SBM response to the CFRA report dated May 30, 2014

June 5th, 2014

SBM OFFSHORE

Introduction

CFRA issued a report on SBM Offshore raising a number of concerns on the Company's accounts and financial reporting.

The Company provides its own views on those concerns in the following pages.

Overall, the CFRA report misses the intricacies of IAS 17 (Finance Lease Accounting) in combination with IAS 11 (project accounting). During the last 12 months, SBM has repeatedly drawn the attention of the investor community on the aggressive nature of IFRS on revenue and profit recognition, as has provided a credible alternative by reporting 'directional results' that much more closely follows the reality of invoiced revenue and cash flows. *)

SBM's Management Board is confident it provides the necessary transparency in financial reporting.

June 5th, 2014. SBM Management Board

*) 2013 Annual report, chapter 3.1.3 page 57; press releases H1 2013 and FY 2103
directional teach-in presentation June 2013:
http://www.sbmoffshore.com/wp-content/uploads/2013/06/Project_direction_presentation_20062013.pdf

SBM OFFSHORE

Rise in Receivables

CFRA concern: the rise in construction & finance receivables raise concerns regarding potentially aggressive revenue recognition and revenue stability.

SBM response:

- SBM revenue recognition policy under IAS11 is prudent given that (i) revenues are recognized proportionally to costs incurred and thus not subject to management estimate and (ii) include a 25% margin threshold before recognizing margin.
- SBM has pro-actively disclosed the discrepancies between IFRS revenue recognition, which accelerates lease and operate revenue into the construction phase for finance leases, and cash income. To that effect, SBM introduced its Directional revenue standard mid 2013 to counterbalance the aggressive stance taken by IAS17 relating to finance lease projects under construction in order to reach a fair measure of revenue more in line with cash flows.
- The reported increase in construction DSO is solely driven by growing finance lease investments. Out of the $1.7 bln unbilled Works In Progress, $1.6 bln is related to the SBM share in the N'Goma, Cidade de Ilhabela, Stones, and Cidade de Marica and Saquarema projects under construction.
- These ongoing investments will generate strong and sustainable Directional revenue following start of production in 2015 (for N'Goma and Ilhabela) and 2016 (for Stones and Marica/Saquarema).
- In conclusion: the rise in the receivables is a direct consequence of the application of IAS 17 and IAS11, and would be reflected as ‘fixed assets under cosntruction’ on the balance sheet under operating lease accounting.

Looser financing terms driving unsustainable revenue growth

CFRA concern: are looser financing terms driving unsustainable revenue growth?

SBM response:

- First of all, revenue recognition is disconnected from financing terms related to lease contracts.
- Secondly, the lease contract duration is related to the production capacity of the oil field which for the large deep water fields is increasing to 20 years (Brazil) compared to 10 to 15 years historically.
- Longer contracts mean also significant additional and recurrent revenue generated by operating and maintaining those vessels over 20 years.
- On the funding side, the longer duration of the Brazilian contracts leads to longer maturity of project loans to better match the cash inflows.
- Finally, IFRS revenue recognition shows a substantial portion of the future lease revenue during the construction period of the FPSO, with a marked decline in annual revenue following start-up (deemed interest on the reducing finance receivable). Under directional reporting, the annual net income during the lease period goes up, as a consequence of the lower interest paid on the declining funding loans.

Non-recurring items

CFRA concern: Underlying EBIT not corrected for other non-recurring items

SBM response

- The Company regards provisioning for possible warranty claims and bad debts as normal course of business. The related expenses are not corrected for underlying results, nor are write-backs.
- The warranty provisions increased from 2012 to 2013 from $35mln to $41 mln while bad debt provisions remained stable ($18 mln in 2012 vs $17 mln in 2013). This implies that the SBM 2013 results were not generated by exceptional release of provisions.
- Warranty provision at SBM have been calculated consistently for years based on a fixed percentage of the Company’s construction revenues. No change of method was applied in 2013.
- Actual expenses under warranty claims in 2013 significantly decreased compared to 2012 as a result of fewer quality claims with SBM products and better contract management.
- Bad debt costs incurred in 2013 decreased significantly as a result of (i) more aggressive cash collection approach and (ii) more prudent approach of provisioning.

Payables increase

CFRA concern: Payables increase may have boosted cash flow

SBM response:

- Due to the nature of the construction business, trade payables should not be looked at in isolation but together with accruals. The FPSO projects generate large subcontracts placed with large equipment manufacturers and construction yards which generate a high level of unbilled works, leading to significant accruals on projects.
- The combination of trade payables & accruals went up from $900mln in 2012 to $992mln in 2013. This increase remains in line with the activity growth reflecting IFRS growth of costs of sale.
- The Free Cash Flow remains negative in 2013 due to the significant project investments by the Company reflecting the increase in SBM’s backlog on lease and operate contracts (turnkey contracts are pre-paid in installments by the client)

SBM OFFSHORE

Other Receivables

CFRA concern: Other receivables climb to a historic high

SBM response:

- The increase from $61 mln in 2012 to $324 mln in 2013 is due to the significant backlog increase and a one off item:
  - Disposal of the Monaco Concorde office building in December 2013 for $84mln which was paid in Q1 2014
  - Advance payments made to construction yards in relation to the commencement of works on FPSO Stones and FPSO Marica and Saquarema for $150mln.

Directional reporting

CFRA concern: the merits, or lack thereof, of directional reporting

SBM response:

- Directional reporting treats all finance lease contracts as if they were operating leases. All IFRS rules regarding operating leases are strictly applied.
- In effect, by treating financial leases as an operating lease, a significant element of judgment is removed as finance leases are valued at discounted present value, where the discount rate is subject to management judgment, and changes could affect income considerably.
- Directional revenue recognition during the construction phase, where the Joint Venture partners are contributing their share in the FPSO costs, is not based on client invoicing but on cost progress.
- Directional revenues are much closer to cash flows than IFRS, but not equal to cash flows. Directional revenues still include accrued income or deferred revenue when invoicing to client occurs later than progress or sooner.