



EXPERIENCE **MATTERS**

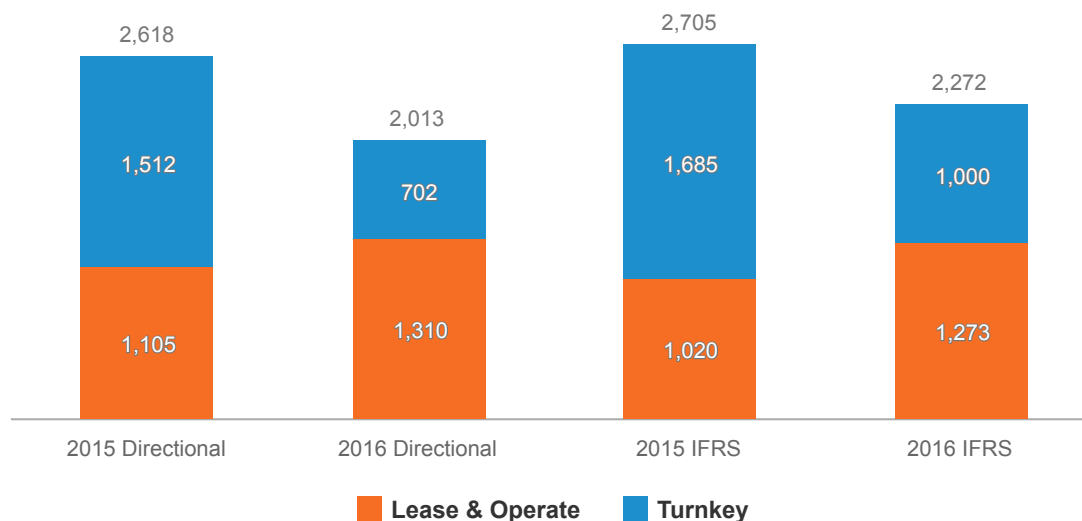
2016

ANNUAL REPORT

REVENUE

Directional³ Revenue decreased by 23% year-on-year despite an increase of 19% for the Lease and Operate segment:

Revenue (in millions of US\$)



DIRECTIONAL³

Third party Directional³ Turnkey revenue came down 54% year-over-year to US\$ 702 million, representing only 35% of total 2016 revenue. This compares to US\$ 1,512 million, or 58% of total revenue, in 2015. The decrease is mostly attributable to the completion stage reached in the course of 2016 on Ichthys turret and FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella*, as well as the very low order intake in 2014, 2015 and 2016 as a result of the market downturn.

Directional³ Lease and Operate revenue increased by 19% to US\$ 1,310 million, representing 65% of total Directional³ revenue contribution in 2016, up from the 42% contribution of 2015. The increase in segment revenue is attributable to the start-up of FPSOs *Cidade de Maricá*, *Cidade de Saquarema* and *Turritella* while no vessel have been decommissioned during the period.

IFRS

Total IFRS revenue decreased during the year, down by 16% to US\$ 2,272 million, despite an increase of 25% for the Lease and Operate segment. This was mainly attributable to significantly lower revenue recognized in the Turnkey segment upon completion of major projects in the course of 2016 as well as low order intake in 2014, 2015 and 2016.

PROFITABILITY

The Company's primary business segments are Lease and Operate and Turnkey plus 'Other' non-allocated corporate income and expense items. EBITDA and EBIT are analyzed by segment but it should be recognized that business activities are closely related, and that certain costs are not specifically related to either one segment or another. For example, when sales costs are incurred, including significant sums for preparing a bid, it is often uncertain whether the project will be leased or contracted on a turnkey lump sum basis.

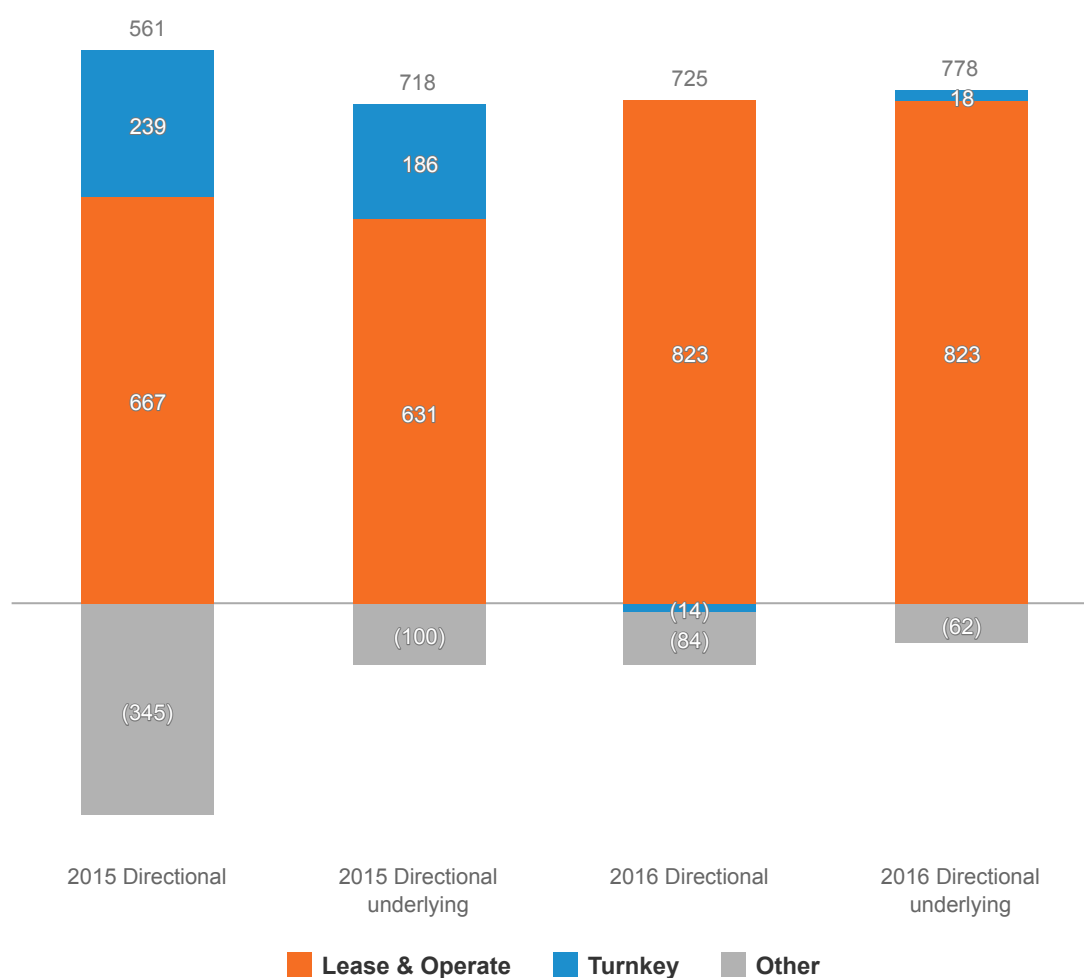
³ Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

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The Company's profitability may be affected by external variables and conditions. Profitability may be sensitive to significant areas of estimation and judgements, and to potential interest rates and currency fluctuations against the US dollar as described in notes 5.2.7.B (a) and 5.3.29 to the financial statements, respectively.

In recent years, new lease contracts are showing longer duration and are systematically classified under IFRS as finance leases for accounting purposes whereby the fair value of the leased asset is recorded as a Turnkey 'sale' during construction. For the Turnkey segment this has the effect of accelerating during the construction period a substantial part of the lease profits which would in the case of an operating lease be recognized through the Lease and Operate segment during the lease period. To address this lease accounting issue and IFRS 10 and 11 standards introduced in 2014, the Company has, in addition to its IFRS reporting, assessed its performance by treating all lease contracts as operating leases and consolidated all JVs related to lease contracts on a proportional basis, referred to as Directional⁴. This provides consistency in segment presentation.

EBITDA Directional (in millions of US\$)



Reported 2016 Directional⁴ EBITDA was US\$ 725 million compared to US\$ 561 million in 2015. Directional⁴ EBITDA consisted of US\$ 823 million from the Lease and Operate segment compared to US\$ 667 million in 2015, and a loss of US\$ 14 million from the Turnkey segment compared to profit of US\$ 239 million in 2015.

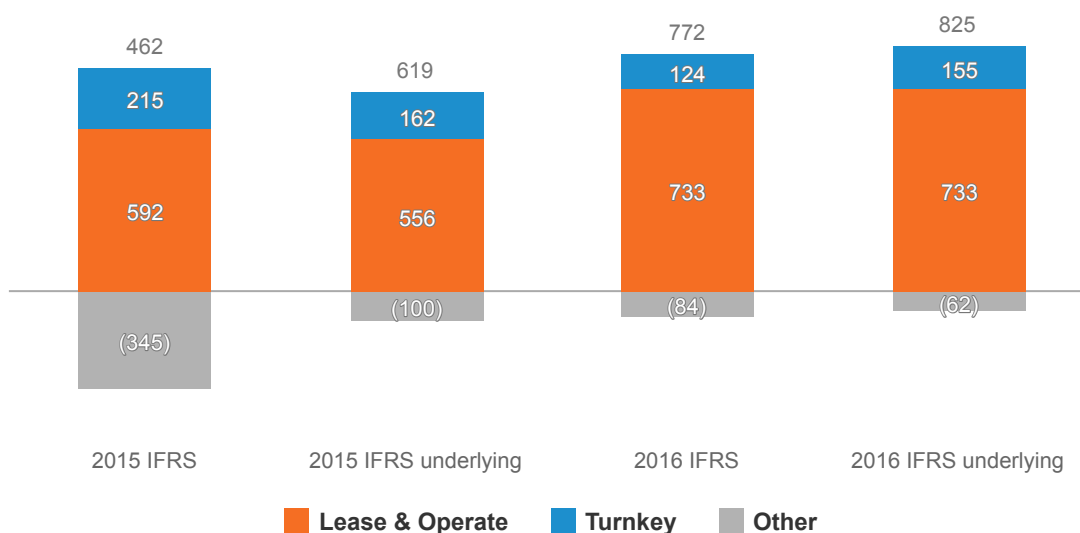
⁴ Directional view is a non-IFRS disclosure, which assumes all lease contracts are classified as operating leases and all vessel joint ventures are proportionally consolidated.

Other non-allocated expenses came at US\$ 84 million, compared to US\$ 345 million in 2015, related mainly to restructuring charges and update of provision related to potential settlement contemplated with the Brazilian authorities and Petrobras.

Adjusted for non-recurring items related to provision for onerous long-term charter contract with the DSCV SBM Installer (US\$ 31 million) and the update of the provision for contemplated settlement with Brazilian authorities and Petrobras (US\$ 22 million), 2016 underlying Directional⁴ EBITDA increased by 8% to US\$ 778 million compared to US\$ 718 million in 2015. This increase is primarily attributable to the Lease and Operate segment with the three new FPSOs that came into production in 2016 and significant saving on other non-allocated costs of US\$ 38 million. The underlying turnkey EBITDA decreased significantly due to the profit recognized in 2015 upon the sale of 45% of Company's shares in the joint venture leasing and operating the FPSO *Turritella* while the decline of Turnkey activity year-on-year have been mitigated thanks to strong projects performance, under-recovery monitoring and significant saving on Turnkey overheads.

As a percentage of revenue, Underlying Directional⁴ EBITDA was 39% compared to 27% in 2015. Underlying Directional⁴ EBITDA margin for the Lease and Operate segment stood at 63% versus 57% in 2015, while Turnkey segment Underlying Directional⁴ EBITDA margin decreased to 3% compared to 12% in 2015.

EBITDA IFRS (in millions of US\$)

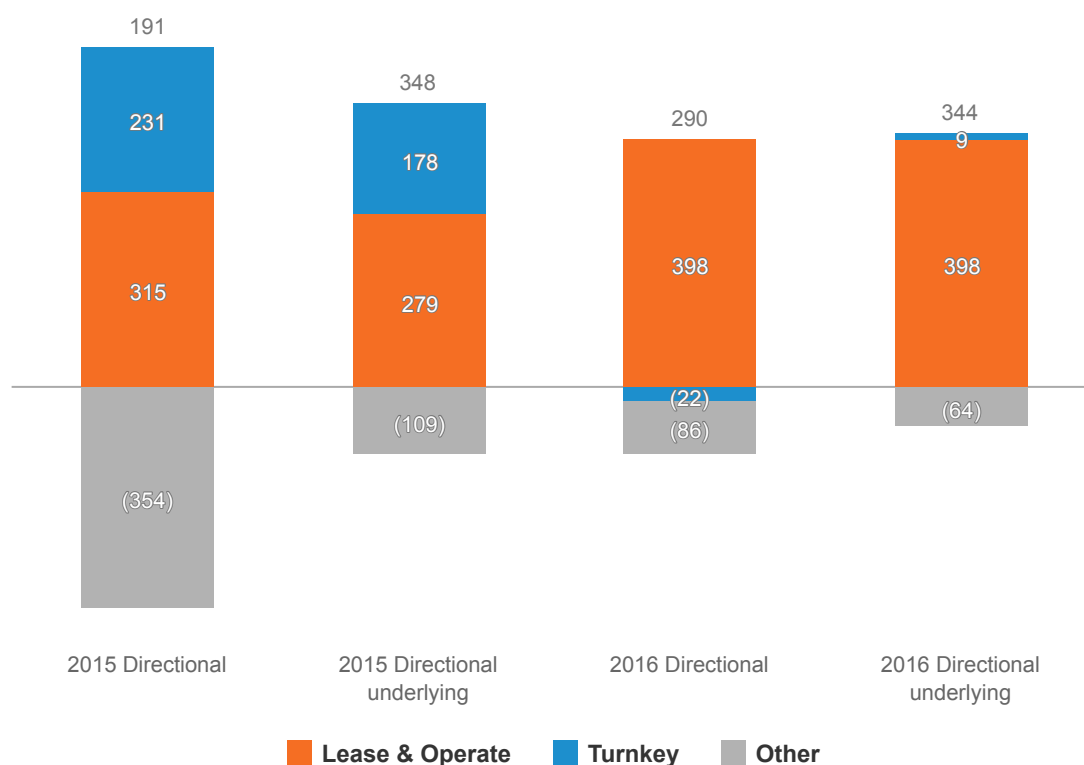


IFRS EBITDA in 2016 came in at US\$ 772 million versus US\$ 462 million in 2015. Total IFRS EBITDA consisted of US\$ 733 million from the Lease and Operate segment compared to US\$ 592 million in 2015, and US\$ 124 million from the Turnkey segment compared to US\$ 215 million in 2015. Other non-allocated expenses came at US\$ 84 million with no difference compared to Directional⁴. Adjusted for non-recurring items, 2016 underlying IFRS EBITDA increased by 33% to US\$ 825 million compared to US\$ 619 million in 2015. This is primarily due the Lease and Operate segment and the three new FPSOs that came into production in 2016, while the underlying IFRS turnkey EBITDA, not impacted by the sale of Company's shares in the joint venture leasing and operating the FPSO *Turritella* in 2015, remained almost stable.

As a percentage of revenue, IFRS Underlying EBITDA was 36% compared to 23% in 2015. IFRS Underlying EBITDA margin for the Lease and Operate segment stood at 58% versus 55% in 2015, while Turnkey segment EBITDA margin stood at 16% compared to 10% in 2015 driven by project performance and decrease of structural costs.

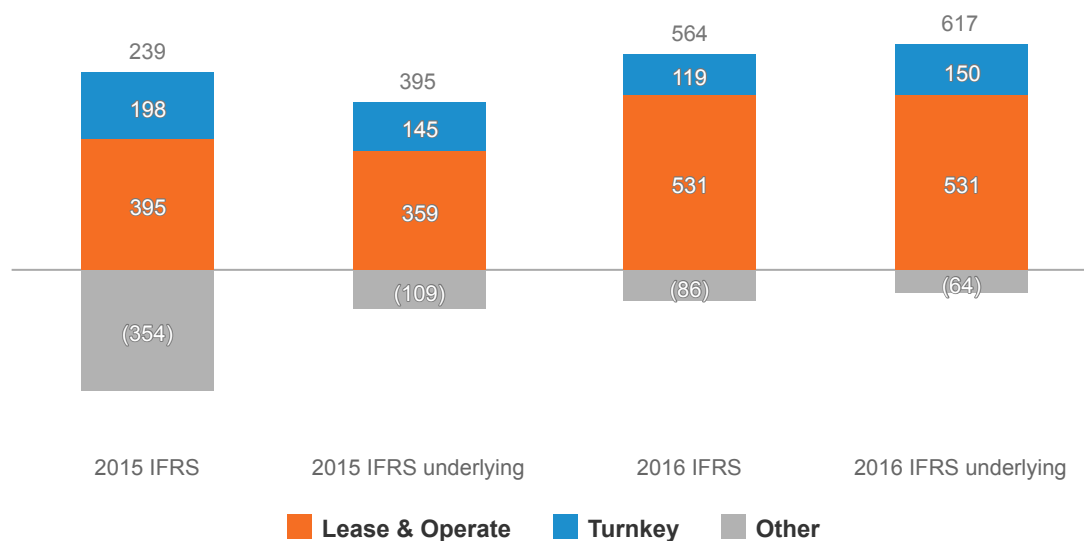
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EBIT Directional (in millions of US\$)



*Directional*⁴ EBIT in 2016 amounted to US\$ 290 million compared to US\$ 191 million in 2015. Adjusted for same non-recurring items as EBITDA, underlying *Directional*³ 2016 EBIT slightly decreased by 1% to US\$ 344 million versus US\$ 348 million in 2015. Underlying EBIT variations per segment are the same as for the EBITDA, the increase of Lease and Operate Underlying EBITDA (US\$ 191 million) being however partially offset by depreciation charges (US\$ 66 million) related to the three new FPSOs that came into production in 2016.

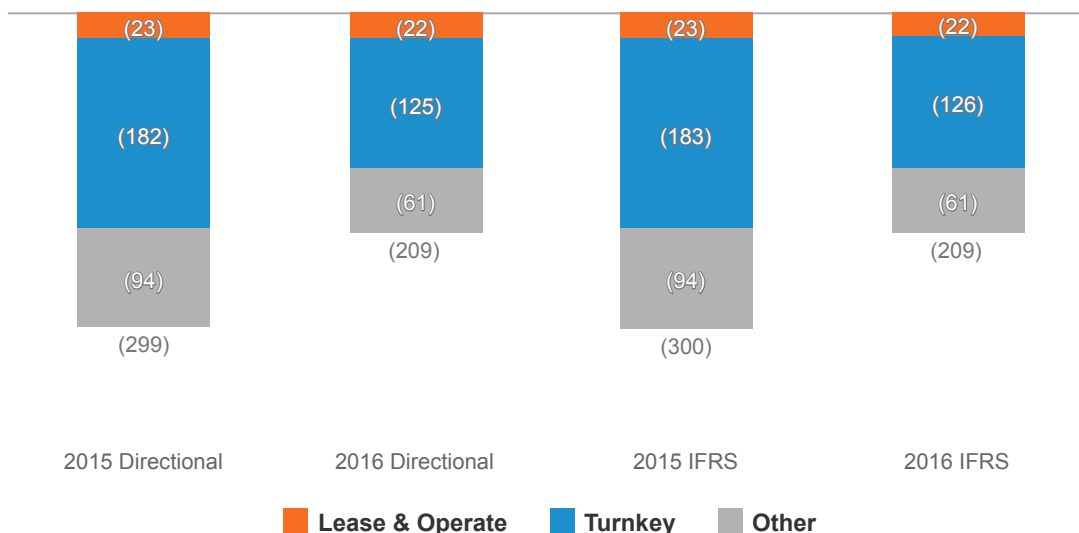
EBIT IFRS (in millions of US\$)



IFRS EBIT in 2016 amounted to US\$ 564 million compared to US\$ 239 million in 2015. Adjusted for non-recurring items underlying 2015 EBIT increased by 56% to US\$ 617 million compared to US\$ 395 million in 2015.

OVERHEADS, OTHER INCOME AND EXPENSES, NET FINANCING COSTS, SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEEES AND INCOME TAX

OVERHEADS (IN MILLIONS OF US\$)



Directional overheads were US\$ 209 million in 2016 compared to US\$ 299 million in 2015. This significant reduction resulted from the finalization of the Company's business improvement initiatives, material saving on general and administrative expenses, lower tendering activity and decreased costs of research and development. There is no material differences between IFRS and Directional overheads.

OTHER OPERATING INCOME AND EXPENSES (IN MILLIONS OF US\$)

