SBM OFFSHORE

EXPERIENCE MATTERS

2016

ANNUAL REPORT

5.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.3.1 HIGHLIGHTS

Provision for settlement in Brazil

At the end of fiscal year 2015, the Company announced that the settlement discussions with 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 had progressed to the point where it had become sufficiently clear that a settlement with these parties in Brazil will have a financial component. Consequently, based on information available to it, the Company recorded a non-recurring provision of US$ 245 million in the year-end financial results of 2015.

During the first half of 2016, the Company, the MTFC, the MPF, the AGU and Petrobras engaged in further negotiations which resulted in the signature on July 15, 2016 of a Settlement Agreement. The financial terms for final settlement negotiated between the Parties are made up as follows:

- cash payment by the Company totaling US$ 162.8 million, of which US$ 149.2 million is payable to Petrobras, US$ 6.8 million to the MPF and US$ 6.8 million to the Council of Control of Financial Activities (Conselho de Controle de Atividades Financeiras – 'COAF') for the implementation of units for massive electronic process of information and other instruments to be used in the prevention and combat against corruption by the MPF and the COAF. This amount will be paid in three instalments. The first instalment of US$ 142.8 million will be payable as of the effective date of the Settlement Agreement. The two further instalments of US$ 10 million each will be due respectively one and two years following the effective date of the Settlement Agreement; and,
- a reduction of 95% in future performance bonus payments related to FPSOs *Cidade de Anchieta* and *Capixaba* lease and operate contracts, representing a present value for the Company of approximately US$ 112 million over the period 2016 to 2030.

As a result from the signature of the settlement agreement in July 2016, the provision booked in December 2015 had been increased in the consolidated interim financial statements as at June 30, 2016, up to the amount of the present value of the financial terms of the agreement being US$ 273 million.

Subsequently, the Public Prosecutor's Office submitted the Settlement Agreement for approval of the Fifth Chamber for Coordination and Review and Anti-Corruption of the Federal Prosecutor Service ('Fifth Chamber').

On September 2, 2016, the Company was informed that the Fifth Chamber did not approve the leniency agreement signed by Brazilian authorities, Petrobras and SBM Offshore on July 15, 2016.

On October 6, 2016, the Company was informed that the Fifth Chamber confirmed its decision in which the Leniency Agreement as per the current terms was not approved, and referred the matter, including review of the appeals filed by the AGU and the MPF, to the Higher Council of the MPF (Conselho Institutional) for further consideration and decision.

On December 14, 2016, the Company learned that the Higher Council of MPF upheld the decision by the Fifth Chamber of October 6, 2016. The Higher Council decided not to accept the appeals filed by the MPF and the AGU and referred the case back to the Fifth Chamber and the prosecutor handling the case for further review and next steps.

The Higher Council is the highest institutional body within the MPF, in which prosecutors from all seven chambers of the MPF are represented.

The Company remains committed to engage with all relevant authorities until the Leniency Agreement is approved by the Fifth Chamber and the Company has been notified thereof. Such notification will make the Leniency Agreement, duly signed with the MTFC, the MPF, the AGU, and Petrobras, binding upon the parties. Until then, the Company is not under any obligation to make payments under the Leniency Agreement.

The Leniency Agreement further remains subject to review by the Federal Court of Accounts ('TCU'), which is not a condition precedent to the Leniency Agreement.

Although the Fifth Chamber of the Brazilian Federal Prosecutor Service has not approved the leniency agreement signed by Brazilian authorities, Petrobras and SBM Offshore on July 15, 2016, the terms of this agreement remain the Company's best estimate for an eventual settlement.

As a result, the provision booked in the Half-year 2016 condensed consolidated interim financial statements has been maintained and updated during the second half of 2016, up to the amount of the present value of the financial terms of the leniency agreement being US$ 281 million, impacting the line 'Other operating expense' of the consolidated income statement by US$ 22 million and the line 'Net financing costs' for US$ 14 million reflecting the unwinding of the discounting impact of future settlement.

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 Accounts, but this is not a condition precedent to the Leniency Agreement. The Company continues to cooperate with the United States Department of Justice (DoJ) following the reopening of the investigation it had closed in November 2014 and with its inquiry into Unaoil, a company that SBM Offshore had engaged with as an agent prior to 2012 in relation to buoy business.

First Oil Cidade de Maricá, Cidade de Saquarema and Turritella

The portion of the construction work-in-progress related to the construction of Cidade de Maricá, Cidade de Saquarema and Turritella have been transferred to Finance Lease Receivable in the Consolidated Statement of Financial Position following the FPSOs achieving first oil and being formally on hire respectively as of February 7, 2016, July 8, 2016 and September 2, 2016.

Share Buy-Back

On August 11, 2016, the Company initiated a EUR 150 million share repurchase program. As of December 31, 2016, the share repurchase program is completed and the Company had repurchased 11,442,179 shares at an average share price of EUR 13.11, equal to 100% of the total repurchase program.

Restructuring

As a result of an on-going review of the cost structure and continued market downturn, the Company's workforce reduction is around 650 positions worldwide over the year 2016.

Restructuring costs accounted for as 'Other operating expense' over the period ended December 31, 2016 represent US$ 37 million. The total liabilities for restructuring included in 'Provisions' and 'Trade and other payables' represent US$ 9 million as of December 31, 2016 for the Company.

In the light of these recent restructuring activities an onerous contract provision related to the long-term offices rental contracts in various regional centers has been recognized for a total amount of US$ 11 million as of December 31, 2016.

DSCV SBM Installer Charter Contract

The Group 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 in the gross margin as of December 31, 2016 (Please refer to note 5.3.26 Provisions).

Investment in JV holding Construction Yard Paenal

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' (please refer to note 5.3.15 Other financial assets).

5.3.2 OPERATING SEGMENTS

The Company's reportable operating segments as defined by IFRS 8 'Operating segments' are:

- Lease and Operate;
- Turnkey.

The operating segments are measured under Directional Reporting accounting principles, as described under Note 5.2.7.C. Significant Accounting Policies of the consolidated financial statements as of and for the year ended December 31, 2016.

In 2016, the Turnkey segment is impacted by the onerous contract provision related to DSCV SBM Installer and the long term offices rental contracts.