." In addition to the cable installation VBMS is increasingly taking responsibility for the entire process, in other words a 'grid-to-grid' connection. "Our expertise includes the supply of export and inter-array cables, the burial and connection of these and the realization of shore landings, including any directional drilling under dunes or dikes needed for the connection of the onshore and offshore cables."

## OTHER GROWTH MARKETS

VBMS is also active in other growth markets, including the installation of interconnectors: extensive cable systems that connect national electricity transmission systems. "It will take years to develop reliable methods for storing wind energy," said Van Poppel. "In the meantime the European electricity grids are being connected, enabling countries to supply each other power when the wind is blowing in one country but not in the other. As a result renewable energy is becoming increasingly reliable."
A second growth market is the oil and gas industry. Here, VBMS' activities include the installation and maintenance of seabed infrastructure, such as power cables, umbilicals and flexible flowlines. A new development concerns the electricity supply to existing offshore oil and gas platforms. "The somewhat older fields need a lot of energy to pump up the final remnants," said Van Poppel. "In light of this oil and gas companies are increasingly opting to equip these installations with electrical systems. This means that cables have to be installed, either from the shore or from a nearby wind farm. Transitional technologies like these offer excellent prospects for VBMS in the coming years."

## CRITICAL MASS

For VBMS the 100% takeover by Boskalis brings numerous benefits. "It gives us better access to an international network of clients and will enable us to carry on growing in both the renewables and oil and gas markets," said Van Poppel. "We need critical mass and a solid financial position in order to bring our services and total solutions to the market in a sustainable way and to mitigate risks. Being able to use Boskalis' longstanding knowledge and expertise and have access to its broad array of services and assets will enable us to further enhance the services we provide. For example, for Borssele I and II we teamed up with our colleagues at Boskalis to develop an appropriate and integrated approach. Without them we would not have won this tender."

# ORGANIZATIONAL DEVELOPMENTS

Construction of the Marker Wadden nature restoration project in the Netherlands.

## SAFETY

Safety is a core value and a top priority at our company. With the objective of No Injuries No Accidents (NINA), which is also the name of our safety program, we want our employees to return from work safely each day. Since the implementation of NINA six years ago safety awareness at Boskalis has increased significantly and, more importantly, has resulted in a decline of the Lost Time Injury Frequency (LTIF) by more than 85% during this period. NINA has become an inextricable part of our culture and generates a lot of positive energy throughout the company. Our clients increasingly see NINA as best practice, and our project partners enthusiastically participate in our interactive NINA training courses.

In 2016 the number of incidents per 200,000 hours worked resulting in absence from work (LTIF) remained stable at 0.08. As from 2015 we also report on Medical Treatment Cases and Restricted Work Cases to further improve our safety performance. By aiming for a reduction in all three categories (together known as TRIR - Total Recordable Injury Rate) we expect to achieve a further decline in the number of incidents resulting in injury. The TRIR declined from 0.70 in 2015 to 0.66 in 2016.

Prevention is a crucial part of safety awareness. Most accidents can be prevented if people are fully aware of the (potential) risks associated with the tasks at hand. In order to achieve a safer working place employees are encouraged to report dangerous situations using Safety Hazard Observation Cards (SHOCs). The number of SHOCs in 2016 was 7,354, with 703 near misses also being reported in the year under review. We view SHOC and near misses reports as a measure of the proactive safety culture within the organization. NINA encourages reporting of such situations, allowing us to make proactive adjustments.

Repeat incidents can be prevented by analyzing the causes. In line with our industry the list of most common incidents is headed by tripping, falling and slipping. The number of entrapment incidents is also relatively high, particularly with regard to hands and fingers. In an attempt to prevent these incidents from reoccurring we introduced the new Mooring Workbox and Safe Mind Workbox, which provide practical training methods and tools.

For detailed reporting on our safety policy and safety performance please refer to our CSR report.

## QUALITY MANAGEMENT

During 2016 we made great strides in developing a new uniform quality management system: the Boskalis Way of Working. The system is centered on an integrated business process and a uniform customer approach. The basic principle of the system is to keep quality as close as possible to the primary processes. The system is based on and will be implemented to complement existing processes, tools and certifications. The Boskalis Way of Working will be introduced across the company in the course of 2017.

## HUMAN CAPITAL

### DEVELOPMENTS IN 2016

In light of the strongly deteriorated market conditions a fleet rationalization study was conducted in the first half of 2016. Because these conditions are expected to persist in the coming years the decision was taken to adapt the size and composition of the Boskalis fleet. In the period up to mid-2018 a total of 24 vessels will be taken out of service: ten at Dredging and fourteen at Offshore Energy. As a result, around 650 jobs will be lost worldwide in this period, mostly involving crewmembers of the vessels concerned. At the end of the year under review more than 250 jobs had been discontinued. The timing of the remaining workforce reduction is partly dependent on factors including the current deployment of vessels and national legislation.

### TALENT MANAGEMENT

Our field of work is largely project-based, and knowledge and capital intensive. Talented, enterprising and highly skilled employees are the key to our success, which is why talent management plays a crucial role in the way we operate our business. Talent management encompasses all the activities we develop in the areas of recruitment, performance management, training and development, and compensation and benefits. All our efforts in these areas are aimed at ensuring the best possible match between our employees' skills and the qualifications needed to execute our business plan and our strategy.

### PERFORMANCE MANAGEMENT

An important part of developing talent consists of recording and supporting the personal development of our staff. In 2016, as part of our HR information system Workday, we started rolling out the performance management module, so that the entire performance management cycle is now conducted in a uniform and interactive way.

### TRAINING AND DEVELOPMENT

**Trainee programs for young talent**
As a leading international company that undertakes high-profile projects, we hold a great attraction for young people. We offer a trainee program for graduates with a technical or financial/economic background, who are further trained at our company under the supervision of a mentor. They are introduced to a wide range of our business activities and follow training modules to increase their knowledge and develop their personal skills. A group of 25 trainees is currently gaining experience on various projects in different teams within the divisions during three six-month periods.

**Young Professional programs**
In order to expand our knowledge and expertise, we attract experienced young professionals. In addition, we invest in developing the competencies of our own young professionals, for example in the areas of planning, calculation, risk management and contract management. Our training portfolio is constantly developing so that we can continue to meet the needs in the market. In 2016 we once again selected a group of young professionals for the Boskalis Offshore Professional Program, which involves imparting knowledge specific to the offshore sector in modules based on actual Boskalis cases. In addition, a group of cost engineers continued their two-year post-graduate degree, combining their learning experiences with working practice. Boskalis also launched an ICT Young Professional program, in which a group of employees is taking part. The program is aimed at giving an impulse to the further professionalization of the ICT department.

**Management Development programs**
Leadership and personal development are a constant point of attention within the organization. Developing personal leadership, building an internal network and encouraging innovation and entrepreneurship are important core values in our management development programs. From February to December 2016, a group of experienced tender and sales managers of various nationalities participated in the Boskalis Contracting Academy. The aim of the Boskalis Contracting Academy is to create further awareness and common understanding of procedures, processes and approaches in relation to tender and sales management. In 2016 Boskalis started preparations for a new Boskalis Operational Development Program (BODP). This program is scheduled to start by the end of the first quarter of 2017. The BODP target group consists of fifteen to twenty project managers from the Dredging & Inland Infra, Offshore Energy and Salvage

divisions. The two main subjects of the program are: personal leadership and project management.

## FLEET DEVELOPMENTS

Boskalis makes targeted investments in the newbuild and renovation of vessels that are important to retaining or expanding its strong market position. At the same time obsolete vessels or those with limited prospects are taken out of service. As a result of the fleet rationalization program launched in mid-2016, that will be implemented over the course of two years, 24 vessels will be dismantled, sold or laid-up. The average age of the vessels earmarked for dismantling or sale is in excess of 30 years.

In 2016 the following developments took place:

**Dredging**

- In the first half of 2016 the world's biggest backhoe dredger Magnor was taken into service. With a total capacity of 4,100 kW the Magnor's bucket is capable of lifting up to 67,000 kilograms of dredged material.
- The newbuild water injection dredger Terra Plana joined the fleet in April 2016. The vessel is being deployed on projects such as port maintenance work.
- The new mega cutter Helios will be taken into service in 2017. With a total installed capacity of 23,700 kW and a pumping capacity of 15,600 kW, the Helios will be deployed on the Duqm port development project in Oman.
- 2016 saw the environmentally responsible dismantling of the 2,500 $m^3$ trailing suction hopper dredger Coronaut, 3,500 $m^3$ trailing suction hopper dredger Beachway and cutter suction dredger Jokra. The cutter suction dredger Orion was sold.

**Offshore**

- In 2016 the decision was taken to convert the Dockwise heavy transport vessel Finesse into a new transport and installation crane vessel. The vessel will be equipped with a rotating mast crane with a capacity of 3,000 tons, dynamic positioning (DP2) and accommodation for up to 150 people. The commissioning of the vessel is expected in late 2017. For more information please refer to pages 28 and 29.
- The conversion of the 21,000 ton oceangoing barge Giant 7 into a 600 ton crane vessel with accommodation for around 80 people was concluded early 2016. The Giant 7 was deployed on the Wikinger Offshore Windfarm project.
- Like its sister vessel Ndurance the multifunctional Ndeavor was fitted out as a fully-fledged cable-laying vessel in 2016 and deployed on projects contracted by Boskalis subsidiary VBMS.
- In early 2017 the offshore support vessel Smit Orca, the floating sheerleg crane Taklift 6 and the heavy transport vessel Tern were taken out of service to be dismantled. The heavy transport vessel Super Servant 3 was sold.

## RESEARCH AND DEVELOPMENT

### INNOVATION

Boskalis will continue to innovate and look for more efficient working methods. Innovation is an important way for us to continue to set ourselves apart. In the past year we worked on many innovations in various areas and applied for patents for no fewer than twelve innovations. A number of the patents relate to the development of methods for smarter dredging and more efficient maintenance. Examples include combining vessel operating data with maintenance databases, and using the results to fine-tune our maintenance programs and optimize equipment availability. A pilot project conducted with IHC and Wärtsilä is showing promising results with regard to reducing the cost of maintaining our vessels and optimizing the performance, availability and safety of the fleet. Another innovation in the field of dredging concerns monitoring the wear and tear on our pipelines, which will make our planning schedules and operations more reliable.

### LNG DUAL-FUEL HARBOR TUGS

With a large global fleet, Boskalis is constantly on the lookout for ways to reduce dependence on oil and reduce emissions. Boskalis contributes towards environmentally-friendly solutions for emissions with innovations in equipment, working methods, energy saving and fuels. Our extensive R&D program enables us to anticipate changes in national and international legislation and creates the right conditions for rapid implementation. In 2016 Boskalis joint ventures Keppel Smit Towage and Maju Maritime ordered two innovative LNG dual-fuel harbor tugs. This marks a breakthrough in realizing clean, environmentally-friendly harbor towage services in the port of Singapore as the tugs will run entirely on LNG. In light of this, the Maritime and Port Authority of Singapore awarded a grant under its LNG Bunkering Pilot Programme. The 65 ton bollard pull ASD tugs will be built by Keppel Singmarine in Singapore according to the shipyard's proprietary design and are expected to be delivered in 2018.

### INNOVATION ACCELERATOR

One initiative developed further in 2016 was Boskalis' participation in the Port Innovation Accelerator (PortXL). Boskalis is taking part in this initiative together with the Port of Rotterdam Authority, various internationally operating companies and the Erasmus University Centre for Entrepreneurship. The basic principle is to be in contact with young, dynamic companies and to streamline the ideas of start-ups looking for effective ways of bringing breakthrough technologies to the market. One innovation to emerge from this initiative is the incorporation of Virtual Reality (VR) into our design processes. An example of this is the design of the layout of the bridge of the mega cutter Helios. Thanks to VR technology the bridge could be designed in complete accordance with the wishes of the crew. The result is a tailor-made solution that contributes to the vessel's workability. Following on from this we are now also working with a start-up on examining the possibilities of using VR technology to develop training material.

### CONTRIBUTING TO THE CIRCULAR ECONOMY

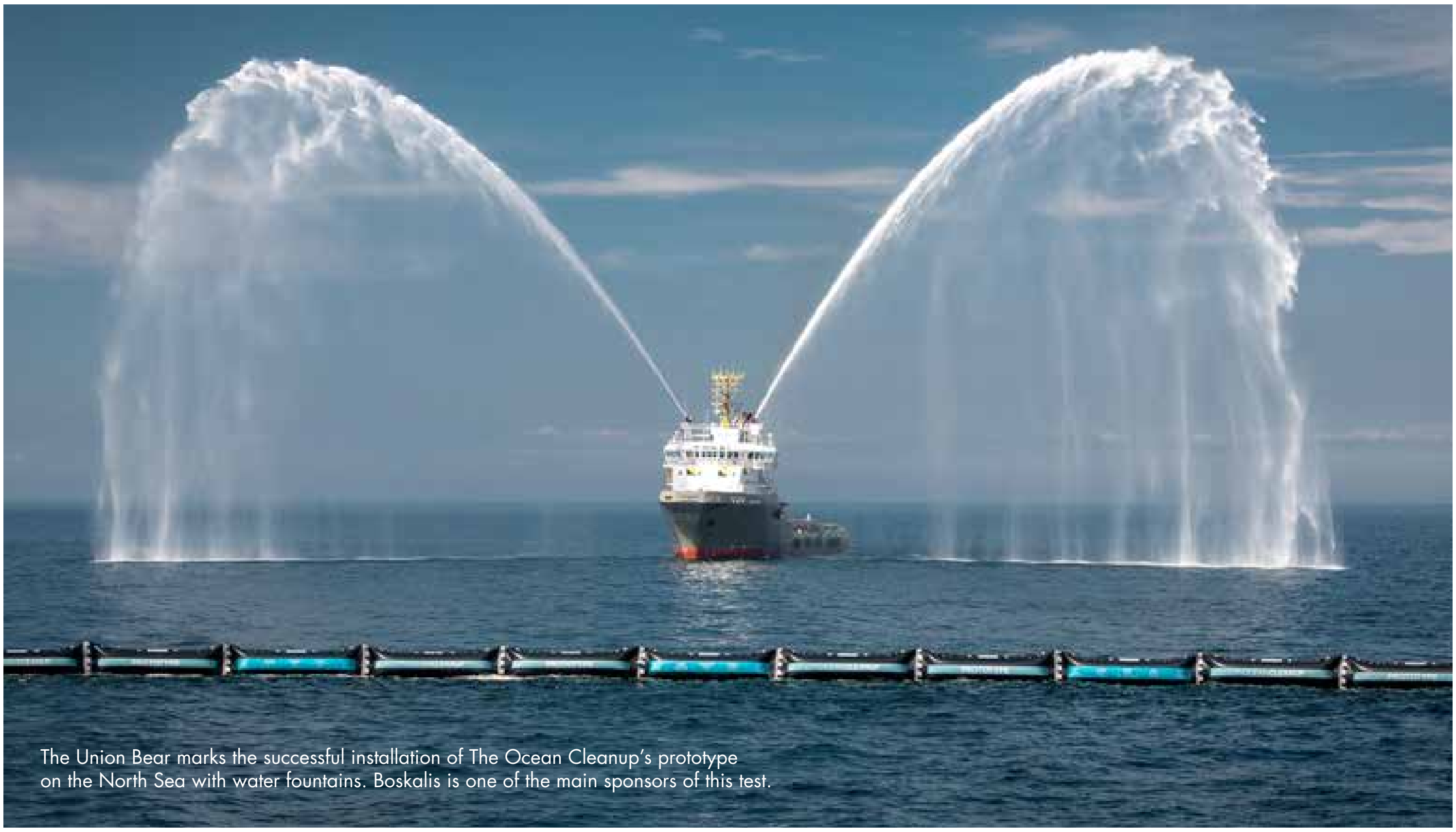
In 2015 we teamed up with HVC, the largest non-commercial waste collection company in the Netherlands, to build the first large-scale soil-washing plant in the world for washing incinerator bottom ash, the residue left after the incineration of domestic waste in Waste-to-Energy plants. Over the past few years, successful pilots have allowed us to demonstrate that clean bottom ash can be used as landfill to substitute sand as a building material in, for example, road and dike construction. The plant came on stream in the second half of 2016. Please refer to our CSR report for more information.

## ICT

In the past year we made great strides in rolling out the new Enterprise Resource Planning (ERP) system, which has led to better integration of our processes in the areas of finance, logistics and project management. In view of the different requirements for the Dredging & Inland Infra division on the one hand and Offshore Energy division on the other, ERP programs Infor LN and SAP are being used respectively. The new ERP system optimizes our planning and procurement methods and gives us an immediate overview of the administrative and financial processing of all our internal resources.

Furthermore, major steps were taken with the development of the Seacrew program, aimed at the planning of operational staff and crews. Within Dredging the program is also used to plan the work of the international operational pool including project managers. An online system offering digital courses and enabling online reporting of training results was developed for the Learning & Development department. In 2016 work also started on developing a new time registration system, which will be completed in 2017 within the framework of our ERP system.

The efficiency of our ICT infrastructure improved considerably in 2016 thanks to the organization-wide switch to cloud services. Switching to 'the cloud' brings considerable benefits to many aspects of our business operations. As well as providing greater flexibility in our ICT services it also guarantees better protection of our company data against cybercrime. Moreover it enhances the accessibility of our network and ICT applications worldwide.



The Union Bear marks the successful installation of The Ocean Cleanup's prototype on the North Sea with water fountains. Boskalis is one of the main sponsors of this test.

# CORPORATE SOCIAL RESPONSIBILITY

In our CSR report we account for material and relevant non-financial aspects of our performance arising from our strategy and core activities. We report in accordance with the international guidelines set out in the Global Reporting Initiative (version G4).

In 2015 we conducted our first materiality analysis, incorporating input from around 70 important stakeholders (investors and shareholders, employees, clients, suppliers and non-governmental organizations), which we updated in 2016. The analysis resulted in the following key and sub-topics that create focus in our CSR policy:

| KEY TOPICS | SUB-TOPICS |
|---|---|
| **IMPACT ON LOCAL COMMUNITIES**<br>Create positive value for both the local community and Boskalis, and avoid, mitigate or remedy (potential) adverse impact. | ▪ Environmental and social impact assessments<br>▪ Local workers and suppliers<br>▪ Community investment programs |
| **ENVIRONMENTAL IMPACT**<br>Be the distinguished provider of sustainable solutions and mitigate and where possible avoid (potential) adverse impact. Realization of at least one Building with Nature project a year. | ▪ Biodiversity and ecosystems<br>▪ Activities related to our fleet<br>▪ Climate change<br>▪ Contributing to the circular economy<br>▪ Emissions |
| **CARE FOR HUMAN CAPITAL**<br>Attract and retain talent by providing a safe work environment with the objective of No Injuries No Accidents (NINA) and by offering excellent career development opportunities. | ▪ Safety<br>▪ Talent management<br>▪ Labor practices<br>▪ Sustainable employability<br>▪ Diversity |
| **RESPONSIBLE BUSINESS CONDUCT**<br>Be a business partner that acts with integrity, reliability and responsibility towards stakeholders. | ▪ General business principles<br>▪ Supply chain management<br>▪ Corporate governance |

Since 2012 we have taken part in the Carbon Disclosure Project, a global reporting platform that makes information on emissions available to subscribed investors. In 2016 Boskalis Nederland once again obtained certification on the $CO_2$ Performance Ladder, achieving the highest level attainable (5).

For more information please refer to our CSR report 2016, which has been verified by an independent auditor and is available on the corporate website www.boskalis.com/csr.

# RISK MANAGEMENT

## STRATEGY AND BUSINESS DRIVERS

Boskalis' strategy is aimed at the opportunities and challenges that present themselves to the company. This strategy is based on three pillars: Focus, Optimize and Expand. A detailed description of the Boskalis strategy can be found in the Strategy section of this annual report.

A large number of our markets are currently heavily impacted by low prices for oil and other commodities and by stagnating growth in world trade. As a result, many of our clients are faced with the need to reduce cost and increase operating efficiencies. The lower demand combined with often increased capacity supply have put many markets under competitive pressure, in some cases very severe, generally resulting in strong buyers' markets. In addition to putting pressure on prices, this also has the effect of increasingly moving the burden of risk onto suppliers of services. Additionally, clients often require more integrated, innovative services or turnkey solutions. While this creates opportunities that are consistent with our strategy to provide value-added services, it goes hand-in-hand with an increased pressure to transfer the associated risks from the client to the provider of the services.

Particularly in the context of the above, effective management of both risks and opportunities is essential for the successful realization of the group's strategy and plans. The proper identification, assessment and management of risks and opportunities – notably with respect to tendering, preparation and execution of projects – is therefore an integral part of our management approach.

An overview of the key strategic, operational and financial risks as well as risks regarding financial reporting is set out below. Where possible, given the nature of our activities, we have stated what kinds of risks we are prepared to accept and for what kinds of risks we generally take mitigating measures.

## STRATEGIC AND MARKET RISKS

The Boskalis markets are heterogeneous and often develop disparately. Our main (end) customer groups are national, regional and local governments, or associated institutions such as port authorities, private port operators and major international oil and gas companies and wind energy companies (operators as well as contractors). Other customer types are (container) shipping companies, insurance companies, mining companies and (infrastructure and real estate) project developers.

Despite the positive long-term growth prospects for our markets they can be – certainly in the short and medium term – negatively impacted by factors outside our control. Such factors include for example general or regional geopolitical developments, such as energy policies, political unrest, piracy, government-imposed trade barriers and volatility in the energy and commodities markets. In recent years, in particular the latter has strongly manifested itself in terms of substantially lower energy and other commodity prices, which has impacted activity levels in particular in the oil and gas sector, as well as in countries which are dependent on this sector for income.

Boskalis aims to respond as effectively as possible to both positive and negative developments in individual markets, through a global spread of its activities, an extensive and versatile fleet operating out of various international locations, and strong positions in its core markets. Moreover, our activities are largely focused on the development, construction, installation and maintenance of infrastructure, which means that longer-term developments will generally outweigh short-term economic fluctuations.

Contracts are not included in our order book until agreement has been reached with the client. Although experience shows that once agreement has been reached, cancellations, postponements or substantial reductions in the scope or size of contracts are quite rare, they do occur, certainly in markets that are under severe pressure. Consequently, if such a cancellation or substantial reduction occurs, losses may arise from the unwinding or settlement of financial derivatives which were taken out to hedge related currency risks and/or fuel price risks, but for which the underlying transaction or cash flows will no longer be realized.

Boskalis deals with a variety of competitors in the various markets and submarkets in which it operates. Such competitors vary from large, internationally operating companies to more regional and local companies.

A large part of our revenue is derived from contracts awarded through public or private tender procedures, with competition often being predominately price-based. However, other factors – such as the assurance of adequate safety, social and environmental practices as well as the financial resilience of the contractor – are also regularly taken into consideration when awarding contracts. Proper decision-making processes have been put in place for the submission of tenders to ensure that the risks associated with the execution of a particular project are systematically identified and assessed.

Almost all Boskalis' activities are capital-intensive. This applies in particular to Dredging and the Transport & Services activities within Offshore Energy and means that prices in these sectors are largely influenced by the utilization rate of the relevant equipment at a given time. This implies that a broad international presence along with a leadership position in terms of type and quality of equipment and cost competitiveness are key success factors. Boskalis places a great deal of emphasis on these, both as a critical point of attention in operational management and in its capital allocation decisions. As a consequence, individual investment proposals are subjected to a thorough evaluation and approval process.

In the course of executing its strategy, Boskalis also regularly acquires companies. To achieve the anticipated results, Boskalis attaches great importance to integrating such acquisitions with care. Creating value for our stakeholders and retaining key personnel are important elements in this process.

## OPERATIONAL RISKS

### CONTRACTING AND EXECUTION RISKS

The main operational risks for Boskalis are related to the contracting and execution of projects. For most of our contracting activities the most common type of contract is fixed price/lump sum. Under this type of contract the contractor's price must take into account virtually all the operational risks as well as the (cost) risks associated with the procurement of materials and subcontractor services. In most cases, it is not possible to charge clients for any unforeseen costs. Furthermore, many contracts include milestones and associated penalty clauses for if the milestones are not achieved on time. That is why great emphasis is placed on identifying, analyzing and quantifying such delay risks and the associated operating costs during the tendering procedure and the preparation and execution phase of a project.

Operational risks mainly relate to variable weather or working conditions, technical suitability and availability of the equipment, unexpected soil and settlement conditions, wear and tear of equipment (especially dredging equipment), damage to third-party equipment and property, the performance of subcontractors and suppliers, and the timely availability of cargo or services provided by the client in case of heavy marine transport and/or installation activities.

The following measures are taken systematically to manage the aforementioned risks in the tender, preparation and/or execution phase of a contract:

- During the tendering procedure and the contracting phase of projects much emphasis is placed on identifying, analyzing and quantifying execution, costs and delay risks. Contracts are classified based on their size and risk profile. This classification determines the subsequent course of the tender procedure and the requirements for authorization of the tender price and conditions. Above a certain level of risk, tender commitments require authorization at Board of Management/Group Management level.
- In the preparation phase of a project tender and depending on the nature and risk classification of the project, we gain insight by conducting surveys and soil investigations, by consulting readily accessible databases containing historical data and by applying extensive risk analysis techniques. The results of the risk analysis are then used in the process of costing the project and in setting the commercial and contractual terms and conditions for the offer to be issued to the client.
- Risks related to price developments on the procurement elements of a project, such as costs of materials and services, sub-contracting costs and fuel prices, as well as the cost of labor, are all taken into account in calculating cost prices. Wherever possible, and especially on projects with a long execution time, cost indexation clauses are included in the contract terms and conditions, particularly regarding labor and fuel costs.
- When a contract is awarded, an updated risk analysis is part of the project preparation phase, based upon which measures are taken to mitigate the risks identified.
- In addition, much attention is devoted to the education and training of staff, appropriate project planning and project management, the execution and implementation of certified quality, safety and environmental systems, and the optimal maintenance of equipment.


Construction of a terminal in Lazaro Cardenas, Mexico.

Within the Towage & Salvage division, the towage activities are characterized by a broad geographical spread of the activities, which are conducted by autonomous strategic joint ventures with third parties. Towage contracts are often carried out under long-term contracts, with fees that are reviewed annually. This means that the risks in terms of local wage cost developments, fuel price developments and the available capacity of the equipment must be considered. Terminal services, which have been incorporated in the Smit Lamnalco strategic joint venture, are to a substantial extent performed under long-term contracts corresponding to the client's requirements and specifications. Most of these contracts include some form of price indexation.

Salvage activities relating to vessels in distress – Emergency Response – are often carried out under great time pressure and without an extensive tendering procedure and associated preparation activities. Such contracts are therefore often concluded based on the standard Lloyd's Open Form (LOF). This means that compensation is based on a valuation mechanism related to various factors, including the salvage value of the vessel and its cargo, the technical complexity of the salvage operation, environmental risks and the use of own equipment and subcontractors. This valuation results in a lump sum, which is finalized through negotiations with the client or through an arbitration process. Experience shows that the company is usually able to make a reasonably accurate estimate of this income. Should it transpire during a salvage operation that the final salvage fee may not be sufficient to cover the costs incurred, then the choice can be made to convert the LOF into a contract based on a daily hire fee, thus limiting the financial risks. Contracts for salvaging sunken vessels (wrecks) are usually carried out on a lump sum basis. The contracting and execution of such projects, which in many cases do involve a tendering procedure, are subject to the customary procedures for contracting and execution activities applicable within the company.

Some of the equipment within the Offshore Energy division, as well as in some of the strategic joint ventures, is chartered out for relatively short periods (spot markets), mainly subject to standard conditions. The depressed state of the oil and gas sector, which has reduced the volume of work under long-term contracts, has resulted in a growth of the share of the spot market activities. Although the operational risks involved in such activities are generally relatively limited, they do result in increased utilization and pricing risk, which we aim to mitigate through adequate capacity and strict cost control management.

### ENVIRONMENTAL AND SOCIAL RISKS

The nature of most of our activities means that we have an impact on society and the environment. In many cases this impact will be positive, for example when we are involved in creating infrastructure, making land safer or facilitating the transition to renewable energy sources such as offshore wind. However, a potential negative impact during the execution of projects cannot be ruled out. Environmental risks include the impact of turbidity on vulnerable ecosystems. Boskalis has developed the innovative Building with Nature program and has an in-house engineering department to address ecological aspects from the early tender stage through to monitoring during execution.

Social risks include the impact of projects on local communities. The extent to which our activities have a social impact is highly dependent on the type and/or location of a project. Where relevant, we implement a social impact program and work with our clients to mitigate the impact and where possible make a positive contribution to communities affected by our activities.

### ICT RISKS

Like most companies, Boskalis is faced with an increase in ICT security risks and more sophisticated levels of computer crime. Successful cyberattacks can result in significant costs as well as other negative consequences, such as loss of revenue, reputational damage, remediation costs and other liabilities to stakeholders. Furthermore, enhanced protection measures place additional financial and operational burdens on the business. To help mitigate these risks Boskalis has developed information security policies and practices based on the international Code of Practice for Information Security Management. During the year under review we intensified the monitoring of suspicious activity on our ICT infrastructure. Additionally, initiatives were taken to raise awareness of information security risks among our staff and prompt an appropriate response to any unusual activity.

### LOCAL WORKING CONDITIONS RISKS

Local management on projects and operations must have a proper understanding of the local (working) conditions. The scale of local operations is often too small to warrant a fully-fledged organization, complete with extensive support services and staff departments. This is addressed through regular visits by responsible managers and employees from the relevant business units and support from central staff departments at head office as well as external advisors.

## FINANCIAL RISKS

In conducting its business Boskalis is exposed to various kinds of non-operational financial risks. The most important of these are described in this section.

### POLITICAL AND CREDIT RISKS

These include risks related to unrest or disruption due to political developments and violence, and the risk of non-payment by clients. Boskalis operates strict acceptance, credit and hedging policies with respect to political and payment risks. Other than in the case of very strong, creditworthy clients with an undisputed credit history, all substantial credit risks are normally covered by means of credit insurance, bank guarantees and/or advance payments. Revenues and earnings are only recognized in the accounts where there is sufficient certainty that they will be realized.

### LIQUIDITY AND FUNDING RISKS

As is customary for a contractor Boskalis also has large amounts outstanding in the form of guarantees from banks and insurance companies, mainly in favor of clients. Given that the availability of sufficient credit and bank guarantee facilities is essential to the continuity of the business, Boskalis' funding policy is aimed at maintaining a solid financial position. Solid balance sheet ratios and the use of diversified sources of funding provide for ample capacity to absorb liquidity risks and the constant creation of adequate borrowing capacity and guarantee facilities. The company has ample credit and bank guarantee facilities at its disposal and operates well within the agreed covenants under its financing agreements.

## CURRENCY RISKS

The functional currency of Boskalis is the euro. A number of business units, especially in Heavy Marine Transport, as well as several substantial strategic joint ventures (Smit Lamnalco, Keppel Smit Towage, Asian Lift, Saam Smit Towage) use other functional currencies. The most important of these is the US dollar, followed by the Singapore dollar. Most of the revenues and expenses of these entities are largely or entirely based on these non-euro currencies. The holdings in these entities are viewed from a long-term perspective. Exchange rate risks related to these entities are not hedged as it is assumed that currency fluctuations and developments in interest rates and inflation will offset each other in the long term.

A large proportion of the activities of the group companies that have the euro as their functional currency are not contracted in euros. This particularly applies to the group companies that are involved in dredging and related projects. The costs of these entities, however, are largely based on the euro. Generally, the net cash flows in non-euro currencies within these entities are fully hedged upfront, usually by means of forward exchange contracts. The US dollar exchange rate in relation to the euro is particularly relevant in this context. A large proportion of the projects are contracted in US dollars or in currencies that are to a greater or lesser extent linked to the US dollar.

Most of our major international competitors in the dredging industry also have cost structures largely based on the euro. This implies that exchange rate fluctuations have no major impact on our relative competitive position. In several market segments, particularly in Offshore Energy, there is competition from parties whose cost structures are not based on the euro, meaning that the competitive impact of currency fluctuations in these market segments is greater. On balance, exchange rate fluctuations only have a limited impact on the company's competitive position in these activities.

## TAX RISKS

Because of the (constantly changing) mix of project and operational results in a large number of countries and entities, various kinds of taxes, such as income tax, wage tax, VAT and import duties, are assessed and then paid in various countries. Profits are attributed to countries where value is created in accordance with national and international rules and standards, which can be extremely complex. Knowledge in this area along with related compliance and application are embedded in procedures within the Fiscal Affairs function. In cases where insufficient knowledge is available in-house, external advisors are used.

## INTEREST RATE RISKS

Our long-term financial liabilities are predominantly based on fixed long-term interest rates, meaning that our exposure to interest rate fluctuations on these is limited.

## FUEL PRICE RISKS

In a substantial part of its activities, Boskalis is exposed to risks arising from changes in fuel prices. Fuel costs are hedged in a

Road construction work in the Netherlands.

number of different ways. Where possible, contracts include fuel price variation clauses. Also, contracts are sometimes based on fuel being supplied by the client. In other cases, where the fuel price presents a substantial risk, exposure can be hedged by means of financial instruments, such as forward contracts or fixed fuel supply contracts.

### DERIVATIVES

Financial derivatives are only used to hedge underlying currency risks, fuel cost risks or other risks where there is a physical underlying transaction. There is, however, a risk of losses arising from the unwinding or settlement of such financial derivatives due to cancellation of a contract or substantial reduction in the scope of a contract.

## OTHER RISKS

### COMPLIANCE WITH LEGISLATION AND REGULATIONS

As an international dredging and marine contracting and services expert Boskalis is active in numerous countries, and therefore has to deal with a wide range of diverse legislation and regulations. Some of the activities are managed by Boskalis local management, but in many countries intermediaries and/or local representatives are used in securing and executing projects. This combination of factors results in a heightened risk that relevant (local) legislation and regulations may not be fully complied with. Events of non-compliance can result in regulatory investigations, litigations and/or sanctions. These risks are as much as possible mitigated by the company's internal risk management and control systems, which are set out below. In addition, the company has a General Code of Business Conduct and a Supplier Code of Conduct, which are reviewed and evaluated regularly. Intermediaries and/or local representatives are also contractually bound to comply with our codes of conduct. Entering into contracts with local intermediaries and/or representatives is subject to clearly defined procedures. Furthermore, Boskalis has a whistleblower policy in place and a counselor to whom employees can report any suspected misconduct.

### PROPERTY DAMAGE AND THIRD-PARTY LIABILITIES

Boskalis has taken out a broad package of insurances to cover against risks with respect to damage to its properties as well as third-party properties and potential other third-party liabilities.

The above is an overview of what we currently consider to be the most important strategic, operational, financial and other risks we face in pursuing our business objectives. The overview is not exhaustive. There may be other risks which we currently do not consider to be significant, but which may manifest themselves as such.

## INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS

The internal risk management and control systems of Boskalis are based on the principles of effective management control at various levels in the organization and are tailored to the day-to-day working environment in which the company operates worldwide. One of the main foundations for risk control is the internal culture of the company, which is characterized by a high degree of transparency regarding the timely identification, evaluation and reporting of risks and a remuneration system that is geared to avoiding potentially perverse incentives.

Given the hands-on nature of the company and the short lines of communication, there are three important factors in assessing and evaluating our internal risk management and control systems:

1. In the daily operations, the operational risk management and control is largely supported by an extensive framework of quality assurance rules, procedures and systems, in particular regarding the acquisition and execution of contracts. These include guidelines for responsibilities, powers and risk control. The adequacy of this framework is reviewed regularly, also considering the increasing diversity of the contracting and project activities the company performs in accordance with its strategy. In addition to audits by external certification agencies, Boskalis also performs regular internal audits under the auspices of the SHE-Q department. SHE-Q is discussed at the quarterly meetings between the Board of Management and the management of the business units, with the management of the SHE-Q department also being present.
2. The daily management of the organization is based on short lines of communication and command. Speed, know-how and decisiveness are of the essence, both in the tendering phase and in project execution. Daily management is hands-on.
3. The progress and development of the operating results and the financial position of individual projects and business units and the company as a whole, as well as the operational and financial risks, are monitored by means of structured periodical reporting, analysis of the financial results and performance reviews at Board of Management and senior management levels.

## RISKS WITH REGARD TO FINANCIAL REPORTING

### FINANCIAL REPORTING STRUCTURE

Financial reporting at Boskalis is structured within a tight framework of budgeting, reporting and forecasting. A distinction is made between reports for internal and external use. External reporting at group level consists of an annual report, including financial statements audited by the external auditor, as well as a half-year report, containing summarized financial information, both consolidated and segmented. The external reports are based on the internal financial reporting, in accordance with EU-IFRS.

Internal financial reporting consists of extensive consolidated quarterly reports in which current developments are compared to the quarterly (cumulative) budgets and previous forecasts. In addition, each quarter we reiterate or update our forecast for the annual results, including the cash flow and balance sheet positions at the end of the financial year. The quarterly budgets are part of the annual group budget, which is prepared every year by the Board of Management and approved by the Supervisory Board. Internal financial reporting has a layered structure – in accordance with the internal allocation of management responsibilities – with consolidation taking place at successive levels, starting with the projects, through the business units and divisions, and resulting in consolidated group reports. The financial and operating results are analyzed and clarified at each of these levels. Project and contract managers are responsible for budgets, income statements and balance sheets for their projects or contracts, and these are drawn up in accordance with the applicable guidelines and instructions. In turn, business unit managers are responsible for the financial reporting of their respective business units.

Boskalis holds substantial investments in joint ventures and associated companies and these holdings are intensively monitored. Shareholder and/or board meetings are held regularly, with Boskalis being represented in line with the size of its stake. Clear agreements have been reached with the co-shareholders in such joint ventures regarding topics such as board and management representation, filling of management positions, strategy and policy, budget, financial reporting, the appointment of auditors, investments and financing. The policy is that such joint ventures are in principle financed without guarantees from the shareholders.

The Board of Management discusses the quarterly reports with the relevant business unit managers in formal quarterly meetings. These meetings are minuted. The consolidated group reports are discussed with the Supervisory Board on a quarterly basis.

The most important aspects of our financial reporting systems are set out in manuals, guidelines and procedures, all of which are available electronically. Staff are trained in how to apply accounting standards, guidelines and procedures. Internal audits to monitor and improve quality and discipline are conducted based on an annual audit plan and ad hoc examinations (also known as financial audits). Moreover, the quality of the financial control systems is evaluated regularly in the context of the activities of the external auditor. Findings concerning the quality of the financial control systems identified during the audit of the financial statements are reported by the external auditor in the Management Letter.

## EVALUATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Major organizational changes have been implemented to accommodate the rapid growth that Boskalis has experienced in recent years, including the introduction of a divisional structure. Further to this, and in light of the prevailing challenging market conditions, we believe we have made considerable progress in re-examining and redesigning the way we manage our policies and processes, starting with our quality management systems. During the year under review we conducted a group-wide business process decomposition of our primary project processes, covering key control requirements for functional disciplines such as quality, occupational safety, health and environmental. The result is currently being developed into a comprehensive definition of what we refer to as the Boskalis Way of Working (WoW), covering all relevant disciplines. As part of this effort, our project risk classification approach has also been redefined and harmonized.

The overriding objective of our WoW system is to give our staff the best possible support in achieving operational excellence when concluding and executing commercial contracts. Operational excellence in this context means achieving compliance with the internal and external control requirements imposed on our primary project process with the minimum waste of time and effort. We expect our WoW system to be implemented in the course of 2017.

In 2016 Deloitte Risk Services completed an external quality assessment of our Internal Audit Function (IAF). The principal objective of this was to assess the IAF's conformance with the International Standards for the Professional Practice of Internal Auditing (Standards), as issued by The Institute of Internal Auditors (IIA). The assessment concluded that the Boskalis IAF conforms with these Standards and this was confirmed by the IIA.

The structure and functioning of our risk management and internal control systems are discussed annually with the Supervisory Board.

However much care is taken in setting up risk management and internal control systems, they are unable to provide absolute certainty with regard to realizing the corporate objectives, nor can they preclude material mistakes, losses, fraud, or infringements of legislation and regulations.

### STATEMENT REGARDING RISKS RELATING TO THE FINANCIAL REPORTING

With due consideration of the aforementioned scope for improvement and restrictions, the Board of Management is of the opinion that:

- the internal risk management and control systems provide a reasonable degree of assurance that the financial reporting does not contain any errors of material importance; and
- the risk management and control systems worked properly during the year under review.

# KOTUG SMIT TOWAGE MAKES STRONG START

**The establishment of harbor towage company KOTUG SMIT Towage in April 2016 was for Boskalis an important step in the implementation of its strategy aimed at concentrating and expanding all towage services in regional partnerships. With the integration process still in full swing, during the first year of its existence KOTUG SMIT Towage already managed to further reinforce its leading position in Northwest Europe.**

"The increasing concentration in shipping has major implications for our harbor towage activities," said Robert-Jan van Acker, group director of the Towage & Salvage division. "The increases in scale among our clients, particularly in container transport and wet and dry bulk, have in a short space of time resulted in overcapacity and substantial price pressure in the entire logistics chain. Boskalis anticipated these developments in time by consolidating its towage services in regional joint ventures, in which each partner holds an equal share. Besides KOTUG SMIT Towage, this includes Smit Lamnalco (worldwide terminal services), Keppel Smit Towage (Asia) and Saam Smit Towage (Americas). These joint ventures are now more competitive and are better able to respond to demands from the market. Global shipping companies are increasingly choosing harbor towage companies that provide services in more than one port. Since the establishment of KOTUG SMIT Towage we have seen its market share in Northwest Europe rise by a few percent in volume, while towage rates are under pressure, and financially it is doing well."


Van Acker expects the returns on global towage operations to remain under pressure in the coming years. “And so our vision for the joint ventures will remain focused on cost leadership, increasing scale and improving efficiency,” he said. “We base our strategy on comprehensive market analyses and use the practical experiences of our joint ventures as a guideline for our approach. We expect it to become increasingly difficult for smaller players to meet market demand and that we will see a shakeout. This could result in further consolidation and improved returns in the longer term.”

## EFFICIENT ORGANIZATION

KOTUG SMIT Towage has around 850 employees. Its 64 vessels provide harbor towage services in eleven ports across four countries: the Netherlands (Rotterdam, Terneuzen and Vlissingen), Belgium (Antwerp, Zeebrugge and Ghent), the UK (Liverpool and London) and Germany (Hamburg, Bremerhaven and Wilhelmshaven). The company is headquartered in Rotterdam and has operational offices in Liverpool, London, Hamburg, Bremerhaven, Terneuzen and Antwerp.
“Many of our large clients are active in several of ‘our’ ports and they expect the same operational approach everywhere, under comparable commercial conditions and with a uniform level of safety and reliability,” said CEO René Raaijmakers. “SMIT and KOTUG are traditionally family-run type of businesses with an impressive history. Our task is to integrate these two organizations in such a way that we retain the pride and passion of our crews and combine the best elements of both partners, and use that as a basis for establishing an efficient organization. We are carrying out a detailed analysis of all the business processes and are working to develop our internal IT landscape and communication processes to support the planning of vessels and crews, service payrolling, financial administration, CRM, and to provide technical support for the entire fleet. In close consultation with our employees, we are in the process of selecting various new applications, which we will start implementing mid-2017. We aim to complete the entire integration process by the end of the year.”

## INTERCHANGEABILITY

“For our clients, concepts such as reliability, safety, efficiency and speed are key,” continued Raaijmakers. “In addition, the market sets requirements for our equipment, not just in terms of engine power but also in terms of fuel consumption and carbon emissions. In the period ahead, the emphasis at KOTUG SMIT Towage will be on providing the right mix in terms of vessel capacity and flexible deployment of our people and vessels, without losing sight of the necessary knowledge of local conditions. By separating our daily operations management from our asset management, we are able to deploy our vessels to all ports if and when they are needed, even when clients make sudden changes to their shipping schedule or ports of call. The operational organization will be geared to adapt to this required flexibility. For example, at present we are working in England with a German crew on a Dutch tugboat. This interchangeability is crucial to providing client-oriented and flexible services.”

# CORPORATE GOVERNANCE

**The Board of Management and the Supervisory Board are jointly responsible for looking after the interests of our stakeholders.**

## APPLICATION AT BOSKALIS

Boskalis operates a two-tier board model, which means that management and supervision are segregated. The Board of Management is responsible for the day-to-day management of the business, and for setting out and realizing the company's long-term strategy along with the associated risks, the results and entrepreneurial matters relevant to the company. The Board of Management is responsible for establishing the company's objectives, implementing its business policies and for the resulting performance. The Board of Management is accountable to the Supervisory Board and the General Meeting of Shareholders. In performing its tasks, the Board of Management is guided by the interests of the company and its activities, and takes into account any relevant interests of parties involved with the company.

The Supervisory Board is responsible for supervising management performance and advising the Board of Management. The Supervisory Board is supported in its work by three so-called core committees: the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee. For a summary of the activities of the Supervisory Board and its committees in 2016, please refer to pages 22 to 26 of this annual report.

At Boskalis there is close collaboration between the Supervisory Board and its committees, the Board of Management and the stakeholders. The Board of Management and the Supervisory Board are jointly responsible for looking after the interests of our stakeholders, which includes creating shareholder value in the long term.

Our stakeholders are those groups and individuals that directly or indirectly influence the company's activities, or are influenced by them. They include the employees, shareholders and other financiers, suppliers, clients, government bodies, educational and knowledge institutes, industry and society associations (including NGOs) and the communities in which Boskalis operates.

At least one General Meeting of Shareholders takes place every year. Its tasks include the adoption of financial statements and it holds authority with regard to the appointment and dismissal of Supervisory Board members.

The interests of employees are promoted by the Works Council, which provides ongoing employee representation as required under the Dutch Works Councils Act. It is the task of the Works Council to ensure that management objectives correspond to those of the employees.

Mega hopper Queen of the Netherlands at work in Songdo, South Korea.

The general standards and values relating to our business activities are set out in the General Code of Business Conduct and the Supplier Code of Conduct. In these codes the main principles are laid down on how employees and suppliers of Boskalis should conduct themselves with regard to, for example, legislation and regulations, human rights, anti-corruption, competition, the environment, staff and quality. Both codes can be found on the company's website. The General Code of Business Conduct and the Supplier Code of Conduct were revised in early 2016 in line with the periodical evaluation as set out in these documents. In addition, the core values and rules for safety at work are set out in our safety program NINA (No Injuries No Accidents). The Board of Management regularly stresses the importance of complying with the General Code of Business Conduct and the NINA principles. The Board of Management also provides employees with the opportunity to report any suspected misconduct within Boskalis of a general, financial, operational and employment nature which is not in line with the General Code of Business Conduct to a counselor, without jeopardizing their legal position. This Whistleblower Policy has been revised in 2016 and can also be found on the company's website.

## ARTICLES OF ASSOCIATION

The Articles of Association of Boskalis set forth aspects of the governing principles regarding the company related among others to the seat, the objects, the capital and shares of the company as well as its governing bodies, the financial year, the annual accounts and loss and profit. The text of the Articles of Association is available at www.boskalis.com. The Articles of Association were amended on 9 December 2016 to implement the decisions of the Annual General Meeting of Shareholders of 10 May 2016 and the Extraordinary General Meeting of Shareholders of 17 August 2016 respectively to cancel the voluntary large company regime, to reduce the authorized capital and the nominal value of the ordinary shares and the cumulative protective preference shares as well as to align the text of the Articles of Association of the company with recent Dutch statutory amendments.

## COMPLIANCE

The Dutch Corporate Governance Code (the "Code") applies to all Dutch companies listed on the stock exchange and comprises a code of conduct for governance best practice. This Code includes both specific principles and best practice provisions, as well as guidelines for their proper supervision.

Boskalis subscribes to the notion that a sound and transparent system of checks and balances is key to maintaining confidence in companies operating on the capital market. Boskalis believes clarity and openness in accountability and supervision are the cornerstones of good management and entrepreneurship.

As required since the introduction of the Code in 2004, Boskalis published an 'Apply or Explain' report that sets out how the principles and best practice provisions are applied at Boskalis. This report is available on the website and copies can also be requested from the company.

Boskalis subscribes to and applies all the principles and best practice provisions contained in the Corporate Governance Code, with the exception of the following provisions:

- The contracts between the company and two members of the Board of Management deviate from best practice provision II.2.8. The contract of the chairman of the Board of Management provides for a severance payment equal to 18 months and the contract of the Chief Financial Officer provides for a 24-month severance payment. Boskalis does apply the best practice provision to the contracts of all other members as well as future members of the Board of Management.
- In deviation of best practice IV.1.1, according to the Articles of Association, the General Meeting of Shareholders may pass a resolution to deprive the binding nature of a nomination for the appointment or a resolution for dismissal of a member of the Board of Management or a member of the Supervisory Board by a majority of at least two/third of the votes cast representing more than one-half of the company's issued share capital. The deviation of this best practice provision is justified in view of creating long-term shareholder value. Maintaining continuity at both the Board of Management and the Supervisory Board is essential for delivering such long-term shareholder value. The company is protecting its stakeholders against a sudden change in management and supervision by maintaining the qualified majority and voting quorum requirement, which is in accordance with Dutch law.

The composition and size of the Board of Management are based on the profile and strategy of the company. The expertise, experience and various competencies of the members of the Board of Management should contribute to this profile and strategy. In the year under review the combination of these elements resulted in the three members of the current Board of Management being male, meaning that the Board of Management, partly due to the nature of the company, is a reflection of the majority of the company's employee population. When drafting the profile for new members of the Board of Management emphasis will be placed on diversity in view of the objective of achieving a balanced representation on the Board of Management.

The composition and size of the Supervisory Board are also based on the company's profile and strategy. As stated in the Profile, the expertise, experience and various competencies of members of the Supervisory Board should contribute to proper supervision of the company's management and general performance. To advance a balanced composition, the Supervisory Board had included in the Profile that every effort was to be made to achieve a mixed composition, where possible in terms of age and gender with as specific objective to appoint a female member of the Supervisory board. In the year under review Ms. I. Haaijer was appointed to the Supervisory Board on 10 November 2016. Per ultimo 2016 this resulted in six members of the Supervisory Board being male and one member being female.

The Corporate Governance Declaration can be found on the website www.boskalis.com/corporategovernance.

# OUTLOOK

The market picture for the year ahead will be characterized by continued lower volumes of work and pressure on both utilization levels and margins. At Dredging & Inland Infra we see a reasonable volume of work in the market for the short term. For Boskalis the emphasis lies on maintaining utilization at a responsible level of project risk. The current size of the order book means that a good part of the fleet will be occupied for 2017, albeit at lower margins than in previous years. The outlook for 2017 is less favorable at Offshore Energy. Following the conclusion of a number of long-term contracts from previous years and the completion of several large offshore wind farm projects revenue will decline and be more dependent on the spot market (services), where margins remain under continued pressure. The last of the Towage activities were transferred to joint ventures in 2016. Market volumes are relatively stable here, but even so there is increased pressure as well, especially for terminal services.

The market conditions combined with the outlook described gave rise in 2016 to the fleet rationalization project and resulted in the impairment of vessels and goodwill, particularly in the service-related part of the offshore oil and gas activities. A cost-reduction program has now also been launched, aimed at cutting head-office costs.

The project-based nature of a significant part of our activities, in addition to the uncertain market conditions, makes it difficult to give a specific quantitative forecast with regard to the 2017 full-year result early on in the year. It is, however, clear that the net result will be lower than the 2016 result adjusted for the impairment charges.

Capital expenditure in 2017 is expected to be around EUR 250 million, excluding acquisitions, and will be financed from the company's own cash flow. Boskalis has a very sound financial position and the solvency ratio equals 56%. At the end of 2016 Boskalis was net debt-free and comfortably met its financial covenants.



# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Board of Management of Royal Boskalis Westminster N.V. hereby declares, in accordance with article 5:25c of the Dutch Financial Supervision Act, that to the best of its knowledge:

1) the financial statements, which have been prepared in accordance with the applicable standards for preparing financial statements and as included on pages 63 to 131 of the Annual Report, provide a true and fair view of the assets, liabilities and financial position as at 31 December 2016 as well as the profit or loss of Royal Boskalis Westminster N.V. and all the business undertakings included in the consolidation;
2) the Report of the Board of Management provides a true and fair view of the condition, the business performance during the financial year of Royal Boskalis Westminster N.V. and the companies associated with it whose details are included in the financial statements, as at the balance sheet date of 31 December 2016;
3) the Report of the Board of Management provides a description of the material risks faced by the company.

Papendrecht / Sliedrecht, 7 March 2017

Board of Management
dr. P.A.M. Berdowski, chairman
T.L. Baartmans
J.H. Kamps, CFO

Construction of the Marker Wadden nature restoration project in the Netherlands.


Recovery of the uninhabited island of Griend, the Netherlands that is vital for hundreds of thousands of migratory and breeding birds.

# BOSKALIS FINANCIAL STATEMENTS 2016

# TABLE OF CONTENTS

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**(Consolidated Income statement)**

| (in thousands of EUR) | *Note* | **2016** | 2015 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Revenue | *[6]* | **2,596,326** | 3,240,327 |
| Other income | *[5/7]* | **59,226** | 8,404 |
| | | **2,655,552** | 3,248,731 |
| **OPERATING EXPENSES** | | | |
| Raw materials, consumables, services and subcontracted work | *[8]* | **- 1,593,083** | - 1,918,116 |
| Personnel expenses | *[9]* | **- 451,455** | - 513,088 |
| Depreciation and amortization | *[15/16]* | **- 277,244** | - 278,558 |
| Impairment losses | *[10]* | **- 748,486** | - 14,533 |
| Other expenses | *[5/7]* | **- 316** | - 4,557 |
| | | **- 3,070,584** | - 2,728,852 |
| Result of joint ventures and associated companies | *[17]* | **- 82,882** | 43,260 |
| Revaluation of investment in joint venture VBMS Holding B.V. prior to business combination | *[5.1]* | **39,839** | - |
| Revaluation of investment in Fugro N.V. prior to classification as associated company | *[17/18]* | **-** | 28,478 |
| Impairment on investment in associated company Fugro N.V. | *[17]* | **-** | - 28,824 |
| **RESULTS FROM OPERATING ACTIVITIES (EBIT)** | | **- 458,075** | 562,793 |
| **FINANCE EXPENSES** | | | |
| Finance income | *[11]* | **1,001** | 1,163 |
| Expenses prepayment US private placement | | **- 40,264** | - |
| Interest and other finance expenses | | **- 32,052** | - 32,974 |
| Finance expenses | *[11]* | **- 72,316** | - 32,974 |
| | | **- 71,315** | - 31,811 |
| Profit/loss (-) before taxation | | **- 529,390** | 530,982 |
| Income tax expenses | *[12]* | **- 32,360** | - 87,452 |
| **NET GROUP PROFIT/LOSS (-)** | | **- 561,750** | 443,530 |
| **NET GROUP PROFIT/LOSS (-) ATTRIBUTABLE TO:** | | | |
| Shareholders | | **- 563,730** | 440,178 |
| Non-controlling interests | | **1,980** | 3,352 |
| | | **- 561,750** | 443,530 |
| Average number of shares | *[23.5]* | **128,204,536** | 124,181,528 |
| Earnings per share | *[23.5]* | **EUR -4.40** | EUR 3.54 |
| Earnings per share 2016, excluding impairment losses | *[10/23.5]* | **EUR 2.16** | |
| Diluted earnings per share | *[23.5]* | **EUR -4.40** | EUR 3.54 |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

**(Consolidated Statement of Recognized and Unrecognized Income and Expenses)**

| (in thousands of EUR) | *Note* | **2016** | 2015 |
|---|---|---|---|
| **NET GROUP PROFIT/LOSS (-)** | | **- 561,750** | 443,530 |
| | | | |
| **ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO THE STATEMENT OF PROFIT OR LOSS** | | | |
| Actuarial gains and losses and asset limitation on defined benefit pension plans | *[25.1]* | **- 4,520** | 45,554 |
| Income tax on unrecognized income and expenses not to be reclassified to statement of profit or loss (-) | *[14]* | **1,080** | - 6,772 |
| Share of other comprehensive income of joint ventures and associated companies, after tax | | **- 6,202** | 2,310 |
| Total unrecognized income and expenses for the period that will not be reclassified to statement of profit or loss (-), net of income tax | | **- 9,642** | 41,092 |
| | | | |
| **ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO THE STATEMENT OF PROFIT OR LOSS** | | | |
| Reclassification of revaluation of investment in Fugro N.V. | *[17]* | **-** | - 28,478 |
| Movement in fair value of investment in Fugro N.V. | *[18.2]* | **357** | - 20,093 |
| Currency translation differences from joint ventures and associated companies, after tax | | **- 1,818** | - |
| Currency translation differences on foreign operations | | **25,874** | 169,474 |
| Reclassification of foreign currency differences and hedge reserve to statement of profit or loss | | **720** | - |
| Movement in fair value of cash flow hedges | *[28.2]* | **13,261** | 7,013 |
| Income tax on unrecognized income and expenses that are or may be reclassified subsequently to statement of profit or loss | *[14]* | **- 2,034** | - 847 |
| Change in fair value of cash flow hedges from joint ventures and associated companies, after tax | *[28.2]* | **75** | - |
| Total unrecognized income and expenses for the period which are or may be reclassified to statement of profit or loss (-) | | **36,435** | 127,069 |
| | | | |
| **UNRECOGNIZED INCOME AND EXPENSES FOR THE REPORTING PERIOD, AFTER INCOME TAX** | | **26,793** | 168,161 |
| | | | |
| **TOTAL RECOGNIZED AND UNRECOGNIZED INCOME AND EXPENSES FOR THE REPORTING PERIOD** | | **- 534,957** | 611,691 |
| | | | |
| **ATTRIBUTABLE TO:** | | | |
| Shareholders | | **- 537,378** | 609,938 |
| Non-controlling interests | | **2,421** | 1,753 |
| **TOTAL RECOGNIZED AND UNRECOGNIZED INCOME AND EXPENSES FOR THE REPORTING PERIOD** | | **- 534,957** | 611,691 |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(Consolidated Balance Sheet)**

| | | 31 DECEMBER | |
|---|---|---|---|
| (in thousands of EUR) | *Note* | **2016** | 2015 |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | [15] | **287,520** | 533,280 |
| Property, plant and equipment | [16] | **2,484,068** | 2,784,889 |
| Joint ventures and associated companies | [17] | **827,044** | 1,192,773 |
| Non-current financial assets | [18] | **116,440** | 5,915 |
| Derivatives | [28] | **4,110** | 50,779 |
| Deferred income tax assets | [14] | **10,505** | 12,020 |
| | | **3,729,687** | 4,579,656 |
| **CURRENT ASSETS** | | | |
| Inventories | [19] | **90,049** | 82,610 |
| Due from customers | [20] | **87,194** | 182,302 |
| Trade and other receivables | [21] | **597,928** | 727,567 |
| Derivatives | [28] | **76,694** | 5,155 |
| Income tax receivable | [13] | **7,495** | 9,893 |
| Cash and cash equivalents | [22] | **965,331** | 793,720 |
| Assets of disposal groups | [5] | **9,627** | 224,444 |
| | | **1,834,318** | 2,025,691 |
| **TOTAL ASSETS** | | **5,564,005** | 6,605,347 |
| **GROUP EQUITY** | | | |
| Issued capital | [23] | **1,301** | 100,501 |
| Share premium reserve | [23] | **637,006** | 535,807 |
| Other reserves | [23] | **637,822** | 621,775 |
| Retained earnings | [23] | **1,845,044** | 2,456,230 |
| **SHAREHOLDERS' EQUITY** | | **3,121,173** | 3,714,313 |
| **NON-CONTROLLING INTERESTS** | | **2,031** | 7,593 |
| **TOTAL GROUP EQUITY** | [23] | **3,123,204** | 3,721,906 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing borrowings | [24] | **308,287** | 914,234 |
| Employee benefits | [25] | **30,334** | 43,703 |
| Deferred income tax liabilities | [14] | **23,374** | 26,005 |
| Provisions | [26] | **31,435** | 23,775 |
| Derivatives | [28] | **818** | 1,147 |
| | | **394,248** | 1,008,864 |
| **CURRENT LIABILITIES** | | | |
| Due to customers | [20] | **315,632** | 320,977 |
| Interest-bearing borrowings | [24] | **453,144** | 18,127 |
| Bank overdrafts | [22] | **1,188** | 30,603 |
| Income tax payable | [13] | **152,331** | 182,886 |
| Trade and other payables | [27] | **1,085,684** | 1,264,099 |
| Provisions | [26] | **22,027** | 7,033 |
| Derivatives | [28] | **8,838** | 13,720 |
| Liabilities of disposal groups | [5] | **7,709** | 37,132 |
| | | **2,046,553** | 1,874,577 |
| **TOTAL LIABILITIES** | | **2,440,801** | 2,883,441 |
| **TOTAL GROUP EQUITY AND LIABILITIES** | | **5,564,005** | 6,605,347 |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| (in thousands of EUR) | Note | 2016 | 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Group profit/loss (-) | | **- 561,750** | 443,530 |
| Depreciation, amortization and impairment losses intangible assets and property, plant and equipment | [10/15/16] | **1,025,730** | 293,091 |
| Impairment on investment in Fugro N.V. | | **-** | 28,824 |
| Cash flow | | **463,980** | 765,445 |
| **Adjustments for:** | | | |
| Finance income and expenses | | **71,315** | 31,811 |
| Income tax expenses | | **32,360** | 87,452 |
| Results from disposals / divestments | | **- 47,927** | - 3,847 |
| Movement in provisions and employee benefits | | **17,180** | 11,389 |
| Movement in inventories | | **- 10,791** | 17,560 |
| Movement in trade and other receivables | | **272,069** | - 57,584 |
| Movement in trade and other payables | | **- 313,385** | 97,285 |
| Movement due from and due to customers | | **- 46,356** | 19,250 |
| Share in result of joint ventures and associated companies, including share in impairments | | **82,882** | - 43,260 |
| Revaluation result of reclassification of investment in Fugro N.V. | | **-** | - 28,478 |
| Result of revaluation of investment in VBMS Holding B.V. | | **- 39,839** | - |
| Gain on acquisition of STRABAG business | | **- 10,983** | - |
| Cash generated from operating activities | | **470,505** | 897,023 |
| Dividends received | | **42,572** | 69,444 |
| Interest received | | **1,001** | 1,163 |
| Interest paid | | **- 30,059** | - 31,252 |
| Income tax paid | | **- 70,580** | - 90,904 |
| Net cash from operating activities | | **413,439** | 845,474 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment, excluding capitalized borrowing costs | [16] | **- 164,898** | - 276,062 |
| Proceeds from disposals of property, plant and equipment | | **9,743** | 30,448 |
| Investment in business combinations, net of cash acquired | [5] | **- 149,328** | - |
| Investment in Fugro N.V. | [17/18.2] | **-** | - 147,062 |
| Reduction of investment in Fugro N.V. | [17/18.2] | **236,982** | - |
| Investment in and issued loans to other associated companies and/or joint ventures | [17] | **- 422** | - 179 |
| Disposal of (a part of) group companies, net of cash disposed | [5] | **124,660** | 29,444 |
| Repayment of loans or share premium by associated company and/or joint venture | [17] | **9,326** | 1,820 |
| Net cash used in investing activities | | **66,063** | - 361,591 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loans | | **-** | 19,253 |
| Repayment of loans | | **- 217,123** | - 87,192 |
| Dividend paid to the Company's shareholders | | **- 55,762** | - 47,562 |
| Dividend paid to non-controlling interests | | **- 771** | - 2,037 |
| Net cash used in / from financing activities | | **- 273,656** | - 117,538 |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **205,846** | 366,345 |
| Net cash and cash equivalents as at 1 January | [22] | **766,696** | 395,436 |
| Net increase in cash and cash equivalents | | **205,846** | 366,345 |
| Currency translation differences | | **- 2,793** | 4,915 |
| **MOVEMENT IN NET CASH AND CASH EQUIVALENTS** | | **203,053** | 371,260 |
| **NET CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER** | [22] | **969,749** | 766,696 |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (in thousands of EUR) | ISSUED CAPITAL | SHARE PREMIUM | OTHER RESERVES | RETAINED EARNINGS | TOTAL | NON-CONTROLLING INTEREST | TOTAL GROUP EQUITY |
|---|---|---|---|---|---|---|---|
| *Note* | *[23.1]* | *[23.2]* | *[23.6]* | *[23.3]* | | | |
| **Balance as at 1 January 2016** | **100,501** | **535,807** | **621,775** | **2,456,230** | **3,714,313** | **7,593** | **3,721,906** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | | | | | | |
| *Net Group profit/loss (-)* | | | | **- 563,730** | **- 563,730** | **1,980** | **- 561,750** |
| **Other comprehensive income for the period** | | | | | | | |
| Defined benefit plan actuarial gains/losses (-) and asset limitation, after income tax | | | **- 3,440** | **-** | **- 3,440** | **-** | **- 3,440** |
| Share of other comprehensive income of associated companies and joint ventures | | | **- 6,202** | **-** | **- 6,202** | **-** | **- 6,202** |
| Foreign currency translation differences for foreign operations, after income tax | | | **25,433** | **-** | **25,433** | **441** | **25,874** |
| Effective cash flow hedges, after income tax | | | **11,227** | **-** | **11,227** | **-** | **11,227** |
| Change in fair value of cash flow hedges from joint ventures and associated companies, after tax | | | **75** | **-** | **75** | **-** | **75** |
| Currency translation differences from joint ventures and associated companies, after tax | | | **- 1,818** | **-** | **- 1,818** | **-** | **- 1,818** |
| Revaluation of stake in Fugro N.V. | | | **-** | **357** | **357** | **-** | **357** |
| Reclassification of foreign currency differences and hedge reserve to statement of profit or loss | | | **720** | **-** | **720** | **-** | **720** |
| *Total other comprehensive income for the period* | | | **25,995** | **357** | **26,352** | **441** | **26,793** |
| **Total comprehensive income for the period** | | | **25,995** | **- 563,373** | **- 537,378** | **2,421** | **- 534,957** |
| **OTHER RESERVES** | | | | | | | |
| Changes in other reserves | | | **- 9,948** | **9,948** | **-** | **-** | **-** |
| **TRANSACTIONS WITH SHAREHOLDERS, RECOGNIZED DIRECTLY IN EQUITY** | | | | | | | |
| Reduction nominal value (refer to note 23.1) | **- 102,760** | **102,760** | **-** | **-** | **-** | **-** | **-** |
| **Distributions to shareholders** | | | | | | | |
| Cash dividend | **-** | **-** | **-** | **- 55,762** | **- 55,762** | **- 771** | **- 56,533** |
| Stock dividend | **3,560** | **- 1,561** | **-** | **- 1,999** | **-** | **-** | **-** |
| **Movements in interests in subsidiaries** | | | | | | | |
| Sale of SMIT Amandla Marine | | | | | | **- 7,212** | **- 7,212** |
| **Balance as at 31 December 2016** | **1,301** | **637,006** | **637,822** | **1,845,044** | **3,121,173** | **2,031** | **3,123,204** |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

| (in thousands of EUR) | ISSUED CAPITAL | SHARE PREMIUM | OTHER RESERVES | RETAINED EARNINGS | TOTAL | NON-CONTROLLING INTEREST | TOTAL GROUP EQUITY |
|---|---|---|---|---|---|---|---|
| *Note* | *[23.1]* | *[23.2]* | *[23.6]* | *[23.3]* | | | |
| **Balance as at 1 January 2015** | **98,350** | **537,245** | **422,744** | **2,093,598** | **3,151,937** | **7,877** | **3,159,814** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | | | | | | |
| *Net Group profit/loss (-)* | | | | 440,178 | 440,178 | 3,352 | 443,530 |
| **Other comprehensive income for the period** | | | | | | | |
| Defined benefit plan actuarial gains/losses (-) and asset limitation, after income tax | | | 38,782 | - | 38,782 | - | 38,782 |
| Share of other comprehensive income of associated companies and joint ventures | | | 2,310 | - | 2,310 | - | 2,310 |
| Foreign currency translation differences for foreign operations, after income tax | | | 173,407 | - | 173,407 | - 1,599 | 171,808 |
| Effective cash flow hedges, after income tax | | | 3,832 | - | 3,832 | - | 3,832 |
| Reclassification of revaluation of stake in Fugro N.V. | | | - | - 28,478 | - 28,478 | - | - 28,478 |
| Revaluation of stake in Fugro N.V. | | | - | - 20,093 | - 20,093 | - | - 20,093 |
| *Total other comprehensive income for the period* | | | 218,331 | - 48,571 | 169,760 | - 1,599 | 168,161 |
| **Total comprehensive income for the period** | | | 218,331 | 391,607 | 609,938 | 1,753 | 611,691 |
| **OTHER RESERVES** | | | | | | | |
| Changes in other reserves | | | - 19,300 | 19,300 | - | - | - |
| **TRANSACTIONS WITH SHAREHOLDERS, RECOGNIZED DIRECTLY IN EQUITY** | | | | | | | |
| **Distributions to shareholders** | | | | | | | |
| Cash dividend | - | - | - | - 47,562 | - 47,562 | - 2,037 | - 49,599 |
| Stock dividend | 2,151 | - 1,438 | - | - 713 | - | - | - |
| **Balance as at 31 December 2015** | **100,501** | **535,807** | **621,775** | **2,456,230** | **3,714,313** | **7,593** | **3,721,906** |

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

# EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Royal Boskalis Westminster N.V. is a leading global services provider operating in the dredging, dry and maritime infrastructure and maritime services sectors. Royal Boskalis Westminster N.V. (the 'company') has its registered office in Sliedrecht, the Netherlands, and its head office is located at Rosmolenweg 20, 3356 LK in Papendrecht, the Netherlands. The company is a publicly listed company on the Euronext Amsterdam.

The consolidated financial statements of Royal Boskalis Westminster N.V. for 2016 include the company and group companies (hereinafter referred to jointly as the 'Group' and individually as the 'Group companies') and the interests of the Group in associated companies and entities over which it has joint control. The consolidated financial statements were prepared by the Board of Management and were signed on 7 March 2017. The financial statements for 2016 will be submitted for approval to the Annual General Meeting of Shareholders on 10 May 2017.

## 2. COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

### 2.1 COMPLIANCE STATEMENT

The consolidated financial statements and the accompanying explanatory notes have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRS), and with Part 9 of Book 2 of the Dutch Civil Code.

### 2.2 ADOPTED NEW AND REVISED STANDARDS

The accounting principles applied to the valuation of assets and liabilities and the determination of results are the same as the valuation principles applied to consolidated financial statements in prior years. The following amendment is effective for 2016 and has been adopted by the European Union for 2016, however, it has no impact on the equity, results of and/or presentation by the Group.

**Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'**

The Group has applied the amendments to IAS 19 'Defined Benefit Plans: Employee Contribution' as from 1 January 2016. The amendment relates to employee contributions for defined benefit plans.

### 2.3 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations, were not effective in 2016 and / or not yet adopted by the European Union. As a consequence, these new standards, amendments and interpretations have not been applied in these consolidated financial statements.

The Group does not adopt these standards and interpretations early and the extent of the possible impact has not been determined. The most important possible changes for the Group can be summarized as follows:

- IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. This new standard replaces the guidance provided in IAS 39. The Group has started its impact assessment of IFRS 9 'Financial Instruments' and it is expected that the effects will be limited. This new standard was endorsed by the European Union in the second half of 2016 and will be effective as of 1 January 2018.

- IFRS 15 'Revenue from Contracts in Customers' provides a framework for the recognition of income and will replace the current standards IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The Standard was endorsed by the European Union in the second half of 2016 and will be effected as of 1 January 2018. The Group has made a qualitative analysis of the possible effect. It was concluded that the impact on revenue is not expected to be material. Amongst other, IFRS 15 changes the thresholds for the recognition of variation orders and variable considerations, such as claims and incentives. Despite the fact that these and other changes are not expected to have a material impact on Group revenue, they can have a financial impact on the operating result. However, this impact can only be quantified based on the contracts in hand with customers at the effective date. Also, the standard requires additional internal documentation and additional disclosures.

- IFRS 16 'Leases' replaces the current standard for leases (IAS 17) and provides a new framework for the recognition of lease contracts. The new standard mainly requires lessees to recognize a liability in their Statement of Financial Positions and to capitalize the right-of-use of a leased asset if it is leased for a period exceeding one year. The new standards relates to changes in accounting for operational lease commitments of the Group (see note 29). The standard was issued in January 2016 and will be effective for periods beginning on or after 1 January 2019. The European Union has not yet endorsed this standard.

## 3. PRINCIPLES OF FINANCIAL REPORTING

The principles for financial reporting subsequently disclosed are applied consistently for all periods included in these consolidated financial statements and have been applied consistently by the Group companies.

The presentation of last year's financial information has been modified to be consistent with the presentation of the current year's financial presentation.

### 3.1 FORMAT AND VALUATION

The consolidated financial statements are presented in euros, the Group's presentation currency. The consolidated financial statements are based upon historical cost to the extent that IFRS does not prescribe another accounting method for specific items. Preparing financial statements means that estimates and assumptions made by management partially determine the amounts recognized under assets, liabilities, revenue and costs. The estimates and assumptions are mainly related to the measurement of intangible assets (including goodwill), property, plant and equipment, joint ventures and associated companies, expected results on the completion of projects, pension liabilities, taxation, provisions and financial instruments. Judgements made by management within the application of IFRS which have a material effect on the financial statements are the qualifications of investments as Group companies, joint operations, joint ventures or associated companies. Details are incorporated in the explanatory notes to these items. Other than the elements already explained in the explanatory notes to the financial statements, no critical valuation judgements relating to the application of the principles need further explanation. The estimates made and the related assumptions are based on management's experience and understanding and the development of external factors that can be considered reasonable under the given circumstances. Estimates and assumptions are subject to alterations as a result of changes in facts and insights and may have different outcomes in different reporting periods. Any differences are recognized in the Statement of Financial Position, or the Statement of Profit or Loss, or the Statement of Other Comprehensive Income, depending on the nature of the item. Actual results may deviate from results reported previously on the basis of estimates and assumptions. Unless stated otherwise, all amounts in the notes to these financial statements are stated in thousands of euros.

### 3.2 CONSOLIDATION

The Group consolidates companies over which control is exercised when the Group is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect such returns. Subsidiaries are included in the consolidation for 100%, taking into account any minority share. For joint operations the Group accounts for its specific rights and obligations. Strategic investments (i.e. joint ventures and associated companies) are accounted for using the equity method.

#### 3.2.1 SUBSIDIARIES

Subsidiaries are included in the consolidation for 100% on the basis of existing control, taking into account any minority interests. The figures of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control exists if the Group has:

- the ability to direct relevant activities through its voting power;
- the right to variable returns from its involvement with the investee; and
- the ability to use its power to affect such returns.

In assessing whether the Group has acquired control, and whether such control exists in the sense that it has power over the investee, the Group takes into consideration voting rights, or similar rights in an entity, potential voting rights that are currently exercisable, and all other relevant facts and circumstances.

If and when the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and any components of equity related to the subsidiary. Any resulting gain or loss is recognized in the statement of profit or loss. If the Group retains any stake in the former subsidiary, then such interest is measured at fair value at the date that control is lost.

#### 3.2.2 JOINT OPERATIONS

If the Group has joint control over and is entitled to the rights to the assets and is liable for the liabilities of the partnership, the partnership is classified as a joint operation. Such a joint control has been laid down in a contract and strategic decisions on financial and operational policy are taken by unanimous agreement. Joint operations mainly relate to project driven construction consortiums.

Joint operations are included in the consolidated financial statements on a pro rata basis in accordance with the participation interest of the Group in the joint operation, also referred to as proportionate consolidation.

#### 3.2.3 JOINT VENTURES AND ASSOCIATED COMPANIES

The Group divides strategic investments into joint ventures and associated companies based on the type and degree of influence.

Joint ventures are those entities over which the Group has joint control. Such joint control is laid down in a contract and strategic decisions on financial and operational policy are taken by unanimous agreement. The Group is only entitled to the net assets of the joint ventures.

Shareholdings other than subsidiaries and joint ventures, where there is significant influence on the financial and operating policy, are recognized under associated companies. Significant influence is presumed to exist when the Group holds 20 percent or more of the voting power of another entity.

The consolidated financial statements include the Group's share in the result of associated companies, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date it ceases to exist (see note 3.8).

If the ownership in a joint venture or associated company is reduced, but joint control or significant influence is retained, dilution gains and losses arising from joint ventures and associated companies are recognized in the statement of profit or loss and only a proportionate share of the amount previously recognized in the statement of other comprehensive income is recycled to the consolidated statement of profit or loss, where appropriate.

If the Group loses significant influence over or joint control of a strategic investment, it derecognizes the carrying amount of the strategic investment (including any goodwill included in the carrying amount) and recognizes any resulting gain or loss, including the recycling of amounts previously recognized in the statement of other comprehensive income, from this event in the consolidated statement of profit or loss. Any investment retained is recognized at fair value as a financial instrument available for sale.

#### 3.2.4 ELIMINATION OF TRANSACTION UPON CONSOLIDATION

Intragroup receivables and payables, as well as intragroup transactions, finance income and expenses and unrealized results within the Group are eliminated in the preparation of the consolidated financial statements. The Group recognizes its share in the results on transactions that transfer assets and liabilities between the Company and its strategic investments or between its strategic investments, to the extent these are considered realized as transactions with third parties and its joint venture partners, using proportionate elimination.

#### 3.2.5 BUSINESS COMBINATION AND ACQUISITIONS OF NON-CONTROLLING INTERESTS

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree (refer also note to 3.8); less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

If the excess is negative (bargain purchase), the Group reassesses the correctness and completeness of the identified assets acquired and liabilities assumed, and the appropriateness of underlying assumptions and measurement approaches applied for valuation purposes. After such reassessment, the determined gain on a bargain purchase is immediately recognized in the statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in the statement of profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

A newly acquired non-controlling interest is valued at either the fair value or the proportionate share of the fair value of the acquired asset and liabilities, determined per transaction.

**Accounting for acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions.

### 3.3 FOREIGN CURRENCIES

The assets and liabilities of foreign Group companies and joint ventures that are denominated in functional currencies other than the euro are translated at the exchange rates as at the end of the reporting period. The statement of profit or loss items of the foreign Group companies and joint operations concerned have been translated at average exchange rates, which approximate the applicable exchange rates at transaction settlement date. Resulting currency translation differences are added or charged directly to the currency translation reserve in group equity. Exchange rate differences as a result of operational transactions are included in the consolidated statement of profit or loss of the reporting period. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences on non-current receivables (including those related to financing), loans and other borrowings are recognized as finance income and expenses, except for the foreign currency differences on loans which are part of a net investment hedge which are recognized in other comprehensive income and other foreign currency differences as a result of transactions are recognized in the related items within the operating result.

Joint ventures and associated companies with a functional currency other than the presentation currency of the Group are translated according to the aforementioned method, taking into account that assets and liabilities of these interests are not consolidated.

### 3.4 DERIVATIVES AND HEDGING

It is the policy of the Group to use cash flow hedges to cover all operational currency risks that mainly relate to future cash flows from contracts which are denominated in currencies other than the relevant functional currency and if it is highly probable that they will be realized. Fuel price risks and interest rate risks in future cash flows can be hedged from time to time using specific derivatives.

Hedge accounting is applied to the majority of cash flow hedges as follows. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be 'effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 - 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and present an exposure to variations in cash flows that could ultimately affect reported net income.

The application of hedge accounting means that movements in the market value of cash flow hedges not yet settled – including results realized on the 'rolling forward' of existing hedges as a result of differences between the duration of the hedges concerned and the underlying cash flows – will be directly added or charged to the hedging reserve in group equity, taking into account the applicable taxation. If a cash flow hedge either expires, is closed or is settled, or the hedge relation with the underlying cash flows can no longer be considered effective, the accumulated result will continue to be recognized in group equity as long as the underlying cash flow is still expected to take place. If and when the underlying cash flow actually takes place, the accumulated result is included directly in the statement of profit or loss. Movements in the market value of cash flow hedges to which no hedge accounting is applied (ineffective cash flow hedges and the ineffective portion of effective cash flow hedges) are included in the statement of profit or loss for the reporting period. Results from settled cash flow hedges and movements in the market value of ineffective cash flow hedges insofar these relate to non-current receivables, loans and other borrowings are recognized as finance income and finance expenses and otherwise in the related items within operating result. The purchase or sale of financial instruments is generally recorded at transaction rate. Derivatives are stated at fair value; attributable transaction costs are recognized in the Statement of Profit or Loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described.

### 3.5 IMPAIRMENT

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If an indication of impairment exists, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment.

The recoverable amount of an asset or cash-generating unit (or group of units) is the higher of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects the current market assessments, the time value of money and the risks specific to the asset or the cash-generating unit.

An impairment loss is recognized when the carrying amount of an asset or the cash generating unit to which it belongs exceeds its recoverable amount.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and, if required, subsequently to reduce the carrying amounts of the other assets (of the cash-generating units) on a pro rata basis.

An impairment loss on goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

For financial assets measured at amortized cost the Group considers evidence of impairment at both an individual asset and a collective level. Assets that are not individually significant are assessed for impairment on an aggregated basis.

An impairment loss for financial assets is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognized in the statement of profit or loss and are reflected in an allowance account. If the amount of an impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the statement of profit or loss.

An impairment loss in respect of a strategic investment (accounted for using the equity method) is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in the statement of profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

### 3.6 INTANGIBLE ASSETS

Goodwill arises upon acquiring Group companies and joint operations and is calculated as the difference between the acquisition price and the fair value of the assets and liabilities acquired, according to the accounting principles of Royal Boskalis Westminster N.V. Goodwill is allocated to the relevant cash-generating unit. These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes and not exceeding the level of the Group's operational segments. Goodwill and other intangible assets are presented net of accumulated amortization and accumulated impairment losses. Amortization of trademarks valued at acquisition takes place over 10 years, the amortization of customer portfolios and contracts valued at acquisition takes place over 7 to 22 years.

Goodwill and intangible assets with an indefinite useful life are not amortized, but are tested for impairment every year or in case of an indication of impairment (see note 3.5). In respect of strategic investments, the carrying amount of goodwill is included in the carrying amount of the investment.

Other intangible assets acquired in a business combination are capitalized only when it is probable that future economic benefits embodied in an asset, will flow to the Group and the cost of the asset can be reliably measured. Other intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

### 3.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation calculated from the date of commissioning and accumulated impairment losses. The cost price is based on the purchase price and/or the internally generated cost based on directly attributable expenses. The depreciation, taking into account an assumed residual value, is calculated over the estimated remaining useful lives assigned to the various categories of assets. Modifications and capacity enhancing investments are also capitalized at cost and amortized over the remaining life of the asset. Property, plant and equipment under construction are included in the Statement of Financial Position on the basis of instalments paid, including interest during construction. In the event that property, plant and equipment consists of components with different useful lives, such components are accounted for as separate items.

Buildings are depreciated over periods ranging from 10 to 30 years. The depreciation periods for components of the majority of the floating and other construction materials range from 5 to 30 years. Furniture and other fixed assets are depreciated over a period between 3 and 10 years. Land is not depreciated. The wear of dredging equipment is highly dependent on unpredictable project-specific combinations of soil conditions, material to be processed, maritime circumstances, and the intensity of the deployment of the equipment. As a result of these erratic and time-independent patterns, the maintenance and repair expenses to keep the assets in their operational condition are charged to the Statement of Profit or Loss.

Methods for determining depreciation, useful life and residual value are reassessed at the end of each financial year and amended if necessary.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is classified as a tangible fixed asset and is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases which are not recognized in the Group's consolidated statement of financial position and are disclosed as part of the other commitments and contingent liabilities.

### 3.8 STRATEGIC INVESTMENTS

Strategic investments are initially recognized at cost including the goodwill determined at acquisition date. Subsequently strategic investments are accounted for using the equity method, adjusted for differences with the accounting principles of the Group, less any accumulated impairment losses. If the Group's share of losses exceeds the carrying amount of the strategic investments, the carrying amount is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the strategic investments.

### 3.9 NON-CURRENT RECEIVABLES

Non-current receivables are held on a long-term basis and/or until maturity and are carried at amortized cost. Accumulated impairment losses are deducted from the carrying amount.

### 3.10 FINANCIAL INSTRUMENTS AVAILABLE FOR SALE

Financial instruments available for sale include equity investments (certificates on shares) and are recognized initially at fair value increased with transaction costs. After first recognition, financial instruments available for sale are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income.
At derecognition or reclassification to associated companies, any cumulative unrealized result is recycled to and recognized in the statement of profit or loss. In case of impairment, the cumulative loss is reclassified from the other comprehensive income to the statement of profit or loss.

### 3.11 INVENTORIES

Inventories, which mainly consist of fuel, auxiliary materials and spare parts, are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of disposal.

### 3.12 DUE FROM AND DUE TO CUSTOMERS

Due from and due to customers concerns the gross amount yet to be charged which is expected to be received from customers for contractual work performed up to the reporting date (hereinafter: 'work in progress') and services rendered (mainly salvage work). Work in progress is valued at cost of the work performed, plus a part of the expected results upon completion of the project in proportion to the progress made and less progress billings, advances and, if applicable, provisions for losses. Provisions are recognized for expected losses on work in progress as soon as they are foreseen, and deducted from the cost price; if necessary, any profits already recognized are reversed. Revenue from additional work are included in the overall contract revenue if the customer has accepted the sum involved. Claims and incentives are included in construction work in progress if they are virtually certain based upon negotiations with the customer. The cost price includes project costs, consisting of payroll costs, materials, costs of subcontracted work, cost of local representatives, rental charges and maintenance costs for the equipment used and other project costs. The rates applied are based on the expected average occupation in the long run. The progress of a project is determined on the basis of the proportion that contract cost incurred for work performed to date bear to estimated total cost. Profits are not recognized unless a reliable estimate can be made of the result upon completion of the project. The balance of the value of work in progress, progress billings and advance payments is determined for each project. It is assessed for each project whether the work in progress relates to an asset or a liability. These assets are recognized in the statement of financial position as 'due from customers for work in progress' and as liabilities as 'due to customers'.

Salvage work that is completed at the statement of financial position date but for which the final proceeds are not yet determined between parties is recognized at expected proceeds taking into account the estimation uncertainty less progress billings and advances. For expected losses on salvage work, provisions are recognized as soon as they are foreseen.

**3.13 TRADE AND OTHER RECEIVABLES**

Trade and other receivables are stated initially at fair value and subsequently at amortized cost less accumulated impairment losses, such as doubtful debts. Amortized cost is determined using the original effective interest rate.

**3.14 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash and bank balances, deposits with terms of no more than three months or that qualify as highly liquid investments that are readily convertible and which are subject to insignificant risks of change in value. The explanatory notes disclose the extent to which cash and cash equivalents are not freely available as a result of transfer restrictions, joint control or other legal restrictions. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

**3.15 SHARE CAPITAL**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Transaction costs directly attributable to share buy backs are recognized as a deduction from equity, net of any tax effects.

**3.16 INTEREST-BEARING BORROWINGS**

Interest-bearing borrowings are liabilities to financial institutions. At initial recognition, interest-bearing borrowings are stated at fair value less transaction costs. Subsequently, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of profit or loss over the period of the borrowings using the original effective interest rate.

**3.17 EMPLOYEE BENEFITS**

*Defined contribution pension plans*

A defined contribution pension plan is a post-employment benefit scheme under which the Group pays fixed contributions into a separate pension fund or an insurance company. The Group has no legal or constructive obligation to pay further amounts if the pension fund or insurance company has insufficient funds to pay employee benefits in connection with services rendered by the employee in the current period or prior periods. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense as part of the personnel expenses in the statement of profit or loss when they are owed. Prepaid contributions are recognized as an asset. Contributions to a defined contribution pension plan payable more than 12 months after the period during which the employee rendered the services, are discounted.

*Defined benefit pension plans*

A defined benefit pension plan is every post-employment benefit plan other than a defined contribution plan. For each separate defined benefit pension plan, the net asset or liability is determined as the balance of the discounted value of the future payments to employees and former employees, less the fair value of plan assets. The calculations are done by qualified actuaries using the projected unit credit method. The discount rate equals the yield on high-quality corporate bonds as at the date of the statement of financial position, with the period to maturity of the bonds approximating the duration of the liability. If the calculation results in a positive balance for the group, the asset is included up to an amount equal to any unrecognized past service pension costs and the discounted value of economic benefits in the form of possible future refunds or lower future pension premiums from the fund. In calculating the discounted value of economic benefits, the lowest possible financing obligations are taken into account as applicable to the individual plans in force within the Group. An economic benefit is receivable by the Group if it can be realized within the period to maturity of the plan or upon settlement of the scheme's obligations. Actuarial gains and losses, including any movements in limits on net pension assets, are recognized in the unrecognized results within the statement of other comprehensive income. If plan benefits are changed or if a plan is amended, past service costs or a resulting curtailment profit or loss is recognized directly in the statement of profit or loss. The Group recognizes profit or losses on the settlement of defined benefit plans at the time of settlement.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably.

*Other long-term employee benefits*

Other long-term employee benefits mainly consist of jubilee benefits. The calculation of these liabilities is executed according to the 'projected unit credit' method, using the actuarial assumptions for the predominant defined benefit plan.

*Share-based remuneration plans*

Members of the Board of Management and some senior employees participate in a bonus plan that is based on the development of the share price, whereby the bonus is distributed in cash. The fair value of the amount payable over the year is recognized as personnel expenses in the statement of profit or loss, with a corresponding increase in liabilities. The liability is remeasured each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in the statement of profit or loss.

### 3.18 PROVISIONS

Provisions are determined on the basis of estimates of future outflows of economic benefits relating to operational activities for legal or constructive obligations of an uncertain size or with an uncertain settlement date that arise from past events and for which a reliable estimate can be made. Provisions are discounted insofar as the difference between the discounted value and nominal value is material. Provisions, if applicable, relate to reorganizations, warranties, onerous contracts, soil contamination, legal proceedings and received claims.

Provisions for reorganization costs are recognized when the Group has a detailed formal plan for the restructuring and has announced its main features to those affected by it at the date of the statement of financial position or when the execution of the plan has commenced.

Provisions for warranties are recognized based on the best estimate of the expected cash outflows or cost of repair to settle contractually agreed warranties during the defect notification period for completed projects. The carrying amount of these provisions is estimated based on common industry practice and the Group's experience with warranty claims for relevant projects.

A provision for onerous contracts, including contracts for rendering services to customers, is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

In accordance with the Group's policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expenses, is recognized if the land is contaminated.

### 3.19 TRADE AND OTHER PAYABLES

Trade and other payables are recognized initially at fair value and subsequently at (amortized) cost. If the difference between the discounted and nominal value is not material, trade and other payables are stated at cost.

### 3.20 ASSETS HELD FOR SALE

Assets are classified as held for sale (disposal group) when it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Liabilities related to the assets held for sale are separately recognized as liabilities held for sale. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

### 3.21 REVENUE

Revenue from the contracting of projects by the Dredging & Inland Infra and Offshore Energy operational segments, excluding sea transport and other related services, mainly consists of the cost price of the work performed during the reporting period, plus a part of the expected result upon completion of the project in proportion to the progress made during the reporting period, and including and/or less the provisions recognized and/ or used and released during the reporting period for expected losses. The applied 'percentage-of-completion' method is, by nature, based on an estimation process for the allocation of revenue over the duration of the contract. Revenue from additional work is included in the overall contract revenue if the customer has accepted the sum involved. Claims and incentives are recognized if they are virtually certain based on negotiations with the customer.

Revenue from salvage work that is completed at the date of the statement of financial position (part of the operational segment Towage & Salvage), but for which the proceeds are not finally determined between parties, is recognized at expected proceeds taking into account the estimation uncertainty. If it is uncertain whether the economic benefits of work done or services rendered will flow to the Group, the relevant revenue is not recognized.

Revenue also includes revenue from services rendered to third parties during the reporting period. Such services include the rental/hire of equipment and/or personnel, sea transport services and related services of Offshore Energy and the activities of Harbor Towage. Revenues from services are recognized in the statement of profit or loss in proportion to the stage of completion of the work performed at the reporting date. The stage of completion is determined based on assessments of the work performed.

Revenue does not include any taxes on added value.

### 3.22 OTHER INCOME AND OTHER EXPENSES

Other income and other expenses mainly consists of book results from disposals and insurance results.

### 3.23 RAW MATERIALS, CONSUMABLES, SERVICES AND CONTRACTED WORK

Raw materials, consumables, services and contracted work consist of the cost price of the work performed during the reporting period, excluding personnel expenses, amortization, depreciation and impairments. This item also includes equipment utilization costs, costs of operational leases, general overhead costs, external costs for research and development where not capitalized, currency translation differences, fair value changes of derivatives related to hedging foreign currency effects of projects, and other results/late results.

### 3.24 PERSONNEL EXPENSES

Personnel expenses consist of wages and salaries for own personnel and the related social security charges and pension costs, including paid and accrued contributions for defined contribution pension plans and movements in assets and liabilities from defined benefit plans including curtailments and settlements, insofar as applicable, and excluding actuarial gains and losses and the limits on net pension plan assets added or charged directly to group equity.

### 3.25 LEASE PAYMENTS

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

### 3.26 FINANCE INCOME AND COSTS

Finance income comprises interest received and receivable from third parties, currency gains on financing and compensating results of negative changes in the fair value of financial instruments used to hedge interest or currency results on the financing concerned (hedged item), for which the results of the hedged item are included in the finance income. Interest income is recognized in the statement of profit or loss as it accrues, using the effective interest rate method.

Finance expenses include interest paid and payable to third parties which are reported using the effective interest method, expenses resulting from early repayments, arrangement fees, currency losses on financing and results of positive changes in fair value of financial instruments used to hedge interest or currency results on the financing concerned (hedged item), for which the results of the hedged item are included in the finance expenses. The interest component of financial lease payments is recognized in the statement of profit or loss using the effective interest rate method.

Borrowing costs not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the statement of profit or loss.

### 3.27 SHARE IN RESULT OF JOINT VENTURES AND ASSOCIATED COMPANIES

Share in result of joint ventures and associated companies comprises the share in the results after taxation of the strategic investments (see note 3.2.3).

### 3.28 TAXATION / DEFERRED INCOME TAX ASSETS AND LIABILITIES

Taxation is calculated on the basis of the result before taxation for the reporting period, taking into account the applicable tax provisions and tax rates, and also includes adjustments on taxation from prior reporting periods and movements in deferred taxes recognized in the reporting period. Taxation is included in the statement of profit or loss unless it relates to items recognized directly in equity, in which case taxation is included in equity. Income tax expenses also include the corporate income tax levied on deemed profit determined by revenue (withholding tax). Temporary differences are accounted for in deferred tax assets and/or deferred tax liabilities. Deferred tax assets are only recognized to the extent that it is probable that taxable profit will be available for realization in the foreseeable future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and if they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but provided there is an intention to settle the tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously. Deferred income tax assets and liabilities are recognized at nominal value. Additional (income) taxes that arise from the distribution of dividend are recognized at the same time that the liability to pay the related dividend is recognized.

### 3.29 EARNINGS PER SHARE

The Group discloses earnings per ordinary share as well as diluted earnings per ordinary share. Earnings per ordinary share is calculated based on the result attributable to the Group's shareholders divided by the calculated average number of issued ordinary shares during the reporting period, taking into account any shares that have been issued or repurchased during the reporting period. In calculating the diluted earnings per share the result attributable to the Group's shareholders and the average number of issued ordinary shares are adjusted for all potentially diluting effects on ordinary shares.

### 3.30 DIVIDEND

Dividends are recognized as a liability in the period in which they are declared.

### 3.31 DETERMINATION OF FAIR VALUE

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is determined for measurement and/or disclosure purposes based on the following methods:

*Intangible assets*

The fair value of other intangible assets recorded as a result of a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

*Financial assets available for sale*

The fair value of the financial assets available for sale is determined by quoted prices.

*Strategic investments*

Where relevant, the fair value of strategic investments is determined or disclosed based on quoted prices or business valuations.

*Property, plant and equipment*

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein each party acted knowledgeably, prudently and without compulsion.

*Trade and other receivables*
The fair value of trade and other receivables, other than due from customers, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

*Share-based payment transactions*
The fair value is determined based on quoted prices.

*Derivatives*
The fair value of derivatives is based on the estimated amount to be paid or received for a settlement of the contract as at the reporting date taking into account the actual interest rate and the credit rating of the counterparty. The fair value is based on broker quotes tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

*Non-derivative financial liabilities*
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Fair value hierarchy**
Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 3.32 CONSOLIDATED STATEMENTS OF CASH FLOWS
The consolidated statement of cash flows is drawn up using the indirect method. Cash is defined as cash and cash equivalents including bank overdrafts as presented in the explanatory notes to the cash and cash equivalents and the interest-bearing borrowings. Cash flows are presented separately in the statement of cash flows as cash flows from operating activities, investing activities and financing activities. The cash flows in the statement of cash flows also included the cash flows, if any, related to the disposal group.

## 4. SEGMENT REPORTING

The Group recognizes three operational segments which comprise the divisions of the Group as described below. These divisions offer different products and services and are managed separately because they require different strategies. Each of the divisions reports on a quarterly basis, by means of internal management reporting to the Board of Management.

The following is a brief summary of the activities of the operational segments:

- Dredging & Inland Infra

Traditionally, dredging is the core activity of the Group. It involves all activities required to remove silt, sand and other layers from the river water bed and in some cases using it elsewhere where possible, for example for coastal protection or land reclamation. The services provided also include the construction and maintenance of ports and waterways, and coastal defense and riverbank protection, as well as associated specialist services such as underwater rock fragmentation. In addition, the Group is active in the extraction of raw materials using dredging techniques and dry earthmoving. In the Netherlands, the Group also operates as a contractor of dry infrastructure projects. This involves the design, preparation (by means of dry earthmoving) and execution of large-scale civil infra works, such as the construction of roads and railroads, bridges, dams, viaducts and tunnels. These activities include performing specialist works such as soil improvement and land remediation.

- Offshore Energy

With the offshore services of the Group, such as provided by Dockwise and Fairmount, the Group supports activities of the international energy sector, including oil and gas companies and providers of renewable energy such as wind power. The Group is involved in the development, construction, maintenance and decommissioning of oil and LNG-import/export facilities, offshore platforms, pipelines and cables and offshore wind farms. In performing these activities the Group applies its expertise in the areas of heavy transport, lift and installation work, as well as diving and ROV services complemented with dredging, offshore pipeline, cable and rock installation. With effect of 1 July 2016 the acquired offshore activities of VolkerWessels consisting of VSI, Stemat and VBMS (expanding the Group's share in VBMS from 50% to 100%) are part of this segment. Through VBMS, the Group is a leading player in the European market for offshore cable installation.

- Towage & Salvage

In ports around the world assistance is provided to incoming and outgoing oceangoing vessels through the Group's joint ventures Keppel Smit Towage, Saam Smit Towage and KOTUG SMIT Towage. In addition, a full range of services for the operation and management of onshore and offshore terminals is offered through its strategic joint venture Smit Lamnalco. These include assistance with the berthing and unberthing of tankers at oil and LNG terminals and additional support services. With a versatile fleet of over 400 vessels assistance is provided in around 90 ports in 36 countries, including oil and chemical tankers, container ships, reefers, RoRo ships and mixed cargo ships. Through SMIT Salvage services are provided to the salvage of ships and wreck removal. SMIT Salvage provides assistance to vessels in distress and is able to act at anytime and anywhere in the world. It is able to do so by operating out of four locations which are strategically situated in relation to the main international shipping routes: Houston, Cape Town, Rotterdam and Singapore. Wreck removal of sunken ships and offshore platforms almost always takes place at locations where the wreck forms an obstruction to traffic or presents an environmental hazard.

- Segments

The operational segments are monitored based on the segment result (operating result) and EBITDA. The segment result and EBITDA are used to measure the performance of operational segments, both between segments and compared to other companies in the same industry. Inter-operational segment services, if any, take place on an arm's length basis. EBITDA is defined as being the segment result before depreciation, amortization and impairments. In the reporting period there were no material inter-operational segment services. The share of results (up to the classification as available for sale) and the carrying amount of the investment in Fugro N.V. is reported under Holding & Eliminations.

## 4.1 OPERATIONAL SEGMENTS

| 2016 | DREDGING & INLAND INFRA | OFFSHORE ENERGY | TOWAGE & SALVAGE | HOLDING & ELIMINATIONS | GROUP |
|---|---|---|---|---|---|
| Revenue | **1,164,471** | **1,333,723** | **121,352** | **- 23,220** | **2,596,326** |
| EBITDA | **222,975** | **374,749** | **55,069** | **7,712** | **660,505** |
| Share in result of strategic investments before impairments, excluding Fugro | **3,612** | **2,175** | **35,541** | **39** | **41,367** |
| Impact of Fugro (note 5.5) | | | | **- 30,094** | **- 30,094** |
| Revaluation result of investment in VBMS Holding B.V. prior to business combination | | | | **39,839** | **39,839** |
| Book result of KOTUG SMIT Towage | | | | **33,974** | **33,974** |
| Operating result (before impairment losses) | **119,653** | **209,500** | **48,789** | **6,624** | **384,566** |
| Impairment losses, including within joint ventures | | | | | **- 842,641** |
| EBIT | | | | | **- 458,075** |
| Non-allocated finance income and expenses | | | | | **- 71,315** |
| Non-allocated income tax expenses | | | | | **- 32,360** |
| Net Group profit / loss (-) | | | | | **- 561,750** |
| Carrying amount of strategic investments | **4,180** | **55,493** | **767,150** | **221** | **827,044** |
| Investments in property, plant and equipment | **108,727** | **65,973** | **2,261** | **5,122** | **182,083** |
| Depreciation on property, plant and equipment | **104,569** | **157,078** | **6,280** | **856** | **268,783** |
| Reversal impairment losses on property, plant and equipment | **- 1,247** | **- 58** | **-** | **-** | **- 1,305** |
| Amortization of intangible assets | **-** | **8,229** | **-** | **232** | **8,461** |
| Impairment losses on property, plant and equipment | **16,530** | **338,303** | **7,957** | **3,427** | **366,217** |
| Impairment losses on goodwill | **-** | **382,269** | **-** | **-** | **382,269** |
| Impairment losses in joint ventures | **-** | **-** | **94,155** | **-** | **94,155** |

| 2015 | DREDGING & INLAND INFRA | OFFSHORE ENERGY | TOWAGE & SALVAGE | HOLDING & ELIMINATIONS | GROUP |
|---|---|---|---|---|---|
| Revenue | 1,727,183 | 1,233,412 | 294,862 | - 15,130 | 3,240,327 |
| EBITDA | 400,361 | 418,400 | 96,215 | - 30,268 | 884,708 |
| Share in result of strategic investments before impairments, excluding Fugro | 2,862 | 6,981 | 36,265 | 243 | 46,351 |
| Impact of Fugro (note 5.5) | | | | - 3,437 | - 3,437 |
| Operating result (before impairment losses) | 299,493 | 250,511 | 79,110 | - 51,788 | 577,326 |
| Impairment losses, including within joint ventures | | | | | - 14,533 |
| EBIT | | | | | 562,793 |
| Non-allocated finance income and expenses | | | | | - 31,811 |
| Non-allocated income tax expenses | | | | | - 87,452 |
| Net Group profit / loss (-) | | | | | 443,530 |
| Carrying amount of strategic investments | 3,457 | 75,748 | 722,253 | 391,315 | 1,192,773 |
| Investments in property, plant and equipment | 109,652 | 89,161 | 15,367 | 16,195 | 230,375 |
| Depreciation on property, plant and equipment | 100,180 | 156,087 | 17,105 | - 7,536 | 265,836 |
| Amortization of intangible assets | 688 | 11,802 | - | 232 | 12,722 |
| Impairment losses on property, plant and equipment | 3,192 | 11,341 | - | - | 14,533 |
| Impairment Fugro N.V. | | | | 28,824 | 28,824 |

As required by IFRS, the information as presented above reconciles with the internal management information of the Board of Management. In measuring the financial performance of operational segments, certain line items are presented differently in the internal management information than in these EU-IFRS consolidated financial statements.

- In the EU-IFRS consolidated statement of profit or loss the Result from operating activities (EBIT) shows a loss of EUR 458.1 million and includes impairment losses of EUR 843 million including impairment losses accounted for within joint-ventures (2015: EUR 15 million). The presented Operating result (before impairment losses) in the table above shows a profit of EUR 384.6 million profit (2015: EUR 577.3 million profit) and does not include these impairment charges. In the table above the impairment losses are specified per operational segment.

- Also, EU-IFRS defines the Result of joint ventures and associated companies and these are presented as such in the statement of profit or loss showing a loss of EUR 82.9 million (2015: EUR 43.3 million profit). In the table above the Result of joint ventures and associates amounts to EUR 41.4 million profit (2015: EUR 46.4 million profit) and excludes both the impact of Fugro amounting to a loss of EUR 30.1 million (2015: EUR 3.4 million loss) as our share in the impairment loss of EUR 94.2 million (2015: zero) as reported by joint ventures. In the table above these are reported as separate line items, under Impact of Fugro and Impairment in losses in joint ventures, respectively.

- In accordance with the presentation of our share in the impairments recognized by joint ventures and associated companies in the management information on the line impairments, the EBITDA in the management information defined as operational results before depreciation, amortization and impairments is EUR 94 million higher compared to the consolidated financial statements (EBIT before depreciation, amortization and impairments as disclosed in the statement of profit or loss).

## 5. BUSINESS COMBINATIONS AND OTHER SIGNIFICANT TRANSACTIONS

### 5.1 ACQUISITION OF OFFSHORE ASSETS AND ACTIVITIES OF VOLKERWESSELS

On 1 July 2016 the Group obtained control of the maritime and offshore wind energy-related activities of VolkerWessels through the acquisition of 100% of the shares and voting rights in Stemat and VSI (Volker Stevin International) and the remaining 50% of the outstanding shares and voting rights in VBMS, expanding its share in VBMS from 50% to 100%. The acquisition of VBMS, Stemat and VSI also includes two large offshore projects. This transaction is classified as a business combination and is included as such in the consolidation.

VBMS is a European leader with a strong market position in the field of the offshore installation of cables. Stemat offers specialist floating structures globally and features a diverse fleet including a cable laying ship and multi-purpose vessels. VSI is a specialist in building foundations and offshore marine structures. Prior to the business combination, the Group and VSI, in a 50% -joint venture, acquired two large offshore wind farm projects. The transaction enables the Group to further execute these two projects on a 100% basis.

This business combination is a logical step in enhancing the services of the Group in its offshore activities, enabling the Group to serve its customers even better under complex conditions, with optimum deployment of people and equipment. The Group expects market and cost synergies through economies of scale, the use of best practices, an optimized branch network and combined purchasing opportunities.

Since obtaining control on 1 July 2016, the offshore activities of VolkerWessels contributed EUR 292 million to Group revenue and EUR 14 million profit to Group net result. This excludes both transaction costs related to the acquisition and the result arising from the book profit from revaluation to fair value of the Group's existing stake in VBMS at the date of acquisition. Management believes that had the acquisition taken place at the start of 2016, revenue for the reporting period would have totaled EUR 2,797 million and consolidated net Group result EUR 555 million (loss), respectively. In determining these amounts management assumed the same fair value adjustments as at the date of acquisition.

**Revaluation of existing share in VBMS prior to business combination**

Up to and including 30 June 2016 the Group's share of 50% in VBMS was recognized as a joint venture. Under IFRS this transaction is accounted for as a sale of the 50% share in VBMS and subsequent acquisition of a 100% subsidiary. The fair value of the 50% investment in VBMS (sold) amounted to EUR 55.7 million and is based on a business valuation by an external business valuator. As a result, the revaluation to fair value of the existing stake in VBMS resulted in a gain of EUR 39.8 million, of which EUR 8.8 million before tax relates to the recycling of the hedging reserve and accumulated currency translation differences (EUR 6.6 million after tax). This revaluation result is included in the 'Holding & Eliminations' segment (in the 'Operational segments' table in note 4.1). A legal reserve relating to these gains is recognized in equity.

**Consideration paid**
On 1 July 2016 the Group paid an amount of EUR 180 million in cash to VolkerWessels. The net change in cash and cash equivalents, taking into account the cash and cash equivalents held by the acquired companies, amounts to EUR 78 million.

**Identifiable assets acquired and liabilities assumed**
As a result of the acquisition, the following identifiable assets were acquired and liabilities assumed:

| At 1 July 2016 | |
|---|---|
| Intangible assets | **103** |
| Property, plant and equipment | **82,019** |
| Deferred tax assets | **1,741** |
| Inventory | **842** |
| Due from customers | **6,177** |
| Current receivables and other current assets | **136,708** |
| Cash, cash equivalents and bank overdrafts | **102,120** |
| Deferred tax liabilities | **- 1,910** |
| Provisions | **- 5,553** |
| Due to customers | **- 139,951** |
| Current liabilities | **- 92,220** |
| Income tax payable | **- 9,315** |
| Net amount of identified assets acquired and liabilities assumed | **80,761** |

The purchase price allocation and valuation of identified assets acquired and liabilities assumed was finalized in October 2016. The following valuation techniques were used in assessing the fair value of identified, material, assets and liabilities:

- The fair value of the individual vessels (property, plant & equipment) is mainly determined based on a market approach performed by an external vessel valuator.
- The fair value of the material assets identified (with the exception of vessels) and liabilities assumed was determined by an external business valuator. The fair value of contracts acquired (amounts due to and from customers) was determined based on the projects in progress, including the fair value of the order portfolio and excluding existing related party activities. This involves estimates of the physical progress, the costs to complete, less a reasonable margin and less costs of disposal. The fair value of other material assets identified and liabilities assumed, including creditors and debtors, is based on the market value at which the assets or liabilities are or can be settled with contractual parties.

Trade accounts and other receivables consist of a gross amount of contractual obligations of EUR 137.0 million, of which an amount of EUR 0.3 million was deemed irrecoverable at the date of acquisition.

**Goodwill**
Goodwill arising from the acquisition:

| At 1 july 2016 | |
|---|---|
| Total consideration paid at 1 July 2016 | **180,000** |
| Fair value of existing investment in VBMS | **55,700** |
| | **235,700** |
| Less: Net amount of identified assets acquired and liabilities assumed | **- 80,761** |
| Goodwill recognized | **154,939** |

Goodwill recognized as a result of the acquisition mainly relates to the obtained expertise and technical skills of VolkerWessels employees involved in the acquired maritime and offshore wind energy-related activities of VolkerWessels and synergies which are expected to result from the integration of the company into the Group's existing activities. The goodwill recognized is not tax deductible.

**Transactions related to the acquisition**
The Group incurred costs of EUR 0.7 million for the services of external advisors relating to this transaction. These costs are included in the consolidated statement of profit or loss in the line 'Raw materials, consumables, services and subcontracted work' and are incorporated in the segment result under Holding & Eliminations.

### 5.2 ACQUISITION OF ASSETS AND ACTIVITIES OF STRABAG WASSERBAU

On 31 March 2016 the Group obtained control of the German dredging activities of STRABAG Wasserbau GmbH (hereinafter referred to as: 'the STRABAG business') by means of an asset purchase agreement and payment of the agreed purchase price. Through this transaction the Group acquired relatively new vessels, equipment and related personnel, as well as a few small maintenance contracts. This transaction is classified as a business combination and is included as such in the consolidation.

The acquisition of the STRABAG business strengthens the fleet and market position of the Dredging & Inland Infra division. Also, the acquisition of the STRABAG business creates opportunities for synergies and cost savings.

As from 31 March 2016 the STRABAG business contributed EUR 8.7 million to the (consolidated) revenue of the Group, which comprises the revenue from the maintenance contracts acquired. The vessels have operated on contracts of the Group. The acquisition has resulted in a positive impact of approximately EUR 3.0 million including the gain from the bargain purchase (see below) and expenses resulting from the integration of the STRABAG business in the Group which is included in the segment result under Dredging & Inland Infra. Had the Group acquired the STRABAG business at the beginning of the year, management estimates that this would not have had an (additional) material impact on the consolidated revenue and result over 2016.

These amounts do not include the transaction costs related to the acquisition.

**Consideration paid**

The consideration paid amounted to EUR 70.7 million in cash.

**Identifiable assets acquired and liabilities assumed**

As a result of the acquisition, the following identifiable assets were acquired and liabilities assumed:

| At 31 March 2016 | |
|---|---|
| Property, plant and equipment | **82,371** |
| Inventory | **693** |
| Current liabilities | **- 1,388** |
| Net amount of identified assets acquired and liabilities assumed | **81,676** |

The purchase price allocation and valuation of identified assets acquired and liabilities assumed was finalized in the fourth quarter 2016 as an external vessel valuator determined the fair value of the individual vessels (property, plant and equipment) based on the market approach.

**Bargain purchase**

The business combination resulted in a gain on acquisition, recognized in Other income in the statement of profit or loss, because the net amount of assets acquired and liabilities assumed is higher than the consideration paid. A gain was expected given the agreement with the seller on the expenses to be borne by Boskalis that do not qualify as an assumed liability under IFRS at 31 March 2016. Before recognizing the gain, the Group reassessed the completeness of assets identified and liabilities assumed, and also reassessed the underlying assumptions and measurement techniques.

| At 31 March 2016 | |
|---|---|
| Total consideration paid at 31 March 2016 | **70,693** |
| Less: Net amount of identified assets acquired and liabilities assumed | **- 81,676** |
| Result from bargain purchase of business combination | **- 10,983** |

A deferred tax liability of EUR 3.5 million was recognized in the statement of profit or loss regarding the profit relating to the bargain purchase of this business combination amounting to EUR 11.0 million (after tax: EUR 7.5 million).

**Transactions related to the acquisition**

The Group incurred costs of EUR 0.1 million for the services of external advisors relating to this transaction. These costs are included in the consolidated statement of profit or loss in the line 'Raw materials, consumables, services and subcontracted work' and are incorporated in the segment result under Holding & Eliminations.

### 5.3 MERGER OF SMIT AND KOTUG'S EUROPEAN HARBOR TOWAGE ACTIVITIES

On 7 April 2016 the Group completed the merger of its European harbor towage activities with those of KOTUG International B.V. Each partner has a 50% participation in the established joint venture, which operates under the name KOTUG SMIT Towage in eleven ports in Belgium, Germany, the United Kingdom and the Netherlands, with a fleet of 64 tugboats. The Group received proceeds related to this transaction of EUR 90 million, which are reported as a cash flow from divestment.

The new situation has been accounted for in the consolidation as from April 2016. As from this date the towage activities are included through the KOTUG SMIT Towage strategic joint venture. The transaction is accounted for as a sale of group companies by the Group and subsequently as an investment in the KOTUG SMIT Towage strategic joint venture. The fair value of the group companies contributed and allocation of the acquisition price of the investment were estimated based on company valuations by external valuators. The fair values are estimated for the assets acquired and liabilities assumed for the determination of goodwill as included in the investment in KOTUG SMIT Towage.

The book result, recognized in Other income in the statement of profit or loss, arising from the transaction amounted to EUR 34.0 million (after tax EUR 37.0 million), includes a profit of EUR 1.7 million as result of the recycling of accumulated currency translation differences to the statement of profit or loss. The book result is recognized in the statement of profit or loss, as shown in the 'Operational segments' table included in the Holding & Eliminations segment in note 4.1.

Since 2014 the Group had classified these activities from the Towage & Salvage operational segment, which were incorporated in the joint venture on 7 April 2016, as assets held for sale valued at book value. The share of results and the carrying value of the stake in the KOTUG SMIT Towage is also reported under Towage & Salvage.

### 5.4 SALE OF SMIT AMANDLA MARINE

In March 2016 the Group decided to divest the activities of SMIT Amandla Marine, which were classified as assets held for sale as from that date. On 1 December 2016 the Group completed the sale of its investment in SMIT Amandla Marine, which had formed part of the Offshore Energy division. The sale resulted in a net-consideration of EUR 38.5 million and a book profit of EUR 8.3 million, including a loss of EUR 9.9 million as result of the recycling of accumulated currency translation differences to the statement of profit or loss. The book result, reported as part of Other income, is recognized in the statement of profit or loss as shown in the 'Operational segments' table included in the Holding & Eliminations segment in note 4.1.

### 5.5 REDUCTION OF INVESTMENT IN FUGRO N.V.

At year-end 2015 the 28.6% participation in Fugro N.V. was classified as a material associated company. In the fourth quarter of 2016 the Group reduced its participation to 9.4% and following the loss of significant influence the remaining investment was reclassified as an available-for-sale financial asset. The quoted price at the time when significant influence was lost is applied in determining the sales price for which the remaining investment in Fugro N.V. was classified as an available-for-sale financial asset.

The reduction of the investment in Fugro N.V. and the reclassification of the remaining investment as available for sale, resulted in a book result. Based on the information available when the Group lost its significant influence, this sale resulted in a book loss of EUR 2.2 million, including the recycling profit of translation and hedging reserves amounting to EUR 2.3 million, based on the book value of our investment including our share in the first half year loss of Fugro N.V. amounting to EUR 27.9 million. The total impact of the Group's investment in Fugro N.V. on the 2016 statement of profit or loss of the Group amounts to a loss of EUR 30.1 million (2015: loss of EUR 3.4 million). Based on the annual results as made public by Fugro N.V. on 24 February 2017, this impact would consist of the share of the Group in the full year loss of Fugro amounting to a loss of EUR 51.9 million and consequently a book result amounting to a profit of EUR 21.8 million. The total impact is reported in Result of joint ventures and associated companies; in the statement of profit or loss as shown in the 'Operational segments' table in note 4.1, the Fugro investment is reported under Holding & Eliminations.

### 5.6 ASSETS AND LIABILITIES HELD FOR SALE

The assets and liabilities of activities held for sale are summarized as follows:

| | **2016** | 2015 |
|---|---|---|
| Intangible assets | **-** | 58,414 |
| Property, plant and equipment | **1,244** | 138,731 |
| Receivables and other non-current assets | **2,777** | 23,720 |
| Cash and cash equivalents | **5,606** | 3,579 |
| Assets of disposal groups | **9,627** | 224,444 |
| | | |
| Financing and interest bearing loans | **-** | 5,522 |
| Deferred tax liabilities | **-** | 15,635 |
| Provisions | **450** | 73 |
| Creditors and other current liabilities | **7,259** | 15,902 |
| Liabilities of disposal groups | **7,709** | 37,132 |

At year-end 2016 the assets and liabilities held for sale relate to the subsidiary Aannemingsbedrijf Markus B.V., which was sold on 12 January 2017. The transaction did not result in a book result.

At year-end 2015 the assets and liabilities held for sale relate to European harbor towage activities that were contributed to the KOTUG SMIT Towage (see note 5.3). During part of 2016 the activities of SMIT Amandla Marine were classified as held for sale (see note 5.4).

## 6. REVENUE

Revenue from construction contracts (IAS 11) and services on a project base, by analogy, amount to approximately EUR 1.8 billion (2015: EUR 1.9 billion). This mainly comprises the net revenue of the Dredging & Inland Infra and Offshore Energy (excluding sea transport and related services) segments and typically involves work in progress. Movements in the value of work in progress, consisting of cumulative incurred costs plus profit in proportion to progress less provisions for losses, together with the work done and completed during the reporting period, determine the revenue for these activities. The revenue from services rendered to third parties is primarily realized in the Offshore Energy (including sea transport and related services) and Towage & Salvage operational segments. The revenue from services amounts to approximately EUR 0.8 billion (2015: EUR 1.3 billion).

For projects executed in a joint operation, the segments only report their own share in the revenue and results recognized, resulting in no material related party transactions between segments that need to be eliminated.

Revenue by region can be specified as follows:

| | **REVENUE** | |
|---|---|---|
| | **2016** | 2015 |
| The Netherlands | **552,166** | 640,230 |
| Rest of Europe | **1,078,648** | 779,336 |
| Australia / Asia | **283,658** | 540,093 |
| Middle East | **134,555** | 250,529 |
| Africa | **232,553** | 615,259 |
| North and South America | **314,746** | 414,880 |
| | **2,596,326** | 3,240,327 |

A region is determined as the location in which projects are realized and services are provided; for sea transport the region refers to the (nearest) port of arrival of the transport or the project location for offshore installation. A large part of the Group’s revenue is generated on projects for a variety of clients in various countries and geographical areas. Because of the often-incidental nature and spread of the contracts none of these clients qualifies structurally as a material client in relation to the total revenue of the Group.

## 7. OTHER INCOME AND OTHER EXPENSES

Other income mainly comprises the book profit of EUR 34.0 million on the transfer of the European harbor towage activities (see note 5.3) into the KOTUG SMIT Towage joint venture, the result on the bargain purchase regarding the assets and activities of STRABAG Wasserbau of EUR 11.0 million (see note 5.2), the result on the sale of SMIT Amandla Marine amounting to EUR 8.3 million (see note 5.4), reversal of an impairment amounting to EUR 1.3 million and positive book results on the disposal of equipment of EUR 4.7 million (2015: EUR 8.4 million).

Other expenses relates to the book loss on the disposal of equipment amounting EUR 0.3 million (2015: EUR 4.6 million).

## 8. RAW MATERIALS, CONSUMABLES, SERVICES AND SUBCONTRACTED WORK

As part of this line item the operating lease costs relating to leased equipment are reported for an amount of EUR 34 million (2015: EUR 35 million). In 2015 expenses for reorganization were incurred for an amount of EUR 2.7 million. For reorganization expenses 2016, we refer to note 9 Personnel expenses below.

## 9. PERSONNEL EXPENSES

| | **2016** | 2015 |
|---|---|---|
| Wages and salaries | **- 373,146** | - 406,316 |
| Social security expenses | **- 37,318** | - 45,982 |
| Pension expenses for defined benefit pension plans | **- 24,267** | - 43,277 |
| Pension expenses for defined contribution pension plans | **- 16,724** | - 17,513 |
| | **- 451,455** | - 513,088 |

A number of senior managers participate in an incentive plan based upon the development of the share price, which is settled on a cash basis. The fair value of the related liability for the year, is included as part of the personnel expenses in the statement of profit or loss. The related charge for 2016 amounted to EUR 0.4 million (2015: EUR 3.6 million) and the corresponding liability was EUR 4.4 million (2015: EUR 6.5 million). For the remuneration of the Board of Management and the Supervisory Board refer to note 30.2.

Pension expenses for defined benefit pension plans include settlement and curtailment gains amounting to EUR 13.3 million (see note 25).

During the year expenses for reorganization were incurred for an amount of EUR 11.6 million mainly in connection with fleet rationalization and related staff reduction.

## 10. IMPAIRMENT LOSSES

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Other non-financial assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

| | **2016** | 2015 |
|---|---|---|
| Intangible assets | **- 382,269** | - |
| Property, plant and equipment | **- 366,217** | - 14,533 |
| | **- 748,486** | - 14,533 |
| Impairment losses in joint ventures | **- 94,155** | - |
| | **- 842,641** | - 14,533 |

In 2016 the Group incurred a non-cash impairment loss of EUR 843 million. This charge is almost entirely related to the services part of the Groups' offshore oil and gas activities. In some of the service-related offshore energy market segments there is a structural imbalance between supply and demand, particularly in the heavy marine transport segment. This has put utilization, rates and margins under pressure.

*Goodwill*

The changed market circumstances in some of the service-related offshore energy market segments have resulted in a downward adjustment of the projected future cash flows for the cash-generating unit Offshore Energy. After recognizing a EUR 382 million goodwill impairment charge, the carrying amount and recoverable amount of the cash-generating unit Offshore Energy amounted to EUR 1.4 billion as at 31 December 2016, based on a value-in-use calculation.

*Property, plant and equipment*

Also, an impairment loss on property, plant and equipment of EUR 366 million was recorded, mainly related to Offshore Energy vessels. The recoverable amounts are determined based on the higher of the fair value less costs to sell (determined by external valuator) and value-in-use calculations using discounted cash flow models. The pre-tax discount rates used in the calculations vary from 7.0% to 7.6%.

*Joint ventures*

The share in impairment losses accounted for by joint ventures, mainly Smit Lamnalco, relate to impairments on vessels due to poor market conditions which are expected to continue in subsequent years.

*Impact on earnings per share*

The non-cash impairment charges of EUR 843 million (after tax EUR 840 million) has an impact of EUR -6.56 per share and results in a net-loss and negative earnings per share of EUR -4.40. Earnings per share excluding the impact of the abovementioned non-cash impairment charges are positive and amounts to EUR 2.16. See also note 23.5.

## 11. FINANCE INCOME AND EXPENSES

| | **2016** | 2015 |
|---|---|---|
| Interest income on short-term bank deposits | **1,001** | 1,163 |
| Finance income | **1,001** | 1,163 |
| | | |
| Interest expenses | **- 30,014** | - 30,333 |
| Expenses prepayment US private placement | **- 40,264** | - |
| Change in fair value of (hedging instruments regarding) borrowings | **- 178** | - 722 |
| Other expenses | **- 1,860** | - 1,919 |
| Finance expenses | **- 72,316** | - 32,974 |
| | | |
| Net finance expenses recognized in consolidated statement of profit or loss | **- 71,315** | - 31,811 |

Early repayment of the 2010 private placement notes resulted in expenses and respective accrued liabilities related to make-whole payments of EUR 30.0 million, due to the noteholders (see note 24) and EUR 9.9 million expenses relating to the unwinding of the related cross-currency interest rate swaps (see note 24). Following the early repayment, the related cross-currency interest rate swaps no longer qualified for hedge accounting. In addition the expenses regarding the prepayment of the US private placement also include the impairment of capitalized transaction costs incorporated in the carrying amount for early repayment of financing of EUR 0.4 million. Amortization and impairments relating to other loans amount to EUR 0.7 million (2015: EUR 1.3 million) and commitment fees paid to EUR 1.0 million (2015: EUR 0.8 million). The fair value adjustments for loans (with regard to hedging instruments) include EUR 9.9 million negative (2015: EUR 41.5 million negative) for foreign currency translation effects on loans and other financing obligations, as well as an equal but opposite amount for foreign currency translations on the related derivatives.

## 12. INCOME TAX EXPENSES

The tax charge declined to EUR 32.4 million (2015: EUR 87.5 million). The effective tax rate, adjusted for impairment charges, was 11.1% (2015: 16.0%) and 17.0%, if adjusted for the net result from joint ventures and associates, the book profit on the KOTUG SMIT transaction, the book profit from the revaluation to fair value of our existing 50% share in VBMS and the book profit on the sale of SMIT Amandla Marine.

| | **2016** | 2015 |
|---|---|---|
| **CURRENT INCOME TAX EXPENSES** | | |
| Current year | **- 54,422** | - 89,565 |
| Over / under(-) provision regarding prior financial years | **20,351** | 5,566 |
| Reclassification of deferred income taxes regarding prior financial years | **-** | 1,830 |
| | **- 34,071** | - 82,169 |
| **DEFERRED INCOME TAX EXPENSES** | | |
| Origination and reversal of temporary differences | **1,819** | - 3,685 |
| Reclassification of deferred income taxes regarding prior financial years | **-** | - 1,830 |
| Movement of recognized tax losses carried forward | **- 108** | 232 |
| | **1,711** | - 5,283 |
| **TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS** | **- 32,360** | - 87,452 |

The operational activities of the Group are subject to various tax regimes with tax rates ranging from 0.0% to 48.0% (2015: 0.0% to 40.5%). These different tax rates, non-deductible expenses, treatment of tax losses, special taxation regimes, adjustments in respect of prior years and results not subject to taxation, result in an effective tax rate in the reporting period of -6.1% (2015: 16.5%). The effective tax rate is calculated as tax charge divided by profit/loss before taxation, as shown in the consolidated statement of profit or loss. The reconciliation between the Dutch nominal income tax rate and the effective income tax rate is as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| Profit/Loss (-) before taxation | **- 529,390** | | 530,982 | |
| Impairment losses | **842,641** | | 14,533 | |
| **Profit/Loss (-) before taxation, adjusted** | **313,251** | | 545,515 | |
| Nominal tax rate in the Netherlands | **- 78,313** | **25.0%** | - 136,379 | 25.0% |
| Tonnage tax, withholding tax, other special tax regimes | **18,423** | **- 5.9%** | 36,931 | - 6.8% |
| Different statutory taxes for other jurisdictions | **2,981** | **- 1.0%** | 20,645 | - 3.8% |
| **Weighted average tax rate** | **- 56,909** | **18.1%** | - 78,803 | 14.4% |
| Increase (decrease) in tax rate resulting from: | | | | |
| Unrecognized income tax losses and temporary differences | **- 7,886** | **2.5%** | - 10,959 | 2.0% |
| Recognition of previously unrecognized tax losses | **3,461** | **- 1.1%** | 4,594 | - 0.8% |
| Tax exempted share in results of joint ventures and associated companies (excl. impairments) | **4,191** | **- 1.3%** | 9,177 | - 1.7% |
| Tax exempted revaluation results and book results | **20,433** | **- 6.5%** | - 87 | 0.0% |
| Non-deductible expenses | **- 18,515** | **5.9%** | - 16,941 | 3.1% |
| Prior year adjustments | **20,351** | **- 6.5%** | 5,566 | - 1.0% |
| | **- 34,874** | **11.1%** | - 87,452 | 16.0% |
| Tax benefit on impairments of group companies | **2,514** | **- 17.2%** | - | 0.5% |
| **Effective income tax rate** | **- 32,360** | **- 6.1%** | - 87,452 | 16.5% |

Tax exempted revaluation results and book results mainly relate to the transfer of the European harbor towage activities into the KOTUG SMIT Towage joint venture (see note 5.3), the revaluation of the share in VBMS prior to business combination (see note 5.1) and the result on the sale of SMIT Amandla Marine (see note 5.4). In 2015 this related to the revaluation gain and impairment loss regarding the Group's investment in Fugro N.V.

## 13. INCOME TAX RECEIVABLE AND PAYABLE

The current income tax receivables and income tax payables relate to the tax positions of the respective Group companies and consist of financial years yet to be settled less withholding taxes or tax refunds.

## 14. DEFERRED INCOME TAX ASSETS AND LIABILITIES

| | BALANCE AS AT 1 JANUARY 2016 | | MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR | | | | | BALANCE AS AT 31 DECEMBER 2016 | |
|---|---|---|---|---|---|---|---|---|---|
| | **Asset** | **Liability** | **Charged (-)/ added to net profit** | **Charged to equity** | **Reclassified to disposal group** | **In / (out) consolida-tion and business combina-tions** | **Currency translation differences** | **Asset** | **Liability** |
| Intangible assets | **-** | **- 2,960** | **2,742** | **-** | **-** | **- 2,149** | **202** | **-** | **- 2,165** |
| Property, plant and equipment | **2,301** | **- 13,854** | **- 2,445** | **-** | **4,930** | **- 2,259** | **- 487** | **583** | **- 12,397** |
| Due from and due to customers | **371** | **- 358** | **- 6,637** | **-** | **-** | **- 926** | **693** | **-** | **- 6,857** |
| Trade and other receivables | **-** | **- 17** | **17** | **-** | **17** | **- 17** | **- 2** | **-** | **- 2** |
| Hedging reserve | **2,409** | **-** | **6** | **- 2,034** | **-** | **- 268** | **217** | **330** | **-** |
| Actuarial gains / losses (-) and asset limitation on defined benefit pension plans | **11,583** | **-** | **-** | **- 5,801** | **-** | **-** | **8** | **5,790** | **-** |
| Employee benefits | **787** | **- 5,346** | **- 1,530** | **6,881** | **-** | **-** | **- 1** | **4,083** | **- 3,292** |
| Provisions | **1,070** | **- 566** | **1,571** | **-** | **597** | **- 598** | **- 787** | **1,287** | **-** |
| Interest-bearing borrowings | **344** | **- 33** | **1** | **-** | **-** | **344** | **- 311** | **345** | **-** |
| Trade and other payables | **546** | **- 154** | **247** | **-** | **208** | **443** | **1** | **1,291** | **-** |
| Other assets and liabilities | **317** | **- 9,371** | **7,847** | **-** | **50** | **579** | **- 135** | **445** | **- 1,158** |
| Foreign branch results | **-** | **- 1,565** | **-** | **-** | **-** | **-** | **- 1** | **-** | **- 1,566** |
| Income tax losses carried forward | **511** | **-** | **- 108** | **-** | **-** | **-** | **11** | **414** | **-** |
| | **20,239** | **- 34,224** | **1,711** | **- 954** | **5,802** | **- 4,851** | **- 592** | **14,568** | **- 27,437** |
| Offsetting of deferred income tax assets and liabilities | **- 8,219** | **8,219** | | | | | | **- 4,063** | **4,063** |
| Net in the consolidated statement of financial position | **12,020** | **- 26,005** | | | | | | **10,505** | **- 23,374** |

| | BALANCE AS AT 1 JANUARY 2015 | | MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR | | | | | BALANCE AS AT 31 DECEMBER 2015 | |
|---|---|---|---|---|---|---|---|---|---|
| | **Asset** | **Liability** | **Charged (-)/ added to net profit** | **Charged to equity** | **Reclass to disposal group** | **In / out consolida-tion** | **Currency translation differences** | **Asset** | **Liability** |
| Intangible assets | - | - 5,248 | 182 | - | 2,702 | - | - 596 | - | - 2,960 |
| Property, plant and equipment | 2,053 | - 13,295 | - 3,545 | - | 1,278 | - | 1,956 | 2,301 | - 13,854 |
| Due from and due to customers | - | - 402 | 415 | - | - | - | - | 371 | - 358 |
| Trade and other receivables | 17 | - 54 | 16 | - | - | - | 4 | - | - 17 |
| Hedging reserve | 5,590 | - | - | - 3,181 | - | - | - | 2,409 | - |
| Actuarial gains / losses (-) and asset limitation on defined benefit pension plans | 18,355 | - | - | - 6,772 | - | - | - | 11,583 | - |
| Employee benefits | 1,860 | - 8,005 | 1,541 | - | - | - | 45 | 787 | - 5,346 |
| Provisions | 1,461 | - 1,300 | 259 | - | - | - | 84 | 1,070 | - 566 |
| Interest-bearing borrowings | 392 | - 21 | 1 | - | - 67 | - | 6 | 344 | - 33 |
| Trade and other payables | 1,120 | - 245 | - 504 | - | - | - | 21 | 546 | - 154 |
| Other assets and liabilities | 262 | - 8,035 | - 3,692 | 2,334 | - | - | 76 | 317 | - 9,371 |
| Tax reserves | - | - | - 197 | - | 179 | - | 18 | - | - |
| Foreign branch results | - | - 1,575 | 9 | - | - | - | - | - | - 1,565 |
| Income tax losses carried forward | 183 | - | 232 | - | 96 | - | - | 511 | - |
| | 31,293 | - 38,180 | - 5,283 | - 7,619 | 4,188 | - | 1,614 | 20,239 | - 34,224 |
| Offsetting of deferred income tax assets and liabilities | - 12,106 | 12,106 | | | | | | - 8,219 | 8,219 |
| Net in the consolidated statement of financial position | 19,187 | - 26,074 | | | | | | 12,020 | - 26,005 |

Deferred income tax assets are not recognized as long as it is not probable that economic benefits can be expected in future periods. Deferred income tax assets and liabilities within fiscal unities are offset in the statement of financial position.

The following movements in deferred income tax assets and liabilities, including applicable income tax rate changes, together with the items they relate to, are recognized in the statement of other comprehensive income:

| | 2016 | | |
|---|---|---|---|
| | **BEFORE INCOME TAX** | **INCOME TAX (EXPENSE) BENEFIT** | **NET OF INCOME TAX** |
| Foreign currency translation differences for foreign operations | **24,776** | **-** | **24,776** |
| Fair value of cash flow hedges | **13,336** | **- 2,034** | **11,302** |
| Actuarial gains / losses (-) and asset limitation on defined benefit pension plans | **- 10,722** | **1,080** | **- 9,642** |
| Movement in fair value of investment in Fugro N.V. | **357** | **-** | **357** |
| | **27,747** | **- 954** | **26,793** |

| | 2015 | | |
|---|---|---|---|
| | **BEFORE INCOME TAX** | **INCOME TAX (EXPENSE) BENEFIT** | **NET OF INCOME TAX** |
| Foreign currency translation differences for foreign operations | 169,474 | 2,334 | 171,808 |
| Fair value of cash flow hedges | 7,013 | - 3,181 | 3,832 |
| Actuarial gains / losses (-) and asset limitation on defined benefit pension plans | 45,554 | - 6,772 | 38,782 |
| | 222,041 | - 7,619 | 214,422 |

**UNRECOGNIZED DEFERRED INCOME TAX ASSETS**

Unrecognized deferred income tax assets regarding income tax losses carried forward and/or timing differences of Group companies amounted to EUR 251.6 million (2015: EUR 262.5 million). These deferred income tax assets are not recognized in the statement of financial position as long as recovery through taxable profit or deductible temporary differences before expiration is not probable.

| | 2016 | | |
|---|---|---|---|
| | **INCOME TAX LOSSES CARRIED FORWARD** | **DEDUCTIBLE TEMPORARY DIFFERENCES** | **DISPOSAL GROUP** |
| No later than 1 year | **-** | **-** | **-** |
| Later than 1 year and no later than 5 years | **1,409** | **140,731** | **-** |
| Later than 5 years | **102,578** | **6,863** | **-** |
| | **103,987** | **147,594** | **-** |

| | 2015 | | |
|---|---|---|---|
| | **INCOME TAX LOSSES CARRIED FORWARD** | **DEDUCTIBLE TEMPORARY DIFFERENCES** | **DISPOSAL GROUP** |
| No later than 1 year | - | - | - |
| Later than 1 year and no later than 5 years | 2,331 | 95,106 | - |
| Later than 5 years | 143,931 | 21,128 | - |
| | 146,262 | 116,234 | - |

## 15. INTANGIBLE ASSETS

| | GOODWILL | OTHER | TOTAL |
|---|---|---|---|
| **Balance as at 1 January 2016** | | | |
| Cost | **489,385** | **135,131** | **624,516** |
| Accumulated amortization and impairments | **-** | **- 91,236** | **- 91,236** |
| Carrying amount | **489,385** | **43,895** | **533,280** |
| **Movements** | | | |
| Acquired through business combination VolkerWessels offshore activities | **154,939** | **103** | **155,042** |
| Reclassified to Assets held for sale | **-** | **- 723** | **- 723** |
| Amortization | **-** | **- 8,461** | **- 8,461** |
| Impairment losses (note 10) | **- 382,269** | **-** | **- 382,269** |
| Currency translation differences and other movements | **- 10,039** | **690** | **- 9,349** |
| | **- 237,369** | **- 8,391** | **- 245,760** |
| **Balance as at 31 December 2016** | | | |
| Cost | **653,323** | **130,234** | **783,557** |
| Accumulated amortization and impairments | **- 401,307** | **- 94,730** | **- 496,037** |
| Carrying amount | **252,016** | **35,504** | **287,520** |

| | GOODWILL | OTHER | TOTAL |
|---|---|---|---|
| **Balance as at 1 January 2015** | | | |
| Cost | 458,607 | 142,521 | 601,128 |
| Accumulated amortization and impairments | - | - 83,460 | - 83,460 |
| Carrying amount | 458,607 | 59,061 | 517,668 |
| **Movements** | | | |
| Amortization | - | - 12,722 | - 12,722 |
| Currency translation differences and other movements | 30,778 | - 2,444 | 28,334 |
| | 30,778 | - 15,166 | 15,612 |
| **Balance as at 31 December 2015** | | | |
| Cost | 489,385 | 135,131 | 624,516 |
| Accumulated amortization and impairments | - | - 91,236 | - 91,236 |
| Carrying amount | 489,385 | 43,895 | 533,280 |

The goodwill on the offshore activities acquired from VolkerWessels in 2016 is part of the goodwill relating to the cash-generating unit Offshore Energy.

Currency translation differences mainly relate to the goodwill and other intangible assets resulting from the acquisitions of Dockwise and Fairmount, both of which are denominated in USD. The acquiring Group company has the USD as its functional currency, following the USD as functional currency of the acquired Group companies.

### 15.1 GOODWILL

For the purpose of impairment testing, goodwill is allocated to the cash-generating units (CGU) which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. This does not exceed the level of Group's operating segments reported in note 4 on Segment reporting.

Goodwill is allocated to the following cash-generating units:

| CASH-GENERATING UNIT | OPERATIONAL SEGMENT | 2016 | 2015 |
|---|---|---|---|
| Offshore Energy | Offshore Energy | **154,939** | 392,308 |
| Inland Infra | Dredging & Inland Infra | **46,607** | 46,607 |
| Salvage | Towage & Salvage | **36,875** | 36,875 |
| Dredging | Dredging & Inland Infra | **13,595** | 13,595 |
| **Total** | | **252,016** | 489,385 |

When conducting impairment tests on goodwill, the recoverable amounts are determined based on value-in-use calculations. Value-in-use is determined by discounting the expected future cash flows from the continuing operations of the CGU.

Cash flows in the first years are based on management's approved budget for 2017 and the 2017-2019 corporate business plan. For all cash-generating units, these projections factor in market conditions, order book in hand, expected win rates of contracts, expected vessel utilization, rates and revenues, expected cost developments, investment plans and/or industry developments. For further considerations on cash flow projections for the CGU Offshore Energy see below.

Key assumptions in the calculation of valuation in use are the growth rate applied to the calculation of the terminal value and to the discount rate used. Cash flows for the CGUs beyond five years are extrapolated using an estimated long-term growth rate of 1.0% (2015: 1.0%). The applicable growth rates do not exceed the long-term average growth rate which may be expected for the activities. The pre-tax discount rates used per CGU are: Offshore Energy 9.4% (2015: 9.4%), Inland Infra 9.6% (2015: 9.6%), Salvage 6.6% (2015: 7.0% ) and Dredging 9.0% (2015: 9.0%). The pre-tax discount rate used for each CGU to discount the pre-tax cash flows for impairment testing is determined through an iterative calculation using the projected post-tax cash flows, expected tax rate for the respective CGUs and a post-tax discount rate for each CGU.

The Group has analyzed sensitivity to a reasonable possible change in the expected future cash flows over the carrying amount, including goodwill, of the CGU ('headroom'). The recoverable amounts for Inland Infra, Salvage and Dredging exceed the carrying amounts of the CGUs with significant headroom.

The offshore activities acquired from VolkerWessels contributed to the revenue and results of Offshore Energy. In some of our service-related offshore energy market segments there is a structural imbalance between supply and demand, particularly within the heavy marine transport segment. This has put utilization, rates and margins under pressure, resulting in a non-cash impairment both on the goodwill included in the table above and on the vessels that operate at the lower end of the market (see note 16). The impairment to the recoverable value of the cash-generating unit Offshore Energy amounts to EUR 382 million and is based on a value-in-use calculation (see note 10). If the cash flow projections used in the value-in-use calculations would have been 3% lower subsequent to 2017, the Group would have recognized an additional impairment of EUR 38 million. If the estimated pre-tax discount rate for the CGU Offshore Energy would have been 1% higher than disclosed above, the Group would have recognized an additional goodwill impairment of approximately EUR 135 million.

**15.2 OTHER INTANGIBLE ASSETS**

Other intangible assets, which are identified and recognized at fair value during business combinations, consist of tradenames, technology (including software) and favorable contracts. Intangible assets include tradenames with an indefinite useful life for an amount of EUR 9.5 million (2015: EUR 9.5 million), which is reviewed on a yearly basis for impairment. In 2016 no impairment was identified for other intangible assets (2015: no impairments).

## 16. PROPERTY, PLANT AND EQUIPMENT

| | LAND AND BUILDINGS | FLOATING AND OTHER CONSTRUCTION EQUIPMENT | OTHER FIXED ASSETS | PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | | | | | |
| Cost | **135,342** | **4,154,163** | **39,367** | **182,746** | **4,511,618** |
| Accumulated depreciation and impairment losses | **- 33,967** | **- 1,666,050** | **- 24,558** | **- 2,154** | **- 1,726,729** |
| Carrying amount | **101,375** | **2,488,113** | **14,809** | **180,592** | **2,784,889** |
| **Movements** | | | | | |
| Investments, including capitalized borrowing cost | **39** | **51,521** | **7,279** | **123,244** | **182,083** |
| Acquired through business combinations | **-** | **164,390** | **-** | **-** | **164,390** |
| Put into operation | **3,741** | **115,952** | **-** | **- 119,693** | **-** |
| Impairment losses | **- 3,427** | **- 357,126** | **- 4,080** | **- 1,584** | **- 366,217** |
| Reversal of impairment losses | **-** | **1,247** | **58** | **-** | **1,305** |
| Depreciation | **- 4,453** | **- 258,008** | **- 6,322** | **-** | **- 268,783** |
| Disposals | **- 350** | **- 4,462** | **- 441** | **- 130** | **- 5,383** |
| Other movements | **- 1,025** | **- 3,850** | **6,362** | **501** | **1,988** |
| Reclassified to disposal group | **- 33** | **- 26,456** | **- 1,445** | **-** | **- 27,934** |
| Currency translation differences | **92** | **16,605** | **268** | **765** | **17,730** |
| | **- 5,416** | **- 300,187** | **1,679** | **3,103** | **- 300,821** |
| **Balance as at 31 December 2016** | | | | | |
| Cost | **134,885** | **4,440,128** | **56,052** | **187,518** | **4,818,583** |
| Accumulated depreciation and impairment losses | **- 38,926** | **- 2,252,202** | **- 39,564** | **- 3,823** | **- 2,334,515** |
| Carrying amount | **95,959** | **2,187,926** | **16,488** | **183,695** | **2,484,068** |

| | LAND AND BUILDINGS | FLOATING AND OTHER CONSTRUCTION EQUIPMENT | OTHER FIXED ASSETS | PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | | | | | |
| Cost | 117,725 | 3,870,710 | 37,479 | 244,008 | 4,269,922 |
| Accumulated depreciation and impairment losses | - 30,439 | - 1,470,156 | - 24,077 | - 1,362 | - 1,526,034 |
| Carrying amount | 87,286 | 2,400,554 | 13,402 | 242,646 | 2,743,888 |
| **Movements** | | | | | |
| Investments, including capitalized borrowing cost | 1,243 | 78,268 | 2,292 | 148,572 | 230,375 |
| Put into operation | 16,658 | 198,327 | 4,565 | - 219,550 | - |
| Impairment losses | - | - 13,743 | - | - 790 | - 14,533 |
| Depreciation | - 3,968 | - 254,120 | - 7,748 | - | - 265,836 |
| Disposals | - 6 | - 26,432 | - 263 | - | - 26,701 |
| Other movements | 364 | - 3,958 | 2,842 | - 1,184 | - 1,936 |
| Reclassified to disposal group | - 73 | - 16,506 | - 122 | - | - 16,701 |
| Currency translation differences | - 129 | 125,723 | - 159 | 10,898 | 136,333 |
| | 14,089 | 87,559 | 1,407 | - 62,054 | 41,001 |
| **Balance as at 31 December 2015** | | | | | |
| Cost | 135,342 | 4,154,163 | 39,367 | 182,746 | 4,511,618 |
| Accumulated depreciation and impairment losses | - 33,967 | - 1,666,050 | - 24,558 | - 2,154 | - 1,726,729 |
| Carrying amount | 101,375 | 2,488,113 | 14,809 | 180,592 | 2,784,889 |

The Group has assessed whether any impairment triggers exist for its property, plant and equipment using internal and external sources of information. Reference is made to note 10 'Impairment losses'. Of the impairment recognized, EUR 115 million relates to assets that were valued at fair value less costs to sell (fair value hierarchy: level 3) and is mainly determined by an external valuator and scrap values for certain assets that will be put out of operation, and EUR 251 million relates to assets that were valued at value-in-use. Pre-tax discount rates used in the discounted, projected, cash flow models for the useful life of the main vessels vary from 7.0% - 7.6%. If the cash flow projections used in the value-in-use calculations would have been 3% lower subsequent to 2017, the Group would have recognized an additional impairment of EUR 3.8 million. If the estimated discount rates for these assets would have been 1% higher than disclosed on the previous page, the Group would have recognized an additional impairment of approximately EUR 5.2 million. Note 4.1 discloses impairments recognized at each operational segment.

The Group has reversed EUR 1.3 million of impairment losses. In 2016 and 2015 the capitalized financing costs of investments recognized amounts to zero.

In line with the characteristics of the Group's activities, property, plant and equipment can be deployed on a worldwide scale. As a consequence, segmentation of property, plant and equipment into geographical areas would not provide any additional relevant information.

## 17. JOINT VENTURES AND ASSOCIATED COMPANIES

The Group participates in a number of strategic joint ventures and associated companies of which the activities correspond with, or provide related services to its own activities. The activities and risks of these joint ventures and associated companies are similar to the activities of the Group. A number of projects, or related activities, within the Dredging & Inland Infra operational segment are placed in private companies, the most important of which is SAAone Holding B.V. (a public private partnership (PPP) in the Netherlands). The Offshore Energy operational segment includes the strategic investments Asian Lift Pte. Ltd. (operation and rental of floating cranes) and VBMS until 30 June 2016. With effect from 1 July 2016 VBMS became a wholly owned subsidiary of the Group and has as such been included in the consolidation (also refer to note 5.1). Within the Towage & Salvage operating segment, with effect from April 2016 harbor towage services take place through the newly formed KOTUG SMIT Towage joint venture in Europe (see also note 5.3), Saam Smit Towage (Saam Smit Towage Brasil SA and SAAM Remolques SA de CV) on the American continent and Keppel Smit Towage Pte Ltd and Maju Maritime Pte Ltd in Singapore (both active in harbor towage). In addition, the Group participates in Smit Lamnalco Ltd (worldwide terminal services) and Ocean Marine Egypt S.A.E. (terminal services). The Holding & Eliminations segment included the Group's participation in Fugro N.V., which was considered a material associated company of the Group until December 2016, when significant influence was lost. These joint ventures and associated companies are in principle financed on a non-recourse basis. The Group agreed on a limited capital funding obligation for SAAone Holding B.V. and a guarantee of part of its bank financing was provided by the Group to Rebras SA. These commitments and guarantees are included in note 29 'Commitments and contingent liabilities'.

The table below shows the movements in the interests in joint ventures and associated companies:

| | 2016 | | |
|---|---|---|---|
| | **JOINT VENTURES** | **ASSOCIATED COMPANIES** | **TOTAL** |
| Balance as at 1 January 2016 | **608,036** | **584,737** | **1,192,773** |
| Investments | **-** | **422** | **422** |
| Investment in KOTUG SMIT Towage | **129,239** | **-** | **129,239** |
| Decrease after obtaining control in VBMS Holding B.V. | **- 20,844** | **-** | **- 20,844** |
| Sale of investment in Fugro N.V. and reclassification to financial instruments available for sale | **-** | **- 332,073** | **- 332,073** |
| Share in result of joint ventures and associated companies | **- 57,981** | **- 46,743** | **- 104,724** |
| Repayment share capital / share premium | **- 9,226** | **- 100** | **- 9,326** |
| Dividends received | **- 39,721** | **- 2,851** | **- 42,572** |
| Currency translation differences and other movements | **18,226** | **- 4,077** | **14,149** |
| | **19,693** | **- 385,422** | **- 365,729** |
| Balance as at 31 December 2016 | **627,729** | **199,315** | **827,044** |
| Net result for the period | **- 57,981** | **- 46,743** | **- 104,724** |
| Other comprehensive Income | **18,226** | **- 4,077** | **14,149** |
| Total comprehensive Income | **- 39,755** | **- 50,820** | **- 90,575** |

| | 2015 | | |
|---|---|---|---|
| | JOINT VENTURES | ASSOCIATED COMPANIES | TOTAL |
| Balance as at 1 January 2015 | 597,247 | 178,220 | 775,467 |
| Net investments | - | 146,410 | 146,410 |
| Reclassification of stake in result of Fugro N.V. from financial instruments available for sale | - | 271,968 | 271,968 |
| Impairment on stake in Fugro N.V. | - | - 28,824 | - 28,824 |
| Share in result of joint ventures and associated companies | 37,770 | 5,490 | 43,260 |
| Dividends received | - 60,613 | - 8,831 | - 69,444 |
| Currency translation differences and other movements | 33,632 | 20,304 | 53,936 |
| | 10,789 | 406,517 | 417,306 |
| Balance as at 31 December 2015 | 608,036 | 584,737 | 1,192,773 |
| Net result for the period | 37,770 | 5,490 | 43,260 |
| Other comprehensive Income | 33,632 | 20,304 | 53,936 |
| Total comprehensive Income | 71,402 | 25,794 | 97,196 |

The carrying amount of the Group's share in the associated company Fugro N.V. was zero as at 31 December 2016 (31 December 2015: EUR 390.4 million) following the sale of (certificates of) shares in Fugro N.V. As a result, significant influence was lost and the remaining certificates (participation of 9.4%) were classified as an available-for-sale financial asset (see note 18.2 'Financial instruments available-for-sale'). The total impact of our investment in Fugro N.V. on the statement of profit or loss is a loss of EUR 30.1 million (see note 5.5). In 2015 the impact on the net result was a loss of EUR 3.4 million, which consisted of an impairment charge of EUR 28.8 million, a revaluation profit of EUR 28.5 million and the share of the net loss of EUR 3.1 million. Fugro N.V. did not distribute dividends in 2016 and 2015.

The share in the result of joint ventures and associated companies in 2016 as disclosed in the table above amounts to EUR 104.7 million. Following the inclusion of the book profit Fugro N.V. of EUR 21.8 million (see note 5.5), the statement of profit or loss shows EUR 82.9 million on the line Result of joint ventures and associated companies.

Following the sale, Fugro N.V. is no longer a material associated company for the Group. Therefore, no summarized information for 2016, other than the impact on the statement of profit or loss, is reported separately on Fugro N.V. and such information is also not included in the summary in the table below showing the share of the Group in total assets and contract revenue of other joint ventures and associates that are not material to the Group on an individual basis. The summarized 2015 financial information regarding Fugro N.V. (100%), adjusted by the Group as required for associated companies, comprises net assets of EUR 1.5 billion. Net revenue and non-current assets each amounted to EUR 2 billion and current assets, current liabilities and non-current liabilities each to EUR 1 billion.

The main joint ventures of the Group are:

| | | Interest in joint ventures | |
|---|---|---|---|
| ENTITY | COUNTRY OF INCORPORATION | 2016 | 2015 |
| Saam Smit Towage Brasil S.A. | Brazil | **50%** | 50% |
| Lamnalco Marine | Cyprus | **50%** | 50% |
| Ocean Marine Egypt S.A.E | Egypt | **50%** | 50% |
| Asian Lift Pte. Ltd. | Singapore | **50%** | 50% |
| Keppel Smit Towage Pte Ltd | Singapore | **49%** | 49% |
| Maju Maritime Pte Ltd | Singapore | **49%** | 49% |
| ACCN B.V. | The Netherlands | **50%** | - |
| Kotug Smit Partnership B.V. | The Netherlands | **50%** | - |
| SAAone Holding B.V. | The Netherlands | **17%** | 17% |
| VBMS Holding B.V.* | The Netherlands | **-** | 50% |

* Until 1 July 2016 VBMS Holding B.V. was included as a 50% joint venture. On 1 July 2016 the participation in VBMS was expanded to 100% and VBMS has since been included in the consolidation of the Group (see note 5.1 'Acquisition of offshore assets and activities of VolkerWessels').

The key associated companies of the Group are:

| COMPANY | COUNTRY OF INCORPORATION | Interest in associated companies 2016 | 2015 |
|---|---|---|---|
| Damietta for Maritime Services Company S.A.E. | Egypt | **31%** | 31% |
| SAAM Remolques S.A. de C.V. | Mexico | **49%** | 49% |
| Fugro N.V.* | The Netherlands | **-** | 29% |

* As from December Fugro N.V. was reclassified to Financial Instruments available-for-sale (see above).

The voting rights in associated companies are equal to the ownership interests.

As at 31 December 2016, the Group participated in the above-mentioned joint ventures and associated companies. Joint control is established in joint ventures by contract and the Group only has rights to the net assets. Significant influence is established associated companies by voting rights and/or by contract, also in those cases where the other (investment) partner has control. None of these joint ventures or associated companies is individually material based on their share in the financial figures of the Group and their risk profile. The nature of, and changes in, the risks associated with interest in joint ventures and/or and associated companies is primarily linked to its activities for which a distinction is made in the disclosure. As at 31 December 2016, approximately 93% of the Group's interest in joint ventures and associated companies relates to harbor towage services and terminal services of the Towage & Salvage operational segment. The summarized figures on a 100% basis of the towage/terminal activities can be presented as follows:

| Towage joint ventures and associated companies | 100% basis, (in millions of EUR)* 2016 | 2015 |
|---|---|---|
| Revenue | **738** | 764 |
| EBITDA | **279** | 299 |
| EBIT before impairment losses | **147** | 166 |
| EBIT | **- 52** | 166 |
| Net debt | **695** | 638 |

* Financial information included on a pro forma and 100% aggregated basis.

Other joint ventures and associated companies relate to the Dredging & Inland Infra and Offshore Energy Segments.

The future cash flows for the Group are legally and contractually limited to the receipt of dividends, with the exception of certain companies, as listed above, for which capped guarantees or capital contributions are agreed (see note 28). As a result of statutory provisions, the Group, as joint venture partner or minority shareholder, cannot independently decide to distribute dividends. Also, the financial position should be sufficient to enable the distribution of dividends to shareholders. There are no contractual provisions that restrict the distribution of the net result as a dividend, with the exception of covenants in loan agreements and the priority of loan repayment over dividend at some of the joint-ventures and associated companies. Legal reserves are formed by the Group for its share in the net result of joint-ventures and associated companies.

On 31 December 2016 SAAone Holding B.V. had negative equity following recognition of the negative fair value of the effective cash flow hedge regarding the interest on its financing. This negative value is accounted for directly in equity by SAAone Holding B.V. in the reporting period through other comprehensive income. The share of the Group in this negative equity amounted to EUR 11.5 million (2015: EUR 10.8 million) and was not accounted for by the Group because the Group is not severally liable.

The table below shows the share of the Group in total assets and revenues of its joint ventures and associated companies that are not material to the Group.

| | 2016 | | |
|---|---|---|---|
| | **JOINT VENTURES** | **ASSOCIATED COMPANIES** | **TOTAL** |
| Total assets | **1,317,367** | **243,659** | **1,561,026** |
| Revenue | **326,617** | **44,370** | **370,987** |

| | 2015 | | |
|---|---|---|---|
| | **JOINT VENTURES** | **ASSOCIATED COMPANIES** | **TOTAL** |
| Total assets | 1,123,289 | 231,891 | 1,355,180 |
| Revenue | 376,232 | 49,196 | 425,428 |

## 18. NON-CURRENT FINANCIAL ASSETS

### 18.1 OTHER NON-CURRENT RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| **Balance as at 1 January** | **5,915** | 8,091 |
| Loan granted (to joint venture) | **260** | 179 |
| Repayment of loan (by joint venture) | **- 23** | - 1,820 |
| Reclassified to disposal group | **- 100** | - |
| Currency translation differences and other movements | **- 4,991** | - 535 |
| **Balance as at 31 December** | **1,061** | 5,915 |

Other non-current receivables generally comprise loans to joint ventures and associated companies, long-term advance payments to suppliers and long-term receivables and retentions from customers, which are due in agreed time schedules. This item also includes accrued receivables which are allocated to the result over periods longer than one year.

### 18.2 FINANCIAL INSTRUMENTS AVAILABLE-FOR-SALE

The development of financial instruments available-for-sale is as follows:

| | **2016** | 2015 |
|---|---|---|
| **Balance as at 1 January** | **-** | 290,935 |
| Additional acquisition of share in Fugro N.V. | **-** | 1,126 |
| Change in fair value until significant influence is gained | **-** | - 20,092 |
| Reclassification to associated companies | **-** | - 271,969 |
| Reclassification from associated companies | **115,022** | - |
| Change in fair value since significant influence was lost | **357** | - |
| **Balance as at 31 December** | **115,379** | - |

The financial asset available-for-sale relates to the 9.4% investment in Fugro N.V. The fair value of the certificates, when classified as financial assets available-for-sale, equaled the quoted price at which certificates were sold (fair value hierarchy: level 1) when significant influence was lost (EUR 14.50). At year-end 2016 the certificates of shares were valued at EUR 14.55 per certificate.

The reduction of our investment in Fugro N.V. (see note 5.5) was to a large extent realized via an accelerated book-build in which the Group agreed to a lock-up period. As a result the Group may not dispose of its certificates of shares in Fugro N.V. without a waiver up to 16 March 2017.

## 19. INVENTORIES

| | 2016 | 2015 |
|---|---|---|
| Fuel and materials | **35,943** | 30,860 |
| Spare parts and other inventories | **54,106** | 51,750 |
| | **90,049** | 82,610 |

During 2016 a write-down of EUR 1.6 million on inventories was recognized (2015: EUR 3.8 million).

## 20. DUE FROM AND DUE TO CUSTOMERS

| | 2016 | 2015 |
|---|---|---|
| Cumulative incurred costs plus profit in proportion to progress less provisions for losses | **2,420,973** | 3,383,717 |
| Progress billings | **2,619,868** | 3,479,598 |
| Advances received | **29,543** | 42,794 |
| Progress billings and advances received | **2,649,411** | 3,522,392 |
| Balance | **- 228,438** | - 138,675 |
| Due from customers | **87,194** | 182,302 |
| Due to customers | **- 315,632** | - 320,977 |
| Balance | **- 228,438** | - 138,675 |

As at year-end 2016, the payments due from customers include EUR 7 million (2015: EUR 4 million) which will be paid by customers subject to specified conditions (retentions). The determination of profit in proportion to the stage of completion and the provision for losses is based on estimated costs and revenue of the relating projects. These estimates contain uncertainties.

## 21. TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| Trade receivables | **274,429** | 379,910 |
| Amounts due from joint ventures and associated companies | **22,647** | 17,237 |
| Other receivables and prepayments | **300,852** | 330,420 |
| | **597,928** | 727,567 |

## 22. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|---|---|
| Bank balances and cash | **839,395** | 695,531 |
| Short-term bank deposits | **125,936** | 98,189 |
| Cash and cash equivalents | **965,331** | 793,720 |
| Bank overdrafts | **- 1,188** | - 30,603 |
| Bank balances and cash of disposal group | **5,606** | 3,579 |
| Net cash and cash equivalents in the consolidated statement of cash flows | **969,749** | 766,696 |

Cash and cash equivalents include EUR 73.2 million (2015: EUR 137.2 million) held by project-driven construction consortiums (joint operations). The Group held EUR 2.1 million (2015: EUR 21.6 million), of which an amount of EUR 0.1 million (2015: EUR 8.9 million) in joint operations outside the Netherlands that are subject to local regulations, thus limiting the transfer of these funds. The other cash and cash equivalents were at the free disposal of the Group.

## 23. GROUP EQUITY

### 23.1 SHARE CAPITAL AND DIVIDEND

The nominal value of shares was reduced in 2016. As a result, the issued and fully paid share capital decreased by EUR 104.0 million to EUR 1.3 million, with an opposite effect on the share premium reserve. Movements of the ordinary shares issued were as follows:

| (in number of ordinary shares) | **2016** | 2015 |
|---|---|---|
| Issued and fully paid shares entitled to dividend at 1 January | **125,627,062** | 122,937,820 |
| Stock dividend | **4,449,790** | 2,689,242 |
| Issued and fully paid shares entitled to dividend at 31 December | **130,076,852** | 125,627,062 |

The authorized share capital of EUR 4.8 million (2015: EUR 240 million) is divided into 240,000,000 (2015: 150,000,000) ordinary shares with a par value of EUR 0.01 (2015: EUR 0.80) each and 80,000,000 (2015: 50,000,000) cumulative protective preference shares with a par value of EUR 0.03 (2015: EUR 2.40) each.

No own shares were owned by the Group as at 31 December 2016 as part of the issued share capital (2015: zero).

**Stock dividend**

In 2016 a dividend of EUR 1.60 per share was distributed relating to the 2015 financial year, resulting in a total amount of EUR 201.0 million. Of all shareholders 72% opted to receive the dividend in ordinary shares. As a result 4,449,790 new ordinary shares were issued.

**Shares per balance sheet date**

The issued capital as at 31 December 2016 consists of 130,076,852 ordinary shares with a par value of EUR 0.01 each (2015: EUR 0.80) and consequently amounts to EUR 1.3 million (2015: EUR 100.5 million).

### 23.2 SHARE PREMIUM RESERVE

The share premium reserve consists of additional paid-in capital exceeding the par value of the outstanding shares. The share premium is distributable free of tax. Following the reduction in the nominal value of each share (see note 23.1), the share premium reserve increased by EUR 102.8 million.

### 23.3 RETAINED EARNINGS

Retained earnings consist of additions and distributions based on profit appropriations, effects of changes in accounting principles, losses and movements in the legal reserve. The balance is at the disposal of shareholders. Retained earnings also comprises the unappropriated profit or loss for the current year. A proposal for profit or loss appropriation is disclosed in note 6 of the Company financial statements and is included in Other information.

### 23.4 DIVIDEND

Royal Boskalis Westminster N.V. announced and distributed the following dividend to holders of ordinary shares:

| | **2016** | 2015 |
|---|---|---|
| Dividend prior year EUR 1.60 respectively EUR 1.60 per ordinary share | **201,003** | 195,694 |
| Total dividend announced and distributed | **201,003** | 195,694 |
| Stock dividend | **145,241** | 148,132 |
| Cash dividend | **55,762** | 47,562 |
| **TOTAL DISTRIBUTED DIVIDEND** | **201,003** | 195,694 |

In 2016 28% of the shareholders opted for a distribution of dividend in cash. An amount of EUR 55.8 million was distributed and the accompanying dividend tax was paid in July 2016.

### 23.5 EARNINGS PER SHARE

Earnings per share are determined based on the calculation below.

| | 2016 | 2015 |
|---|---|---|
| **Earnings per share** | | |
| Net group profit/loss (-) attributable to shareholders in thousands of EUR | **- 563,730** | 440,178 |
| Average number of shares | **128,204,536** | 124,181,528 |
| Earnings per share | **EUR -4.40** | EUR 3.54 |
| | | |
| **Earnings per share, before impairment losses** | | |
| Net group profit/loss (-) attributable to shareholders in thousands of EUR | **- 563,730** | |
| Impairment losses in thousands of EUR, after tax | **840,127** | |
| Net group profit/loss (-) attributable to shareholders in thousands of EUR excluding impairment losses | **276,397** | |
| Average number of shares | **128,204,536** | |
| Earnings per share, excluding impairment losses | **EUR 2.16** | |
| | | |
| **Diluted earnings per share** | | |
| Average number of shares including dilution effects | **128,204,536** | 124,181,528 |
| Diluted earnings per share | **EUR -4.40** | EUR 3.54 |

The weighted average number of ordinary shares during the financial year is calculated as follows:

| (in number of shares) | 2016 | 2015 |
|---|---|---|
| Ordinary shares issued (entitled to dividend) as at 1 January | **125,627,062** | 122,308,697 |
| Weighted effect of new ordinary shares issued due to optional dividend | **2,577,474** | 1,517,764 |
| Weighted effect on purchased own ordinary shares reissued due to optional dividend | **-** | 355,067 |
| Weighted average number of ordinary shares during the financial year | **128,204,536** | 124,181,528 |

### 23.6 OTHER RESERVES

Movement in other reserves:

| | Legal reserves | | | | | |
|---|---|---|---|---|---|---|
| | **HEDGING RESERVE** | **REVALUATION RESERVE** | **CURRENCY TRANSLATION RESERVE** | **OTHER LEGAL RESERVES** | **OTHER RESERVES** | **TOTAL OTHER RESERVES** |
| *Note* | *[23.6.1]* | *[23.6.2]* | *[23.6.3]* | *[23.6.4]* | *[23.6.5]* | |
| **Balance as at 1 January 2016** | **- 15,207** | **45,619** | **314,683** | **320,889** | **- 44,209** | **621,775** |
| Defined benefit plan actuarial gains/losses (-) and asset limitation, after income tax | **-** | **-** | **-** | **-** | **- 3,440** | **- 3,440** |
| Foreign currency translation differences for foreign operations, after income tax | **-** | **-** | **25,433** | **-** | **-** | **25,433** |
| Currency translation differences from joint ventures and associated companies, after tax | **-** | **-** | **- 1,818** | **-** | **-** | **- 1,818** |
| Effective cash flow hedges, after income tax | **11,227** | **-** | **-** | **-** | **-** | **11,227** |
| Change in fair value of cash flow hedges from joint ventures and associated companies, after tax | **75** | **-** | **-** | **-** | **-** | **75** |
| Reclassification relating to settlement of pension plans | **-** | **-** | **-** | **-** | **39,763** | **39,763** |
| Reclassification of revaluation related to gains on business combinations and gains on joint ventures | **-** | **56,839** | **-** | **-** | **-** | **56,839** |
| Reclassification of foreign currency differences and hedge reserve to statement of profit or loss | **-** | **-** | **720** | **-** | **-** | **720** |
| Actuarial gains/losses (-) and asset limitation on defined benefit pension plans of associated companies | **-** | **-** | **-** | **-** | **- 6,202** | **- 6,202** |
| Movement in legal reserve | **-** | **-** | **-** | **- 106,550** | **-** | **- 106,550** |
| **Total movement** | **11,302** | **56,839** | **24,335** | **- 106,550** | **30,121** | **16,047** |
| **Balance as at 31 December 2016** | **- 3,905** | **102,458** | **339,018** | **214,339** | **- 14,088** | **637,822** |

| | Legal reserves | | | | | |
|---|---|---|---|---|---|---|
| | HEDGING RESERVE | REVALUATION RESERVE | CURRENCY TRANSLATION RESERVE | OTHER LEGAL RESERVES | OTHER RESERVES | TOTAL OTHER RESERVES |
| *Note* | *[23.6.1]* | *[23.6.2]* | *[23.6.3]* | *[23.6.4]* | *[23.6.5]* | |
| **Balance as at 1 January 2015** | - 19,039 | 45,619 | 141,276 | 340,189 | - 85,301 | 422,744 |
| Defined benefit plan actuarial gains/losses (-) and asset limitation, after income tax | - | - | - | - | 38,782 | 38,782 |
| Foreign currency translation differences for foreign operations, after income tax | - | - | 173,407 | - | - | 173,407 |
| Effective cash flow hedges, after income tax | 3,832 | - | - | - | - | 3,832 |
| Share of other comprehensive income of associated companies and joint ventures | - | - | - | - | 2,310 | 2,310 |
| Movement in legal reserve | - | - | - | - 19,300 | - | - 19,300 |
| | - | - | - | - | - | - |
| **Total movement** | 3,832 | - | 173,407 | - 19,300 | 41,092 | 199,031 |
| **Balance as at 31 December 2015** | - 15,207 | 45,619 | 314,683 | 320,889 | - 44,209 | 621,775 |

Under Dutch law the legal reserves are not available for dividend distribution to shareholders.

### 23.6.1 HEDGING RESERVE (LEGAL RESERVE)

The hedging reserve comprises the fair value of effective cash flow hedges, not yet realized at the balance sheet date, net of taxation, including results realized on the 'rolling forward' of existing hedges as a result of differences between the duration of the hedges concerned and the underlying cash flows. Details about the movements in the hedging reserve are disclosed in note 28.2.

### 23.6.2 REVALUATION RESERVE (LEGAL RESERVE)

This reserve mainly relates to profit with respect to the revaluation of existing non-controlling interests prior to the recognition of business combinations and book results on contributions in newly formed strategic partnerships. In 2016 an amount of EUR 56.8 million was recognized relating to the revaluation of VBMS prior to the business combination and the KOTUG SMIT Towage book profit. See also note 5 'Business combinations and other significant transactions'.

### 23.6.3 CURRENCY TRANSLATION RESERVE (LEGAL RESERVE)

The currency translation reserve comprises all accumulated currency translation differences arising from investments in foreign operations, which are denominated in functional currencies other than the presentation currency used by the Group, including related intragroup financing. These currency translation differences are accumulated as from the IFRS transition date (1 January 2004) and are taken to the statement of profit or loss at disposal or termination of these foreign operations. At the acquisition date of activities (business combinations) with a functional currency other than the euro, the translation reserve of these activities is zero.

### 23.6.4 OTHER LEGAL RESERVES

A legal reserve is formed to account for differences between the cost price and the equity value of joint ventures and associated companies where the Group cannot independently decide on the distribution of dividends, unless such differences are already included in the legal reserve for accumulated currency translation differences on foreign operations.

### 23.6.5 OTHER RESERVES

Other reserves mainly comprise actuarial movements related to the limitation on net plan assets of defined benefit pension plans and the actuarial gains and losses originating from the difference between the realized and the expected movement in defined benefit obligations and the return on plan assets.

## 24. INTEREST-BEARING BORROWINGS

| | 31 DECEMBER | |
|---|---|---|
| | **2016** | 2015 |
| **NON-CURRENT LIABILITIES** | | |
| US Private Placements | **306,876** | 711,575 |
| Revolving multi-currency credit facility | **-** | 196,897 |
| Other interest-bearing loans | **1,411** | 5,762 |
| | **308,287** | 914,234 |
| **CURRENT LIABILITIES** | | |
| US Private Placements | **452,851** | - |
| Other interest-bearing loans | **293** | 18,127 |
| | **453,144** | 18,127 |

US private placements relates to two placements of in total EUR 759.7 million (2015: EUR 711.6 million), calculated at year-end currency rates.

- One concerns a US private placement of USD 433 million and GBP 11 million with institutional investors in the United States and the United Kingdom in July 2010. The placement consists of three tranches with an original duration of 7, 10 and 12 years, respectively. In December 2016 the Group informed the noteholders that this US private placement will be repaid early in January 2017. Both the loan and the accrued liabilities including the make-whole payments due to the noteholders (see note 11 'Finance income and expenses') are accounted for as interest-bearing borrowings under current liabilities.
  The US dollar and GBP proceeds from this US private placement have been swapped into euros, for a total amount of EUR 354 million, through cross-currency swaps. The unchanged fixed interest rate amounts to 4.76%. As a result of early repayment, these cross-currency interest rate swaps no longer qualified for hedge accounting and the fair value has been accounted for in the 2016 statement of profit or loss (see note 11 'Finance income and expenses').

- The second placement amounting to USD 325 million was placed with institutional investors in July 2013. The principal of this placement will be repaid after the original duration of ten years. The annual interest rate is 3.66%.

A revolving multi-currency credit facility agreed with a bank syndicate was arranged for the Group in 2014 and amounts to EUR 600 million. This credit facility had an original duration of 5 years with two options, executed in 2015 and 2016, respectively and has therefore been extended to 2021. Following the repayment in the first quarter of USD 215 million (EUR 199 million) the Group did not draw on this credit facility in 2016.

The Group agreed to comply with a number of customary covenants with the bank syndicate and US private placement holders. Twice a year Boskalis provides a compliance certificate to these lenders, reporting on the covenants for the twelve-month period ending on 30 June and 31 December, respectively. The main financial covenants are a net debt / EBITDA ratio not exceeding 3 and an EBITDA / net interest ratio of at least 4. These covenants are calculated in accordance with definitions agreed with the lenders. In the event that the group does not meet any of these covenants, the loan may be due immediately. These covenants were met at 31 December 2016. The net debt / EBITDA ratio was -0.3 (2015: 0.4) and the EBITDA / net interest ratio was 15 (2015: 27).

Interest rates, remaining terms and currencies of the interest-bearing borrowings are disclosed in the explanatory notes to the financial instruments in the interest rate risk paragraph. As at 31 December 2016 the weighted average interest rate for the non-current portion of the interest bearing loans was 3.37% (2015: 3.48%). The non-current portion of other interest-bearing loans due after more than five years amounted to EUR 306.9 million (2015: EUR 344.9 million).

## 25. EMPLOYEE BENEFITS

The liabilities associated with employee benefits consist of liabilities related to defined benefit pension plans and other liabilities relating to a number of defined contribution plans in the Netherlands and other countries as well as jubilee benefits. They amounted to a total of:

| | Note | 31 DECEMBER 2016 | 2015 |
|---|---|---|---|
| Defined benefit pension plans | [25.1] | **23,471** | 35,329 |
| Other liabilities on account of employee benefits | | **6,863** | 8,374 |
| Liabilities associated with employee benefits | | **30,334** | 43,703 |

### 25.1 DEFINED BENEFIT PENSION PLANS

| | DEFINED BENEFIT OBLIGATION | FAIR VALUE PLAN ASSETS | SURPLUS/ DEFICIT (-) | UNFUNDED PENSION LIABILITIES | TOTAL | CHARGED TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS | CHARGED TO CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **753,035** | **734,794** | **- 18,241** | **- 5,175** | **- 23,416** | | |
| Current service expenses | **36,904** | **-** | **- 36,904** | **- 31** | **- 36,935** | **36,935** | |
| Interest expenses on obligation | **17,384** | **-** | **- 17,384** | **- 103** | **- 17,487** | **17,487** | |
| Contributions received from the Group | **-** | **39,896** | **39,896** | **-** | **39,896** | | |
| Return on plan assets | **-** | **16,895** | **16,895** | **-** | **16,895** | **- 16,895** | |
| Net actuarial results | **38,687** | **33,618** | **- 5,069** | **- 219** | **- 5,288** | | **5,288** |
| Benefits paid | **- 20,481** | **- 20,481** | **-** | **331** | **331** | | |
| Settlement and curtailment gains PGB and Dutch pension funds | **- 641,246** | **- 627,986** | **13,260** | **-** | **13,260** | **- 13,260** | |
| Foreign currency exchange rate differences and other changes | **- 23,903** | **- 23,540** | **363** | **55** | **418** | | **-** |
| **Total movement** | **- 592,655** | **- 581,598** | **11,057** | **33** | **11,090** | **24,267** | **5,288** |
| **Balance as at 31 December 2016** | **160,380** | **153,196** | **- 7,184** | **- 5,142** | **- 12,326** | | |
| Limits on net plan assets as at 1 January | | | | | **- 11,913** | | |
| Movement in limit net plan assets | | | | | **768** | | **- 768** |
| Limits on net plan assets as at 31 December | | | | | **- 11,145** | | |
| **Balance as at 31 December 2016 after limits on net plan assets** | | | | | **- 23,471** | | |
| Total result defined benefit pension plans | | | | | **28,787** | **24,267** | **4,520** |

| | DEFINED BENEFIT OBLIGATION | FAIR VALUE PLAN ASSETS | SURPLUS/ DEFICIT (-) | UNFUNDED PENSION LIABILITIES | TOTAL | CHARGED TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS | CHARGED TO CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | 747,808 | 691,932 | - 55,876 | - 5,316 | - 61,192 | | |
| Current service expenses | 41,921 | - | - 41,921 | - 25 | - 41,946 | 41,946 | |
| Past service expenses | - 224 | - | 224 | - | 224 | - 224 | |
| Interest expenses on obligation | 18,067 | - | - 18,067 | - 97 | - 18,164 | 18,164 | |
| Contributions received from the Group | - | 30,027 | 30,027 | - | 30,027 | | |
| Return on plan assets | - | 16,609 | 16,609 | - | 16,609 | - 16,609 | |
| Net actuarial results | - 40,226 | 10,213 | 50,439 | - 60 | 50,379 | | - 50,379 |
| Benefits paid | - 18,991 | - 18,991 | - | 323 | 323 | | |
| Foreign currency exchange rate differences and other changes | 4,680 | 5,004 | 324 | - | 324 | | |
| **Total movement** | 5,227 | 42,862 | 37,635 | 141 | 37,776 | 43,277 | - 50,379 |
| **Balance as at 31 December 2015** | 753,035 | 734,794 | - 18,241 | - 5,175 | - 23,416 | | |
| Limits on net plan assets as at 1 January | | | | | - 7,088 | | |
| Movement in limit net plan assets | | | | | - 4,825 | | 4,825 |
| Limits on net plan assets as at 31 December | | | | | - 11,913 | | |
| Balance as at 31 December 2015 after limits on net plan assets | | | | | - 35,329 | | |
| Total result defined benefit pension plans | | | | | - 2,277 | 43,277 | - 45,554 |

In the Netherlands Boskalis has arranged a pension plan for a large part of its Dutch staff with the Pensioenfonds Grafische Bedrijven (PGB), while other employees in the Netherlands participate in the pension plans of five Dutch multi-employer pension funds or in one of the Dutch insured pension plans. In the Netherlands the tasks and responsibilities of employer, employee and pension provider in relation to pensions are set out in the Dutch Pension Act. The Pension Act stipulates the requirements and conditions that pension plans must comply with, including the requirement of integrating the plan into either a recognized pension fund or with a recognized pension insurance company and also that rights granted must be immediately funded by the employer. The law also sets requirements for the amounts of equity that pension providers should maintain. Compliance with the law is supervised by the Dutch Central Bank (DNB) and the Dutch Financial Markets Authority (AFM). In addition, the Group has a number of foreign pension plans, of which the largest is in the United Kingdom.

**Pension plan at Pensioenfonds Grafische Bedrijven**

The Group has arranged its pension plan for the majority of its Dutch staff with Pensioenfonds Grafische Bedrijven, a multi-employer fund. Until 31 December 2016 active participants that commenced employment with Boskalis before 1 January 2015 had a pension plan with unconditional indexation on the basis of indexation granted by the Group, which is not linked to indices. Active participants that commenced employment with Boskalis after 1 January 2015 and inactive participants have a plan with a conditional right to indexation, granted by PGB.

*Settlement of the PGB defined benefit plan*

In December 2016, Boskalis reached agreement with the Works Council and the PGB Pension Fund on plan amendments for its Dutch staff participating in the PGB pension plans. The plan amendments concern the termination of the unconditional indexation right for participants employed by Boskalis before 1 January 2015. Indexation rights are harmonized with the other participants within PGB pension plans. The participants concerned receive compensation in the form of a one-off increase in their accrued pension rights as at 31 December 2016. Also, Boskalis and PGB amended and clarified their agreement in certain areas. After these changes the pension plans were aligned and now qualify as a defined contribution plan. As a result, a net settlement gain of EUR 5 million before tax was recognized at the end of December 2016 in the statement of profit or loss, comprising the release of the net defined obligation to the statement of profit or loss amounting to EUR 22 million and the charge of EUR 17 million resulting from the one-off increase in accrued rights as mentioned above. In addition, the actuarial reserve recognized in equity was released to other reserves.

The annual premium contribution by the Group is determined by PGB, based on the actuarial cost of purchasing pension rights on an annual basis. The Group has no obligation to cover any plan deficits, nor are there any specific separate plan assets dedicated to the Group in this pension plan that are managed by PGB. After payment of the annual premium, the Group has no obligation to pay for additional contributions or higher future premiums in the event of a shortfall at PGB, nor if the plan or the fund is terminated. Furthermore, the Group has no entitlement to any surplus in the PGB pension fund. Future cash flows are limited to the payment of future premiums for purchasing (new) rights for the years to come. The premium is influenced by the usual, underlying actuarial assumptions, expected returns and agreed contribution ceiling.

Besides Boskalis, multiple other companies have also arranged their pension plans with PGB. The Group has no direct involvement in the governance of PGB. PGB does not hold specific, segregated pension assets dedicated to the Group. The share of the Boskalis pension plans in total liabilities and assets at PGB is limited. The plan assets of the Boskalis pension plans at PGB are actuarially calculated based on the present value of liabilities administered by PGB.

**Dutch multi-employer pension funds**

Some of the Dutch staff, including personnel transferred to the Group following the acquisition of VBMS, VSI and Stemat, participate in one of five industry-wide multi-employer pension funds, all within the framework of the Dutch Pension Act as referred to above, of which Bedrijfstak Pensioenfonds Waterbouw is the only one with a proportionately significant premium contribution by Boskalis of 20% (2015: 21%). As at 31 December 2016 the Bedrijfstak Pensioenfonds Waterbouw had a coverage ratio greater than 105% (2015: greater than 105%).

The Group has no direct involvement in the governance of the multi-employer pension funds. Employers' Associations, of which the Group is a member, designate some of the board members and / or supervisors of the multi-employer pension funds. In addition, the boards also include representatives of employees and retirees, possibly supplemented by one or more independent persons. The pension includes retirement and survivor's pension. These pension funds have indicated they are not able to provide sufficient information for a calculation in accordance with IFRS because there is no reliable and consistent basis to which to attribute the pension obligations, plan assets, and the absolute and relative share of the Group in the fund and to which to allocate income and expenses to the individual member companies of these pension funds. As a result, these defined benefit plans are recognized in these financial statements as a defined contribution plan in accordance with IFRS. In all cases relating to industry-wide multi-employer pension funds, the Group has no obligation whatsoever to pay additional contributions in the case of a deficit in the respective fund, other than paying the annual premium. Nor does the Group have a right to any surpluses in the funds. The premium covers the actuarially determined cost of purchasing the yearly rights for participants. The premium on the basis of the actuarial cost of purchasing rights in years is influenced by customary underlying actuarial assumptions, expected returns and often agreed ceilings. The expected contribution for the coming year is explained below.

**Other pension plans**

Other pension plans relate to, individually not material, multi-employer pension plans arranged with pension funds in the United Kingdom and insurance companies in the Netherlands, Belgium, the United Kingdom, the United States and until 1 December 2016 in South Africa (plan transferred together with the sale of SMIT Amandla Marine), as well as to minor unfunded defined benefit plans for two Group companies in Germany. These pension plans are in compliance with local laws and/or regulations applicable in the aforementioned countries. With the exception of the plan in the United Kingdom, where the Group may appoint one or more Directors or Trustees, the Group has no direct and/or significant involvement in the governance of these pension plans. The pension plans are characterized by defined benefit rights over the participant's years of service, which are mainly based on average wages and include retirement and survivor's pension. These pensions are indexed, for the main part with a limit being set to the available contributions and the return on plan assets, respectively. The pension liabilities and pension assets are placed with and managed by the pension funds or insurance companies. The risk for the Group relating to these pensions is therefore limited. With the exception of a closed pension plan in the United Kingdom, the future cash flows for the other arrangements are limited to the actuarially calculated annual premiums based on the cost of purchasing future pension rights. In other funded defined benefit plans there is no enforceable statutory or regulatory direct obligation to cover any deficits to fulfil future actuarial obligations. The contributions are subject to the customary, actuarial assumptions, expected returns and agreed contribution ceiling.

The group's largest company pension fund in the United Kingdom is managed by BKW Trustee Company Limited. The management of the Trust company is partly appointed by Boskalis and partly elected by plan participants. The investment policy is geared to the fact that it is a closed arrangement relating primarily to fixed income. Pension law in the United Kingdom includes the requirement to index pension plans. In 2015 the required tri-annual valuation was conducted, which determined the required annual contributions to this pension fund. There is no requirement to immediately and fully cover an existing deficit in this pension plan. The expected contribution to this fund for the coming year and for the ongoing review period amounted to GBP 1.2 million (2015: GBP 1.2 million) and GBP 2.1 million (2015: GBP 3.3 million) respectively.

*Settlement and termination of two other pension plans*
During 2016 two contracts with Dutch insured pension plans reached the end of their contract terms and were not renewed. The plans for the respective staff were transferred, one to PGB and the other to an industry-wide pension fund. Accrued pension rights within these plans will remain with the pension insurers. This resulted in a settlement gain of EUR 6.7 million relating to one - and a curtailment gain of EUR 1.5 million for the other pension plan transferred.

Following the changes in the pension plans disclosed above, the contribution of the Group's European harbor towage activities to the new joint venture KOTUG SMIT Towage (see note 5.3) and the sale of SMIT Amandla Marine (see note 5.4), the remaining balance of the net defined benefit obligation mainly relates to closed pension plans. The net defined benefit obligation of the aforementioned pension plans in the United Kingdom mainly are determined by expected future inflation (2016: 3.55%; 2015: 3.10%). The other defined pension plan is a closed insured pension plan for which future cash flows are determined on the basis of Group entitlement to excess returns realized by the insurance company and annual guarantee costs provided for in the balance sheet. Both of these results continue to be recognized through the statement of other comprehensive income. Therefore the expected impact of these remaining defined benefit pension plans on future statements of profit or loss is not significant.

The disclosures regarding 2015 mainly related to the former defined benefit plans of the Group, that were settled and converted into defined contribution plans and were no longer included in the following disclosures for 2016: the composition of plan assets; the accumulated actuarial gain and losses; and the sensitivity for changes in the applied assumptions.

The composition of plan assets, excluding the defined benefit plans that were settled in 2016, is as follows:

| | **31 DECEMBER** | |
|---|---|---|
| | **2016** | 2015 |
| **Actuarial valuation of the inseparable share in PGB plan assets** | **-** | 527,999 |
| **Other pension plans:** | | |
| Equities | **21,259** | 34,251 |
| Bonds | **129,536** | 170,691 |
| Real estate | **396** | 400 |
| **Investments quoted in active markets** | **151,191** | 205,342 |
| Cash (non-interest-bearing) | **1,226** | 1,218 |
| Other receivables and payables | **779** | 235 |
| **Unquoted investments** | **2,005** | 1,453 |
| **TOTAL PLAN ASSETS** | **153,196** | 734,794 |

As at 31 December 2016 and 31 December 2015 the plan assets did not include shares issued by Royal Boskalis Westminster N.V.

Pension funds periodically perform asset liability management studies to assess the matching of investment assets with the amount and duration of pension liabilities. Based on the outcome of these studies the nature, mix and duration of assets are regularly adjusted. The average duration of the obligations of the pension plans is about 21 years (2015: 21 years).

The table below presents the pension costs from defined benefit pension plans, including the costs of plans that were settled in 2016 and which are included in these consolidated financial statements.

| | **2016** | 2015 |
|---|---|---|
| Total result defined benefit plans | **28,787** | - 2,277 |
| Settlement and curtailment gains on PGB and Dutch pension funds recognized in the consolidated statement of profit or loss | **13,260** | - |
| Pension costs for defined benefit pension plans charged to the consolidated statement of profit or loss | **- 37,527** | - 43,277 |
| Actuarial gains and losses and asset limitation recognized directly in equity | **4,520** | - 45,554 |
| Income tax | **- 1,080** | 6,772 |
| Actuarial gains and losses and asset limitation recognized directly in equity net of income tax | **3,440** | - 38,782 |
| | | |
| Effective return on plan assets | **50,513** | 26,822 |

The pension charges for the main pension plans are predominantly in euros. As a consequence, the exchange rate exposure for pension charges in other currencies is considered not material.

The accumulated actuarial gains and losses and the balance of the limitation on net plan assets amount to:

| | **2016** | 2015 |
|---|---|---|
| Accumulated actuarial gains and losses as at 31 December | **- 8,733** | - 64,101 |
| Asset limits on net plan assets as at 31 December | **- 11,145** | - 11,913 |
| | **- 19,878** | - 76,014 |

In 2017 the Group expects to contribute premiums of EUR 2.9 million (2016: EUR 34.1 million) to funded defined benefit plans and premiums of EUR 0.3 million (2016: EUR 0.4 million) to unfunded defined benefit plans.

The principal actuarial assumptions used for the calculations were:

| | **2016** | 2015 |
|---|---|---|
| Discount rate | **2.27%** | 2.39% |
| Expected future salary increases | **0.75%** | 0.75% |
| Expected future inflation | **1.80%** | 1.80% |
| Expected future pension increases for active participants | **0.73%** | 0.75% |
| Expected future pension increases for inactive participants | **0.06%** | 0.30% |

Sensitivity to changes in the applied assumptions can be summarized as follows:

| Assumptions as at 31 December 2016 | Increase of 0.25% | Decrease of 0.25% |
|---|---|---|
| **Effect on defined benefit obligation** | | |
| Change in discount rate | - 9,332 | 10,427 |
| Change in expected future salary increases | 3,734 | - 3,573 |
| Change in pension increase for active participants | 1,851 | - 1,655 |
| Change in pension increase for inactive participants | 4,332 | - 2,177 |
| **Effect on pension expenses attributed to the service year** | | |
| Change in discount rate | - | - |
| Change in expected future salary increases | - | - |
| Change in pension increase for active participants | - | - |

| Assumptions as at 31 December 2015 | Increase of 0.25% | Decrease of 0.25% |
|---|---|---|
| **Effect on defined benefit obligation** | | |
| Change in discount rate | - 35,851 | 38,939 |
| Change in expected future salary increases | 5,084 | - 4,990 |
| Change in pension increase for active participants | 6,515 | - 5,881 |
| Change in pension increase for inactive participants | 28,168 | - 23,997 |
| **Effect on pension expenses attributed to the service year** | | |
| Change in discount rate | - 2,825 | 2,865 |
| Change in expected future salary increases | 378 | - 598 |
| Change in pension increase for active participants | 599 | - 660 |
| Change in pension increase for inactive participants | 444 | - 194 |

Historical information:

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Defined benefit obligation | **- 160,380** | - 753,035 | - 747,808 | - 554,486 | - 789,692 |
| Fair value of plan assets | **153,196** | 734,794 | 691,932 | 585,038 | 700,381 |
| Surplus / deficit (-) | **- 7,184** | - 18,241 | - 55,876 | 30,552 | - 89,311 |
| Unfunded pension liabilities | **- 5,142** | - 5,175 | - 5,316 | - 4,673 | - 4,616 |
| Total surplus / deficit (-) | **- 12,326** | **- 23,416** | **- 61,192** | **25,879** | **- 93,927** |

The reduction of defined benefit obligations and the fair value of plan assets mainly relates to the settlement of two defined benefit plans in 2016 and changes in the discount rate.

### 25.2 DEFINED CONTRIBUTION PENSION PLANS

In 2017 the Group expects to contribute an amount of EUR 42.0 million (2016: EUR 20.0 million) to premiums for defined contributions plans. This concerns contributions to pension plans arranged with multi-employer pension funds, which are accounted for as defined contribution pension plans in these financial statements, in accordance with IFRS.

## 26. PROVISIONS

| | **ONEROUS CONTRACTS** | **WARRANTIES** | **RESTRUCTURING** | **OTHER** | **TOTAL 2016** | TOTAL 2015 |
|---|---|---|---|---|---|---|
| Balance as at 1 January | **11,450** | **6,789** | **6,000** | **6,569** | **30,808** | 32,367 |
| Assumed in business combinations | **150** | **5,135** | **-** | **268** | **5,553** | - |
| Provisions made during the year | **-** | **6,424** | **11,562** | **6,875** | **24,861** | 16,988 |
| Provisions used during the year | **- 2,241** | **- 2,069** | **- 414** | **- 200** | **- 4,924** | - 3,022 |
| Provisions reversed during the year | **- 1,597** | **- 2,200** | **-** | **-** | **- 3,797** | - 16,150 |
| Reclass to disposal group | **-** | **-** | **-** | **- 900** | **- 900** | - |
| Exchange rate differences and other movements | **56** | **1,434** | **176** | **195** | **1,861** | 625 |
| Balance as at 31 December | **7,818** | **15,513** | **17,324** | **12,807** | **53,462** | 30,808 |
| Non-current | **5,936** | **12,760** | **-** | **12,739** | **31,435** | 23,775 |
| Current | **1,882** | **2,753** | **17,324** | **68** | **22,027** | 7,033 |
| Balance as at 31 December | **7,818** | **15,513** | **17,324** | **12,807** | **53,462** | 30,808 |

The provisions for onerous contracts mainly relate to the lease of a vessel. Other provisions mainly relate to various claims made against the Group or threatening to be made including potential sanctions, from legal, regulatory and governmental proceedings. The Group disputes these claims and proceedings and has made an assessment of the amount of cash outflows that can be reasonable estimated. As litigation is inherently unpredictable, the possible outcome is uncertain and the amount may differ from the provisions listed above.

## 27. TRADE AND OTHER PAYABLES

| | 31 DECEMBER | |
|---|---|---|
| | **2016** | 2015 |
| Trade payables | **192,526** | 199,967 |
| Taxes and social security payables | **66,210** | 60,710 |
| Amounts due to joint ventures and associated companies | **1,815** | 6,323 |
| Other creditors and accruals | **825,133** | 997,099 |
| | **1,085,684** | 1,264,099 |

The trade and other payables are generally not interest-bearing.

## 28. FINANCIAL INSTRUMENTS

### GENERAL

Pursuant to the financial policy maintained by the Board of Management, the Group and its Group companies use several financial instruments in the ordinary course of business. The policy with respect to financial instruments is disclosed in more detail in the Annual Report in the Corporate Governance chapter. The Group's financial instruments are cash and cash equivalents, trade and other receivables, certificates of (listed) shares, interest-bearing loans and bank overdrafts, trade and other payables and derivatives. The Group enters into derivative transactions, mainly foreign currency forward contracts, foreign currency options and to a limited extent interest rate swaps, solely to hedge against the related risks. The Group's policy is not to trade in derivatives.

### 28.1 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk, consisting of: currency risk, interest rate risk and price risk

### 28.1.1 CREDIT RISK

The Group has a strict acceptance and hedging policy in place for credit risk, resulting from payment and political risks. Credit risks are covered by means of bank guarantees, insurance, advance payments, etc., except where it pertains to creditworthy, first class debtors. Credit risk procedures and the (geographical) diversification of the operations of the Group reduce the risk with regard to credit concentration.

*Exposure to credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's trade and other receivables. The Group's exposure to credit risk is mainly determined by the characteristics and location of each individual customer.

A large part of the Group's work in progress within the Dredging & Inland Infra and Offshore Energy operational segments is directly or indirectly performed on behalf of state-controlled authorities and oil and gas producers (or contractors thereof) in various countries and geographical areas. Salvage receivables (part of Towage & Salvage) are mainly outstanding with shipping companies and their Protection & Indemnity Associations, or 'P&I clubs'. The creditworthiness of new customers is individually analyzed before payment and delivery terms and conditions are offered. The same applies for contracting activities with clients the Group has done business with previously, even if business has been done for many years. The Group's review may include external credit ratings, if available, and bank references. Customers that fail to meet the Group's creditworthiness criteria may only transact with the Group on the basis of prepayment or a bank guarantee. In general there is a healthy diversification of receivables from different customers in several countries in which the Group performs its activities. Ongoing credit assessment is performed on the financial condition of accounts receivable. The credit history of the Group over recent years indicates that bad debts expenses incurred are insignificant compared to the level of activities. Therefore, management is of the opinion that credit risk is adequately controlled by the currently applicable procedures.

The maximum credit risk as at the balance sheet date, without taking into account the aforementioned financial risk coverage policy and instruments consists of the carrying amounts of the financial assets as stated below:

| | 31 DECEMBER | |
|---|---|---|
| | **2016** | 2015 |
| Financial instruments available for sale | **115,379** | - |
| Non-current receivables | **1,061** | 5,915 |
| Trade receivables | **274,429** | 379,910 |
| Amounts due from joint ventures and associated companies | **22,647** | 17,237 |
| Other receivables and prepayments | **300,852** | 330,420 |
| Derivatives | **80,804** | 55,934 |
| Income tax receivable | **7,495** | 9,893 |
| Cash and cash equivalents | **965,331** | 793,720 |
| | **1,767,998** | 1,593,029 |

The maximum credit risk on trade debtors by operational segment was as follows as at the reporting date:

| | 31 DECEMBER | |
|---|---|---|
| | **2016** | 2015 |
| Dredging & Inland Infra | **165,498** | 232,773 |
| Offshore Energy | **104,045** | 139,566 |
| Towage & Salvage | **4,279** | 5,904 |
| Holding & Eliminations | **607** | 1,667 |
| | **274,429** | 379,910 |

The aging of trade debtors as at 31 December was as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | Gross | Impairment |
| Not past due | **184,286** | **-** | 227,092 | - |
| Past due 0 - 90 days | **44,723** | **- 4,175** | 51,095 | - 979 |
| Past due 90 - 180 days | **3,354** | **- 177** | 46,943 | - 132 |
| Past due 180 - 360 days | **17,951** | **- 4,726** | 33,180 | - 1,754 |
| More than 360 days | **44,844** | **- 11,651** | 41,160 | - 16,695 |
| | **295,158** | **- 20,729** | 399,470 | - 19,560 |
| Impairment | **- 20,729** | | - 19,560 | |
| Trade receivables at book value | **274,429** | | 379,910 | |

With respect to the receivables that are neither impaired nor past due, there were no indications as at the reporting date that these will not be settled.

The movement in the allowance for impairment in respect of trade debtors during the year was as follows:

| | **2016** | 2015 |
|---|---|---|
| **Balance as at 1 January** | **19,560** | 18,568 |
| Acquired through business combinations | **299** | - |
| Reclassified to disposal group | **- 14** | - |
| Provisions made during the year | **11,185** | 4,190 |
| Provisions used during the year | **- 8,395** | - 2,109 |
| Provisions released during the year | **- 935** | - 962 |
| Currency exchange rate differences | **- 971** | - 127 |
| | **1,169** | 992 |
| **Balance as at 31 December** | **20,729** | 19,560 |

*Concentration of credit risk of customers*
As at reporting date there was no concentration of credit risk with certain customers.

*Credit risk cash and cash equivalents*
The Group had cash and cash equivalents of EUR 965 million at 31 December 2016 (2015: EUR 794 million), representing its maximum credit risk exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties with investment grade credit ratings.

**28.1.2 LIQUIDITY RISK**
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is aimed at ensuring that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Liquidity projections including available credit facilities are incorporated in the regular management information reviewed by the Board of Management. The focus of the liquidity review is on the net financing capacity, being free cash (see note 22) plus available credit facilities in relation to financial liabilities (see note 24). The total of free cash and available credit facilities at year-end amounted to EUR 1.4 billion of which EUR 0.4 billion was used to repay the 2010 US private placement in January 2017. Furthermore, based on the Group's financial ratios it can be concluded that the Group has significant debt capacity available under an (implied) investment grade credit profile.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding both the impact of netting agreements and financial liabilities accounted for as part of the disposal group:

| As at 31 December 2016 | Book value | Contractual cash flows | One year or less | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| US private placements | **759,727** | **830,074** | **465,001** | **41,413** | **323,660** |
| Other interest-bearing loans | **1,704** | **1,994** | **351** | **1,643** | **-** |
| Bank overdrafts | **1,188** | **1,198** | **1,198** | **-** | **-** |
| Trade and other payables | **1,085,684** | **1,085,684** | **1,085,684** | **-** | **-** |
| Current tax payable | **152,331** | **152,331** | **152,331** | **-** | **-** |
| Derivatives | **9,656** | **9,656** | **8,838** | **818** | **-** |
| | **2,010,290** | **2,080,937** | **1,713,403** | **43,874** | **323,660** |

| As at 31 December 2015 | Book value | Contractual cash flows | One year or less | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| US private placements | 711,575 | 848,287 | 29,753 | 444,913 | 373,621 |
| Revolving multi-currency credit facility | 196,897 | 205,940 | 1,721 | 204,219 | - |
| Other interest-bearing loans | 23,889 | 25,360 | 19,198 | 6,162 | - |
| Bank overdrafts | 30,603 | 30,625 | 30,625 | - | - |
| Trade and other payables | 1,264,099 | 1,264,099 | 1,264,099 | - | - |
| Current tax payable | 182,886 | 182,886 | 182,886 | - | - |
| Derivatives | 14,867 | 14,867 | 13,720 | 1,147 | - |
| | 2,424,816 | 2,572,064 | 1,542,002 | 656,441 | 373,621 |

**28.1.3 MARKET RISK**
Market risk concerns the risk that Group income or the value of investments in financial instruments is adversely affected by changes in market prices, such as currency exchange rates, interest rates and fuel prices. The objective of managing market risks is to keep the market risk position within acceptable boundaries while achieving the best possible return.

*Currency risk*
The presentation currency of the Group is the euro. A number of Group companies, the most important of which being Dockwise, and substantial strategic investments (Smit Lamnalco, Keppel Smit Towage, Asian Lift and Saam Smit Towage), have other functional currencies than the euro. The main other currency is the US dollar (the functional currency of the Dockwise, Smit Lamnalco and Saam Smit Towage entities), followed by the Singapore dollar. The revenue and expenses of these companies are largely or entirely based on their functional currency, other than the euro. Group companies and strategic investments with functional currency other than the euro contributed approximately 30% (2015: 30%) to the group revenue, 40% (2015: 45%) to the operating result excluding impairment losses and 35% (2015: 45%) to EBITDA in

2016. The Board of Management has defined a policy to control foreign currency risk based on the hedging of material transactions in foreign currencies by Group companies other than the functional currency. The policy is that these Group companies hedge their currency risks, if material, resulting from operational transactions in currencies other than their functional currency. This is mainly relevant for Group companies involved in dredging or offshore projects. The functional currency of a large part of the activities of Group companies is the euro. The expenses of these companies are mainly presented in euros and to a lesser extent in the local currency of the country in which the activities are undertaken. The Group contracts projects mainly in euro, US dollars, pounds sterling and currencies which are pegged to the US dollar.

Consequently, the reported financial results and cash flows of the respective operations are exposed to foreign currency risk. The exchange rate of the US dollar and the euro are most relevant in this respect. The Board of Management has defined a policy to mitigate foreign risks by hedging the foreign currency exposure of operational activities, in most cases through forward currency contracts.

The Group uses derivative financial instruments only to hedge related transactions, mainly from future cash flows from contracted projects. The Group applies hedge accounting for its cash flow hedges.

*Exposure to currency risk*

The Group's currency risk management policy was maintained in 2016 and resulted in a non-material sensitivity of the Group to currency transaction risk.

The following significant exchange rates applied during the year under review:

| | **Average rate** | | **Spot rate as at 31 December** | |
|---|---|---|---|---|
| Euro | **2016** | 2015 | **2016** | 2015 |
| US Dollar | **1.102** | 1.112 | **1.055** | 1.086 |
| Singapore Dollar | **1.526** | 1.527 | **1.524** | 1.541 |

*Currency translation risk*

Currency translation risk arises mainly from the net asset position of subsidiaries, associated companies and joint ventures, whose functional currency is different than the presentation currency of the Group. Investments are viewed from a long-term perspective. Currency risks associated with investments in these affiliated companies are not hedged, under the assumption that currency fluctuations and interest and inflation developments balance out in the long run. Items in the statements of profit or loss of these subsidiaries are translated at average exchange rates. Currency translation differences are charged or credited directly to equity.

At the reporting date the net asset positions of the main subsidiaries, associated companies and joint ventures in functional currencies other than the euro were as follows:

| | **31 DECEMBER** | |
|---|---|---|
| Euro | **2016** | 2015 |
| US dollar | **1,058,871** | 1,947,880 |
| Singapore dollar | **157,255** | 206,439 |
| | **1,216,126** | 2,154,319 |

For the 2016 financial year, profit before tax, excluding the effect of non-effective cash flow hedges would have been EUR 26.5 million lower (2015: EUR 12.4 million higher) if the corresponding functional currency had strengthened by 5% in comparison to the euro with all other variables, in particular interest rates, held constant. This would have been mainly as a result of currency exchange effects on translation of the result of the above-mentioned affiliates denominated in US dollars. The total impact on the currency translation reserve would have amounted to about EUR 66 million positive (2015: approximately EUR 102 million positive). A 5% weakening of the corresponding functional currency against the euro at year-end would have had the same but opposite effect assuming that all other variables remained constant.

*Currency transaction risk, excluding interest-bearing financing*

The currency transaction risk for Group companies resulting from future operational transactions in currencies other than their functional currency, can be summarized as follows:

| | **2016** | 2015 |
|---|---|---|
| Expected cash flows in US dollars | **133,703** | 198,598 |
| Expected cash flows in Australian dollars | **- 13,043** | - 31,478 |
| Expected cash flows in pounds sterling | **42,204** | - 10,548 |
| Expected cash flows in Indonesian rupiah | **-** | 70,440 |
| Expected cash flows in Swedish kronor | **14,306** | 21,845 |
| Expected cash flows in euros | **- 115,604** | - 38,841 |
| Expected cash flows in other currencies | **8,343** | 13,136 |
| Expected cash flows | **69,909** | 223,152 |
| Cash flow hedges | **- 77,176** | - 194,211 |
| Net position | **- 7,267** | 28,941 |

*Sensitivity analysis*

Due to the fact that expected future cash flows in foreign currencies are hedged, the sensitivity to foreign currency risk for financial instruments, excluding interest-bearing financing, is limited for the Group. The Group is mainly funded by loans denominated in euros and in US dollars, as well as US private placements denominated in US dollars and pounds sterling (see note 24 'Interest-bearing borrowings'). To a large extent the private placements in US dollars and the full amount expressed in pound sterling is swapped into euros by means of cross-currency swaps. The other part of the US private placements expressed in US dollars and the other US dollar financing is used to hedge, in part, the net investment in Dockwise and Fairmount, including the intercompany financing provided. Therefore, and due in part to hedge accounting, the sensitivity in the profit and loss account is limited for financing in currencies other than the euro.

*Interest rate risk*

The Group has mainly fixed interest rate liabilities and a revolving multi-currency facility with a variable interest rates. With a view to controlling interest risks, in principle the policy is that interest rates for loans payable are primarily fixed for the entire maturity period. This is achieved by contracting loans that carry a fixed interest rate and/or by using derivatives such as interest rate swaps.

The interest rates and maturity profiles of interest-bearing loans, deposits and cash and cash equivalents are stated below:

| As at 31 December 2016 | **Interest rate** | **One year or less** | **1 - 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | **0.00%** | **839,395** | **-** | **-** | **839,395** |
| Short-term deposits | **0.35%** | **125,936** | **-** | **-** | **125,936** |
| US Private Placements (USD) | **4.16%** | **- 437,931** | **-** | **- 306,876** | **- 744,807** |
| US Private Placements (GBP) | **5.19%** | **- 14,920** | **-** | **-** | **- 14,920** |
| Other interest-bearing loans | **3.40%** | **- 293** | **- 1,411** | **-** | **- 1,704** |
| Bank overdrafts | **1.76%** | **- 1,188** | **-** | **-** | **- 1,188** |
| | | **510,999** | **- 1,411** | **- 306,876** | **202,712** |

| As at 31 December 2015 | **Interest rate** | **One year or less** | **1 - 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 0.00% | 695,531 | - | - | 695,531 |
| Short-term deposits | 0.91% | 98,189 | - | - | 98,189 |
| US Private Placements (USD) | 4.16% | - | - 351,787 | - 344,887 | - 696,674 |
| US Private Placements (GBP) | 5.19% | - | - 14,901 | - | - 14,901 |
| Revolving multi-currency credit facility (USD) | 0.88% | - | - 196,897 | - | - 196,897 |
| Other interest-bearing loans | 1.47% | - 18,127 | - 5,762 | - | - 23,889 |
| Bank overdrafts | 0.13% | - 30,603 | - | - | - 30,603 |
| | | 744,990 | - 569,347 | - 344,887 | - 169,244 |

The US private placements and some of the cash and cash equivalents, short-term deposits and other interest bearing loans have fixed interest rates.

*Sensitivity analysis*
In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on Group earnings. In the long term, however, permanent changes in interest rates will have an impact on profit.

At the reporting date and taking into account the corresponding effective hedge instruments, the interest rate profile of the Group's interest-bearing financial instruments was:

| | **2016** | 2015 |
|---|---|---|
| **FIXED RATE INSTRUMENTS** | | |
| Financial assets | **264,093** | 293,442 |
| Financial liabilities | **- 761,431** | - 717,306 |
| | **- 497,338** | - 423,864 |
| **VARIABLE RATE INSTRUMENTS** | | |
| Financial assets | **701,238** | 500,278 |
| Financial liabilities | **- 1,188** | - 245,661 |
| | **700,050** | 254,617 |

A drop of 100 basis points, insofar as possible, in interest rates at 31 December 2016 would have no material impact on the Group's profit before income tax (2015: increase of approximately EUR 0.9 million), with all other variables, in particular currency exchange rates, remaining constant. A rise of 100 basis points in interest rates at 31 December 2016 would have increased the Group's profit before income tax by a maximum of EUR 7.0 million (2015: increase by a maximum of EUR 2.5 million), with all other variables, in particular currency exchange rates, remaining constant.

*Price risks*
Risks related to price developments on the purchasing side which are usually borne by the Group, for example developments in wages, costs of materials, sub-contracting costs and fuel, are also taken into account when preparing cost price calculations and tenders. Price index clauses are included in contracts wherever possible, especially on projects that extend over a long period of time.

The Board of Management has established a fuel price risk management policy stipulating approved fuel price risk management instruments. These include: delivery of fuel by the client, price escalation clauses, fixed price supply contracts and financial derivatives (forward, future and swap contracts).

**28.2 ON-BALANCE FINANCIAL INSTRUMENTS AND FAIR VALUE**
Financial instruments accounted for under assets and liabilities are financial fixed assets, cash and cash equivalents, receivables, and current and non-current liabilities. Derivatives are mainly future cash flows hedged by forward contracts to which hedge accounting is applied. Furthermore, the Group holds a number of interest rate swaps. These are recognized under other derivatives.

The fair value of the forward exchange contracts is based on their listed market price (unadjusted market prices in active markets for identical assets and liabilities) or discounted cash flows based on relevant conditions and durations of the contracts and including public interest rates for comparable instruments as at the balance sheet date, taking into account the credit risk of the counterparty. The fair value of other financial instruments is based on quoted prices or on the actual interest rate as at the balance sheet date, taking into account terms and maturity. The fair value of non-interest-bearing financial instruments with a maturity of twelve months or less is supposed to be equal to their book value.

The fair value of the majority of the financial instruments does not differ materially from the book value, with the exception of a number of loans and other payables with a fixed rate. The fair value of these instruments is disclosed below.

The fair value and the related hierarchy of the aforementioned financial instruments are:

| | As at 31 December 2016 | | | As at 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **CARRYING AMOUNT** | **FAIR VALUE** | **HIERACHY** | CARRYING AMOUNT | FAIR VALUE | HIERACHY |
| Assets | | | | | | |
| Derivatives | **80,804** | **80,804** | **2** | 55,934 | 55,934 | 2 |
| Financial assets available for sale | **115,379** | **115,379** | **1** | - | - | - |
| Liabilities | | | | | | |
| Derivatives | **- 9,656** | **- 9,656** | **2** | - 14,867 | - 14,867 | 2 |
| Interest bearing loans with fixed interest rates | **- 761,431** | **- 779,607** | **3** | - 717,306 | - 779,830 | 3 |

*Derivatives*

The composition of outstanding derivatives at year-end is presented below.

| 2016 | **WITHIN ONE YEAR** | **AFTER ONE YEAR** | **TOTAL** |
|---|---|---|---|
| USD forward selling (in US dollar) | **- 181,748** | **- 14,347** | **- 196,095** |
| USD forward buying (in US dollar) | **38,628** | **-** | **38,628** |
| Forward selling of other currencies (average contract rates in EUR) | **- 88,100** | **- 28,562** | **- 116,662** |
| Forward buying of other currencies (average contract rates in EUR) | **136,288** | **20,620** | **156,908** |
| Fuel hedges (in US dollar) | **947** | **-** | **947** |
| Interest rate swaps (in EUR) | **59,669** | **-** | **59,669** |

| 2015 | **WITHIN ONE YEAR** | **AFTER ONE YEAR** | **TOTAL** |
|---|---|---|---|
| USD forward selling (in US dollar) | - 170,625 | - 55,984 | - 226,609 |
| USD forward buying (in US dollar) | 31,160 | 1,768 | 32,928 |
| Forward selling of other currencies (average contract rates in EUR) | - 107,484 | - 26,790 | - 134,274 |
| Forward buying of other currencies (average contract rates in EUR) | 106,607 | 14,993 | 121,600 |
| Fuel hedges (in US dollar) | - 6,103 | - | - 6,103 |
| Interest rate swaps (in EUR) | 5,386 | 73,402 | 78,788 |

The remaining time to maturity of these derivatives is directly related to the remaining time to maturity of the relating underlying contracts in the order book.

Cash flows from forward currency buying and selling can be rolled forward at the settlement date if they differ from the underlying cash flows.

The results on effective cash flow hedges are recognized in Group equity as follows:

| | **2016** | 2015 |
|---|---|---|
| Hedging reserve as at 1 January | **- 15,207** | - 19,039 |
| Movement in fair value of effective cash flow hedges recognized in Group equity | **- 2,004** | - 41,502 |
| Transferred to the statement of profit or loss | **15,265** | 48,515 |
| Total directly recognized in Group equity | **13,261** | 7,013 |
| Taxation | **- 2,034** | - 3,181 |
| Directly charged to hedging reserve (net of taxes) | **11,227** | 3,832 |
| Change in fair value of cash flow hedges from joint ventures and associated companies, after taxation | **6,365** | - |
| Reclassification of hedge reserve to statement of profit or loss | **- 6,290** | - |
| | **75** | - |
| Balance of hedging reserve as at 31 December | **- 3,905** | - 15,207 |

The results on non-effective cash flow hedges are presented within the costs of raw materials, consumables, services and subcontracted work and amount to EUR 1.4 million positive in 2016 (2015: EUR 0.3 million negative).

*Netting of financial instruments*
The company does not net financial instruments in its statement of financial position.

### 28.3 CAPITAL MANAGEMENT

The Board of Management's policy is to maintain a strong capital base so as to maintain customer, investor, creditor and market confidence and to support the future development of the business. The Board of Management monitors the return on equity, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Management also monitors the level of dividend to be paid to holders of ordinary shares. For the dividend policy, see the Shareholders Information in the Annual Report.

The Board of Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the benefits of a sound capital position. The Group's target is to achieve a long-term return on equity of at least 12%. In 2016 the return was −16.5% (2015: 12.8%); adjusted for impairments after tax, the return on equity in 2016 was 8.1% (2015: 13.3%).

There were no changes in the Group's approach to capital management during the year. Neither the Group nor any Group companies are subject to externally imposed capital requirements.

The Group's solvency calculated as the ratio of total liabilities (EUR 2,441 million; 2015: EUR 2,883 million) to Group equity (EUR 3,123 million; 2015: EUR 3,722 million) amounted to 0.78 (2015: 0.77) at the reporting date.

### 28.4 OTHER FINANCIAL INSTRUMENTS

By decision of the General Meeting of Shareholders held on 9 May 2001 the foundation Stichting Continuïteit KBW (the 'Foundation') was granted the right to acquire cumulative protective preference shares in Royal Boskalis Westminster N.V. for an amount equal to the nominal amount of the ordinary shares outstanding at the time of issue of the shares concerned, minus the nominal value of one ordinary share. This right qualifies as a derivative financial liability and is subject to the following important conditions. The cumulative protective preference shares shall only be issued to the Foundation against payment of at least one fourth of the nominal sum. Additional payments on cumulative protective preference shares shall only take place after Royal Boskalis Westminster N.V. will have called these payments. After the issue of cumulative protective preference shares to the Foundation, Royal Boskalis Westminster N.V. is obliged, if the Foundation so requires, to reverse the issue by buyback or by cancellation with repayment, at the discretion of Foundation. The dividend regarding the cumulative protective preference shares, if issued, is equal to the average of the Euribor interest, calculated for loans with a term of one year – pro rata the number of days to which such percentage applied – during the financial year for which the distribution is made, plus a maximum of four percentage points. The lastly mentioned increase shall be determined by the board of directors, subject to the approval of the supervisory board. The interest and credit risk is limited. The fair value of the option right is zero. The option of issuing such cumulative protective preference shares was not exercised during the period under review.

## 29. COMMITMENTS AND CONTINGENT LIABILITIES

*Operational lease obligations*

The operational lease obligations relate primarily to the operational lease of some floating and other construction equipment, cars and offices. Additional clauses are not taken into account presuming that these are not unconditional. Non-redeemable operating lease contracts are recognized at nominal amounts and are due as follows:

| | 2016 | 2015 |
|---|---|---|
| Within one year | **31,309** | 33,193 |
| Between one and five years | **53,547** | 55,189 |
| After more than five years | **12,493** | 9,395 |
| | **97,349** | 97,777 |

*Guarantees*

The guarantee commitments as at 31 December 2016 amounted to EUR 776 million (2015: EUR 742 million) and can be specified as follows:

| | 2016 | 2015 |
|---|---|---|
| Guarantees provided with respect to: | | |
| Joint ventures | **86,000** | 174,000 |
| Contracts and joint operations | **689,000** | 567,000 |
| Lease obligations and other financial obligations | **1,000** | 1,000 |
| | **776,000** | 742,000 |

The above-mentioned guarantees outstanding as at 31 December 2016 refer to guarantees and counter guarantees provided to financial institutions for approximately EUR 775 million (2015: approximately EUR 741 million).
In 2016, 35 key Group companies were jointly and severally liable in respect of credit facilities and guarantees provided to several Group companies. In respect of these facilities, it has been agreed to limit the provision of further securities on existing property, plant and equipment.

Group companies are jointly and severally liable for the non-consolidated part of the liabilities of their joint operations amounting to EUR 244 million (2015: EUR 479 million). Group companies are also jointly and severally liable for performance obligations for contracts with third parties in project-driven construction consortiums. In addition, certain recourse obligations exist in respect of project financiers and guarantees of deployment relating to equipment. Where deemed necessary, provisions have been made.

In principle the Group does not provide parent company guarantees to its subsidiaries, other than for commercial reasons. Group companies have filed declarations of joint and several liability for a number of subsidiaries with the Chamber of Commerce.

*Capital commitments*

As at 31 December 2016 capital expenditure commitments amounted to EUR 62 million (year-end 2015: EUR 108 million).

*Capital contribution obligations*

At year-end 2016 capital contribution obligations relating to Public Private Partnerships ('PPP') amount to EUR 12.5 million (2015: EUR 12.5 million). On behalf of the Group, financial institutions have provided bank guarantees for the amount of the capital contribution obligations as disclosed as part of the aforementioned guarantees and counter guarantees.

*Other*

Several legal proceedings and investigations, including regulatory and other governmental, are regularly instituted against (entities of) Royal Boskalis Westminster N.V. Provisions were made where deemed necessary and if a reliable estimate of the future cash outflows could be made. Dutch companies form part of a fiscal unity. The companies are therefore liable for the tax obligations of the fiscal unity as a whole.

## 30. RELATED PARTIES

### 30.1 IDENTITY OF RELATED PARTIES

The identified related parties of the Group are its Group companies, joint ventures, associated companies (see note 17), shareholders with significant influence, pension funds that are classified as funded defined benefit pension plans in accordance with IAS 19 and the members of the Supervisory Board and Board of Management. There were no significant changes to the companies and people related to the Group other than the following:

- VBMS, Stemat and VSI were acquired on 1 July 2016 and have since been wholly owned subsidiaries. VBMS was a joint venture up to 1 July 2016;
- KOTUG SMIT Towage became a joint venture as from 7 April 2016;
- The activities of Group company SMIT Amandla Marine were sold on 1 December 2016;
- Ms. I. Haaijer was appointed as a member of the Supervisory Board with effect from 10 November 2016; and
- On 10 May 2016 Mr. F.A. Verhoeven resigned from the Board of Management having reached the age of retirement.

### GROUP COMPANIES

The following are the most relevant active Group companies, presented in accordance with the operational segment (division) where the respective entity primarily performs and reports on its activities.

| COMPANY | CITY OF INCORPORATION | COUNTRY OF INCORPORATION | 2016 | 2015 |
|---|---|---|---|---|
| **DREDGING & INLAND INFRA** | | | | |
| Aannemingsmaatschappij Markus B.V. | Halfweg | The Netherlands | **100%** | 100% |
| Boskalis Dolman B.V. | Dordrecht | The Netherlands | **100%** | 100% |
| Boskalis Dolman Mineraal Recycling B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis International B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Nederland B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Nederland Infra B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Secundaire Grondstoffen B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Transport B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Westminster International B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Westminster Shipping B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| BW Marine B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| BW Soco B.V. | Sliedrecht | The Netherlands | **100%** | 100% |
| Cofra B.V. | Amsterdam | The Netherlands | **100%** | 100% |
| G. Markus & Zonen B.V. | Halfweg | The Netherlands | **100%** | 100% |
| Hydronamic B.V. | Sliedrecht | The Netherlands | **100%** | 100% |
| J. van Vliet B.V. | Wormerveer | The Netherlands | **100%** | 100% |
| MNO Grond- Weg- en Waterbouw B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| MNO Vervat B.V. | Nieuw-Vennep | The Netherlands | **100%** | 100% |
| Wassenaar Recreatie Hedel B.V. | Hedel | The Netherlands | **100%** | 100% |
| Zandwinningsbedrijf Ahoy B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Zinkcon Dekker B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| HDC Wasserbau Nord GmbH | Hamburg | Germany | **100%** | - |
| Heinrich Hirdes GmbH | Bremen | Germany | **100%** | 100% |
| Heinrich Hirdes EOD Services GmbH | Hamburg | Germany | **100%** | 100% |
| Heinrich Hirdes Kampfmittelräumung GmbH | Duisburg | Germany | **100%** | 100% |
| Boskalis Westminster Limited | Fareham | United Kingdom | **100%** | 100% |
| Cofra Limited | Fareham | United Kingdom | **100%** | 100% |
| Rock Fall Company Limited | Fareham | United Kingdom | **100%** | 100% |
| Westminster Dredging (Overseas) Limited | Fareham | United Kingdom | **100%** | 100% |
| Westminster Gravels Limited | Fareham | United Kingdom | **100%** | 100% |
| Boskalis Denmark ApS | Copenhagen | Denmark | **100%** | - |
| Irish Dredging Company Limited | Cork | Ireland | **100%** | 100% |
| Atlantique Dragage SARL | Nanterre | France | **100%** | 100% |
| Sociedad Española de Dragados S.A. | Madrid | Spain | **100%** | 100% |
| Boskalis Italia S.r.l. Unipersonale | Rome | Italy | **100%** | 100% |
| Terramare Oy | Helsinki | Finland | **100%** | 100% |
| Boskalis Sweden AB | Goteborg | Sweden | **100%** | 100% |
| Boskalis Polska Sp. Zo.o | Szczecin | Poland | **100%** | 100% |
| Boskalis S.R.L. | Constanta | Romania | **100%** | - |
| Terramare Eesti OÜ | Tallinn | Estonia | **100%** | 100% |
| Limited Liability Company "Boskalis" | St. Petersburg | Russian Federation | **100%** | 100% |
| Boskalis Westminster Middle East Limited | Nicosia | Cyprus | **100%** | 100% |

| COMPANY | CITY OF INCORPORATION | COUNTRY OF INCORPORATION | 2016 | 2015 |
|---|---|---|---|---|
| BW Marine (Cyprus) Limited | Nicosia | Cyprus | **100%** | 100% |
| Boskalis Maroc | Tangier | Morocco | **100%** | - |
| Boskalis do Brasil Dragagem e Serviços Maritímos Ltda | Rio de Janeiro | Brazil | **100%** | 100% |
| Stuyvesant Environmental Contracting, LLC | Wilmington | United States of America | **100%** | 100% |
| Stuyvesant Projects Realization, Inc. | Wilmington | United States of America | **100%** | 100% |
| Boskalis Canada Dredging & Marine Service Ltd | Vancouver | Canada | **100%** | 100% |
| Dragamex S.A. de CV | Coatzacoalcos | Mexico | **100%** | 100% |
| Boskalis Panama S.A. | Ancon | Panama | **100%** | 100% |
| Boskalis Guyana Inc. | Georgetown | Guyana | **100%** | 100% |
| Boskalis International Uruguay S.A. | Montevideo | Uruguay | **100%** | 100% |
| Dravensa C.A. | Caracas | Venezuela | **100%** | 100% |
| Nigerian Westminster Dredging and Marine Limited | Lagos | Nigeria | **60%** | 60% |
| BKI Gabon S.A. | Libreville | Gabon | **100%** | 100% |
| Boskalis International Maledives Private Limited | Male | Maldives | **100%** | 100% |
| Boskalis Mozambique Lda | Maputo | Mozambique | **100%** | 100% |
| Boskalis Westminster Oman LLC * | Muscat | Oman | **49%** | 49% |
| Boskalis Westminster Al Rushaid Co Ltd. * | Al Khobar | Saudi Arabia | **49%** | 49% |
| Boskalis Australia Pty Ltd | Perth | Australia | **100%** | 100% |
| Boskalis International (S) Pte Ltd | Singapore | Singapore | **100%** | 100% |
| Koon Zinkcon Pte Ltd * | Singapore | Singapore | **50%** | 50% |
| Zinkcon Marine Singapore Pte. Ltd. | Singapore | Singapore | **100%** | 100% |
| P.T. Boskalis International Indonesia | Jakarta | Indonesia | **100%** | 100% |
| Boskalis Smit India LLP | Mumbai | India | **100%** | 100% |
| Beijing Boskalis Dredging Technology Co Ltd. | Beijing | China | **100%** | 100% |
| Boskalis Taiwan Limited | Taipei | Taiwan | **100%** | 100% |
| **OFFSHORE ENERGY** | | | | |
| Boskalis Holding I (dollar) B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Holding II (dollar) B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Offshore Contracting B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Offshore Fleet Management B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Offshore Holding B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Offshore International B.V. | Papendrecht | The Netherlands | **100%** | - |
| Boskalis Offshore International Holding B.V. | Papendrecht | The Netherlands | **100%** | - |
| Boskalis Offshore Marine Contracting B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Offshore Marine Services B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Offshore Subsea Contracting B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Offshore Subsea Services (Europe) B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Dockwise B.V. | Breda | The Netherlands | **100%** | 100% |
| Dockwise Shipping B.V. | Breda | The Netherlands | **100%** | 100% |
| Dockwise Transporter B.V. | Breda | The Netherlands | **100%** | 100% |
| Dockwise Vanguard B.V. | Breda | The Netherlands | **100%** | 100% |
| Fairmount Alpine B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Expedition B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Glacier B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Marine B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Ocean Towage Company B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Sherpa B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairmount Summit B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairstar Finesse B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairstar Fjell B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairstar Fjord B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairstar Forte B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Fairstar Heavy Transport N.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Offshore Equipment B.V. | Papendrecht | The Netherlands | **100%** | - |
| Stemat B.V. | Rotterdam | The Netherlands | **100%** | - |
| Stemat Beheer B.V. | Rotterdam | The Netherlands | **100%** | - |
| Stemat Holding B.V. | Rotterdam | The Netherlands | **100%** | - |
| Stemat Support Services B.V. | Rotterdam | The Netherlands | **100%** | - |
| Talisman B.V. | Breda | The Netherlands | **100%** | 100% |
| Target B.V. | Breda | The Netherlands | **100%** | 100% |
| Treasure B.V. | Breda | The Netherlands | **100%** | 100% |
| Triumph B.V. | Breda | The Netherlands | **100%** | 100% |
| Trustee B.V. | Breda | The Netherlands | **100%** | 100% |
| VBMS B.V. | Papendrecht | The Netherlands | **100%** | - |
| VBMS Holding B.V. | Papendrecht | The Netherlands | **100%** | - |
| White Marlin B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Dockwise Transport N.V. | Curacao | Curacao | **100%** | 100% |

| COMPANY | CITY OF INCORPORATION | COUNTRY OF INCORPORATION | 2016 | 2015 |
|---|---|---|---|---|
| Boskalis Offshore Marine Services N.V. | Antwerp | Belgium | **100%** | 100% |
| Boskalis Offshore Transport Services N.V. | Antwerp | Belgium | **100%** | 100% |
| Dredging & Contracting Belgium N.V. | Overijse | Belgium | **100%** | 100% |
| Unie van Redding- en Sleepdienst België N.V. | Antwerp | Belgium | **-** | 100% |
| Unie van Redding- en Sleepdienst N.V. | Antwerp | Belgium | **100%** | 100% |
| Boskalis Offshore GmbH | Hamburg | Germany | **100%** | 100% |
| Boskalis Offshore International GmbH | Wilhelmshaven | Germany | **100%** | - |
| VBMS GmbH | Wilhelmshaven | Germany | **100%** | - |
| Boskalis Offshore Limited | Hoddesdon | United Kingdom | **100%** | - |
| Boskalis Offshore CI Limited | Hoddesdon | United Kingdom | **100%** | - |
| VBMS (UK) Limited | Hoddesdon | United Kingdom | **100%** | - |
| VBMS ApS | Copenhagen | Denmark | **100%** | - |
| Boskalis Offshore AS | Randaberg | Norway | **100%** | 100% |
| Boskalis Offshore Subsea Contracting Azerbaijan LLC | Baku | Azerbaijan | **100%** | 100% |
| Smit Marine South Africa (Pty) Ltd. | Cape Town | South Africa | **100%** | 100% |
| Boskalis Offshore Subsea Services (Middle East) L.L.C.* | Dubai | United Arab Emirates | **49%** | 49% |
| Boskalis Offshore Subsea Services (Australia) Pty Ltd | Chatswood | Australia | **100%** | 100% |
| Smit Holding Singapore Pte. Ltd. | Singapore | Singapore | **100%** | 100% |
| Smit Shipping Singapore Pte. Ltd. | Singapore | Singapore | **100%** | 100% |
| Smit Singapore Pte. Ltd. | Singapore | Singapore | **100%** | 100% |
| Smit Tak Heavy Lift (S) Pte. Ltd. | Singapore | Singapore | **100%** | 100% |
| **TOWAGE & SALVAGE** | | | | |
| Rotterdam Tug B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| SMIT Harbour Towage Rotterdam B.V. | Rotterdam | The Netherlands | **-** | 100% |
| SMIT Salvage B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Towage Brasil B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Towage Europe B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Towage Holding B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Towage Mexico B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Towage Terminals B.V. | Papendrecht | The Netherlands | **100%** | - |
| SMIT Harbour Towage Belgium NV | Antwerp | Belgium | **-** | 100% |
| Smit Harbour Towage (UK) Limited | Fareham | United Kingdom | **-** | 100% |
| **HOLDING & ELIMINATIONS** | | | | |
| Baggermaatschappij Boskalis B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Finance B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Holding B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Marine Infrastructure Investments B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Boskalis Westminster Dredging B.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Internationale Beheer B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Smit Internationale N.V. | Papendrecht | The Netherlands | **100%** | 100% |
| Smit Internationale Overseas B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Smit Nederland B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Smit Vessel Management Services B.V. | Rotterdam | The Netherlands | **100%** | 100% |
| Boskalis Germany Holding GmbH | Hamburg | Germany | **100%** | 100% |
| UAB "Boskalis Baltic" | Klaipeda | Lithuania | **100%** | 100% |
| B.K.W. Dredging & Contracting Limited | Nicosia | Cyprus | **100%** | 100% |
| Boskalis Westminster Dredging Limited | Nicosia | Cyprus | **100%** | 100% |

* The Group holds a legal interest of 50% or less in these entities, but has the majority of voting power. As a consequence, the Group consolidates these subsidiaries in accordance with the principles of financial reporting set out in paragraph 3.

**OTHER RELATED PARTIES**

*Strategic investments*
The main active joint ventures and associated companies are mentioned in note 17.

*Pension plans classified as funded defined benefit pension plans*
See note 25.1 for information on pension plans that are classified as funded defined benefit pension plans in accordance with IAS 19. There were no changes and further material transactions with these pension funds as disclosed in this note.

*Members of the Board of Management and members of the Supervisory Board*
The only key management officers qualifying as related parties are the members of the Board of Management and the members of the Supervisory Board.

## 30.2 RELATED PARTY TRANSACTIONS

*Strategic investments*
Transactions with joint ventures and associated companies as part of regular business take place under normal business conditions at arm's length. In 2016 these transactions regarding sales and purchases amounted to EUR 13.5 million and EUR 8.5 million, respectively (2015: EUR 27.6 million and EUR 4.2 million, respectively). Amounts receivable from and amounts payable to joint ventures and associated companies were EUR 22.6 million and EUR 1.8 million, respectively (2015: EUR 17.2 million and EUR 24.9 million, respectively). In 2016 no amount payable was accounted for as part of Other interest-bearing borrowings (2015: EUR 18.6 million).

The Groups has merged its European harbor towage activities into the joint venture KOTUG SMIT Towage, see note 5.3.

*Transactions with members of the Board of Management and members of the Supervisory Board*
The remuneration of current and former members of the Board of Management and Supervisory Board of the company in 2016 and 2015 were as follows:

| | ANNUAL SALARIES AND REMUNERATION | EMPLOYER'S PENSION CONTRIBUTIONS | SHORT-TERM AND LONG-TERM VARIABLE REMUNERATION PAID | OTHER REIMBURSE-MENTS | TOTAL | 2015 |
|---|---|---|---|---|---|---|
| **Members of the Board of Management** | | | | | | |
| Dr. P.A.M. Berdowski | **793** | **561** | **1,190** | **28** | **2,572** | 2,310 |
| T.L. Baartmans | **573** | **279** | **775** | **31** | **1,658** | 1,570 |
| J.H. Kamps | **573** | **320** | **736** | **28** | **1,657** | 1,583 |
| F.A. Verhoeven (up to 10 May 2016) | **203** | **60** | **1,139** | **8** | **1,410** | 1,598 |
| | **2,142** | **1,220** | **3,840** | **95** | **7,297** | 7,061 |
| **Members of the Supervisory Board** | | | | | | |
| J.M. Hessels | **66** | | | **2** | **68** | 72 |
| Ms. I. Haaijer (from 10 November 2016) | **7** | | | **-** | **7** | - |
| H.J. Hazewinkel | **45** | | | **2** | **47** | 47 |
| M.P. Kramer | **-** | | | **-** | **-** | 19 |
| M. Niggebrugge | **60** | | | **2** | **62** | 60 |
| J. van der Veer | **52** | | | **2** | **54** | 33 |
| J. N. van Wiechen | **56** | | | **2** | **58** | 55 |
| C. van Woudenberg | **52** | | | **2** | **54** | 57 |
| | **338** | | | **12** | **350** | 343 |
| **Total 2016** | **2,480** | **1,220** | **3,840** | **107** | **7,647** | |
| Total 2015 | 2,771 | 625 | 3,884 | 124 | | 7,404 |

The variable remuneration paid in 2016 is related to the achievement of certain targets during the 2015 financial year (short-term variable remuneration: EUR 1,558 thousand) and the achievement of certain targets during the 2013 - 2015 period (long-term variable remuneration: EUR 2,282 thousand). Executive remuneration expenses as accounted for in the 2016 financial statements differ from the abovementioned remuneration with regard to pensions and variable remuneration. The pension remuneration includes the salary compensation for pensions exceeding EUR 101.5 thousand, as well as the paid pension premiums (EUR 23 thousand per person). In addition to the aforementioned salary compensation, the actuarially determined service costs are also included as an expense in the financial statements. The long-term variable remuneration includes the actual amounts paid in 2016 regarding 2013-2015. The expenses recognized in the financial statements take into account the expenses arising from the 2016 long-term incentive plan regarding 2014-2016, as disclosed below. The pension expenses and short-term and long-term variable remuneration expenses relating to the members of the Board of Management as accounted for in the financial statements amount to EUR 1,593 thousand (2015: EUR 1,036 thousand) and EUR 1,560 thousand (2015: EUR 2,638 thousand), respectively. The total expense for the Members of the Board of Management therefore amounts to EUR 5,392 thousand (2015: EUR 6,226 thousand).

*Long-term incentive plan*
The members of the Board of Management participate in long-term (three-year) incentive plans, which are based partly on the development of the share price of the ordinary shares of Boskalis and partly on the realization of certain objectives, which are defined by the Supervisory Board and are in line with the strategic agenda and the objectives of Boskalis.

*Multi-year overview of variable remuneration*
The following variable remuneration was granted to the members of the Board of Management with regard to the years 2014, 2015 and 2016:

| | Year of payment | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Dr. P.A.M. Berdowski | **815** | 1,190 | 1,316 |
| T.L. Baartmans | **536** | 775 | 856 |
| J.H. Kamps | **536** | 736 | 856 |
| F.A. Verhoeven (up to 10 May 2016) | **-** | 1,139 | 856 |
| Total | **1,887** | 3,840 | 3,884 |

*Balance sheet position*
On 31 December 2016 the Group recognized a liability in the balance sheet item Trade and other payables of EUR 1.9 million (2015: EUR 3.4 million) relating to the long term incentive plans for the periods 2014 - 2016, 2015 - 2017 and 2016 - 2018.

**30.3 JOINT OPERATIONS**

The Group has activities in the Dredging & Inland Infra and Offshore Energy operational segments through joint operations which are not related parties as defined in IFRS. Legally these joint operations comprise project-driven construction consortiums. In joint operations joint control is established by contract and the Group has rights to the assets and is liable for the debts of the operations. An amount of EUR 382 million of Group revenue was realized through joint operations (2015: EUR 727 million). The balance sheet of the Group holds current assets of EUR162 million (2015: EUR 550 million), including cash and cash equivalents (refer to note 22) and an amount of EUR 287 million (2015: EUR 492 million) of current liabilities that was included on a pro-rata basis in accordance with the Group's interest in these joint operations. Temporary and other surpluses and shortages in the financing of a joint operation are withdrawn or financed by the partners in the joint operation. At year-end 2016, Group companies owed joint operations an amount of EUR 177.2 million (2015: EUR 189.8 million) and held EUR 63.5 million (2015: EUR 23.6 million) in receivables from joint operations. Similar to contracts of Group companies, guarantees are also provided for contracts of joint operations by the Group or one of its Group companies. The guarantee commitments regarding joint operations are disclosed in note 29 as part of the guarantee commitments relating to contracts and joint ventures. Group companies are jointly and severally liable for the non-consolidated part of the liabilities of their joint operations which are disclosed in note 28. The guarantees provided are predominantly backed up by comparable receivables from the clients of the joint operations, reducing the Group's exposure.

The table below shows the major joint operations (project driven construction consortiums) in which the Group is involved:

| ENTITY | COUNTRY OF INCORPORATION | 2016 | 2015 |
|---|---|---|---|
| **DREDGING & INLAND INFRA** | | | |
| A4ALL V.O.F. | The Netherlands | **10%** | 10% |
| Boskalis Van Oord Pluit City JV V.O.F. | The Netherlands | **50%** | 50% |
| BPL Beton | The Netherlands | **50%** | 50% |
| BPL Wegen | The Netherlands | **50%** | 50% |
| Combinatie BadhoeverBogen V.O.F. | The Netherlands | **20%** | 20% |
| Combinatie BaggerIJ | The Netherlands | **50%** | 50% |
| Combinatie IJsselweide | The Netherlands | **50%** | 50% |
| Combinatie Isala Delta | The Netherlands | **50%** | 50% |
| Combinatie Ommelanderdiek | The Netherlands | **70%** | - |
| Combinatie Regenboog V.O.F. | The Netherlands | **38%** | 38% |
| Combinatie Tessel | The Netherlands | **70%** | - |
| Combinatie Wilhelminakanaal | The Netherlands | **33%** | 33% |
| Kribverlaging Waal fase 3 | The Netherlands | **50%** | 50% |
| MSB Grind & Zand V.O.F | The Netherlands | **33%** | 33% |
| Projectorganisatie Uitbreiding Maasvlakte (PUMA) | The Netherlands | **50%** | 50% |
| SAAone EPCM Bouwcombinatie V.O.F. | The Netherlands | **30%** | 30% |
| SAAone GWW V.O.F. | The Netherlands | **50%** | 50% |
| Unie van Marken V.O.F. | The Netherlands | **70%** | 70% |
| ZSNH Combinatie Van Oord/Boskalis V.O.F. | The Netherlands | **50%** | 50% |
| NMDC-Boskalis-Van Oord-Jan de Nul Consortium for Suez Canal Project | Egypt | **25%** | 25% |
| Ras Laffan Port Extension | Qatar | **50%** | 50% |
| Penta-Ocean Koon DI Boskalis Ham JV (Jurong 4) | Singapore | **17%** | 17% |
| Boskalis Jan de Nul - Dragagens E Afins LDA | Angola | **50%** | 50% |
| Bahia Blanca | Argentina | **50%** | 50% |
| **OFFSHORE ENERGY** | | | |
| Boskalis Offshore AS - Tideway V.O.F. | The Netherlands | **50%** | 50% |
| Offshore Windforce V.O.F. | The Netherlands | **50%** | 50% |
| Offshore Windforce VM * | The Netherlands | **100%** | 50% |
| Offshore Windforce WIK * | The Netherlands | **100%** | 50% |
| Thames JV | The Netherlands | **50%** | 50% |
| Tideway-Boskalis JV | The Netherlands | **50%** | 50% |
| Vulcan & Viking JV | The Netherlands | **50%** | 50% |

*With effect from 1 July 2016 the group expanded its interest to 100% in the joint operations that formed part of the acquisition of the offshore activities of VolkerWessels (refer to note 5.1).

## 31. SUBSEQUENT EVENT

On 28 February 2017 Boskalis sold its remaining share in Fugro N.V. This was sold through an accelerated bookbuild via which 7.9 million (9.4%) certificates of shares in Fugro N.V. were placed with institutional investors at EUR 14.50 per share. The proceeds amounted to EUR 115 million. At the time of the accelerated bookbuild in December 2016, Boskalis entered into a 90 days lock-up (see note 18.2), which was waived by the bookrunning banks.

# COMPANY STATEMENT OF PROFIT OR LOSS

| (in thousands of EUR) | Note | 2016 | 2015 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Other operating income | [8] | **8,442** | 8,245 |
| | | **8,442** | 8,245 |
| **OPERATING EXPENSES** | | | |
| Other operating expenses | [8] | **- 8,442** | - 8,245 |
| | | **- 8,442** | - 8,245 |
| **PROFIT/LOSS (-) BEFORE TAXATION** | | **-** | - |
| Result of group companies | [3] | **- 563,730** | 440,178 |
| **NET PROFIT/LOSS (-)** | | **- 563,730** | 440,178 |

# COMPANY STATEMENT OF FINANCIAL POSITION

**(BEFORE PROFIT APPROPRIATION)**

| | | 31 DECEMBER | |
|---|---|---|---|
| (in thousands of EUR) | Note | 2016 | 2015 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in group companies | [3] | **3,120,236** | 3,708,614 |
| | | **3,120,236** | 3,708,614 |
| **Current assets** | | | |
| Amounts due from group companies | | **937** | 5,699 |
| | | **937** | 5,699 |
| Total assets | | **3,121,173** | 3,714,313 |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Issued capital | [4] | **1,301** | 100,501 |
| Share premium | [4] | **637,006** | 535,807 |
| Other legal reserves | [5] | **214,339** | 320,889 |
| Hedging reserve | [5] | **- 3,905** | - 15,207 |
| Revaluation reserve | [5] | **102,458** | 45,619 |
| Currency translation reserve | [5] | **339,018** | 314,683 |
| Other reserves | [5] | **- 14,088** | - 44,209 |
| Retained earnings | | **2,408,774** | 2,016,052 |
| Profit/loss (-) for the year | [6] | **- 563,730** | 440,178 |
| | | **3,121,173** | 3,714,313 |
| Total equity and liabilities | | **3,121,173** | 3,714,313 |

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (in thousands of EUR) | Note | Balance as at 1 January 2016 | Amendment to Articles of Association | Cash dividend | Stock dividend | Addition to retained earnings | Other movements | Total recognized income and expenses | Balance as at 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Issued capital | [4] | 100,501 | - 102,760 | | 3,560 | | | | 1,301 |
| Share premium | [4] | 535,807 | 102,760 | | - 1,561 | | | | 637,006 |
| | | 636,308 | - | | 1,999 | | | | 638,307 |
| Other legal reserves | [5] | 320,889 | | | | | - 106,550 | - | 214,339 |
| Hedging reserve | [5] | - 15,207 | | | | | - | 11,302 | - 3,905 |
| Revaluation reserve | [5] | 45,619 | | | | | 56,839 | - | 102,458 |
| Currency translation reserve | [5] | 314,683 | | | | | - | 24,335 | 339,018 |
| | | | | | | | - | | |
| Other reserves | [5] | - 44,209 | | | | | 39,763 | - 9,642 | - 14,088 |
| Retained earnings | | 2,016,052 | | | | 382,417 | 9,948 | 357 | 2,408,774 |
| | | 2,637,827 | | | | 382,417 | - | 26,352 | 3,046,596 |
| Profit/loss (-) appropriation 2015 | | 440,178 | | - 55,762 | - 1,999 | - 382,417 | | - | - |
| Net profit/loss (-) 2016 | | - | | | - | - | | - 563,730 | - 563,730 |
| Profit/loss (-) for the year | [6] | 440,178 | | - 55,762 | - 1,999 | - 382,417 | | - 563,730 | - 563,730 |
| Shareholders' equity | | 3,714,313 | - | - 55,762 | - | - | - | - 537,378 | 3,121,173 |

| (in thousands of EUR) | Note | Balance as at 1 January 2015 | Amendment to Articles of Association | Cash dividend | Stock dividend | Addition to retained earnings | Other movements | Total recognized income and expenses | Balance as at 31 December 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Issued capital | [4] | 98,350 | - | | 2,151 | | | | 100,501 |
| Share premium | [4] | 537,245 | - | | - 1,438 | | | | 535,807 |
| | | 635,595 | - | | 713 | | | | 636,308 |
| Other legal reserves | [5] | 340,189 | | | | - | - 19,300 | - | 320,889 |
| Hedging reserve | [5] | - 19,039 | | | | - | - | 3,832 | - 15,207 |
| Revaluation reserve | [5] | 45,619 | | | | - | - | - | 45,619 |
| Currency translation reserve | [5] | 141,276 | | | | - | - | 173,407 | 314,683 |
| Other reserves | [5] | - 85,301 | | | | - | - | 41,092 | - 44,209 |
| Retained earnings | | 1,603,308 | | | | 442,015 | 19,300 | - 48,571 | 2,016,052 |
| | | 2,026,052 | | | | 442,015 | - | 169,760 | 2,637,827 |
| Profit/loss (-) appropriation 2014 | | 490,290 | | - 47,562 | - 713 | - 442,015 | | - | - |
| Net profit/loss (-) 2015 | | - | | - | - | - | | 440,178 | 440,178 |
| Profit/loss (-) for the year | [6] | 490,290 | | - 47,562 | - 713 | - 442,015 | | 440,178 | 440,178 |
| Shareholders' equity | | 3,151,937 | | - 47,562 | - | - | - | 609,938 | 3,714,313 |

# EXPLANATORY NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. GENERAL

The company financial statements of Royal Boskalis Westminster N.V. (the 'Company') are included in the Consolidated Financial Statements 2016 of Royal Boskalis Westminster N.V.

## 2. PRINCIPLES OF FINANCIAL REPORTING

### 2.1 ACCOUNTING POLICIES

The company financial statements have been drawn up using the reporting standards applied for preparing the consolidated financial statements, in accordance with Section 362(8), Part 9 of Book 2 of the Dutch Civil Code except for with regard to the investment in its subsidiary. Based on Section 362(1), Part 9 of Book 2 of the Dutch Civil Code, the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. These accounting principles are disclosed in note 3 of the consolidated financial statements, unless stated otherwise below.

### 2.2 FORMAT

Unless stated otherwise, all amounts in these explanatory notes are stated in thousands of euros. The company statement of financial position is drawn up before profit appropriation.

### 2.3 INVESTMENTS IN GROUP COMPANIES

Investments in Group companies are accounted for using the accounting policies for assets, liabilities, provisions and profit or loss, as described in the principles of financial reporting and applied in the consolidated financial statements of Royal Boskalis Westminster N.V.

### 2.4 AMOUNTS DUE FROM GROUP COMPANIES

Amounts due from Group companies are stated initially at fair value and subsequently at amortized cost, using the effective interest rate, less impairments.

### 2.5 AMOUNTS DUE TO GROUP COMPANIES

Amounts due to Group companies are recognized initially at fair value and subsequently at amortized cost, using the effective interest rate.

### 2.6 RESULT OF GROUP COMPANY

The result of Group company consists of the share of the Company in the result after taxation of this Group company. Results on transactions, where the transfer of assets between the Company and its subsidiary and mutually between Group companies are incorporated insofar as they can be deemed to be realized as a transaction with third parties and joint venture partners.

## 3. INVESTMENTS IN GROUP COMPANIES

Investments in Group companies solely consist of the 100% investment in Boskalis Westminster Dredging B.V., Papendrecht. The table below shows the movements in this investment:

| | **2016** | 2015 |
|---|---|---|
| Balance as at 1 January | **3,708,614** | 3,148,676 |
| Dividend received | **- 51,000** | - 50,000 |
| Profit/loss (-) for the year | **- 563,730** | 440,178 |
| Movements directly recognized in equity of group company | **26,352** | 169,760 |
| Balance as at 31 December | **3,120,236** | 3,708,614 |

See notes 17 and 30.1 of the consolidated financial statements 2016 for an overview of the most important directly and indirectly held Group companies.

## 4. ISSUED CAPITAL AND OPTIONAL DIVIDEND

The authorized share capital of EUR 4.8 million (2015: EUR 240 million) is divided into 240,000,000 (2015: 150,000,000) ordinary shares with a par value of EUR 0.01 (2015: EUR 0.80) each and 80,000,000 (2015: 50,000,000) cumulative protective preference shares with a par value of EUR 0.03 (2015: EUR 2.40) each.

In 2016 a dividend of EUR 1.60 per share was distributed to the 2015 financial year for a total amount of EUR 201.0 million. Of all shareholders 72% opted for a dividend in ordinary shares. As a result 4,449,790 new ordinary shares were issued.

| (in number of ordinary shares) | **2016** | 2015 |
|---|---|---|
| Issued and fully paid shares entitled to dividend at 1 January | **125,627,062** | 122,937,820 |
| Stock dividend | **4,449,790** | 2,689,242 |
| Issued and fully paid shares entitled to dividend at 31 December | **130,076,852** | 125,627,062 |

The issued capital as at 31 December 2016 consisted of 130,076,852 ordinary shares with a par value of EUR 0.01 each (2015: EUR 0.80) for a total amount of EUR 1.3 million (2015: EUR 100.5 million). No shares were owned by Royal Boskalis Westminster N.V. as at 31 December 2016 and as at 31 December 2015. The Stichting Continuïteit KBW received an option right to acquire cumulative protective preference shares in Royal Boskalis Westminster N.V. This option has not been exercised yet. Share premium comprises additional paid-in capital exceeding the par value of outstanding shares. Share premium is distributable free of tax.

## 5. OTHER RESERVES

With regard to the difference between the cost price and equity value of joint ventures and associated companies recognized in accordance with the equity method, a legally required reserve is recognized due to a lack of control over the distribution of profits, only to the extent that these differences are not included in the accumulated currency translation differences on foreign operations. The legal reserve for non-distributed profits of group and/or joint ventures and associated companies amounted to EUR 214.3 million at the end of 2016 (2015: EUR 320.9 million). The legal reserve for associated companies is determined on an individual basis.

The other reserves recognized in the company balance sheet are disclosed in the notes to the consolidated financial statements (note 23.6).

## 6. PROFIT OR LOSS FOR THE YEAR

The amount of the loss EUR 563.7 million will be deducted from the retained earnings. The proposal to the Annual General Meeting will be to distribute a dividend from the retained earnings, amounting to EUR 130.1 million, for a dividend payment to the shareholders of EUR 1.00 per ordinary share.

The proposed dividend will be made payable in ordinary shares that will be charged to the tax-exempt share premium reserve or charged to the retained earnings, with the exception of shareholder requests for payment in cash.

## 7. FINANCIAL INSTRUMENTS

*General*
Pursuant to its use of financial instruments, the Group is exposed to credit risk, liquidity risk and market risk. The notes to the consolidated financial statements provide information on the Group's exposure to each of these risks, its objectives, principles and procedures for managing and measuring these risks, as well as group capital management. These risks, objectives, principles and procedures for managing and measuring these risks as well as capital management apply mutatis mutandis to the company financial statements of Royal Boskalis Westminster N.V.

*Fair value*
The fair value of the majority of the financial instruments presented in the balance sheet, including receivables, securities, cash and cash equivalents and current liabilities are close to their carrying value.

## 8. OPERATING INCOME AND EXPENSES

Other operation expenses comprise the remuneration of the members of the Board of Management and members of the Supervisory Board for a total amount of EUR 7.6 million (see note 30.2) as well as other third party expenses (EUR 0.8 million). Other operating expenses are born by Group companies and these are reported as Other operating income.

## 9. REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT AND MEMBERS OF THE SUPERVISORY BOARD

The remuneration of members of the Board of Management and members of the Supervisory Board is disclosed in the consolidated financial statements under Related party transactions (note 30.2).

## 10. AUDITOR REMUNERATION

With reference to Section 382A, Part 9 of Book 2 of the Dutch Civil Code, Ernst & Young Accountants LLP charged the following fees to the Company, its subsidiaries and other consolidated entities:

| | **2016** | 2015 |
|---|---|---|
| Audit of the financial statements | **1,705** | 1,422 |
| Other audits | **88** | 69 |
| | **1,793** | 1,491 |

Total audit fees, including fees for auditors other than Ernst & Young Accountants LLP, related to the audit of the financial statements amounted to EUR 2.5 million (2015: EUR 2.2 million).

## 11. COMMITMENTS AND CONTINGENT LIABILITIES

Royal Boskalis Westminster N.V. heads a fiscal unity. The company is therefore liable for the tax obligations of the fiscal unity as a whole.

The Company has arrangements with third parties, amongst which banks and pension funds. These arrangements are on behalf of Group companies. Because the risks and rewards are with these Group companies, the costs are charged to these companies and the liabilities are recognized by these companies. The Company is jointly and severally liable for the fulfillment of obligations.

The Company has issued guarantees on behalf of project-driven construction consortiums, and Group companies' own contracts, amounting to EUR 1.0 million as at 31 December 2016 (2015: EUR 1.0 million). In addition, certain recourse obligations exist in respect of project financing. Where necessary, provisions are deemed to have been made.

Some legal proceedings and investigations are ongoing with respect to entities of Royal Boskalis Westminster N.V. Where necessary, provisions are deemed to have been made.

Papendrecht / Sliedrecht, 7 March 2017

Supervisory Board
J.M. Hessels, chairman
Ms. I. Haaijer
H.J. Hazewinkel
M. Niggebrugge
J. van der Veer
J.N. van Wiechen
C. van Woudenberg

Board of Management
dr. P.A.M. Berdowski, chairman
T.L. Baartmans
J.H. Kamps

# OTHER INFORMATION

## PROVISIONS IN THE ARTICLES OF ASSOCIATION RELATING TO PROFIT APPROPRIATION

**ARTICLE 27.**

1. If possible, from the profits gained in any financial year shall first be paid on the cumulative protective preference shares the percentage, defined below, of the amount that was required to be paid on those shares at the start of the financial year to which the distribution pertains. The percentage meant above is equal to the average of the Euribor interest, calculated for loans with a term of one year – pro rata the number of days to which such percentage applied – during the financial year for which the distribution is made, plus a maximum of four percentage points; the lastly mentioned increase shall be determined by the board of directors, subject to the approval of the supervisory board. If, in the financial year for which the abovementioned distribution is made, the amount that was required to be paid on the cumulative protective preference shares has been decreased or – as a result of a resolution to require additional payments – raised, the distribution will be decreased or – if possible – increased, respectively, by an amount that is equal to the aforementioned percentage of the amount of the decrease or increase, respectively, calculated from the time of the decrease or the time the additional payment became obligatory, respectively. If, in the course of any financial year, cumulative protective preference shares have been issued, the dividend on those cumulative protective preference shares will be decreased pro rata until the day of issue, counting part of a month as a whole month.
2. If and to the extent the profits are not sufficient to allow for the distribution referred to in paragraph 1 in full, any shortfall shall be paid out of the reserves with due observance of the provision of the law.
3. In case in any financial year the profits referred to in paragraph 1 are not sufficient to allow for the distributions referred to in this article, and no distributions or only partial distributions are made from the reserves as referred to in paragraph 2, as a result of which the shortfall is not or not fully paid out, the conditions in this paragraph above and in the following paragraphs will only apply after the shortfall will have been settled. After application of paragraphs 1, 2 and 3, no further distributions shall be made on the cumulative protective preference shares.
4. The board of directors shall decide, subject to the approval of the supervisory board, which part of the profits remaining will be reserved. What remains of the profits after reserving as referred to in the preceding sentence, shall be at the disposal of the general meeting of shareholders and, when distributed, shall be paid to the holders of ordinary shares pro rata the number of ordinary shares they hold.

**ARTICLE 28.**

1. Dividends will be paid out thirty days after adoption of the relevant resolution or as soon as the board of directors decides.
2. Dividends which remain unclaimed for five years from the day they become due and payable, shall accrue to the company.
3. In case the board of directors, subject to the approval of the supervisory board, adopts a resolution to that effect, interim dividends shall be paid out, with due observance of the preference of the cumulative protective preference shares and the provisions of Section 2:105 of the Dutch Civil Code.
4. The general meeting of shareholders may resolve to pay out dividends in the form of shares in the company or depository receipts for those shares, in full or in part, provided that it does so pursuant to a proposal of the board of directors.
5. The company can only make distributions to the shareholders insofar as its equity capital exceeds the amount of the issued capital, plus the reserves that must be maintained by law or in accordance with the articles of association.
6. A shortfall may only be paid from a statutory reserve to the extent permitted by law.

**PROPOSED APPROPRIATION OF PROFIT OR LOSS AND DIVIDEND DISTRIBUTION**

The amount of the loss EUR 563.7 million will be deducted from the retained earnings. The proposal to the Annual General Meeting will be to distribute a dividend from the retained earnings, amounting to EUR 130.1 million, for a dividend payment to the shareholders of EUR 1.00 per ordinary share.

The proposed dividend will be made payable in ordinary shares that will be charged to the tax-exempt share premium reserve or charged to the retained earnings, with the exception of shareholder requests for payment in cash.

# INDEPENDENT AUDITOR'S REPORT

To: the Shareholders and Supervisory Board of Royal Boskalis Westminster N.V.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2016 INCLUDED IN THE ANNUAL REPORT

### OUR OPINION

We have audited the financial statements 2016 of Royal Boskalis Westminster N.V. (also referred to as the company), based in Sliedrecht, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- The accompanying consolidated financial statements give a true and fair view of the financial position of Royal Boskalis Westminster N.V. as at 31 December 2016, its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Royal Boskalis Westminster N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- The consolidated statement of financial position as at 31 December 2016
- The following statements for 2016: the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in the equity
- The notes comprising a summary of the significant accounting policies applied and other explanatory information

The company financial statements comprise:
- The company statement of financial position as at 31 December 2016
- The following statements for 2016: the company statement of profit or loss and the company statement of changes in shareholders' equity
- The notes comprising a summary of the accounting policies applied and other explanatory information

### BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Royal Boskalis Westminster N.V. in accordance with the *Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten* (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the *Verordening gedrags- en beroepsregels accountants* (VGBA, Dutch Code of Ethics).

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

### MATERIALITY

| | |
|---|---|
| **MATERIALITY** | EUR 16.0 million (2015: EUR 26.6 million) |
| **BENCHMARK APPLIED** | Approximately 5% of profit before taxation adjusted for impairment losses |
| **EXPLANATION** | Based on our professional judgment we consider an earnings-based measure as the most appropriate basis to determine materiality. We consider that profit before taxation is an important metric for the financial performance of the company. We have excluded the impairment losses from the basis of calculation, given the nature of this item. |

We also take misstatements and/or possible misstatements into account that in our judgment are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### SCOPE OF THE GROUP AUDIT

Royal Boskalis Westminster N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Royal Boskalis Westminster N.V.

Our group audit mainly focused on significant group entities and joint ventures in terms of size and/or risk, within the operating segments Dredging & Inland Infra, Offshore Energy and Towage & Salvage. We performed most of the audit procedures at those segments ourselves. For the audit work in amongst others Australia, Mexico, Singapore, Germany and the UK, we used other EY network firms. We have used the work of other non-EY firms when auditing a number of entities, especially in the Middle East and France, which represented approximately 4% of the net turnover. Also certain joint ventures were audited by non-EY firms. The consolidation, financial statement disclosures and a number of complex items such as impairments of goodwill and of property, plant and equipment, pension accounting, and acquisitions and divestments are audited at group level.

In total these procedures represent approximately 93% of net turnover.

For the remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

## OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| RISK | OUR AUDIT APPROACH |
| --- | --- |
| **RECOGNITION OF CONTRACT REVENUE, MARGIN AND RELATED RECEIVABLES AND LIABILITIES (SEE NOTE 3.12, 6, 20, 26 AND 29)** | |
| The construction industry is characterised by contract risk with significant judgments involved in the assessment of contract financial performance. Revenue and margin are recognised based on the stage of completion of individual contracts. The status of contracts is updated on a regular basis. In doing so, management is required to exercise significant judgment in their assessment of the valuation of contract variations, claims and liquidated damages (revenue items); the completeness and accuracy of forecasts regarding costs to complete; and the ability to deliver contracts within forecast timescales. The potential final contract outcomes can cover a wide range. Changes in these judgments, and the related estimates, as contracts progress can result in material adjustments to revenue and margin, which can be both positive and negative. We therefore identified correct and complete recognition of contract revenue, margin and related receivables and liabilities as significant to our audit. | Our audit procedures on projects relating to contract revenue included an assessment of the company's project control, substantive audit procedures and testing of management's positions against underlying documentation. We performed substantive procedures relating to contractual terms and conditions, including disputes, claims and variation orders, costs incurred, including local representatives' fees, and forecasted cost to complete including progress measurement. We also analysed differences with prior project estimates and assessed consistency with the developments during the year. We verified that claims and variation orders on projects meet the recognition criteria and are valued accurately and complete. In connection with the above, we discussed, also during site visits, a range of financial and other risks, disputes and related estimation uncertainties with management and project staff, assessing whether these have been adequately addressed in the financial statements. We challenged management's assumptions at the project and group management levels in order to evaluate the reasonableness and consistency of the recognition of contract revenue and related receivables and liabilities as well as required disclosures. |

| RISK | OUR AUDIT APPROACH |
|---|---|
| **VALUATION FLOATING AND OTHER CONSTRUCTION EQUIPMENT (SEE NOTE 3.5, 3.7, 10 AND 16)** | |
| Property, plant and equipment includes floating and other construction equipment amounting to EUR 2.5 billion as at 31 December 2016, which represents 45% of the balance sheet total. A deteriorating market outlook indicated the risk of impairment, specifically in certain market segments of the Offshore Energy division. Management performed impairment tests of their floating equipment. Their assessment of the valuation of floating and other construction equipment was significant to our audit because this process is complex and requires significant management judgments, such as of future market and economic conditions. Impairment charges of EUR 366.2 million were recognized in the profit and loss account of 2016. | In our audit approach we evaluated management's assessment of impairment indications, tested management's assumptions used in the value in use calculations and we assessed the historical accuracy of management's estimates. We evaluated supporting external broker reports obtained by management to evaluate the fair value less cost of disposal, where applicable. We involved our valuation experts to assess the valuation model and to evaluate the discount rate used, performed sensitivity analyses where considered necessary, and assessed the consistency of valuation methodologies applied. Furthermore, we evaluated the adequacy of the company's disclosures regarding the impairments of these property, plant and equipment. |
| **VALUATION OF GOODWILL (SEE NOTE 3.5, 3.6, 10 AND 15)** | |
| Goodwill amounts to EUR 0.3 billion as at 31 December 2016, which represents 5% of the balance sheet total. A deteriorating market outlook indicated the risk of impairment, specifically in certain market segments of the Offshore Energy division. Management's annual goodwill impairment test is considered complex and requires significant management judgment with respect to future market and economic conditions, developments in revenue, margins, working capital levels and investments, which individually may have a material effect on the result of the calculation. Therefore it is significant to our audit. Impairment charges of EUR 382.3 million were recognized in the profit and loss account of 2016. | In our audit approach we evaluated the goodwill impairment testing model including the main assumptions used. This includes assessing the forecasted margins, working capital and investment levels and discount rate. The procedures performed include comparing assumptions to external data. Furthermore, we analysed sensitivities, compared the projected cash flows to budgets and management's forecast and assessed the historical accuracy of management's estimates. We included valuation experts in our team to assess the valuation models and parameters used and assist us with these procedures. We specifically focused on the sensitivities in the assumptions and calculations of the cash generating unit Offshore Energy, where the impairment loss was recognized. Furthermore, we evaluated the adequacy of the company's disclosures regarding the impairments of goodwill. |
| **ACCOUNTING FOR BUSINESS COMBINATIONS (SEE NOTE 3.2.5, 3.8 AND 5)** | |
| During 2016 Boskalis acquired the offshore activities of VolkerWessels, including the remaining shares in the joint venture VBMS between VolkerWessels and Boskalis, thereby providing Boskalis control over VBMS. The acquisition is significant to our audit due to the impact on the financial statements and because of significant judgments and assumptions involved in the purchase price allocation. The increase in the goodwill recognized under intangibles related to this transaction amounted to EUR 154.9 million and a profit of EUR 39.8 million was recognized due to the step up of the existing interest in the joint venture.<br><br>The company also completed the sale of its European harbor towage activities to KOTUG SMIT Towage, a joint venture company of the combined harbor towage activities of the partners in this area. The accounting treatment due to loss of control is largely based on management estimations about the fair value of the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed. This makes it significant to our audit. As part of the transaction a profit of EUR 34.0 million was recognized.<br><br>In 2016 the Group reduced its participation in Fugro N.V. from 28.6% to 9.4%. The remaining investment was reclassified from associated company to an available-for-sale financial asset and is valued at the quoted price per year-end. | With respect to the first two transactions we have, amongst others, read the agreements, confirming the correct accounting treatment has been applied and appropriate disclosure has been made. For the acquisition of the offshore activities of VolkerWessels we evaluated the work of the management's specialist used for the purchase price allocation. We also audited the identification and fair valuation of the assets and liabilities the group acquired. In doing so we have utilized valuation specialists to assist us. The transaction with KOTUG resulted in the derecognition of activities. We evaluated the work of the management's specialist used for the company valuations. We also audited, amongst others, the valuation assumptions used by management in calculating the fair value of the consideration transferred. Furthermore, we evaluated the adequacy of the company's disclosures regarding the acquisition and disposal.<br><br>With respect to Fugro we have amongst others confirmed the correct accounting treatment and evaluated the adequacy of the company's disclosures including the subsequent sale in the financial year 2017. |

| RISK | OUR AUDIT APPROACH |
|---|---|
| **UNCERTAIN TAX POSITIONS (SEE NOTE 3.28 AND 12)**<br>Boskalis operates in a range of jurisdictions subject to different tax regimes. The cross-border operations may result in estimation differences or disputes with national tax authorities. If management considers it probable that such disputes will lead to an outflow of resources, accruals have been formed accordingly. We therefore identified correct and complete recognition of accruals for uncertain tax positions as significant to our audit. | In our audit approach, we tested the acceptability of the accruals formed in this estimation process. In doing so, we used tax specialists in reviewing the assumptions underlying the estimates and discussing them with management in the light of local tax rules and regulations. In connection with this, we also devoted attention to the substantiation of the estimated probability of the positions taken and details provided thereon by management. |

## REPORT ON OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- The Management Board's report
- The Chairman's Statement, Boskalis at a Glance and The Other Information
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code (included in the Financial Statements 2016 section)

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Board of Management in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### ENGAGEMENT

We were engaged by the Annual General Meeting as auditor of Royal Boskalis Westminster N.V. on 13 May 2014, as of the audit for the year 2014 and have operated as statutory auditor ever since that date.

## DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

### RESPONSIBILITIES OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

### OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, 7 March 2017

Ernst & Young Accountants LLP

Signed by W.T. Prins


BAILEY
SWL

# OTHER INFORMATION

Jacket foundations for the Wikinger Offshore Windfarm being loaded on board the Dockwise heavy transport vessel Swan.

# TEN-YEAR OVERVIEW (1)

| (in EUR million, unless stated otherwise) | | 2016 | 2015 | 2014 (11) | 2013 (11) | 2012 (10) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | | **2,596** | 3,240 | 3,167 | 3,144 | 3,081 | 2,801 | 2,674 | 2,175 | 2,094 | 1,869 |
| Order book | | **2,924** | 2,490 | 3,286 | 3,323 | 4,106 | 3,489 | 3,248 | 2,875 | 3,354 | 3,562 |
| EBITDA | (3) | **660.5*** | 884.7 | 945.9 | 757.2 | 567.1 | 590.5 | 621.5 | 444.9 | 454.6 | 348.1 |
| Depreciation and amortization | | **277.2** | 278.6 | 261.9 | 254.4 | 227.2 | 230.0 | 210.9 | 147.0 | 110.2 | 102.5 |
| Operating result | (12) | **384.6** | 577.3 | 684.0 | 502.8 | 339.9 | 360.5 | 410.6 | 297.9 | 344.3 | 245.5 |
| Impairments | | **842.6** | 14.5 | 31.6 | 39.4 | 4.1 | 6.4 | 8.7 | 48.6 | 5.2 | 0.0 |
| EBIT | (2) | **-458.1** | 562.8 | 652.3 | 463.4 | 335.8 | 354.1 | 401.9 | 249.3 | 339.1 | 245.5 |
| Net profit | (14) | **276.4*** | 440.2 | 490.3 | 365.7 | 249.0 | 254.3 | 310.5 | 227.9 | 249.1 | 204.4 |
| Net group profit/loss | | **-561.8** | 443.5 | 492.2 | 365.3 | 252.0 | 261.0 | 312.9 | 229.2 | 250.1 | 207.1 |
| Cash flow | | **464.0** | 765.4 | 785.7 | 659.1 | 483.3 | 497.4 | 532.5 | 424.8 | 365.6 | 309.6 |
| Shareholders' equity | | **3,121** | 3,714 | 3,152 | 2,525 | 1,898 | 1,733 | 1,565 | 1,296 | 860.1 | 768.1 |
| Average number of outstanding shares (x 1,000) | (4) | **128,205** | 124,182 | 121,606 | 118,445 | 105,644 | 102,391 | 99,962 | 88,372 | 85,799 | 85,799 |
| Number of outstanding shares (x 1,000) | (5) | **130,077** | 125,627 | 122,309 | 120,265 | 107,284 | 103,472 | 100,974 | 98,651 | 85,799 | 85,799 |
| Personnel (headcount) | (13) | **6,960** | 8,268 | 8,446 | 8,459 | 15,653 | 13,935 | 13,832 | 10,514 | 10,201 | 8,577 |
| **Ratios** (in percentages) | | | | | | | | | | | |
| EBIT as % of the revenue | | **14.8*** | 17.4 | 20.6 | 14.7 | 10.9 | 12.6 | 15.0 | 11.5 | 16.2 | 13.1 |
| Return on capital employed | (6) | **9.1*** | 10.8 | 13.8 | 13.0 | 11.1 | 12.1 | 18.1 | 20.2 | 29.1 | 27.7 |
| Return on equity | (7) | **8.1*** | 12.8 | 17.3 | 16.5 | 13.8 | 15.4 | 21.7 | 21.1 | 30.6 | 29.5 |
| Solvency | (8) | **56.1** | 56.3 | 53.4 | 47.6 | 39.2 | 37.4 | 37.1 | 46.5 | 34.0 | 35.3 |
| **Figures per share** (in EUR) | | | | | | | | | | | |
| Profit | (5) (9) | **2.16*** | 3.54 | 4.03 | 3.09 | 2.36 | 2.48 | 3.11 | 2.58 | 2.90 | 2.38 |
| Cash flow | (5) | **3.62** | 6.16 | 6.46 | 5.56 | 4.58 | 4.86 | 5.33 | 4.81 | 4.26 | 3.61 |
| Dividend | | **1.00** | 1.60 | 1.60 | 1.24 | 1.24 | 1.24 | 1.24 | 1.19 | 1.19 | 1.19 |
| **Share price range** (in EUR) | | | | | | | | | | | |
| Low | | **27.89** | 35.70 | 33.71 | 26.92 | 23.26 | 20.67 | 23.16 | 13.25 | 15.30 | 21.06 |
| High | | **37.60** | 49.21 | 47.18 | 38.58 | 34.50 | 38.46 | 36.58 | 28.45 | 42.45 | 46.25 |

* Excluding impairments

(1) Figures taken from the respective financial statements.
(2) EBIT as reported in the consolidated income statement.
(3) EBIT before depreciation, amortization and impairment losses.
(4) Weighted average number of outstanding shares less the number of shares owned by the company.
(5) Number of outstanding ordinary shares less the number of shares owned by the company as at 31 December.
(6) Net profit + interest paid on long-term loans as % of the average capital employed. 2016 average capital employed definition adjusted (see glossary).
(7) Net profit as % of the average shareholders' equity.
(8) Group equity as % of the balance sheet total (fixed assets + current assets).
(9) The dilution effect was practically nil up to and including the financial year 2016.
(10) Adjusted for changes in the IFRS regulations (IAS19R).
(11) As of 1 January 2014 Boskalis applies IFRS11 which impacts the way joint ventures and associated companies are recognized. The full year 2013 comparative figures have been adjusted accordingly.
(12) EBIT - impairments.
(13) Employees employed by majority owned entities.
(14) The 2016 net loss of EUR 563.7 million has been adjusted for post tax impairment charges of EUR 840.1 million.


SMIT HUDSON
SMIT HUDSON

# STICHTING CONTINUÏTEIT KBW

## REPORT

By decision of the General Meeting of Shareholders held on 9 May 2001 the foundation Stichting Continuïteit KBW was granted the right to acquire cumulative protective preference shares in Royal Boskalis Westminster N.V. for a nominal amount equal to the nominal amount of ordinary shares outstanding at the time of issue of the shares concerned, minus the nominal value of one ordinary share. The option of issuing such cumulative protective preference shares was not exercised during the period under review.

The Board of Stichting Continuïteit KBW consists of three members:

J.A. Dekker, chairman
J.S.T. Tiemstra
P.N. Wakkie

The articles of association of the Stichting Contuïteit KBW are to be found at www.boskalis.com/corporategovernance.

## DECLARATION OF INDEPENDENCE

The Board of Stichting Continuïteit KBW and the Board of Management of Royal Boskalis Westminster N.V. hereby declare that in their opinion Stichting Continuïteit KBW is an independent legal entity, separate from Royal Boskalis Westminster N.V., as defined in Section 5:71, first paragraph under c of the Dutch Financial Supervision Act.

Papendrecht / Sliedrecht, 7 March 2017
Royal Boskalis Westminster N.V.
Board of Management

's-Gravenland, 7 March 2017
Stichting Continuïteit KBW
The Board

# SUPERVISION, BOARD AND MANAGEMENT

## MEMBERS OF THE SUPERVISORY BOARD

### MR. J.M. HESSELS (1942), CHAIRMAN

- date of first appointment 17 August 2011, current term ends AGM 2019
- former chairman of the Management Board of Royal Vendex KBB N.V.
- former chairman Board NYSE Euronext, Inc.
- member Board General Atlantic Coöperatief U.A./non-executive member of the Board of MeteoGroup Ltd.

### MR. H.J. HAZEWINKEL (1949), DEPUTY CHAIRMAN

- date of first appointment 27 March 2010, current term ends AGM 2018
- former chairman of the Management Board of Royal Volker Wessels Stevin N.V.
- chairman of the Supervisory Board of TKH Group N.V. and SOWECO N.V.
- deputy chairman Supervisory Board of N.V. Luchthaven Schiphol
- non-executive partner Quadrum-Capital B.V.
- chairman of the Board of Stichting Continuïteit ASR Nederland
- member of the Board of Stichting Administratiekantoor Slagheek

### MS. I. HAAIJER (1969)

- date of first appointment 10 November 2016, current term ends AGM 2020
- President & CEO of DSM Food Specialties and member of the Leadership Team of Royal DSM N.V.

### MR. M. NIGGEBRUGGE (1950)

- date of first appointment 30 August 2006, current term ends AGM 2017
- former member of the Executive Board of N.V. Nederlandse Spoorwegen
- chairman of the Supervisory Board of SPF Beheer B.V.
- member of the Supervisory Board of TBI Holdings B.V.

### MR. J. VAN DER VEER (1947)

- date of first appointment 12 May 2015, current terms ends AGM 2019
- former CEO of Royal Dutch Shell plc
- chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Royal Philips N.V.
- member of the Board of Directors of Statoil ASA
- member of the Supervisory Board of Het Concertgebouw N.V.
- chairman of the Supervisory Committee of Delft University of Technology

### MR. J.N. VAN WIECHEN (1972)

- date of first appointment 12 May 2011, current term ends AGM 2019
- member of the Board of HAL Holding N.V./director HAL Investments B.V.
- chairman of the Supervisory Board of Mondhoekje B.V. (Coolblue)
- member of the Supervisory Board of Atlas Services Group Holding B.V. and Orthopedie Investments Europe B.V.

### MR. C. VAN WOUDENBERG (1948)

- date of first appointment 9 May 2007, current term ends AGM 2019
- former member of the Executive Committee of Air France-KLM
- chairman of the Supervisory Board of Blauwe Oceaan B.V.
- member of the Supervisory Committee of Stichting Het Gelders Orkest (The Arnhem Philharmonic Orchestra)

All the members of the Supervisory Board have the Dutch nationality. They do not hold shares or associated option rights in Royal Boskalis Westminster N.V.

Company secretary: Ms. F.E. Buijs (1969)

# MEMBERS OF THE BOARD OF MANAGEMENT

From left to right: T.L. Baartmans, dr. P.A.M. Berdowski, J.H. Kamps

### DR. P.A.M. BERDOWSKI (1957), CHAIRMAN

- chairman of the Board of Management since 2006
- member of the Board of Management since 1997
- member of the Supervisory Board of Ames Auto Lease B.V.

### MR T.L. BAARTMANS (1960)

- member of the Board of Management since 2007
- chairman of the Executive Board of the Netherlands Association of International Contractors (NABU)
- member of the board of the International Association of Dredging Companies (IADC)
- member of the Supervisory Committee of the Stichting Prosea marine education

### MR J.H. KAMPS (1959), CHIEF FINANCIAL OFFICER

- member of the Board of Management since 2006
- member of the Supervisory Board of Sligro Food Group N.V.

All the members of the Board of Management have the Dutch nationality. They do not hold shares or associated option rights in Royal Boskalis Westminster N.V.

Company secretary: Ms. F.E. Buijs (1969)

## GROUP MANAGEMENT

| | |
|---|---|
| **dr. P.A.M. Berdowski** | chairman Board of Management |
| **T.L. Baartmans** | member Board of Management |
| **J.H. Kamps** | member Board of Management, Chief Financial Officer |
| **A.A. Gräber** | group director Offshore Energy |
| **R.J.A. van Acker** | group director Towage & Salvage |
| **P. van der Knaap** | group director Dredging & Inland Infra |
| **P. van der Linde** | group director Offshore Energy |

### CORPORATE SUPPORT

| | |
|---|---|
| **Group Controlling** | E.C.P. Verstraete RA |
| **Company secretary & Corporate Legal** | F.E. Buijs |
| **Treasury** | F.A.J. Rousseau |
| **IR & Corporate Communications** | M.L.D. Schuttevâer |
| **Fiscal Affairs** | J. Jager |
| **Insurance** | A.J. Huiskes |
| **Corporate Development** | C.A. Visser |

### CENTRAL BUSINESS SUPPORT

| | |
|---|---|
| **Personnel & Organization** | J. den Hartog |
| **ICT** | M.J. Krijger |
| **SHE-Q** | J.M. Vavier - van Vugt |
| **Research & Development** | dr. A.C. Steenbrink |
| **Central Fleet Support** | P.E. van Eerten |
| **Procurement & Logistics** | J.E. Rijnsdorp |
| **Survey** | S.J. van den Brom |

### DREDGING & INLAND INFRA

**Area Northwest Europe**
W.B. Vogelaar
**Area Middle**
M. Siebinga
**Area Middle East**
P.G.R. Devinck
**Area East**
L. Slinger
**Area West**
P. Klip
**The Netherlands**
R.P. Rijper
**Boskalis Environmental**
H.H.A.G. Wevers
**Cofra**
J.K. van Eijk

**Design, Tendering & Engineering**
A.J. Fokkema
**Fleet Management**
J.T. van Leeuwen
**Personnel & Organization**
L. Wijngaard

### OFFSHORE ENERGY

**Installation & Intervention**
J.F.A. de Blaeij, J.M.L.D. Dieteren
**Transport & Services**
A.C. Bikkers, H. van Raaphorst
**Logistical Management**
K.E. Lewton-Jones
**Subsea Services**
S. Korte
**Offshore Wind**
M.R.J. van Bergen
**Business Development**
J.G.M. Meij
**VBMS**
A.M.J. van Poppel

**Design, Tendering & Engineering**
W.Q. Nelemans
**Fleet Management**
E.B. van Dodeweerd
**Personnel & Organization**
R.A. van der Laan

### TOWAGE & SALVAGE

**Towage**
T.R. Bennema
**Salvage**
R.L.C. Janssen

## WORKS COUNCIL

T.A. Scheurwater (chairman), D.A. van Uitert (deputy chairman), M.F. van Wijk (secretary), E.J. van den Biggelaar, R. van den Broek, J.C. Elenbaas, R. Gooijer, J. van der Heijden, M.A. Koerts, S. van der Land, M. Martens, P.J. Meijer, R. Meijer, F. Pronk, J.G. Roos, M. Treffers, R. Wisse.

# DISCLOSURES REQUIRED BY THE DECREE ARTICLE 10 OF THE EU DIRECTIVE ON TAKEOVER BIDS

Under the Decree article 10 of the EU Directive on takeover bids companies whose securities are admitted to trading on a regulated market must disclose information in their annual reports on matters including their capital structure and the existence of any shareholders with special rights. In accordance with these requirements, Boskalis hereby makes the following disclosures:

a. For information on the capital structure of the company, the capital and the existence of various types of shares, please refer to page 101 of the notes to the consolidated financial statements in this annual report. For information on the rights attached to these shares, please refer to the company's Articles of Association which can be found on the company website. To summarize, the rights attached to ordinary shares comprise pre-emptive subscription rights upon the issue of ordinary shares, the entitlement to attend the General Meeting of Shareholders, and to speak and vote at that meeting, and the right to distribution of such amount of the company's profit as remains after allocation to reserves. As at December 31, 2016 the issued capital consisted exclusively of ordinary shares (partly registered and partly bearer shares (*aandelen aan toonder*)). These are only issued against payment in full.

b. The company has imposed no limitations on the transfer of ordinary shares. The Articles of Association have stipulated a blocking procedure for protective preference shares. The company is not aware of any shares having been exchanged for depositary receipts.

c. For information on equity stakes in the company to which a notification requirement applies (pursuant to Sections 5:34, 5:35 and 5:43 of the Financial Supervision Act), please refer to the section 'Shareholder information' on page 17 of this annual report. Under the heading 'Shareholders' you can find a list of shareholders who are known to the company to have holdings of 3% or more at the stated date.

d. There are no special control rights or other rights associated with shares in the company.

e. The company does not operate a scheme granting employees rights to acquire or obtain shares in the capital of the company or any of its subsidiaries.

f. No restrictions apply to voting rights associated with the company's shares, nor are there any deadlines for exercising voting rights.

g. No agreements with shareholders exist which may result in restrictions on the transfer of shares or limitation of voting rights.

h. The thresholds for shareholders to exercise the right of inquiry *(het enquêterecht)* are based on article 346 sub clause 1 under c of the Dutch Civil Code, regardless of the current nominal share capital of the company.

i. The rules governing the appointment and dismissal of members of the Board of Management and the Supervisory Board and amendment of the Articles of Association are stated in the company's Articles of Association. Members of the Board of Management and Supervisory Board are appointed and dismissed by the General Meeting of Shareholders on binding nomination of the Supervisory Board. The General Meeting of Shareholders may pass a resolution to deprive the binding nature of the nomination for the appointment or dismissal of any member of the Board of Management or the Supervisory Board by at least a majority of two/thirds of the votes cast, representing more than one-half of the company's issued share capital. An amendment of the company's Articles of Association requires a decision by the General Meeting of Shareholders in response to a proposal made by the Board of Management with the approval of the Supervisory Board.

j. The general powers of the Board of Management are set out in the Articles of Association of the company. The powers of the Board of Management in respect of the issuance of shares in the company are set out in article 4 of the company's Articles of Association. To summarize, the General Meeting of Shareholders – or the Board of Management authorized by the General Meeting of Shareholders – takes the decision, subject to prior approval by the Supervisory Board, to issue shares, whereby the issue price and other conditions relating to the issue are determined by the General Meeting – or the Board of Management authorized by the General Meeting of Shareholders. In the event the Board of Management is authorized to take decisions with respect to the issue of shares, the number of shares that may be issued as well as the term of the authorization must also be determined. Procedures governing the acquisition and disposal by the company of shares in its own capital are set out in article 7 of the Articles of Association. To summarize, the Board of Management may decide, subject to authorization by the General Meeting of Shareholders and to prior approval by the Supervisory Board, for the company to buy back fully paid-up shares up to a statutory maximum of 50% of issued capital. Decisions regarding the disposal of shares acquired by the company are taken by the Board of Management, subject to prior approval by the Supervisory Board.

k. With the exception of the option agreement with Stichting Continuïteit KBW concerning the placement of cumulative protective preference shares as set out in section 28.4 of the financial statements, the company is not a party to any significant agreements which take effect or are altered or terminated upon a change of control of the company as a result of a public offer within the meaning of Section 5:70 of the Financial Supervision Act. The General Meeting of Shareholders of May 9, 2001 decided to grant Stichting Continuïteit KBW the right to acquire cumulative protective preference shares.

l. The company has not entered into any agreements with either members of the Board of Management or employees, which provide for a pay-out on termination of their employment as a result of a public offer within the meaning of Section 5:70 of the Financial Supervision Act.

# GLOSSARY

**Acquired orders** Contract value of acquired assignments.

**Average capital employed** 2015 and earlier: shareholders' equity + interest bearing debt + bank overdrafts - cash and cash equivalents.
2016: shareholders' equity + interest bearing debt + bank overdrafts - cash and cash equivalents.

**Backhoe dredger** A large hydraulic excavating machine positioned on the end of a pontoon. The pontoon is held firmly in place using spuds. Backhoes can dredge in a range of soil types with extreme precision.

**Bunker fuel** Type of fuel used by oceangoing and other vessels. Bunkering refers to the act or process of supplying a ship with this type of fuel.

**Cash flow** Group net profit adjusted for depreciation, amortization and impairments.

**Cost leadership** Achieving lowest cost price.

**Cutter suction dredger (CSD)** A vessel that dredges while being held into place using spuds and anchors. This technique combines powerful cutting with suction dredging. Cutter suction dredgers are mainly used where the sea- and riverbed is hard and compact. The dredged material is sometimes loaded into hoppers but is generally pumped to land through a pressure pipeline.

**Decommission** To dismantle and/or remove an object.

**EBITDA** Group earnings before the result of associated companies, interest, tax, depreciation, amortization and impairments.

**$CO_2$ Emissions** Carbon dioxide released into the environment.

**EU-IFRS** IFRS stands for International Financial Reporting Standards. EU-IFRS are financial reporting rules drawn up and issued by the IASB (International Accounting Standards Board) and adopted within the European Union. Since 2005 all publicly listed companies within the European Union have been obliged to comply with these standards in their external financial accounting/reporting.

**Fallpipe vessel** Vessel that moves over the area to be covered, while dumping rock through a fallpipe. The vessel is kept in place by a dynamic positioning system in which the propellers and rudders are controlled by an automatic system. The end of the pipe is located just a few meters above the level of the surface to be covered. The fallpipe is controlled using a precise positioning system. The fallpipe vessel Seahorse can also be equipped with an A-frame on the aftship and a grab controlled by an ROV (Remotely Operated Vehicle). This makes it possible to dredge down to depths of 1,000 meters.

**Float-over installation** Installation of a topside (for an offshore oil or gas platform production unit) on a subsea structure such as a jacket. A semi-submersible heavy transport vessel is used to convey the topside to the site and position it precisely in relation to the subsea structure piles. The ship is then partially submerged, allowing the support points of the topside to be lowered precisely onto the jacket connectors.

**Floating sheerleg crane** Floating cranes for heavy lifting.

**FPSO** Floating Production Storage and Offloading unit. Floating production, storage and transshipment systems that often operate a long way offshore. The systems separate the incoming liquids into oil, gas and water and temporarily store the crude oil. Tankers are used to transport the oil.

**Futures** A future (derivative) is a so-called forward contract; an agreement between traders to purchase or sell certain financial products on a specified future date at a previously agreed fixed price.

**Global Reporting Initiative** International organization that develops global standards for sustainability reporting.

**Hazardous substances** Liquid or solid substances which present a health hazard and/or are damaging to the environment.

**Heavy lift vessel** *See HTV.*

**Home market** Boskalis distinguishes itself from its competitors in the Dredging segment by the use of a home market strategy. The home market organizations have local marketing profiles, as well as their own fleets and infrastructures. They can rely on the support of the financial and technical resources of the global Boskalis organization. Home markets provide a stable flow of assignments and opportunities to generate additional margins through associated activities.

**Hopper/hopper dredger** *See trailing suction hopper dredger.*

**HTV** A (semi-submersible) heavy transport vessel. At 275 meters long and 70 meters wide the Dockwise Vanguard is the biggest semi-submersible heavy transport vessel in the world and is capable of conveying objects weighing up to 110,000 tons.

**International projects market** Market that focuses primarily on larger capital expenditure projects for new buildings and/or extensions. In addition, there are projects that regularly involve cooperation with third parties. This makes it possible to provide clients with optimal services and to share risks.

**Jack-up platform** An offshore platform that can either float or have its legs lowered to stand on the seabed. Jack-up rigs are generally used by oil and gas companies for exploration and production purposes. Platforms of this type can be transported either by semi-submersible heavy transport vessel (Dockwise) or by oceangoing tug (Fairmount).

**LNG** Liquefied Natural Gas.

**LTI** Lost Time Injury. Expresses the number of workplace accidents serious enough to result in absence from work.

**LTIF** Lost Time Injury Frequency. Expresses the number of workplace accidents serious enough to result in absence from work, per 200,000 hours worked.

**Net Group profit** Net profit + net profit attributable to non-controlling interests.

**NINA** No Injuries No Accidents. To achieve an incident and accident-free working environment Boskalis applies the NINA safety program. NINA sets out Boskalis' vision on safety and describes the safety conduct the company expects from its staff and subcontractors. The program makes people aware of their own responsibility and encourages them to take action in situations which are unsafe.

**Operating result** EBIT - impairments including joint ventures.

**Order book** The revenue accounted for by parts of orders as yet uncompleted.

**Return on capital employed** Net profit + interest paid on long-term loans as % of the average capital employed (shareholders' equity + long-term loans).

**Return on equity** Net profit as % of the average shareholders' equity.

**Revenue work done** Work executed for a client related to a project and/or a service contract.

**Roll-on/roll-off vessel (ro-ro)** Vessels designed to carry wheeled cargo such as automobiles, trucks, semi-trailer trucks, trailers or railroad cars that are driven on and off the ship on their own wheels.

**Rock fragmentation under water** Drilling and blasting hard materials such as rock and granite, often to deepen ports and clear navigational channels.

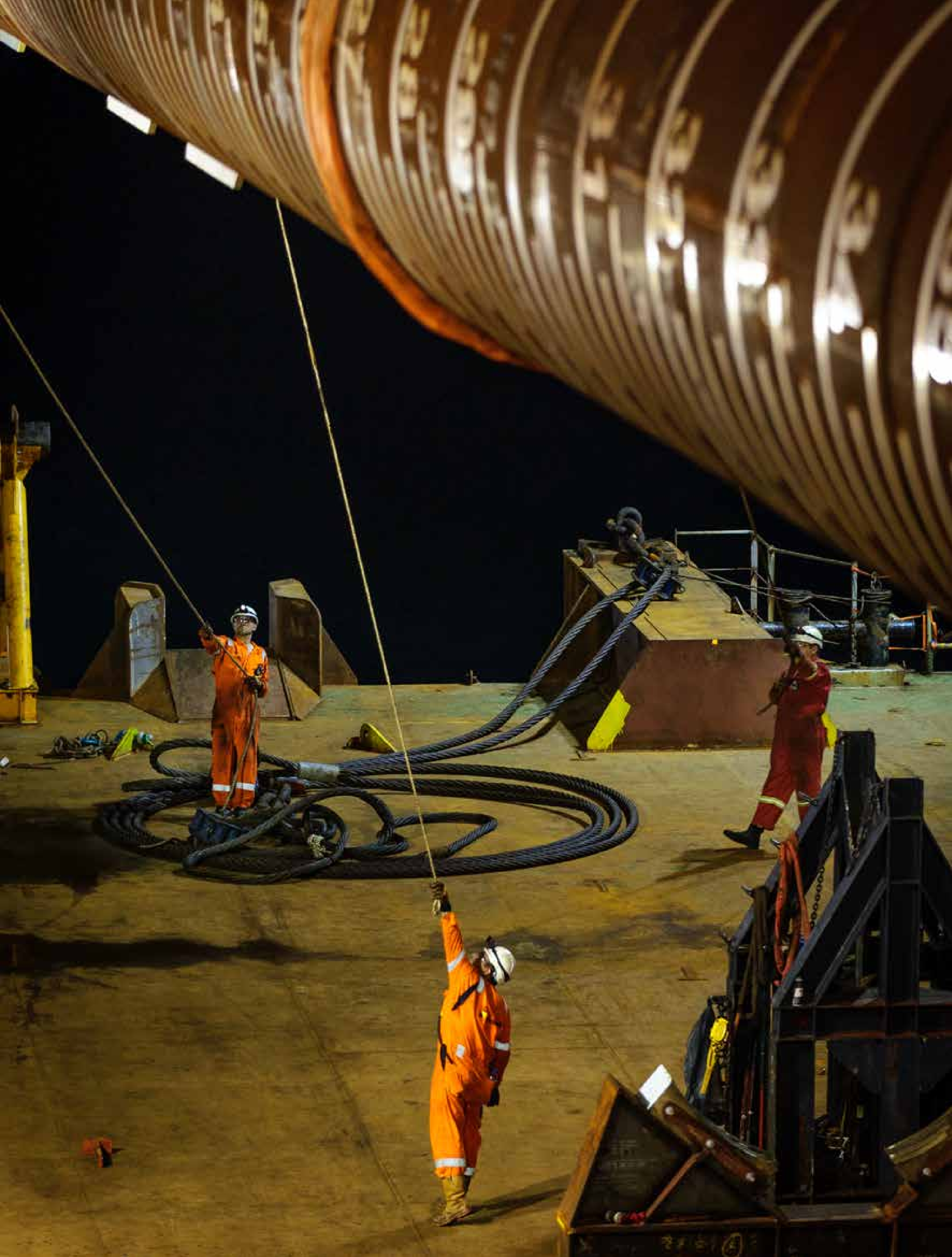
**ROV** Remotely Operated Vehicle. An unmanned robotic subsea vehicle that is remotely controlled (often from a ship or platform).

**SHE-Q** Safety, Health, Environment & Quality.

**Solvency** Group equity as % of the balance sheet total (non-current assets + current assets).

**Topside** The upper section of an offshore oil production platform.

**Trailing suction hopper dredger (TSHD)** A self-propelled unit that loads its well or hopper using centrifugal pumps and pipes that trail over the bed as the ship sails. Trailing suction hopper dredgers can operate independently of other equipment and can transport material over long distances. The dredged material is dumped through flaps or bottom doors, by rainbowing, or pumped onto land using a pipeline.



Dredging work by the Strandway for the construction of the new IJmuiden sea lock located at the entrance to the North Sea Canal in the Netherlands.

# EQUIPMENT

## DREDGERS

**Trailing suction hopper dredgers** — **25**
Capacity > 6,000 m³ — 11
Capacity ≤ 6,000 m³ — 14

**Cutter suction dredgers** — **12**
Capacity > 12,000 kW — 4
Capacity ≤ 12,000 kW — 8

**Backhoes** — **20**
Bucket capacity from 1.4 to 33 m³

**Floating grab cranes** — **12**
Grab capacity from 1.2 to 9.2 m³

**Other dredging equipment** — **26**
bucket dredger, environmental disc cutter, barge unloading dredgers, suction dredgers, stone placing vessels

## OFFSHORE VESSELS

**Heavy lift vessels (semi-submersible)** — **19**
Capacity up to 110,000 tons

**Transport & installation crane vessels** — **1**
(under construction)
Lifting capacity 3,000 tons

**Fallpipe vessels** — **2**
Capacity from 17,000 to 24,000 tons

**Diving support vessels** — **3**
Air and saturation diving support, ROV services

**Cable-laying vessels** — **3**

**Floating sheerlegs cranes** — **7**
Capacity from 400 to 5,000 tons

## OCEANGOING TUGS AND ANCHOR HANDLING TUGS

**Oceangoing tugs** — **5**

**Anchor Handling Tugs** — **17**
From 70 to 205 ton bollard pull

## BARGES AND PONTOONS

**Hopper barges** — **66**
Capacity from 50 to 3,800 m³

**Oceangoing flat top barges (semi-submersible)** — **3**
Capacity 21,000 tons



**Oceangoing flat top barges/pontoons** — **50**
Capacity from 1,000 to 14,000 tons



**Inland barges** — **47**
Capacity from 100 to 2,000 tons

## VESSELS TOWAGE JOINT VENTURES — 425

## LAUNCHES, WORK/SUPPLY VESSELS — 98

## VARIOUS/OTHER FLOATING EQUIPMENT — 87

The numbers listed above include the vessels under construction and vessels and floating equipment of the (non-controlled) associated companies.
In addition to the equipment shown here, the group also owns a range of auxiliary equipment such as floating pipelines, winches, pumps, draglines, hydraulic excavators, wheel loaders, dumpers, bulldozers, mobile cranes, crawler drill rigs, sand pillers, filling installations for shore protection, mattresses, fixed land pipelines and a wide variety of salvage equipment, such as fire-fighting, diving and anti-pollution equipment.


Transport of jack-up platform by the Union Bear and the Union Beaver.


UNION PRINCESS


Boskalis

# COLOPHON

**Compiled and coordinated by**
Royal Boskalis Westminster N.V.
Corporate Communications Department
Group Controlling Department

www.boskalis.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C007225

carbon neutral
natureOffice.com | NL-001-638748
print production

**Royal Boskalis Westminster N.V.**
Rosmolenweg 20
PO Box 43
3350 AA Papendrecht
The Netherlands

royal@boskalis.com
T +31 78 6969000

www.boskalis.com