



SBM OFFSHORE  
GENERAL SHAREHOLDERS' MEETING

HILTON – ROTTERDAM  
Thursday 14<sup>th</sup> May, 2009

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## **Introduction**

Ladies and Gentlemen,

We are pleased to meet with you today to present this summary report on the performance of the Company last year and to describe the current business situation and how this may affect our future.

Last year had both positive and negative aspects. We have seen record turnover and our order backlog reached a new high. The lease fleet and our services business continued to provide excellent results. The turn-key business suffered from more cost pressures leading to the profit warning in July and a disappointing year end net profit. The Company was very busy with the execution of several major projects, which kept the Group companies working at a high level of activity. This has enabled the Company to continue its progression into the big league with respect to the execution of large projects.

A major external event which of course has dominated 2008 has been the rapid development of a world recession following the banking and credit crisis, which has led to a decline in the oil price. This has a direct effect on the Company's business and we have seen a slow down in the award of new orders during the last half year, but our large order backlog puts us in a relatively secure position.

I am pleased to report that our safety record improved compared to the prior years and was better than the industry average.

In this summary report, we will firstly review the closing financial statements and the major operational events in 2008. Then, we will examine 2009 and how the year has developed so far and what is expected in the short term. Finally, we will assess the mid to long term perspectives and describe how we see the market developing.

## **Financial 2008**

The profit for 2008 was US\$ 227.9 million, a 14.6% decrease in comparison with the profit in 2007. This financial result was disappointing considering that the Company started the year with a record high order book, and in earlier years had generally been able to outperform initial guidance. We had to issue a profit warning in July when it was realized that the 2008 forecast would not be achieved. The final annual result is slightly above the revised forecast figure.

Much focus has been placed on understanding the underlying problems on the two large FPSO projects on which we suffered significant cost overruns. Independent consultants were engaged to assist us in identifying the reasons which mainly boiled down to the following two main causes, which occurred in the bidding phase of the projects :-

- Firstly, the estimated sales price bid to the client was not backed up by a sufficient level of firm bids from qualified suppliers/subcontractors and was not compatible with contractual requirements. In the context of the overheated market during 2006, 2007 and 2008 where all input prices were rising rapidly, major budget overruns were experienced on many external cost packages;
- Secondly, the estimated delivery schedule for the project was based upon previous experience and did not anticipate lengthening delivery times from vendors and yards. The Company was therefore faced with a situation where its original execution plan could not be met and work had to be performed out of sequence, sometimes re-performed, and without an accurate estimate of remaining activities to achieve project completion. Furthermore, in an attempt to maintain a reasonable delivery schedule for the FPSO, acceleration costs were incurred in the latter stages of the project execution which proved to be difficult to forecast.

As a consequence of these problems, we have implemented enhanced procedures and controls to ensure that project execution performance returns to the level that the Company has traditionally achieved. In addition, Risk Management has been separated from Quality Assurance and a dedicated Risk Management team reporting to the Management Board has been established. The Internal Audit team is also being expanded to provide enhanced assurance on compliance with the policies and procedures.

New orders awarded in the year totaled US\$ 4,365 billion compared to US\$ 3,822 billion in 2007. Total order portfolio at the end of the year was a new record of US\$ 9,247 billion, an increase of 16.2% compared to the end of 2007.

Turnover increased to US\$ 3,060 billion, a 6.6% increase in comparison with 2007.

We have proposed to maintain the dividend at \$0.93 per share, the same level as in 2007, reflecting our confidence in the company's future. This dividend represents an exceptional pay-out ratio of 60 percent of net profit, deviating from our usual policy.

### **Operational Activities 2008**

The Lease segment has had a very busy year with several developments.

An order was received from Petrobras for the relocation of the Company's existing FPSO Capixaba from the Golfinho field offshore Brazil, where it is currently operating to a new Cachalote field offshore Brazil. The FPSO Capixaba will be disconnected from its current location and after modification and upgrade in Singapore this year will be installed on the Cachalote field early next year.

Two new FPSOs, the Mondo and the Saxi Batuque, joined the fleet and started operation in the Kizomba 'C' field offshore Angola for Exxon Mobil.

At the end of the year, the new FPSO Espirito Santo was hooked-up in the BC-10 field offshore Brazil for Shell.

Two of our older existing FPSOs were purchased by our clients during the year - the FPSO Mystras in Nigeria by Agip and the FPSO Tantawan Explorer in Thailand by Chevron Offshore Thailand Ltd. The FPSO Rang Dong I in Vietnam has been redelivered to the Company by Japan Vietnam Petroleum Company Ltd (JVPC) at the end of its lease. The unit has been disconnected and decommissioned and is currently laid up. Finally, the FSO Okha has been redelivered to the Company by Sakhalin Energy Investment Company Ltd (SEIC). The FSO will be converted into a FPSO for Woodside Energy Limited.

Three new production units are still in the preparation phase. The Semi-Submersible production unit Thunder Hawk has been installed in the Gulf of Mexico and first oil production is expected mid 2009. The MOPUSTOR platform for Talisman Energy Norge AS is under construction in Abu Dhabi and scheduled for completion this summer. Some delays and increased costs have been encountered with the construction of the platform due to the implementation of modifications to meet Norwegian regulations. The platform will be transported to Norway for installation offshore in Q4 2009. The EnCana Deep Panuke Production MOPU is in construction in Abu Dhabi. On completion the unit will be shipped to Canada for offshore installation and first production is scheduled in Q4 2010

The turnkey segment was also very active. Three major orders were obtained:-

The supply of the FPSO P-57 for Petrobras for installation on the Jubarte field offshore Brazil. The VLCC tanker 'Accord', from the Company's inventory, is currently being converted in Singapore, where part of the fabrication is being done with the remainder to be executed in Brazil. The project is proceeding according to plan and the delivery of the unit is scheduled for the end of 2010.

The supply of a disconnectable FPSO for Woodside Energy Ltd for installation on the Cossack field offshore Australia. The Company owned FSO Okha is being converted into the FPSO in Singapore. This project is also proceeding according to plan with the FPSO scheduled for completion in late 2010.

A call off frame contract for the supply of FPSOs has been obtained from BP Angola for a deepwater development program offshore Angola. We had been expecting the call off for the first full FPSO in 2009, however BP has informed us that this will no longer be the case and the award is postponed to a later date. Subsequent FPSOs may be called off subject to future project sanctions. As a consequence of this contract postponement, we have put on hold any further investment in the SBM/Sonangol JV construction yard in Angola. Further investment to finalise the yard will commence once a FPSO contract has been obtained. In the meantime, the yard will be occupied with third party construction work.

On the major turnkey projects currently in progress, we have a large turret mooring system under construction for BP for their Skarv FPSO due for delivery this year and early 2010 and three dynamically positioned semi-submersible drilling units are also under construction. These drilling rigs projects have suffered from engineering delays and more recently a fire on the first unit, which have caused schedule and cost increases. The rigs are scheduled for delivery in Q4 this year and Q1 and Q3 2010 respectively.

## **Stock Performance**

Our stock market performance was poor with the share price decreasing very significantly over the year. The performance was however very close to the AEX index and comparable to our peers. The share transaction turnover increased to 3.1 times the total number outstanding compared with 2.4 times in 2007. According to information provided by the largest banks and financial institutions, the shares are mainly in the hands of institutional investors, of whom the large majority are Anglo-American.

## **2009 Expectation**

The effect of the low oil price on the Company's business is that the sanction of new oil/gas field developments may in some cases be either postponed or even cancelled while the lower oil price regime remains. In fact the level of bidding for new prospects remains as high as before and several bids both for leased production units and turnkey sales have already been made and are expected to be made during the year, with project opportunities in Brazil and West Africa. We are hopeful of being awarded two significant FPSO contracts this year in addition to a reasonable number of smaller orders.

The Company is in a strong position in its market sector and we are well placed to respond to the expected upturn in business in the mid term. The current business environment and uncertain market conditions in respect of new orders as well as continuing difficulties on delivering of some of our current projects make a firm full year forecast difficult at this time.

Our net profit for 2009 is expected to be in the range of the 2008 result. Variations to this outlook would result from delays in award of new contracts as well as the outcome of negotiations concerning major claims and variation orders within the year. EBIT margins for the Turnkey Systems and Services segment are expected to be within the 5%-10% range. Lease and Operate activities are performing strongly. EBIT is expected to be below the 2008 level, due to exceptional operating losses on the Company's inventory of oil tankers, the sale as well as the termination of the MOPU/FSO Oguzhan charter in Turkmenistan and the later commencement of the charters of the Thunderhawk semi-submersible and Talisman MOPUstor platforms.

The Company has a robust financial structure which will enable it to operate satisfactorily through 2009 and we are confident that our relationship banks will be available to support the financing needs for the Company's ongoing projects during the year. The Company's gearing and other balance sheet ratios significant for our banking covenants were all more than comfortably met at year end.

## **Mid to Long term**

Development of new products and technology remains at the heart of the Company's growth strategy. The major focus of the present R&D effort is on deepwater floating production and other frontier areas such as the arctic, as well as systems for the LNG supply chain. Recent political developments have given a significant push for renewable energy, including offshore wind and wave power, and continued expansion of the Company's R&D efforts is planned in this sector. R&D expenditures amounted to US\$ 21 million in 2008. A similarly high level of R&D expenditure will be maintained during 2009.

Current R&D activities include:

Deepwater systems :-

- Steel catenary risers;
- Tension Leg Platform depth extension;
- Mooring systems.

LNG Production, transfer and storage systems including :-

- Floating production of LNG;
- Floating storage and regasification;
- LNG hose.

Renewable energy systems:

- Offshore wind turbine installation jack-ups;
- Offshore wind turbine transportation vessels;
- Wave energy conversion farms;

The most important project is the LNG FPSO which is a cost effective means to develop gas reserves that are stranded (remotely offshore) or impractical or uneconomic for development by means of traditional schemes (pipeline export or onshore liquefaction). During 2008 together with Linde Engineering, our partner, in addition to finalising the basic design of the LNG FPSO, we have developed the project execution plan in detail with relevant shipyard building slots for the hull that would permit a four year time schedule to first LNG production. Concurrently, extensive marketing activities have continued with the development of a short list of realistic project opportunities. Our objectives during 2009 are to develop a business opportunity with the start and execution of a field/project specific front end engineering design study for a client, being one of the major steps in the route to the sanction of an LNG FPSO.

## **Conclusion**

We expect that the demand for our products and services will remain strong in the medium to long term due to the necessary increasing development of deepwater oil and gas reserves to meet world energy requirements. We are developing further innovative technology to meet these future needs. We continue to aim for steady growth, sustaining our market leader position as a service provider and reliable partner for our clients.

We are convinced that the Company has a robust business model, as has been demonstrated by past performance, providing attractive returns to you our shareholders.

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THANK YOU.