



# SBM OFFSHORE

Project Direction Presentation June 2013

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# Finance Lease Accounting: Analysts' View

“These projects also make it **somewhat difficult** to forecast SBM’s P&L on a further than twelve month horizon, as our forecasts are heavily dependent on whether or not new finance lease projects (rather than operating lease contracts) are signed.”

Barclays February 2013

“**Although visibility on the lease fleet has diminished** following the introduction of finance leases in the order portfolio, we still believe it is safe and best practice to apply a DCF valuation to the lease portfolio.”

ABN Amro October 2012

“These two contracts generate a sizeable delta in earnings due to their large size and the **finance lease accounting that brings forward recognition of a** proportion of profit into the build phase.”

Morgan Stanley May 2013

“All year we have argued that finance lease accounting within SBM’s lease fleet portfolio has rendered valuation arguments based on the P&L **as largely irrelevant.**”

Barclays August 2011

“SBM has historically been hard to track due to a **lack of detail on how it was truly functioning – with added complexity** from increasing use of finance lease FPSOs.”


Societe Generale May 2013

“However, we would highlight that, given the **earnings sensitivity to finance lease** accounting and the discreet asset nature of the business, we believe a SOTP approach is more appropriate than earnings multiples.”

Morgan Stanley May 2013

“**IFRS is diminishing the product’s appeal:** Under IFRS, the distinction between operating and finance leases has become harder to finesse.”

Credit Suisse November 2012



# Agenda

- Overview
- Principles
- Figures

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# Overview



# Project Direction - Context

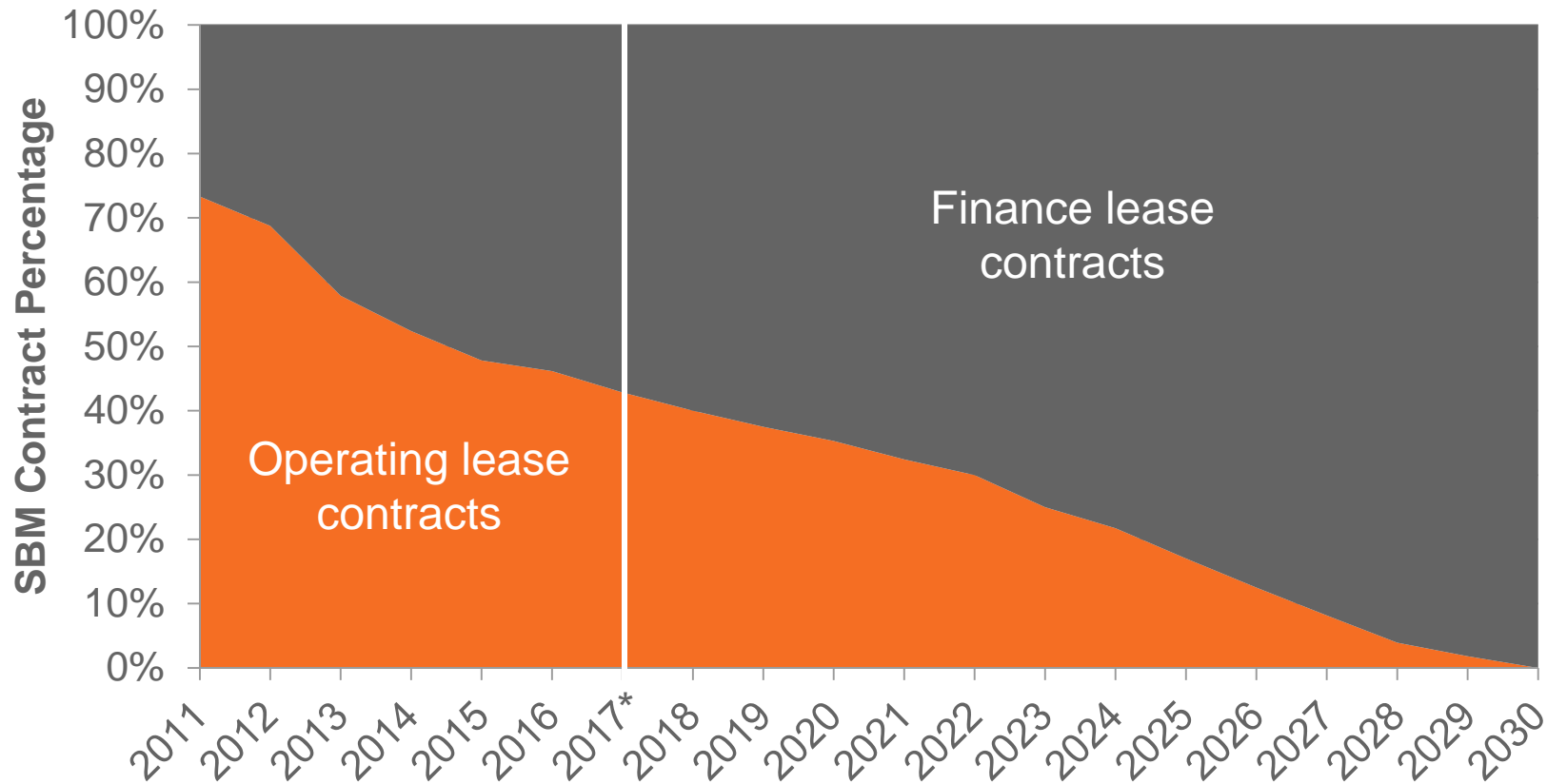
- SBM's business model is a combination of turnkey sales, construction and lease and operate projects, making it a challenge to model
- Finance lease accounting under IFRS adds further complexity by separating revenue recognition from cash flows
- Accelerated recognition of revenues, profit and equity well before any rents are paid by the client
- Increasing number of contracts classified as finance leases, with IASB intent on making all leases finance leases
- Growing concerns and complaints from investors and analysts on the lack of transparency in SBM's financial disclosures

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# Project Direction - Objectives

- SBM Offshore has decided to extend its reporting to develop an operating lease presentation in-line with operating cash flows
- Increasing transparency and understanding of SBM Offshore's performance
- Disclosure of Directional Backlog and Directional Income Statement as part of the Financial Review


# Finance Lease Accounting: A Growing Issue



\*assuming new IASB exposure draft is accepted



# IFRS: IAS 17 Finance Leases

- Definition: A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
- Critical criteria:
  - ✓ is the lease term for the major part of the economic life of the asset?  
It's a Finance lease even if title is not transferred (case 10c in IAS 17 standard)
  - ✓ are the leased assets of such a specialised nature that only the lessee can use them without major modifications? (case 10e in IAS 17 standard)
  - ✓ Does the NPV of lease income substantially equal the fair value of the asset? (case 10d in IAS 17 standard)
- If one or several conditions is met  classify as finance lease

# IFRS: IAS 17 Finance Leases

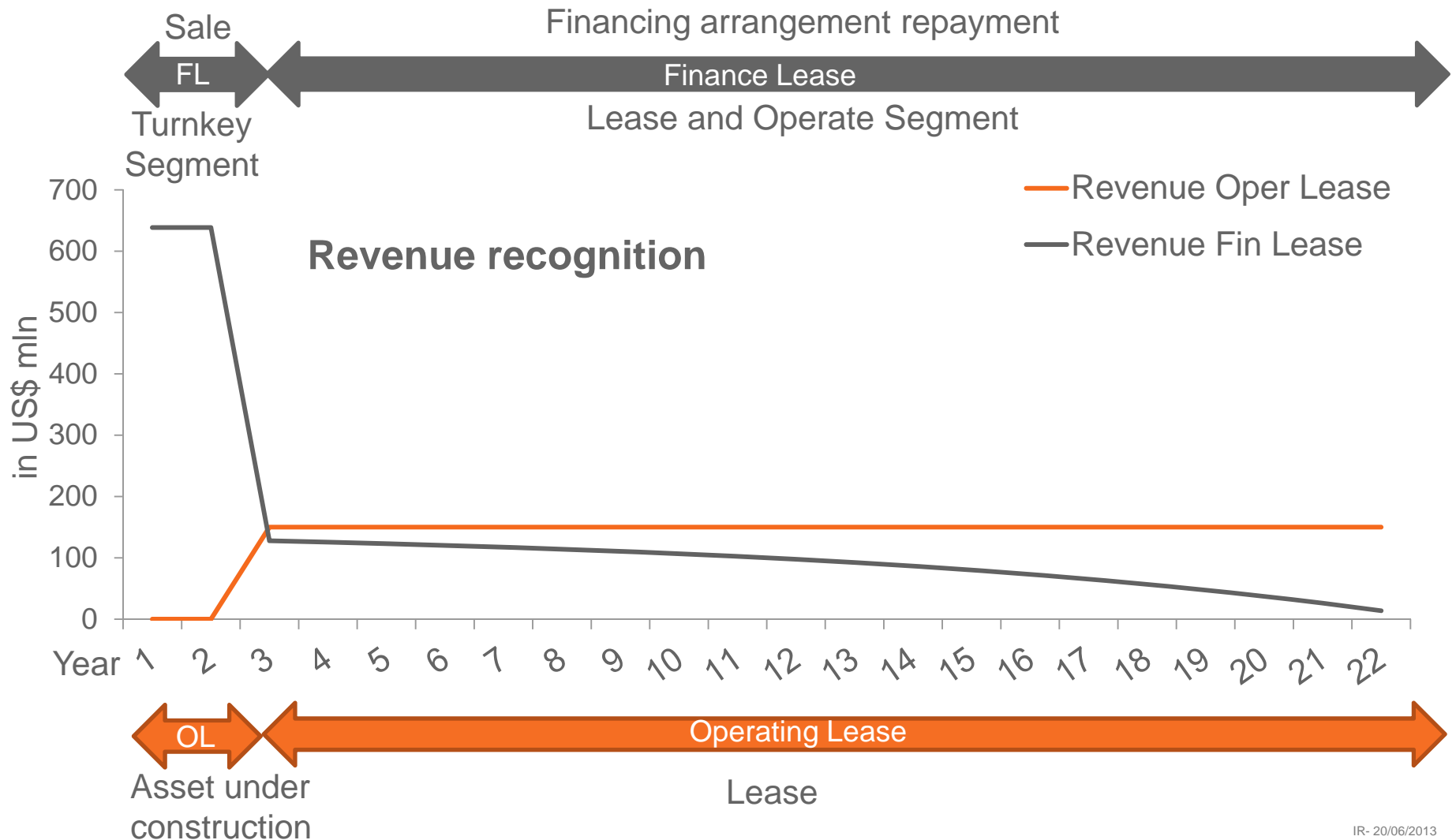
- Under IFRS, leasing an asset to a lessee under finance lease rules is like selling the asset, and giving the buyer a purchase financing arrangement.
- SBM constructs the assets it leases as part of its own project development activities (Turnkey Segment)
- As a result, SBM reports revenue and profit on the 'sale' during the construction period before rents have been invoiced to or paid by the client. Turnkey Segment Revenue = NPV(bareboat)
- During the lease period, SBM reports revenue and profit on financial interests associated with financing arrangement  
L&O Segment Revenue = financial interests of the financing arrangement

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# Contract Assumptions

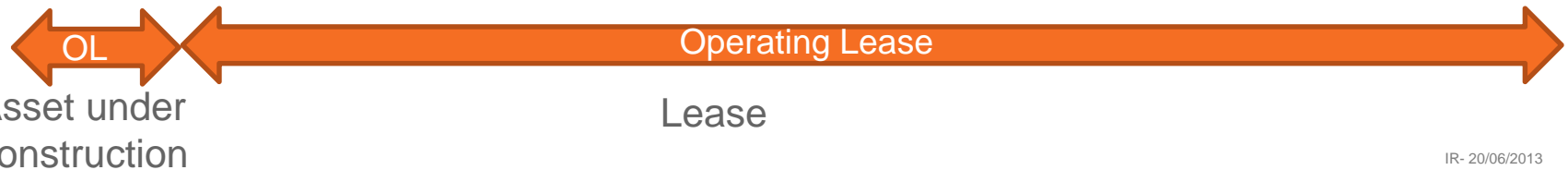
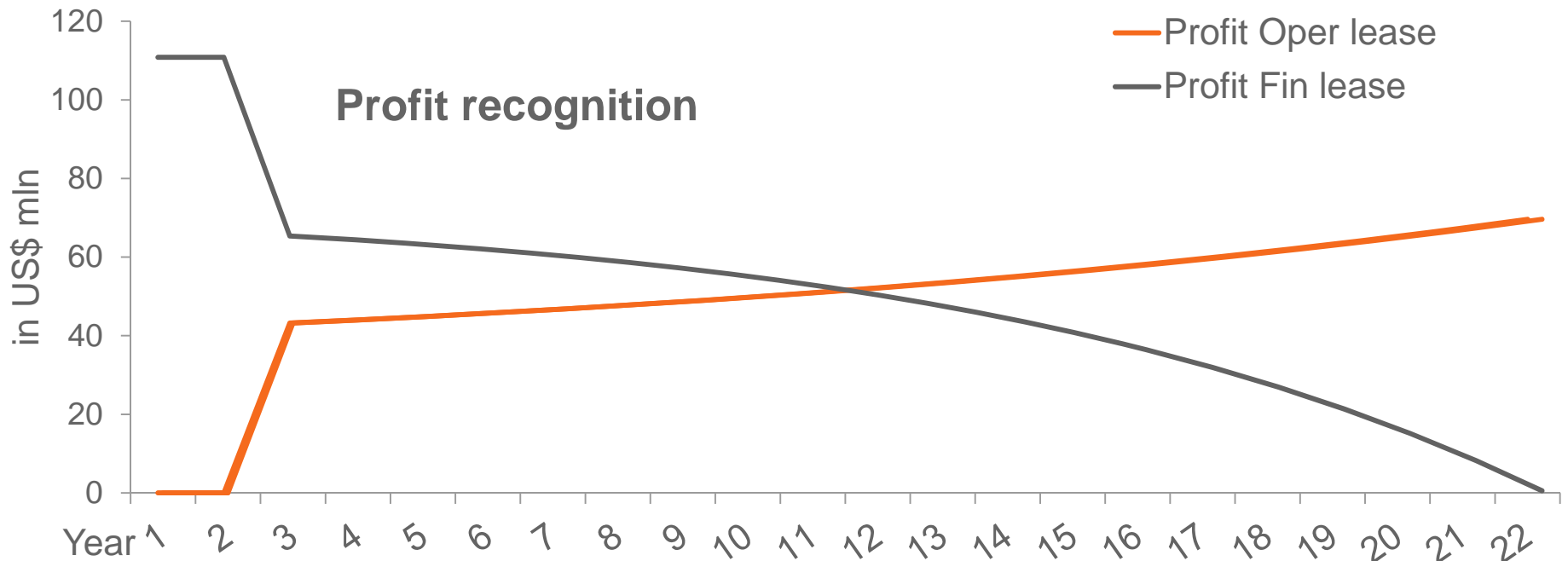
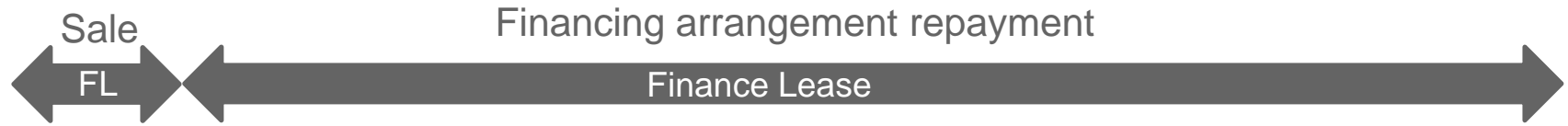
- Capex: US\$ 1 bn
- Financing: 40% Equity- 60% Debt
- Cost of debt: 6%
- Lease contract duration: 20 years
- Construction: 2 years
- Project WACC:10%
- Ownership:100%

# Operating Lease vs. Finance Lease

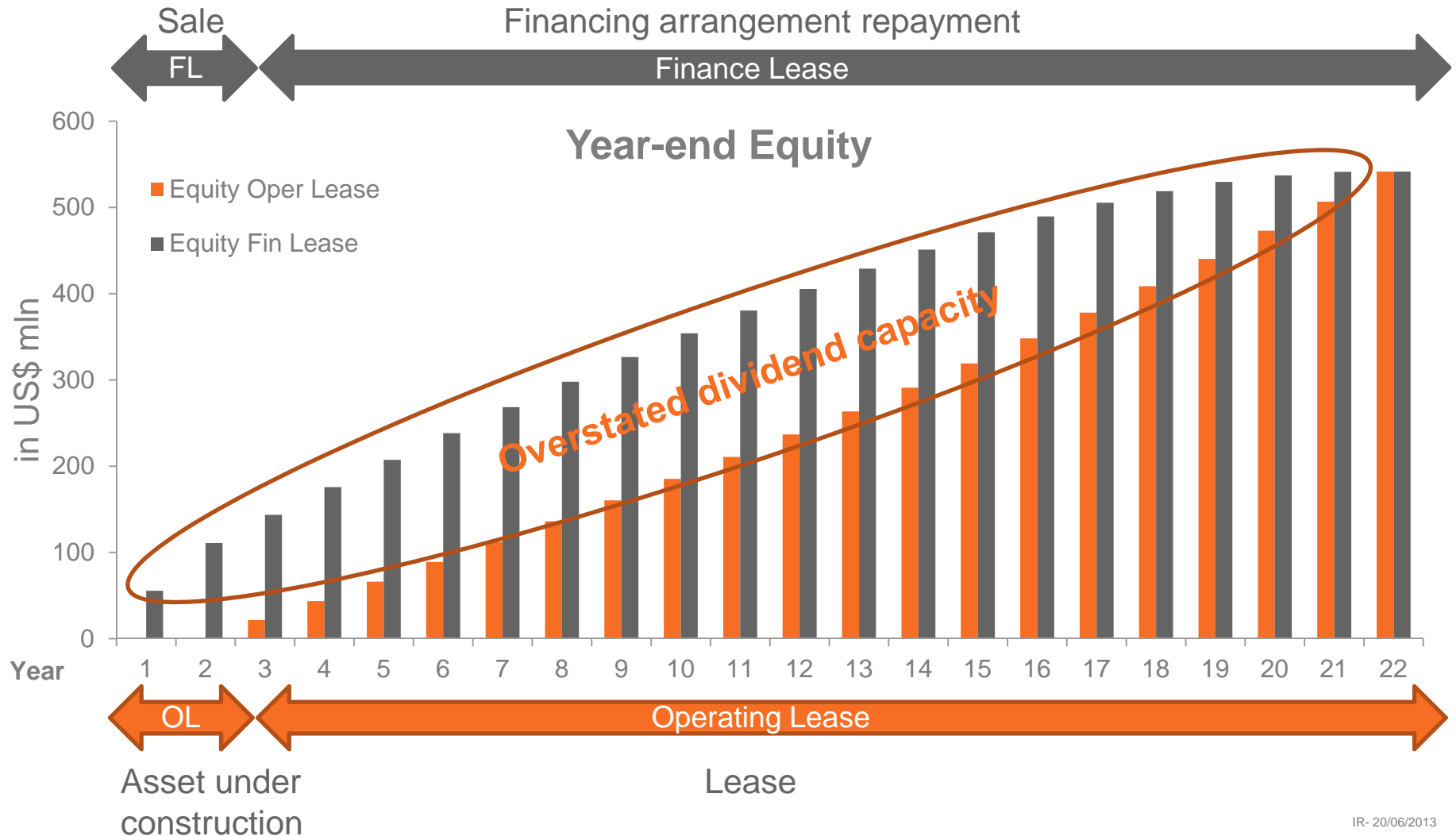


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# Operating Lease vs. Finance Lease



# Operating Lease vs. Finance Lease



# Consequences

- Total disconnect between P&L revenues and cash inflows
- Change of reporting segment: finance lease contracts are reported in Turnkey Segment during construction as transaction is considered a direct sale under IAS 17 and in Lease & Operate upon first oil:
  - ✓ Higher level of revenues and margins recognised upfront during construction period while the FPSO has yet to be commissioned
  - ✓ Lower revenues and EBITDA recognition during the lease period (client pays full day-rate, but only the financial interests associated with the financing arrangement are recognised as revenues and EBITDA)

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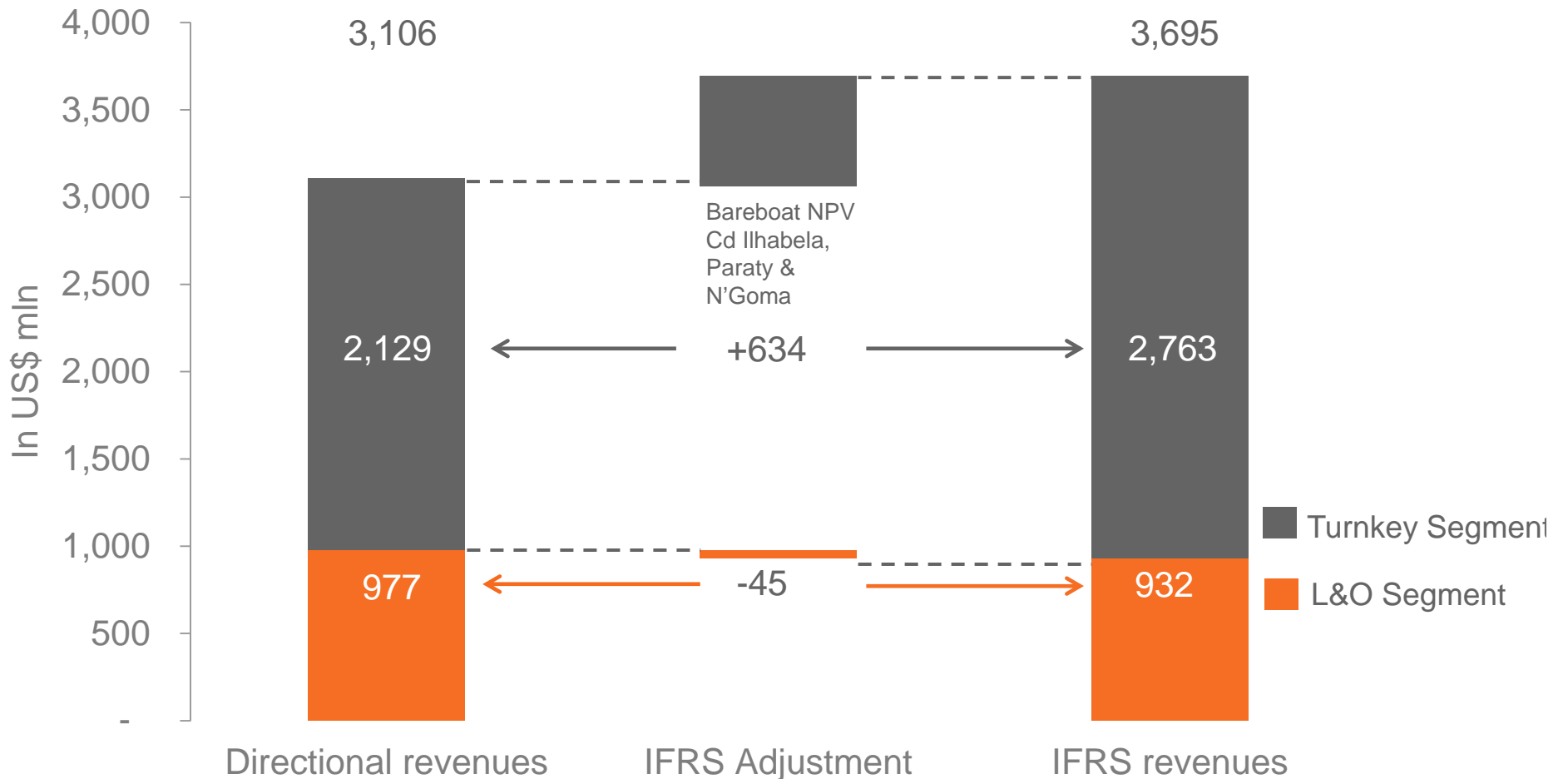
# Previous Steps to Clarify Lease Accounting

- Bottom up approach: SBM explained finance lease accounting in 2010 at the vessel level to analysts and shareholders
- Workshop in September 2010 with analysts
- Top-down approach: Since 2011, disclosure of turnover recognised with respect of Finance Leases in Turnkey and in Lease & Operate Segments
- February 2013: Directional Backlog as of 31 December 2012 disclosed
- May 2013: Directional Backlog as of 31 March 2013 disclosed



# Directional Reporting - Revenues FY 2012

Unaudited



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# Directional Reporting

Principles



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## Directional Philosophy

**Directional Reporting**  
**+**  
**IFRS Adjustment**  
**=**  
**IFRS**

# IFRS Scope Existing Contracts

Lease Contracts	FPSO under Construction	FPSO in Lease Period
Reported as Finance Lease contracts	FPSO N'Goma FPSO Cdde de Paraty FPSO Cdde de Ilhabela FPSO Cdde de Marica FPSO Cdde de Saquarema	FPSO Saxi FPSO Mondo FPSO Aseng
Reported as Operating Lease contracts	Deep Panuke	FPSO Cdde de Anchieta FPSO Capixaba FPSO Espirito Santo FPSO Brasil FPSO Marlim Sul FPSO Kikeh FPSO Kuito Thunderhawk Yetagun

# Impact of Directional Reporting

Lease Contracts	FPSO under Construction	FPSO in Lease Period
Reported as Finance Lease contracts		
Reported as Operating Lease contracts	FPSO N'Goma FPSO Cdde de Paraty FPSO Cdde de Ilhabela FPSO Cdde de Marica FPSO Cdde de Saquarema Deep Panuke	FPSO Saxi FPSO Mondo FPSO Aseng FPSO Cdde de Anchieta FPSO Capixaba FPSO Espirito Santo FPSO Brasil FPSO Marlim Sul FPSO Kikeh FPSO Kuito Thunderhawk Yetagun

# Directional Reporting Golden Rules

- Directional reporting is an additional disclosure to IFRS reporting
- Directional reporting assumes all lease contracts under the

## Operating lease standard

- Directional reporting is limited to restating revenue and operating income; no balance sheet restatements will be made
- Directional reporting to be included in the Financial Review and subject to external audit review

Directional reporting provides Turnkey and Lease & Operate Segments figures allowing sector wide comparison

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# Directional Reporting Process

- For all lease contracts: calculation of an operating lease contract P&L
- Revenue, gross margin and backlog stated according to operating lease classification
- Revenue in-line with contracts invoicing
- Directional reporting to be included in the Financial Review and subject to external audit review

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# Financial Market Authority Acceptance?

- Companies **must** report fully compliant IFRS results
- Companies **can** provide additional disclosures to improve investor understanding
- Precedents exist where non-IFRS disclosures take the lead





# Directional Reporting

Financials



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# Assumptions Example #1

- Capex: US\$ 1bn
- Financing: 40% Equity - 60% Debt
- Cost of debt: 6%
  
- Lease contract duration: 20 years
- Construction: 2 years
- Finance lease contract
  
- Project WACC: 10%
- Ownership: 100%

# Example #1- 100% SBM

Bareboat to invoice



US\$ bn

	Turnkey			Lease & Operate			Total		
	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS
Year 1	0.0	0.6	0.6	0	0	0	0.0	0.6	0.6
Year 2	0.0	0.6	0.6	0	0	0	0.0	0.6	0.6
Beyond Year 2	0.0	0	0	3	-1.2	1.8	3.0	-1.2	1.8
<b>Total</b>	<b>0.0</b>	<b>1.2</b>	<b>1.2</b>	<b>3</b>	<b>-1.2</b>	<b>1.8</b>	<b>3</b>	<b>0</b>	<b>3</b>



Bareboat Net Present Value



Financial interests associated with financing arrangement

## Assumptions Example #2

- Capex: US\$ 1bn
- Financing: 40% Equity - 60% Debt
- Cost of debt: 6%
  
- Lease contract duration: 20 years
- Construction: 2 years
- Project WACC: 10%
- Finance lease contract
  
- Ownership: 60% SBM
- Consolidation based on joint operation of the JV
- Sale price to JV: US\$ 1.1bn

# Example #2 - With 40% JV Partners

60% Bareboat to invoice



US\$ bn	Turnkey			Lease & Operate			Total		
	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS
Year 1	0.2	0.36	0.6	0	0	0	0.2	0.4	0.6
Year 2	0.2	0.36	0.6	0	0	0	0.2	0.4	0.6
Beyond Year 2	0.0	0	0	1.8	-0.7	1.1	1.8	-0.7	1.1
<b>Total</b>	<b>0.4</b>	<b>0.7</b>	<b>1.2</b>	<b>1.8</b>	<b>-0.7</b>	<b>1.1</b>	<b>2.24</b>	<b>0</b>	<b>2.24</b>



40% sale price to JV partners



60% Bareboat Net Present Value+ 40% sale price to JV partners



60 % Financial interests associated with financing arrangement

# Benefits of Directional View

- Turnkey Segment becomes a pure construction business. Revenues and Gross Margin consist of:
  - ✓ Direct sales contracts (FPSO OSX2, Prelude Turret, Quad Turret...)
  - ✓ Sales to JV partners (FPSO Cdd de Ilhabela, FPSO N'Goma, FPSO Cdd de Marica and Saquarema)
- Lease and Operate Segment becomes a pure long term cash business. Revenues and Gross Margin consist of:
  - ✓ SBM's share of Lease and Operate contracts (Bareboat + OPEX)

EBIT and EBITDA ratios make sense

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# Directional Backlog as of 31/03/2013

US\$ bn As of 31/03/13	Turnkey			Lease & Operate			Total		
	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS	Directional View	IFRS Adjustment	IFRS
Q2-Q4 2013	1.5	0.8	2.3	0.8	0.05	0.8	2.3	0.85	3.1
2014	1.4	1.2	2.6	1.1	-0.1	1.0	2.5	1.1	3.6
2015	0.7	0.8	1.5	1.1	-0.2	0.9	1.8	0.7	2.5
Beyond 2015	0.3	0.4	0.7	16.3	-5.0	11.3	16.6	-4.7	11.9
<b>Total</b>	<b>3.9</b>	<b>3.2</b>	<b>7.1</b>	<b>19.3</b>	<b>-5.3</b>	<b>14.0</b>	<b>23.2</b>	<b>-2.1</b>	<b>21.1</b>

Revenues for FL contracts under construction

Revenues already booked in Turnkey

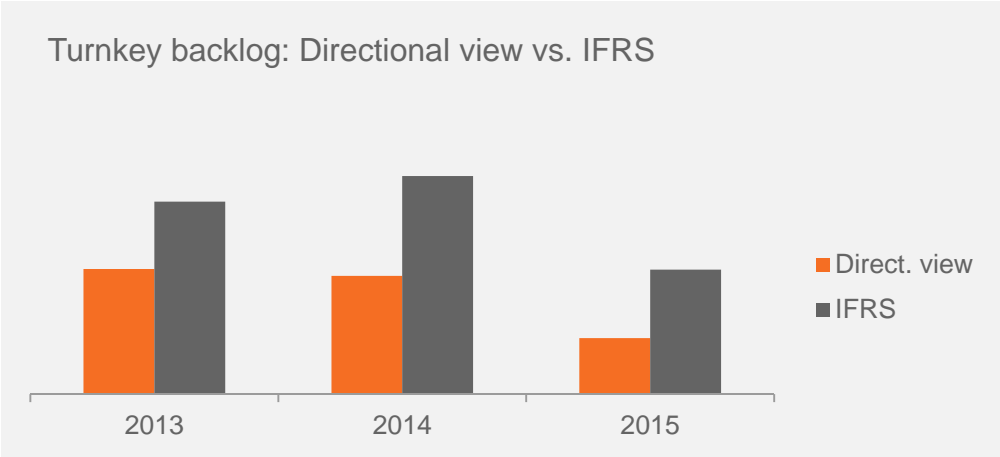
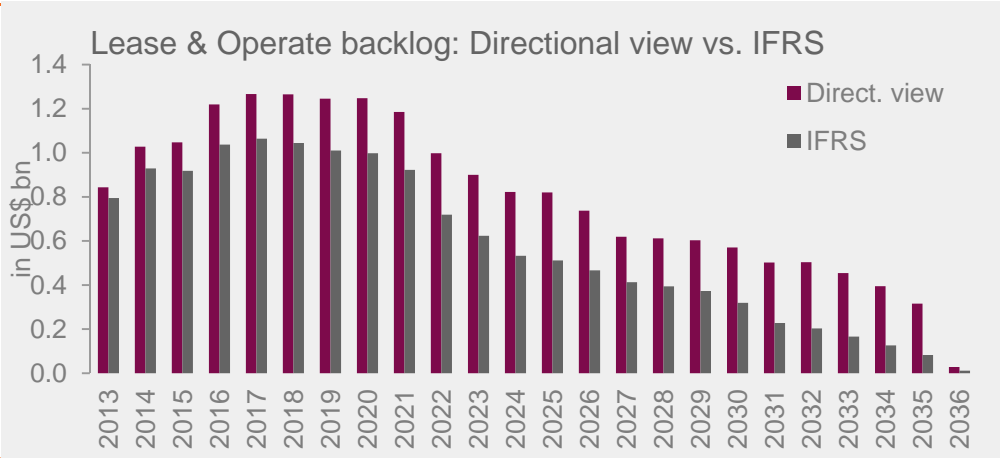
- US\$ 2.1bn revenues already booked under IFRS, but still to be invoiced
- US\$ 5.3bn revenues not yet invoiced to clients under Lease & Operate Segment
- US\$ 3.2bn anticipated revenues without concurrent cash inflows under Turnkey Segment

# Directional Backlog: Future Cash Inflows

US\$ 23.2bn



■ Lease & Operate  
■ Turnkey



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# Directional P&L - FY 2012 Unaudited

Unaudited

US\$ mln		FY 2012		
		Directional View	IFRS Adjustment	IFRS
Lease and Operate	Third parties revenues	977	-45	932
	Gross Margin	-313	14	-299
	Other operating income	0		0
	Selling and marketing expenses	-9		-9
	General and administrative expenses	-18		-18
	Research and development expenses	-1		-1
	<b>EBIT</b>	<b>-341</b>	<b>14</b>	<b>327</b>
Turnkey	Third parties revenues	2129	634	2763
	Gross Margin	319	103	422
	Other operating income	130		130
	Selling and marketing expenses	-41		-41
	General and administrative expenses	-62		-62
	Research and development expenses	-24		-24
	<b>EBIT</b>	<b>323</b>	<b>103</b>	<b>426</b>
Other	Other operating income	0		0
	Selling and marketing expenses			
	General and administrative expenses	-49		-49
	Research and development expenses			
<b>EBIT</b>	<b>-49</b>		<b>-49</b>	
<b>Total EBIT</b>		<b>-67</b>	<b>118</b>	<b>51</b>
Net financing costs				-87
Income tax expense				-39
<b>Profit/(Loss)</b>				<b>-75</b>
<b>EBIT</b>		<b>-67</b>	<b>118</b>	<b>51</b>
Depreciation, amortization and impairment		706	-59	647
<b>EBITDA</b>		<b>639</b>	<b>59</b>	<b>698</b>

Difference between financial interests and day-rates for Aseng, Saxi and Mondo

Depreciation gap

Revenues for FL contracts under construction: Cdd Ilhabela, Paraty and N'Goma Bareboat NPV

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# Directional P&L - Underlying FY 2012

Unaudited

US\$ mln		FY 2012		
		Directional View	IFRS Adjustment	IFRS
Lease and Operate	Third parties revenues	977	-45	932
	<i>Yme &amp; Deep Panuke Provision and impair.</i>	-627		-627
	Underlying Gross Margin	314	14	328
	Other operating income	0		0
	Selling and marketing expenses	-9		-9
	General and administrative expenses	-18		-18
	Research and development expenses	-1		-1
	<b>Underlying EBIT</b>	<b>286</b>	<b>14</b>	<b>300</b>
Turnkey	Third parties revenues	2129	634	2763
	Gross Margin	319	103	422
	Other operating income <i>(excluding Gusto and DI gains)</i>	2		2
	<i>Gusto and DI gains</i>	128		128
	Selling and marketing expenses	-41		-41
	General and administrative expenses	-62		-62
	Research and development expenses	-24		-24
	<b>Underlying EBIT</b>	<b>195</b>	<b>103</b>	<b>298</b>
Other	Other operating income	0		0
	Selling and marketing expenses			
	General and administrative expenses	-49		-49
	Research and development expenses			
	<b>EBIT</b>	<b>-49</b>		<b>-49</b>
	<b>Total Underlying EBIT</b>	<b>432</b>	<b>118</b>	<b>550</b>
	Total Exceptional items	-499		-499
	<b>Total EBIT</b>	<b>-67</b>	<b>118</b>	<b>51</b>
	<b>Underlying EBIT</b>	<b>432</b>	<b>118</b>	<b>550</b>
	Depreciation, amortization and impairment	279	-59	220
	<b>Underlying EBITDA</b>	<b>711</b>	<b>59</b>	<b>770</b>

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# Visible Impact

	In US\$ mln- 2012	IFRS view	Directional view
Unaudited	Revenue Lease & Operate	\$932	\$977
	Revenue Turnkey	\$2,763	\$2,129
	EBITDA	\$698	\$639
	EBIT (underlying)	\$550	\$432
	Earnings per share (underlying) in US\$	\$2.08	\$1.57
	P/E ratio year-end	6.66	8.86

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# The Way Forward

- Disclosure of Directional P&L statement and Backlog for H1 2013 and H1 2012 on August 7 with Half-Year results
- 2013 IFRS revenue outlook already provided, however both measures will be reported
- 2013 transition period to promote Directional reporting as the main indicator for Company performance and variance analysis
- 2014 guidance for Directional results
- Future dividend policy derived from Directional results



# Q&A Session

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# Key Takeaways

- Directional Turnkey results are consistent, linked to cash inflows and comparable to EPC peers
- Directional Lease and Operate results are aligned with cash inflows
- SBM outlook and dividend policy will be based on the directional view

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# Thank You!

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# Notes