SBM OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

5.1 FINANCIAL REVIEW

OVERVIEW

	Directional		IFRS	
in US$ million	FY 2015	FY 2016	FY 2015	FY 2016
Revenue	**2,618**	**2,013**	**2,705**	**2,272**
EBIT	**191**	**290**	**239**	**564**
Underlying EBIT	348	344	395	617
EBITDA	**561**	**725**	**462**	**772**
Underlying EBITDA	718	778	619	825
Profit attributable to Shareholders	**24**	**24**	**29**	**182**
Underlying Profit attributable to Shareholders	180	150	186	308

	Directional		IFRS	
in US$ billion	FY 2015	FY 2016	FY 2015	FY 2016
Backlog	18.9	17.1	-	-
Net Debt	3.1	3.1	5.2	5.2

DIRECTIONAL[1]

Directional[1] consolidated net income for 2016 was US$ 24 million, stable compared to 2015. This result includes non-recurring items which generated a net loss of US$ 126 million in 2016 compared to a net loss of US$ 157 million in 2015. Excluding non-recurring items, 2016 underlying consolidated Directional[1] net income attributable to shareholders stood at US$ 150 million, a decrease from US$ 30 million from the previous year, mainly attributable to lower Turnkey segment activity.

Non-recurring items for 2016 underlying performance relate to (i) provision for an onerous long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer (US$ 31 million), (ii) the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US$ 36 million) and the impairment of the Company's carrying amount for the net investment in the Joint Venture owning the Paenal construction yard (US$ 59 millions). These non-recurring items are the same in both IFRS and Directional, impacting EBIT and EBITDA by US$ 53 million, net financing costs by US$ 14 million and Share of Profit of Equity-accounted investees by US$ 59 million. For reference, non-recurring items for 2015 totalling US$ 157 million, were included in EBIT and EBITDA and were related to compliance issues.

Directional[1] earnings per share (EPS) in 2016 amounted to US$ 0.11 compared to US$ 0.11 per share in 2015. Adjusted for non-recurring items, underlying Directional[1] EPS decreased by 17% year-on-year from US$ 0.85 in 2015 to US$ 0.71.

New orders for the year totaled US$ 110 million as a result of current market downturn, which compares to US$ 248 million achieved in 2015.

Directional[1] revenue decreased by 23% to US$ 2,013 million compared to US$ 2,618 million in the year-ago period. This was primarliy attributable to lower Turnkey segment revenues.

Directional[1] backlog at the end of 2016 remained high at US$ 17.1 billion compared to US$ 18.9 billion at the end of 2015. This reflects both the lower level of order intake for the Turnkey segment and the resilience of the Lease and Operate portfolio amounting to US$ 17.0 billion at the end of 2016.

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[1] Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

Directional[1] EBITDA amounted to US$ 725 million, representing a 29% increase compared to US$ 561 million in 2015. This figure includes non-recurring net costs totaling US$ 53 million.

Directional[1] EBIT increased to US$ 290 million after non-recurring net costs of US$ 53 million. This compares to US$ 191 million in 2015 which included US$ 157 million of non-recurring costs.

IFRS

Reported consolidated 2016 IFRS total net income was US$ 247 million versus US$ 110 million in 2015. IFRS net income attributable to shareholders amounts to US$ 182 million compared to US$ 29 million in 2015.

IFRS revenue decreased by 16% to US$ 2,272 million versus US$ 2,705 million in 2015. This was mainly attributable to lower Turnkey segment revenues.

IFRS EBITDA amounted to US$ 772 million, representing a 67% increase compared to US$ 462 million in 2015.

IFRS EBIT increased to US$ 564 million, representing 136% increase compared to US$ 239 million in 2015.

IFRS Net Debt at the year-end totaled US$ 5,216 million versus US$ 5,208 million in 2015. All bank covenants were met and available cash and undrawn committed credit facilities stood at US$ 1,537 million.

FINANCIAL HIGHLIGHTS

The year was marked by the following financial highlights:

- Successful delivery of FPSOs Cidade de Marica, Cidade de Saquarema and Turritella which were formally on hire respectively as of February 7, 2016, July 8, 2016 and September 2, 2016.
- The Company completed its share repurchase program under the authorization granted by the Annual General Meeting of Shareholders of the Company held on April 6, 2016. In the period between August 11, 2016 and December 20, 2016, a total number of 11,442,179 shares totaling EUR 150 million were repurchased. The repurchased shares are held as Treasury shares predominantly for share capital reduction purposes and, to a lesser extent, for employee share programs.
- Award of the Front End Engineering and Design component of the contract for a FPSO by Esso Exploration and Production Guyana Limited to the Company and for which construction, installation and operation of the FPSO remain subject to a final investment decision expected in 2017. This contributed to new orders of US$ 110 million in aggregate.
- The Company, together with its core relationship banks, signed an amendment of its Revolving Credit Facility (RCF) on April 18, 2016, providing headroom improvements to the leverage and interest coverage ratios. The agreed upon amendments, combined with a strong cash position, provide the Company with a greater degree of flexibility in navigating the current industry downturn.
- During the first half of 2016, the Company, the Ministry of Transparency, Oversight and Control (Ministério da Transparência, Fiscalização e Controle – 'MTFC'), the Attorney General's Office (Advocacia-Geral da União – 'AGU'), the Public Prosecutor's Office (Ministério Público Federal – 'MPF') and Petrobras engaged in further negotiations which resulted in the signature on Friday, July 15 of a Settlement Agreement ('Leniency Agreement'). As a result, the provision booked in December 2015 has been increased in the consolidated financial statements as at December 31, 2016, up to the amount of the present value of the financial terms of the leniency agreement being US$ 281 million, impacting the lines 'Other operating expense' of the consolidated income statement by US$ 22 million and 'Net financing costs' by US$ 14 million for the unwinding of the discounting impact of future settlement. As more fully explained in section 5.3.1 Highlights, the agreement will become legally binding after approval of the Fifth Chamber for Coordination and Review and Anti-Corruption of the Federal Prosecutor Service and remains subject to review by the Federal Court of Accounts ('TCU'), but this is not a condition precedent to the Leniency

Agreement. However, the terms of this agreement remains SBM Offshore's current best estimate for an eventual settlement, given that it was duly signed by the relevant parties and the approval process is still underway.

- At the end of January 2016, the United States Department of Justice (DoJ) informed the Company that it has re-opened its past inquiry of the Company in relation to the alleged improper sales practices over the period 2007 to 2011 and has made information requests in connection with that inquiry. During the period, the Company has cooperated with the DoJ and remains committed to close out discussions on this legacy issue which the Company self-reported to the authorities in 2012 and for which it reached a settlement with the Dutch Public Prosecutor in 2014. The Company also continues to cooperate with the DoJ for 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.
- As a result of an on-going review of the cost structure and continued market downturn, the Company's workforce reduction over 2016 totaled approximately 2,250 positions. Roughly 650 were full-time employees and contractor staff. The remaining 1,600 were construction yard positions related to demobilization following successful delivery of main projects over the period. Restructuring costs of US$ 37 million were recorded during the period. The adaptation to market developments is focused on retaining core competencies.
- The Company has a long-term charter contract with the Diving Support and Construction Vessel (DSCV) SBM Installer. Due to the ongoing downturn which has created significant over-supply in offshore markets, the costs of the long-term chartering contract exceed the economic benefits expected to be received by the Company through the utilization of the vessel. As a result, a provision for onerous contract of US$ 31 million has been recognized over the period.
- The activity outlook for the Company's investment (30% ownership) in the Joint Venture owning the Paenal construction yard operating in Angola has deteriorated. As a result, the Company's carrying amount for the net investment in this entity has been impaired by US$ 59 million on the second half of 2016. Because this investment is consolidated using the equity method, this non-cash impairment is recognized in the Company's Consolidated Income Statement on the line item 'Share of profit of equity-accounted investees'.

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BACKLOG

Directional[2] backlog at the end of 2016 remained healthy at US$ 17.1 billion compared US$ 18.9 billion at the end of 2015. This reflects both the lower level of order intake for the Turnkey segment and the resilience of the Lease and Operate portfolio.

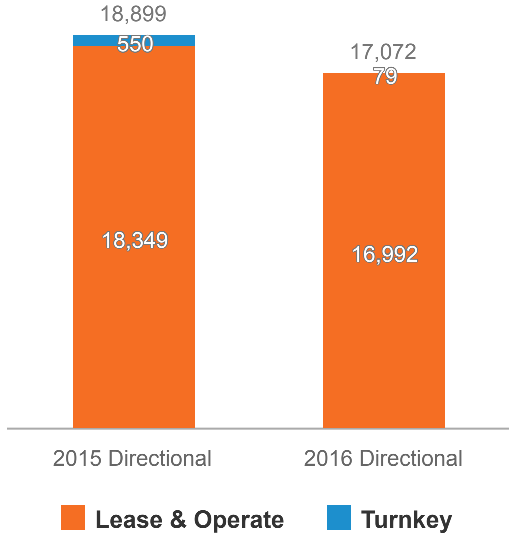
Directional[2] Turnkey backlog decreased to US$ 0.1 billion compared to US$ 0.5 billion in 2015 as no major Turnkey orders were signed in 2016. As market conditions continued to be challenging during the period, the level of tendering activity was lower than in 2015 and the order intake continued to be impacted by structural delays in client final investment decisions.

Backlog as of December 31, 2016 is expected to be executed as per the below tables:

Backlog (in millions of US$)

in million US$	Turnkey	Lease & Operate	Total
2017	0.1	1.5	1.6
2018	0.0	1.5	1.5
2019	0.0	1.5	1.5
Beyond 2020	0.0	12.5	12.5
Total Backlog	0.1	17.0	17.1

Backlog (in millions of US$)



2 Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.