



EXPERIENCE **MATTERS**

**2016**

ANNUAL REPORT

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## 1.1 MESSAGE FROM THE CEO

The year 2016 has been one of transition for the industry, notable for the continuing low visibility on future offshore projects due to the prolonged, depressed market, but nevertheless one of tremendous achievement for SBM Offshore. We continued on our transformation journey, working as one team capitalizing on our unique experience in delivering and operating floating production systems to achieve the desired outcome for our clients. We ended the year with the award to perform Front End Engineering and Design (FEED) studies for the ExxonMobil subsidiary Esso Exploration and Production Guyana Limited on the proposed FPSO for their Liza development. Subject to a final investment decision on the project in 2017, SBM Offshore will design, construct, install and operate this FPSO offshore Guyana. This gives us cautious optimism for the future as we see clients' trust in our solid track record, unrivalled experience and ability to offer game-changing solutions for today's challenging market.

Knowing that historically in the industry a majority of the FPSOs constructed worldwide are delivered either late or extremely late, negatively impacting oil company economic returns, I am proud of SBM Offshore's continuous high level of performance. It illustrates our experience to supply systems on time as planned by our clients. In 2016, we delivered three leased FPSOs to our clients, Petrobras and Royal Dutch Shell, with production starting safely and on time, helping them to realize their expected return on investment. By adding 25% to our fleet's oil production capacity, we continue to maintain our position as leader in the industry with a total capacity of 1,600,000 bopd. Furthermore, we progressed towards delivery of multiple complex turnkey projects, including the world's largest turret for Royal Dutch Shell's Prelude Floating LNG project, underscoring our know-how, expertise and pioneering technology for turret mooring systems.

With *Turritella* coming online – SBM Offshore's first FPSO in the Gulf of Mexico – we now operate the world's deepest production system for our client, adding to our expertise in ultra-deep water and our portfolio of record-breaking technologies and industry firsts. In addition, our experience across the entire product lifecycle came into play in 2016 with the successful decommissioning and green recycling of one of our FPSOs.

In 2016, we were not able to improve on our robust 2014 and 2015 safety performance. Much to our regret, we experienced injuries and failed to meet our goal of no harm to people. We consequently redoubled our efforts in safety leadership and culture to deliver the very high safety standards for which SBM Offshore and its clients strive. Nevertheless, we did have some bright spots, in our project execution activities and operations across operating units.

In 2016, further progress was made with the discussions with Brazilian authorities and Petrobras. On July 16, 2016 a Leniency Agreement was signed between Brazilian authorities, Petrobras and SBM Offshore, that will become legally binding after approval by the Brazilian Fifth Chamber. Until then, the Company is not under any obligation to make payments under the Leniency Agreement. The Fifth Chamber did not approve the agreement in its current form after which appeals were filed by various governmental parties who were signatories to the Leniency Agreement. Subsequently, the Higher Council decided on December 14, 2016 not to accept appeals filed by the MPF and the General Counsel for the Republic and referred the case back to the Fifth Chamber and the prosecutor handling the case for further review and determination of next steps. SBM Offshore remains committed to engage with the prosecutor and the Fifth Chamber until the Leniency Agreement is approved by the Fifth Chamber. The Leniency Agreement further remains subject to review by the Federal Court of

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Accounts but this is not a condition precedent to the Leniency Agreement.

The Company continues to cooperate with the United States Department of Justice following the reopening of the investigation that it had closed in November 2014 and its inquiry into Unaoil, a company that SBM Offshore had engaged with as an agent prior to 2012 in relation to delivery of barges, offshore terminals and maintenance.

On the financial front, we met our revenue target and our positive free cash flow allowed us to resume dividend payments after a five-year hiatus as well as complete our EUR 150 million Share Repurchase program by year-end. Although we met the revenue target, its level compared with previous years is indicative of a market at a historical low with an associated lack of final investment decisions for projects. As such, we continued with our restructuring program, reducing our cost structure while at the same time maintaining the requisite level of expertise for delivering future projects. The net effects are that we are starting 2017 with a record level of activity in our Lease and Operate segment. At the same time the slower than expected market recovery and the fact we have maintained the surplus expertise, which will be critical to deliver from 2017 onwards, means we are anticipating further downward impact on our turnkey segment before revenues from anticipated orders can be booked.

From a macro-environmental perspective, our world is becoming more challenging, providing significant opportunities for SBM Offshore as a uniquely experienced contractor in floating production systems. The oil industry is now speaking about peak demand for its product, due to an expected change in the energy mix, despite the expected increase in energy demand by at least a quarter over the coming 20 years. Notwithstanding this significant change in expectations, new oil fields will

have to be put into production, not only to satisfy the continuing growth in oil demand but also to replace declining producing capacity, even when demand reaches a plateau. Deepwater field developments have a part to play in supplying this oil, provided our industry can propose affordable, standardized and reliable solutions. Leveraging its experience in delivering reliable and standardized solutions on time, SBM Offshore can contribute to redefining the industry standard and help our clients to be profitable even at lower oil prices.

With the expected change in energy mix, both gas and renewable demands from offshore sources are expected to increase significantly. The name of the game will be to develop technical solutions while creating value for our clients. The same challenges apply to some of the major trends in the world. By 2040, the world population is expected to reach 9.1 billion, up from 7.3 billion today. This population will likely be more urban and located in greater percentage and number near the shore line. Again, new technical floating solutions will have to be found to address this growing challenge, which will help to solve the limited inland space and other scarcities. SBM Offshore, through its unique know-how, continuous investment in technology and experience throughout the full product lifecycle is well positioned to contribute to and benefit from the development of future solutions.

Taking into consideration the short and medium-term reality of our market, the expected evolution of energy demand and more generally world evolution, SBM Offshore's strategy as a floating production supplier has been refined along three pillars, which build upon our experience: Optimize, Transform and Innovate. We believe that only experienced contractors like SBM Offshore will deliver value by defining the new affordable and reliable standard in the industry while also creating future solutions. We continue to play the role of an evolving leader, leveraging our expertise and

experience to contribute to the overhaul of an industry in urgent need of new sustainable solutions. By optimizing, transforming and innovating, SBM Offshore is staying ahead and addressing our clients' concerns and future demand. Having identified the unsustainable situation that the offshore industry found itself in over two years ago, particularly regarding inflated costs, SBM Offshore's management began remodelling its organization, optimizing its cost structure and preparing for the downturn. With our backlog standing at US\$ 17.1 billion, we need to optimize our cash flow generation through the reliable fleet operations, while helping our clients to increase the value of their production through a combination of additional volumes via tie-backs or additional cost reductions.

Engaging with clients over these past two years, we have understood the need for transformation, standardization and creating new solutions. We have listened to their concerns about an industry affected by severe delays in project delivery and budget overruns from spiraling costs among other issues such as quality and safety. These are not only concerns but represent a painful reality, which has cost them dearly with loss of or delayed production as well as damaging their confidence in contractors.

SBM Offshore's performance will help transform and define the new standards for floating production solutions. In 2016, we delivered three major FPSO projects on schedule, which represents a rare event in the industry and cements our reputation as an experienced and reliable subcontractor. Our pre-salt FPSO projects for offshore Brazil illustrate that our 'design one and build several' concept works and provides added value to clients. FPSOs *Cidade de Maricá* and *Cidade de Saquarema* benefitted from lessons learnt, requiring 25% fewer man-hours, 30% less time required to complete module integration and a 12% decrease in the overall time to deliver the projects. These further increase our

position in the overall industry scorecard with almost 50 floating production systems to date.

Going forward, we have transformed our FPSO Product Line to suit the future needs of the industry; our newly launched Fast4Ward FPSO standardization project will further fast-track delivery and reduce costs, our optimization and cost-cutting programs across the entire product lifecycle will further restore an equilibrium on costs, while maintaining our highest standards of safety and quality. SBM Offshore can rely on its history of innovative technology, its unrivalled track record of almost 300 years of operations and its leading EPCI project performance delivery for customized standardization.

One area where we are developing our talent is in technology. Despite a curb on overall spending, we recognize the vital need to innovate and thus continue to invest in R&D – including optimized products, more predictable asset performance and renewable energy. Regarding the latter, we have foreseen the shift in the world's energy mix and the rapidly changing demographics that are influencing the future of the market. SBM Offshore is adapting to this and the heightened concern for climate change with increased focus on its solutions in gas and renewable energy. An excellent example of how our past experience is allowing us to make first steps for a smooth transition is SBM Offshore's selection by EDF Energies Nouvelles to provide a floating wind systems solution for its pilot offshore France. Another example of our efforts in sustainability is the implementation of a pilot project on one of our FPSOs to reduce emissions as part of a CO<sub>2</sub> Challenge within the Company. These positive developments underscore our belief that sustainability is at the heart of our long-term business development. Supporting this is SBM Offshore's inclusion in the Dow Jones Sustainability Index for the seventh year running, scoring as an

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'Industry Leader' – an improved position versus last year.

We are in a strong position as a result of sure and steady progress the last four years, involving significant changes to reorganize our Company and to optimize the ways we work. SBM Offshore is now bearing the fruit of this investment and effort and I am very positive about the Company's future and role in the industry going forward. This would not have been possible without the continuous efforts of all of our people, the SBMers. I would like to thank all SBMers for their dedication and commitment even during challenging times. SBMers are essential in achieving the transformation. SBMers are entrepreneurs, we are innovators, we take ownership of projects ensuring delivery of the desired results and every task is undertaken with integrity and care.

In conclusion, I feel that the Company has taken a major step forward to meet our long-term goals. After much restructuring, reorganization and implementation of our vision over the last four years, SBM Offshore has moved to the next level. The end of year FPSO award demonstrates that our experience matters in real terms. I believe in SBM Offshore's continued success and in the role that we will play to transform the industry. We have successfully built a solid bridge from our strong past leading us to a bright future.