

MESSAGE FROM THE CEO



The downturn in our largest market, oil and gas services, continued unabated in 2016, with negative impact on work volumes and prices. We adapted our capacity and cost base, further strengthened our market positions and reorganised to serve clients better and more efficiently, while achieving satisfactory results in our building & infrastructure and power related activities. As a result, further supported by disposals, we again generated substantial cash flow from operating activities after investments and significantly reduced net debt.

Dear reader,

The oil and gas services market, from which we generate the majority of our revenue, declined sharply as our clients further reduced their spending in a continuing low oil price environment. Oil and gas company spending declined by around 25%, a similar decline as in 2015. This negatively impacted work volumes and pricing.

Cash generation continues to be our number one priority. We further strengthened market share, adapted our resource and cost base in line with demand, held back on investments and improved working capital. As a result cash flow from operations after investments was positive, also excluding the proceeds from asset disposals, and net debt was significantly reduced. To further strengthen the balance sheet, we successfully placed subordinated convertible bonds in October.

Even though we reduced our capacity in line with demand, this could not offset the price erosion in a challenging, oversupplied market. As a result EBIT (excluding exceptional items) declined and we ended 2016 just above breakeven.

Towards the end of the year the then main shareholder Boskalis significantly reduced its stake.

Operating responsibly is key to our long term success. Working safely is a priority in this regard. Sadly, we had to report a fatality in 2016, and we experienced a drop in safety performance, which we will address vigorously in 2017.

For our oil and gas services market we anticipate a further decline in our clients' spending for 2017, but less severe than in 2015 and 2016. This view is supported by gradual stabilisation of our backlog during the second half of 2016.

MEASURES

In the second quarter of 2014, at the start of the downturn in the oil and gas market, Fugro initiated a programme of measures to reduce cost and to improve profitability and cash flow. We continued to implement cost reduction measures during 2016, also taking into account that we are likely dealing with a 'lower for longer' oil and gas services market.

Headcount was further reduced by 1,430 people (12% of total personnel) and the vessel fleet by 5. Capex expenditure was curtailed from EUR 161 million in 2015 to

EUR 93 million. We also managed to reduce working capital by reducing days revenue outstanding to 92 versus 102 at the end of 2015.

The positive cash flow from operating activities after investments resulted in a significant reduction of net debt from EUR 535 million to EUR 351 million. In addition, we supported our balance sheet by the placement of EUR 190 million subordinated convertible bonds. The proceeds were fully used for early repayment on the United States private placement loans. As the related bond amount and interest costs are excluded from the covenant ratios, this has resulted in additional headroom, in addition to reduced interest expense and increased financial flexibility.

OUR ROLE IN SOCIETY

Our purpose is to be a long term sustainable company that contributes to a safe and liveable world.

Population growth and increasing wealth drive the positive long term outlook for our building & infrastructure, power, oil & gas and mining markets. This provides a solid foundation on which we can grow in a sustainable, responsible manner and continue to create value for all our stakeholders.

For Fugro, key elements to operating responsibly over the long term are:

- Operating from a solid financial base and generating adequate returns.
- Providing services that support sustainable development of the built environment and natural resources.
- Working safely and to high standards.
- Working with well trained, motivated, diverse and predominantly local employees.
- Operating with integrity.
- Building and leveraging our knowledge base.
- Minimising our environmental footprint.

STRATEGY

In 2015 we announced that during 2016 we would align the organisation to improve client focus and efficiency and better leverage our technical capabilities and market positions. In the early phases of the life cycle of their assets and natural resource developments, clients now routinely seek integrated geo-intelligence based site characterisation services rather than separate services. We are seeing a similar development for asset integrity services in the later phases.

To more effectively provide these solutions, we decided to regroup the geotechnical, survey and subsea services activities into Marine and Land divisions, with each division having two business lines: Site Characterisation and Asset Integrity. This allows us to better leverage synergies between the services we provide, and, most importantly, provide a superior integrated service to our clients.

In 2016, we were not successful with implementing the planned portfolio changes due to the difficult oil and gas services market. In particular we halted the planned divestment of the Asia Pacific subsea services business to Shelf Subsea. Based on a review of our portfolio in light of the new business lines and divisions, we decided to integrate the subsea inspection, repair and maintenance services with other survey activities to become the core of the new Asset Integrity business line within the Marine division. For the installation and construction related activities, which do not fit our asset integrity solutions strategy, we will continue to pursue opportunities for partnership or divestment. Furthermore, we have decided to retain the Fugro Synergy and fully utilise the vessel for geotechnical operations instead of also supporting well services work.

In order to address the changing market, Fugro has reduced the number of divisions, and as a consequence has decided to adjust the size of the Board of Management accordingly. It has therefore been decided that Steve Thomson will not be nominated for reappointment at the annual general meeting in May 2017. On behalf of the Board of Management and all his colleagues, I want to thank Steve for his many contributions to building and shaping Fugro. Steve joined Fugro through an acquisition in 2000, joined the Executive Committee in 2006, and served the last 4 years as member of the Board of Management and Director of the Subsea Services and Geoscience divisions. We wish him all the best in pursuing his interests and career outside of Fugro.

In 2016 we have seen our investments in innovation pay off with the successful launch of a range of new innovative and proprietary solutions for marine and land survey as well as geotechnical applications and nodal seabed seismic data acquisition systems.

We will continue to pursue a better balance between the markets we serve by, over time, increasing revenues from markets other than oil and gas. This strategy is supported by continued rapid population growth, massive urbanisation in coastal areas and the energy transition. Sustainable development will require huge investments in infrastructure,

renewable power, water management and minerals; all areas where Fugro can provide its solutions. At the same time, we will continue to benefit for a long time from our activities in oil and gas. Global energy demand is of such a magnitude that the growth of renewables is, according to most predictions, not even able to cover energy demand growth in the medium term. Hence, energy from fossil fuels will continue to dominate for years to come.

PRIORITIES FOR 2017

During the first half of 2017, the market for offshore related oil and gas services is expected to show a further significant decline. Towards the latter part of the year it is expected to bottom out as oil and gas companies move from a cost savings mode to cautious preparations for new investments. This is based on a more positive outlook on the oil market as the process of working excess supply out of the market has begun. This is caused by falling production as a result of years of underinvestment, supply discipline by OPEC and still increasing demand. In addition, significant price reductions and efficiency gains are being achieved throughout the supply chain. This makes projects, including offshore, economically feasible at significantly lower oil price levels. This is expected to spur project approvals.

Today, the overcapacity in the oil services market is still significant. Hence we are assuming a 'lower for longer' scenario and will continue to take measures as needed until market capacity comes into balance and prices start to improve.

In terms of strategy, we took a major step forward in 2016 with our move to a more client centric, effective organisation. In 2017 we will complete this transformation in order to reap the benefits in full. Further, we will put more emphasis on the next strategic phase, which is to create a platform for growth in our building & infrastructure, power and mining markets. Our objective is to develop a more balanced portfolio of activities over time, making us less dependent on the oil and gas services market.

Successful implementation of our strategy is the key to the long term, sustainable development of Fugro, which requires that we operate responsibly, from the perspective of all our stakeholders. In this report we take another step forward with improved reporting on key non-financial topics and responsibilities that are important to Fugro and our stakeholders. A key focus area for 2017 is to improve safety performance.

The challenging market circumstances that Fugro has been experiencing during the past three years have put a lot of pressure on everybody within the company. On behalf of the Board of Management I want to thank all Fugro colleagues for their dedication and perseverance. Even in this market, we have made significant progress in strengthening Team Fugro. No doubt 2017 will bring new opportunities to continue to build Fugro into an ever better company that contributes to a safe and liveable world.



Paul van Riel
Chairman of the Board of Management
Chief Executive Officer