

# Annual REPORT

**SBN**  
OFFSHORE

2015



# 1 At a Glance

## 1.1 Message from the CEO

This year complex projects have progressed and been delivered to our clients, our fleet performed steadily, we obtained funding at attractive pricing and we reduced our net debt beyond the target, while exceeding the revenue target. At the same time, the industry continues to experience oversupply resulting in depressed oil prices, which has forced our clients to delay or cancel investment decisions. SBM Offshore is not immune to this situation. We have seen our Turnkey order book shrink, with low visibility on meaningful short term improvement. The Company's Lease and Operate segment however, is generating income, turning SBM Offshore's cash flow into positive territory in 2016. In 2015, we continued the reorganization of the Company, in order to reduce costs and become more client focused, while retaining the core talent that are the foundation of the road to recovery, once the market turns. It is regrettable that we have had to let go 3,200 staff during the year, both in our own managed activities as well as the Joint Venture yards.

Before going into a bit more detail on some of these events, a few words on our ongoing compliance case in Brazil. Further to the March 2015 announcement, that we were engaged in discussions with the relevant authorities in Brazil to reach a leniency agreement, we have worked hard and cooperated constructively towards a settlement. The discussions are complex, involve different authorities as well as Petrobras and need time to ensure alignment of all parties' interests. Although at the time of writing this report the final settlement is yet to be concluded, talks have advanced to the point where we have been able to make a provision in the 2015 accounts of US\$ 245 million. Being invited back on the tender list of our client Petrobras has been a first positive outcome of the discussions and I hope that we can close out this legacy issue in the course of 2016. At the end of

January 2016, we have been informed by the US Department of Justice that the inquiry regarding SBM Offshore has been re-opened. We are currently seeking further clarification about the scope of this inquiry and remain committed to close out discussions on this legacy issue as well.

At SBM Offshore, we take great pride in our technical capabilities, both during design and construction, as well as during long term offshore operations of our vessels. 2015 was no exception, with successful delivery of projects such as the Ichthys, QUAD204 and Prelude large turrets, which represent ground-breaking projects for the industry, while the FPSO projects *Cidade de Maricá* for offshore Brazil and *Turritella* for the Gulf of Mexico, were completed and arrived on location around year end, with first oil expected in 2016. Our fleet continued its long-running oil uptime record at 99.4% for the year, without any major unplanned shutdowns or operational setbacks.

Tendering for new FPSO projects is ongoing, despite the adverse industry climate, but is not resulting in final awards, as the industry is effectively 'on hold' until the future of the crude oil supply/demand situation becomes clearer. With the progressive delivery of our current projects, this implies increasing overcapacity in our engineering and project management staff. We have been anticipating this situation for more than a year now, workforce reductions over the period totaled approximately 3,200 positions. 1,500 were full-time employees and contractor staff. On top of that, we lost 1,700 staff in our Joint Venture yards in Brazil and Angola due to a reduction in construction workload. Through specialization of our Regional Centers and applying new technology, we have established the minimum required workforce to deal with a market upturn, in terms of awards. I realize that this implies an investment in 2016 and possibly 2017 in underutilization of our workforce, but that is inevitable to retain our competitive

strength and to be ready to capitalize on the upturn. In the meantime, our staff is engaged in sales support, pre-FEED and FEED studies, in several cases client funded, as well as further technology development.

In terms of technology, I am very excited about our progress on the Fast4Ward program. The essence of this program allows us to reduce the time to market of an FPSO from three to two years, through rigorous standardization of all suitable components, most notably the FPSO hull. Fast4Ward, in combination with Odyssey 24 – the transformation program, ended in 2015 – give us the necessary tools to build FPSOs that can operate profitably in a US\$ 50/barrel world. We intend to order our first Fast4Ward hull in 2016, in time to be ready when the awards start picking up again.

We were included in the Dow Jones Sustainability Index for the sixth year running, with an overall improved position. This does credit to our efforts to incorporate all Environmental, Social and Governance (ESG) elements in our day-to-day considerations and how we deal with all our stakeholders. Sustainability is at the heart of our long-term business development and we continue to work on local initiatives emerging from a social impact assessment and the development of CO<sub>2</sub> reduction solutions with an internal CO<sub>2</sub> challenge program launched in 2015.

2015 has seen a few remarkable funding events. First of all, we completed a US\$ 1.55 billion project loan for FPSO *Cidade de Saquarema*. This project loan, which carries a large Export Credit Agency (ECA) support tranche, has a 15-year maturity and carries a 5.0% all-in-cost of finance. This was our first ECA supported loan and the largest project loan ever taken by SBM Offshore. For FPSO *Turritella*, we achieved partner buy-in for a 45% share by Mitsubishi Corporation and Nippon Yusen Kabushiki Kaisha mid-year 2015. In December, the

partnership announced an US\$ 800 million project loan for the vessel with a 10-year maturity and an all-in cost of just 3.3%.

In the absence of new Engineering, Procurement and Construction (EPC) awards and following delivery of the last three FPSOs early 2016, we are not investing cash in new FPSOs for our lease portfolio. This has a positive effect on our free cash flow (defined as cash from operations minus CAPEX) in 2016. SBM Offshore's lease-and-operate model is not affected by the oil price environment, nor by actual production levels. This gives us a solid cash income basis, that will see us through these difficult times. Our improving cash position allows us to return to a dividend payment over the underlying 2015 profit and I am very pleased to announce that we are proposing US\$ 0.21 dividend per share, to be paid in cash (in euros) following approval at the AGM in April 2016.

During the year, we have seen a number of moves in our boards. Firstly, we said farewell to our long-standing chairman Mr. Heinz Rothermund, who retired after completing his third and final term at the Supervisory Board. We were happy to welcome Mr. Frans Cremers as our new chairman and Mrs. Sherry Richard and Mrs. Laurence Mulliez as new members to the Supervisory Board. Mr. Sietze Hepkema retired from the Management Board in April and was subsequently appointed as a Supervisory Board member. At the Management Board level we welcomed Mr. Erik Lagendijk as our new Corporate Governance and Compliance Officer, replacing Mr. Sietze Hepkema and we added the role of Chief Operating Officer to the Management Board with the appointment of Mr. Philippe Barril.

In conclusion, I am proud to see progress being made by our teams across the globe on projects and operations.