Annual report 2018
Aurelia Energy N.V.

Contents

Director’s report

Aurelia Energy N.V. (the “Company”) has its legal seat in Willemstad (Curaçao). The Company’s principal activity is to act as a holding company for the Bluewater group. The consolidated financial statements of the Company as at and for the year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group” or “Bluewater” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The Group is primarily engaged in the supply of services and products to the oil industry. Bluewater designs, develops, owns and operates floating production storage and offloading units (“FPSOs”), provides auxiliary equipment and services to FPSOs and designs, develops and manages the construction of single point mooring systems (“SPMs”). Bluewater has an FPSO fleet consisting of 5 high specification FPSOs that are or will be operated under medium- to long-term service agreements or bareboat charter agreements with reputable oil companies. Currently Bluewater has FPSOs in operation on the UK Continental Shelf.

Business performance

The net result after tax for the year 2018 amounted to a profit of U.S.$24.5 million compared to a profit of U.S.$4.7 million for the year 2017. EBITDA for the year 2018 was U.S.$207.2 million compared to U.S.$155.6 million for the year 2017. The financial results of 2018 were mainly impacted by the following items:

The SPM division generated U.S.$62.3 million EBITDA for the year 2018 compared to U.S.$35.6 million EBITDA for the year 2017. In 2018, various EPC projects contributed to the SPM EBITDA while in 2017 the running SPM projects were either in design or in final stages, resulting in lower EBITDA.

The 2018 EBITDA for the FPSO division was U.S.$143.0 million compared to U.S.$128.2 million EBITDA for the year 2017. The U.S.$14.8 million increase in EBITDA compared to the year 2017 was mainly driven by an increase in EBITDA of the FPSO Haewene Brim of U.S.$12.8 million. In November 2018 the Company reached settlement with Shell on adjustment of the contractual hire rates and operational rates effective January 1, 2017 retrospectively. There was an increase in EBITDA of the FPSO Bleo Holm of U.S.$2.1 million due to higher production income in the year 2018 compared to the year 2017. In addition, there was a U.S.$1.5 million increase in EBITDA for the FPSO Aoka Mizu. During a large part of the year 2017 the vessel was in lay-up and U.S.$1.5 million lay-up cost were expensed, while during the year 2018 the vessel was under construction and all expenses are part of the project. There was a decrease in EBITDA of the FPSO Glas Dowr of U.S.$0.7 million due to higher lay-up costs compared to the year 2017, set off by U.S.$0.2 lower lay-up costs for the Munin. Finally the FPSO tender costs increased with U.S.$1.2 million in the year 2018, due to the increase in number of tender prospects in 2018.

During the year 2018, unallocated income amounted to U.S.$1.2 million, compared to U.S.$8.1 million expenses for the year 2017. The main contributor to the improved overhead recovery in the year 2018 compared to year 2017 was the higher project activity and higher utilisation of engineering and project management staff.

Depreciation and amortization expenditure in the year 2018 amounted to U.S.$107.1 million compared to U.S.$107.7 million for the year 2017. This U.S.$0.6 million decrease in depreciation costs was mainly caused by lower depreciation costs of FPSO Haewene Brim. The Topsides of FPSO Haewene Brim were fully depreciated during the year 2017.

Finance expenses were U.S.$13.9 million higher compared to the previous year, at U.S.$70.1 million versus U.S.$56.2 million for the year 2017. This increase in finance expenses was mainly driven by an increase of U.S.$15.6 million in the refinancing of the bond and the higher interest expenses of the bond. Effective November 28, 2018 the Company issued a U.S.$240.0 million unsecured bond. On the same date the existing bond was called and redemption took place on December 28, 2018. A call premium was paid in the amount of U.S.$6.8 million and U.S.$1.8 million of outstanding debt arrangement fees in relation to the old bond were expensed. The interest costs of the bond increased with U.S.$7.5 million in the year 2018 compared to the year 2017 of which U.S.$5.5 million was related to an increase in payment in kind interest compared to the year

2017. The debt arrangement fees of in total U.S.$18.2 million for financing of the U.S.$240.0 million unsecured bond were amortized for an amount of U.S.$0.3 million.
In addition the increase in finance expenses was driven by the Hurricane overrun finance facility expenses which in total increased U.S.$1.6 million in the year 2018 compared to the year 2017. Other interest costs decreased by U.S.$3.3 million compared to the previous year, mainly due to further reduction of net debt.

Currency exchange results were U.S.$4.1 million negative in the year 2018 compared to U.S.$2.1 million negative in the year 2017. The significant decrease in the value of the U.S. Dollar against the Euro and Pound Sterling has led to negative exchange results in the year 2018. The currency exchange rate moved from EUR/USD 1.20 and GBP/USD 1.35 at the beginning of the year to EUR/USD 1.14 and GBP/USD 1.27 at the end of the year 2018. Because the Company's revenues are primarily denominated in U.S. dollar and a part of the expenses is in EUR and GBP, the Company is exposed to fluctuations in foreign currency exchange rates. Only part of the currency exposure is hedged by the Company.

Income tax expense for the year 2018 amounted U.S.$2.6 million versus U.S.$14.3 million income tax benefit for the year 2017. The U.S.$2.6 million income tax expense in the year 2018 relates to a U.S.$2.9 million decrease in the deferred tax asset and an income tax benefit of U.S.$0.2 million as a result of the reversal of withholding tax accrual in Angola. The decrease of the deferred tax asset is as a result of a lower tax rate ("VPB") in the Netherlands in the coming years, partially offset by recognition of temporary valuation differences regarding property plant and equipment which were previously not recorded. The U.S.$14.3 million income tax benefit in the year 2017 relates to a U.S.$12.7 million increase in the deferred tax asset and the remainder of U.S.$1.6 million mainly relates to refunds as a result of recalculation of Glas Dowr corporate income tax paid in prior years.

The Directors will retain its right for a dividend distribution over the years 2017 and/or 2018, in accordance with the finance documentation and applicable legislative requirements.

Other developments

On May 29, 2018 a contract with a client was signed for the design, construction and delivery of a CALM buoy with expected delivery in Q1, 2020.

Effective November 28, 2018 the Company issued a U.S.$240.0 million unsecured bond with a fixed interest rate of 10% per year and a maturity date of November 28, 2023. On the same date the existing U.S.$400.0 million bond was called and redemption took place on December 28, 2018. The total fees amounting to U.S.$18.2 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility.

Effective December 17, 2018 the Company entered into a U.S.$220.0 million Revolving Credit Facility. Interest on the U.S.$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3% margin per annum and the maturity date is March 31, 2021. Total fees in relation to the Revolving Credit Facility amounting to U.S.$5.2 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility.

Outlook

The outlook for the year 2019 looks promising for the company. The increase in the oil price and the economic upturn has led to multiple interests in both assets held for conversion as well as for SPM opportunities. Bluewater has started with paid preparatory studies for these FPSO's. Also the interest of our clients in the SPM segment has significantly increased.

Investments

The company is currently in discussion on new investments for the exploration of oil fields in the South America's. Bluewater is in these discussion a member of a consortium.

Financing
The company has been able to refinance with a Revolving Credit facility and an unsecured bond loan as discussed in Note 20 to the Annual Accounts. No significant changes are anticipated in the near future with regards to the financing of the company. Given the current business outlook and the liquidity forecast Bluewater expects to have sufficient funds to continue its operations for at least the coming years.

Work force
The company will continue to employ temporarily staff to be able cooperate with the current levels of work. This flexible non-core workforce will enable Bluewater to adapt is staffing to the require work load. Furthermore there are no significant changes to be expected in the permanent work force.

Research & Developments
Bluewater will continue to explore new ways to generate energy, as she has done in the past. Therefore Bluewater will participate with other companies in research and developments groups.

Risk management

The Offshore Energy industry and the execution of the Company's strategy expose the Company to a number of business risks. The paragraph below summarizes identified significant risks and the Company's response to them.

Compliance risk:

Financial reporting
The company operates in different parts of the world, sometimes differing in accounting policies and local reporting requirements. This exposes to the risk of reporting figures that are not in line with the group's IFRS framework, which may lead to an impact on reported figures. To mitigate this risk Bluewater depends on the local advisors for tax and reporting guidelines.

Strategic risk:

Crude oil price dependency
Whilst the oil price has begun to recover steadily since 2017 onwards and signals of a turnaround of the industry are positive, dependency on the oil price remains an inherent Company risk. The Company continues to be mindful of this dependency over the long-term, where a negative development with delays or cancellations of planned investments could lead to a severe effect on Company's new order intake.

Although Company's business model allows for a stable cash flow from the Floating Production segment, cost optimization and de-risking remains a priority for the Company in order to offer highly competitive solutions to our clients. To drive better performance and faster, the Company is undertaking multiple initiatives in relation to digitalization and standardization, along with early engagement with clients and partnering in the supply chain.

Operational risk:

Project execution risk
Inherent project execution risks require continuous oversight and control. This inherent risk exists due to a combination of geopolitical country risk, challenging regulatory environment, technical risk (such as related to technical specifications and harsh environments), asset integrity risks and third party management risks leading to potential negative impact on people, reputation, cost, schedule and environment. Managing project execution risk is part of Bluewater's core competence and embedded in Bluewater's business processes and ways of working. Proper business case analysis, suitable project management capabilities and capacities combined with Bluewater's professional ways of working, processes and procedures mitigate project execution risk. Additional risk mitigating measures are in place related to knowledge and understanding

of the countries of project execution and delivery.

Operational risks

Cyber Security Risks and data protection

In order to carry out its activities, Bluewater relies on information and data, much of which is confidential or proprietary, that is stored and processed in electronic format. Potential intrusion into the Company's data systems hosted on servers and offshore equipment may affect office activities and offshore operations. Secondary risks include theft of proprietary and confidential information, with potential loss of competitiveness and business interruption.

Given the evolving nature of cyber security threats, this requires continuous focus. There is a dedicated ongoing improvement campaign in order to reduce the risk profile through investments in hardware, software and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognised standards is periodically subject to independent testing and audits.

Financial risk:

Access to capital

Access to multiple sources of debt and funding is necessary in order to entertain a sustainable growth of Bluewater's leased FPSO fleet and SPM projects.

Failure to obtain such financing could hamper growth for the Company and ultimately prevent it from taking on new projects that could adversely affect the Company's business results and financial condition.

The Company maintains an adequate capital structure and cash at hand. The Company has access to a Revolving Credit Facility (RCF) and both the cash and the RCF can be used to finance investments in new projects. From a long-term perspective, adequate access to debt funding is secured through the unsecured bond and use of long-term project financing for each Lease and Operate contract. Debt funding is sourced from multiple markets such as international project finance banks.

Financial risk:

Covenants

Financial covenants need to be met with the Company's RCF lenders. Failure to maintain financial covenants may adversely affect the Company's ability to finance its activities.

The Revolving Credit Facility (RCF) contains a set of financial covenants. The Company aims to have sufficient headroom in relation to the financial ratios. The covenants are monitored continuously, with a short-term and a long-term horizon.

Compliance Risk:

Changes in applicable Laws and Regulations

Bluewater's activities are carried out in compliance with Laws and Regulations valid in the relevant territory, including international protocols or conventions, which apply to the specific segment of operation. Changes to such regulatory frameworks, including changes in enforcement strategies by local regulators if not properly identified and implemented may expose the Company to fines, sanctions or penalties. Moreover, changes to the applicable 'local content' requirements may expose the Company to additional costs or delays and affect the proposed execution methods for projects.

Rigorous, continuous monitoring of applicable laws and regulations is constantly carried out by relevant functions within Bluewater and substantive changes are brought to the attention of Management. Compliance is enforced across all the various operating segments within the Company.

None of the above listed risks materialized during financial year 2018.

Company Appetite for Risks

The Risk Appetite Statement 2018 describes the boundaries within which Bluewater is willing to take risks in pursuit of its strategic objectives. Both the Management and Supervisory Boards review the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities.
The underlying risk appetite metrics and boundary thresholds include sections on financial, strategic, operational and technological risks. The Management and Supervisory Board Audit and Finance Committee reviews these regularly. The Company has two explicit 'zero tolerance' criteria:

In relation to Safety Management:
Bluewater has zero tolerance for harm to people or for damage to its assets or the environment in the execution of its activities.

In relation to Compliance:
Bluewater has zero tolerance for non-compliance with the Bluewater Anti Bribery & Corruption Policy, and any related applicable laws and regulations. The Company will not work with business partners, contractors, vendors and clients:

- The Company will not work with business partners, contractors, vendors and clients whose decision makers/company executive leaders do not share the same (core) values and fundamental business principles as Bluewater.

The most significant elements of the Company's Risk Appetite Statement are:

- Bluewater has no appetite for excessive commercial risk taking in Turnkey, nor in its Lease and Operate segment. Prospects within the acceptability range shall be subject to detailed risk analysis and an individual business case.
- Bluewater has limited appetite to engage with vendors which rate unsatisfactory as a result of detailed financial health checks
- Bluewater is cautious in managing risk in pursuit of any non-traditional FPSO-related commercial opportunities in the oil segment. Every proposal in this segment is subject to a detailed risk analysis and robust business case.
- Bluewater is cautious in managing risk related to pre-completion funding of its projects. The Company manages its financial risks in order to provide adequate shareholder returns whilst at the same time ensuring that it maintains sufficient liquidity to fund new investments to secure profitable growth.
- Bluewater is cautious in managing risk related to client counterparty.
- Bluewater is cautious in managing risk from operations, such as those related to its resource capacity to execute projects.
- Bluewater is cautious in managing risk related to adoption of new technologies.

Financial instruments
With most of its revenue in US dollars Bluewater is exposed to currency exchange fluctuations. In addition, Bluewater is exposed to the risk of fluctuations of the value of financial instruments due to changes in the market rate of interest. Bluewater uses (in the normal course of business) various types of financial instruments with the objective to minimize these currency risk. Procedures and policies are in place to control risks related to financial instruments, including a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used. Bluewater's management is involved in the risk management process. Bluewater attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it believes to be creditworthy.

Research and development

Bluewater focuses its research and development activities on technology that is integrated in our FPSO and SPM businesses. We have an in-house design and engineering team consisting of engineers trained in a number of disciplines. We also access new sources of information or technology by entering into strategic alliances with equipment manufacturers, oil and gas companies, universities or by participating in joint industry programs. While the market for our products and services is subject to continuous technological changes, development cycles from initial conception through introduction can extend over several years. Our efforts have resulted in the development of a number of inventions, new processes and techniques, many of which have been incorporated as improvements to our product lines. Our research and development activity has led to a number of patents or patent applications, principally in the area of SPM systems. During 2018 and 2017, our research and development expenditures were U.S.$2,369 thousand and U.S.$286 thousand, respectively. We expect to expend similar amounts on research and development in future periods.

Hoofddorp, March 12, 2019

President and CEO:
H.J. Heerema

Consolidated income statement

For the year ended December 31

In thousands of U.S.$	***Note***	**2018**	**2017**
Operating activities			
Revenue	*6*	465,549	342,007
Raw materials, consumables used and other operating costs		(190,678)	(134,001)
Employee benefits expense	*8*	(67,691)	(52,383)
EBITDA	*5*	207,180	155,623
Depreciation, impairment and amortization expense	*12,13*	(107,105)	(107,652)
Results from operating activities (EBIT)	*6*	100,075	47,971
Finance income		1,932	879
Finance expense		(70,745)	(56,235)
Currency exchange results		(4,124)	(2,148)
Net finance expense	*10*	(72,937)	(57,504)
Profit / (loss) before income tax		27,138	(9,533)
Income tax benefit / (expense)	*11*	(2,635)	14,264
Profit for the period		24,503	4,731

Consolidated statement of comprehensive income

For the year ended December 31

In thousands of U.S.$	***Note***	**2018**	**2017**
Profit for the period		24,503	4,731
Other comprehensive income			
Items that will not be reclassified subsequently to consolidated income statement:			
Re-measurement of defined benefit obligation		(1,308)	5,354
Deferred tax on re-measurement of defined benefit obligation		(71)	-
		(1,379)	5,354
Items that may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		(955)	661
Net change in fair value of available-for-sale financial assets		-	(7)
Net change in fair value of cash flow hedges transferred to consolidated income statement		(10)	(184)
		(965)	470
Other comprehensive income, net of tax		(2,344)	5,824
Total comprehensive income for the period		22,159	10,555

Consolidated statement of financial position

As at December 31

In thousands of U.S.$	*(after appropriation of result)*	***Note***	**2018**	**2017**
Assets				
	Property, plant and equipment	*12*	541,070	644,762
	Intangible assets	*13*	1,399	2,158
	Other financial investments, including derivatives	*14*	6	36
	Deferred tax assets	*15*	72,197	75,071
Total non-current assets			614,672	722,027
	Inventories	*16*	1,200	1,189
	Trade and other receivables	*17*	15,532	11,576
	Contracts assets	*18*	11,415	10,166
	Prepayments for current assets		2,064	1,804
	Cash and cash equivalents	*19*	59,780	179,884
Total current assets			89,991	204,619
Total assets		*6*	704,663	926,646
Equity				
	Issued share capital		170,000	170,000
	Share premium		198,568	198,568
	Translation reserve		(12,291)	(11,336)
	Investment revaluation reserve		(2,811)	(2,811)
	Employee benefits reserve		(7,889)	(8,680)
	Hedging reserve		-	10
	Accumulated deficit		(128,347)	(150,680)
Total equity attributable to equity holder of the Company			217,230	195,071
Liabilities				
	Loans and borrowings	*20*	361,345	453,690
	Contract liabilities	*23*	-	12,270
	Employee benefits	*21*	14,476	15,153
Total non-current liabilities			375,821	481,113
	Loans and borrowings	*20*	36,556	25,084
	Trade and other payables, including derivatives	*22*	49,766	54,186
	Contract liabilities	*23*	25,290	171,192
Total current liabilities			111,612	250,462
Total liabilities		*6*	487,433	731,575
Total equity and liabilities			704,663	926,646

Consolidated statement of changes in equity

Attributable to shareholder of the Company

In thousands of U.S.$	Issued Share Capital	Share Premium	Translation reserve	Investment revaluation reserve	Employee benefits reserve (IAS 19)	Hedging reserve	Accumulated deficit	Total equity
Balance at January 1, 2017	**170,000**	**198,568**	**(11,997)**	**(2,804)**	**(14,034)**	**194**	**(155,411)**	**184,516**
Profit for the period	-	-	-	-	-	-	4,731	4,731
Foreign currency translation differences	-	-	661	-	-	-	-	661
Fair value of available-for-sale financial assets (OCI)	-	-	-	(7)	-	-	-	(7)
Movement employee benefits reserve (IAS 19)	-	-	-	-	5,354	-	-	5,354
Fair value of cash flow hedges transferred to profit or loss (OCI)	-	-	-	-	-	(184)	-	(184)
Total comprehensive income	-	-	661	(7)	5,354	(184)	4,731	10,555
Balance at December 31, 2017	**170,000**	**198,568**	**(11,336)**	**(2,811)**	**(8,680)**	**10**	**(150,680)**	**195,071**
Balance at January 1, 2018	**170,000**	**198,568**	**(11,336)**	**(2,811)**	**(8,680)**	**10**	**(150,680)**	**195,071**
Reclassification	-	-	-	-	2,170	-	(2,170)	-
Profit for the period	-	-	-	-	-	-	24,503	24,503
Foreign currency translation differences	-	-	(955)	-	-	-	-	(955)
Movement employee benefits reserve net of tax (IAS 19)	-	-	-	-	(1,379)	-	-	(1,379)
Fair value of cash flow hedges transferred to profit or loss (OCI)	-	-	-	-	-	(10)	-	(10)
Total comprehensive income	-	-	(955)	-	791	(10)	22,333	22,159
Balance at December 31, 2018	**170,000**	**198,568**	**(12,291)**	**(2,811)**	**(7,889)**	**-**	**(128,347)**	**217,230**

The reclassification contains the recording of the deferred tax on the employee benefits reserve which was previously recognised trough profit and loss under accumulated deficit.

Consolidated statement of cash flows

In thousands of U.S.$	***Note***	**2018**	**2017**
Cash flows from operating activities			
Profit for the year		24,503	4,731
Adjustments for:			
Depreciation of property, plant and equipment	*12*	105,850	106,251
Amortization and impairment of intangible assets	*13*	1,256	1,401
Finance expense recognised		70,745	56,235
Income tax expense recognised		(2,635)	14,264
Change in deferred income taxes		2,874	(12,693)
Change in employee benefits reserve		(2,847)	(3,195)
Movement provision for doubtful debtors		(6,677)	(1,292)
Change in other investments, including derivatives		30	160
Change in inventories		(11)	413
Change in trade and other receivables		788	5,543
Change in contract assets		(1,249)	(8,020)
Change in prepayments for current assets		(260)	159
Change in trade and other payables, including derivatives		625	13,242
Change in contract liabilities	*23*	(158,172)	10,857
Interest paid		(62,745)	(48,483)
Income tax received		21	1,611
Net cash from/ (used in) operating activities		(27,904)	141,184
Cash flows used in investing activities			
Payments for property, plant and equipment		(2,163)	(3,138)
Interest received		1,952	879
Payments for intangible assets		(497)	-
Net cash (used in) investing activities		(708)	(2,259)
Cash flows from financing activities			
Proceeds from loans and borrowings		390,264	-
Redemption of loans and borrowings		(456,167)	(25,334)
Debt arrangement fees paid		(23,364)	(4,700)
Net cash (used in) financing activities		(89,267)	(30,034)
Translation effect on cash		(2,225)	3,018
Net increase/ (decrease) in available cash and cash equivalents		(120,104)	111,909
Cash and cash equivalents at the beginning of the year		179,884	67,975
Cash and cash equivalents at the end of the year	*19*	59,780	179,884

Notes to the consolidated financial statements

1. General information

Reporting entity

Aurelia Energy N.V. (the “Company”) has its legal seat in Willemstad (Curaçao). Registered number at the chamber of commerce in Curaçao: 66566908 and the chamber of commerce in the Netherlands: 856611281. The Company’s principal activity is to act as a holding company for the Bluewater group. The consolidated financial statements of the Company as at and for the year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group” or “Bluewater” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The Group is primarily engaged in the supply of services and products to the oil industry.

All common and preference shares of the Company are held by Aurelia Holding N.V., Willemstad (Curaçao), of which all shares are ultimately held by the Jacaranda Trust, an irrevocable discretionary trust constituted under the laws of Jersey.

Activities

Bluewater is a specialized service provider to, and operator in, the offshore oil industry. Bluewater designs, develops, owns and operates floating production storage and offloading units (“FPSOs”), provides auxiliary equipment and services to FPSOs and designs, develops and performs project management and constructs single point mooring systems (“SPMs”).

An FPSO is a type of floating production unit used by oil companies to produce, process, store and offload hydrocarbons from offshore fields. FPSOs are either newly built or converted tankers upon which production equipment is mounted. The fluids (oil, gas and water) are processed on board the FPSO vessel, and the treated crude oil is stored before being exported to an off take system utilizing shuttle tankers. Bluewater’s fleet of FPSOs is involved in the production, rather than the exploration or drilling phase of oil field development. The FPSOs are leased to oil companies under medium- and long-term service contracts or bareboat contracts.

SPMs are used to transfer fluids to and from a floating production unit, an offshore storage vessel or shuttle tanker while securing the unit, vessel or tanker to the ocean floor. Most SPMs consist of an anchoring system that is connected to the ocean floor and a fluid transfer system that permits the transfer of fluids between fixed and rotating parts of the mooring system. SPMs are generally developed and constructed for oil companies and contractors.

Revenues are earned from day rates consisting of a fixed facility fee and a compensation for operating the FPSO pursuant to leases with oil companies, supplemented from time to time with fees based on volumes of produced barrels of oil. Additionally, revenues are earned on a lump-sum or reimbursable basis from the design, engineering, procurement and management services that are provided in the various FPSO and SPM projects being managed.

FPSO and SPM projects are being managed from the initial design and engineering phase to final installation.

2. Application of new and revised International Financial Reporting Standards (IFRS)

As per 2018 Bluewater applied IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers". Bluewater has decided not to early adopt the new standard IFRS 16 "Leases". Other new standards and amendments have been published by the IASB but have not been endorsed yet by the European Commission. Early adoption is not possible until European Commission endorsement. Those relevant to Bluewater are set out below:

<u>IFRS 9 – Financial Instruments</u>

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.
The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets
The date of initial application is January 1, 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. Comparative amounts in relation to instruments that continue to be recognised as at January 1, 2018 have been restated where appropriate.

Management considers application of IFRS 9 to not have a material impact on the Group's financial statements.

<u>IFRS 15 - Impact of application of IFRS 15 Revenue from Contracts with Customers</u>

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the modified retrospective transitional approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. January 1, 2018.
IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a material impact on the financial position and/or financial performance of the Group.

<u>IFRS 16 – Leases</u>

IFRS 16 was issued in January 2016. This standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The group has reviewed all leasing arrangements over the last year in light of the new lease accounting rules in

IFRS 16. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of $33,468 thousand, see note 25. Of these commitments, nil relates to short-term leases and nil to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.
For the remaining lease commitments the group expects to recognise right-of-use assets of approximately $28,656 thousand on January 1, 2019, lease liabilities of $28,656 thousand and deferred tax assets of $135 thousand overall net assets will be approximately $28,791 thousand higher, and net current assets will be $3.7 million lower due to the presentation of a portion of the liability as a current liability.

The group expects that net profit after tax will increase by approximately $222 thousand for 2019 as a result of adopting the new rules. EBITDA used to measure segment results is expected to increase by approximately $3,693 thousand as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately $3,693 thousand as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The accounting for contracts where Bluewater is the lessor is expected to be unchanged. However, some additional disclosures will be required from next year.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted and endorsed by the European Union.

(b) Basis of preparation

These consolidated financial statements are presented in thousands of US dollars, which is Bluewater's functional currency. All financial information presented has been rounded to the nearest thousand. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are stated at fair value, as explained in the accounting policies below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are:

- Revenue recognition on construction contracts based on the percentage of completion method;
- Estimation of the anticipated useful life and future revenues earned with the FPSOs, which along with

the discount rate, is the basis for the recoverable amounts of FPSOs;
- Estimation of the realizable amount of tax losses carried forward;
- Potential impact of claims and litigation.

Considerations for preparation of the 2018 financial statements

Given the current business outlook and the liquidity forecast, Bluewater expects to be in compliance with its covenants under the existing loan agreements (Revolving Credit Facility and Unsecured bond) and to have sufficient funds to continue its operations for at least the coming 12 months. The financial statements have therefore been prepared on a going concern basis of accounting.

(c) Basis of consolidation

The financial information relating to Aurelia Energy N.V. is presented in the consolidated financial statements. In accordance with article 2:402 of the Dutch Civil Code, the company financial statements only contain an abridged income statement. The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intera group transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Foreign currency transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. The resulting exchange gains and losses are recorded under financial income and expense in the consolidated statement income and comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into US dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US dollars at exchange rates at the dates of the transactions. Gains and losses resulting from the translation are recorded in shareholder's equity, as translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to consolidated income statement.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in other comprehensive income and accumulated in the translation reserve.

(e) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets
The Group's investments in equity securities are classified as available-for-sale financial assets. Listed equity investments are stated at fair value. Since there is no way of reliably measuring the fair value using valuation techniques for some of these investments that are unlisted, these unlisted investments are stated at historical cost less any identified impairment losses. Changes in the fair value of the equity investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss accumulated in the investment revaluation reserve is reclassified to other comprehensive income.

Other
Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

Financial instruments at fair value through consolidated income statement
Bluewater uses derivative financial instruments such as forward contracts to hedge its risks associated with foreign currency fluctuations.

Such financial instruments are initially recorded in the consolidated statement of financial position as either an asset or a liability measured at fair value. Changes in the derivative instrument's fair value are recognised in consolidated income statement, unless specific hedge accounting criteria are met. All derivative financial instrument valuations are determined in part by reference to published price quotations in an active market. These quotations consist of currency exchange rates, interest rates, and discount rates. Attributable transaction costs are recognised in consolidated income statement when incurred.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income and accumulated in the hedging reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in consolidated income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to consolidated income statement in the same period that the hedged item affects the consolidated income statement.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The terms and conditions of the current corporate credit facility restricts the payment of dividends.

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, borrowing costs paid during construction and attributable overhead.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item only if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated income statement as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, taking into account its residual value. Depreciation of assets starts when they are available for their intended use.

The estimated useful lives for the categories of property, plant and equipment are as follows:

- hulls 20 years
- swivel stack / turret 15 years
- machinery and process equipment 3-10 years
  (In case of long-term contracts longer than 10 years, these items are fully depreciated over the contract duration. For shorter term contracts, a decision is made as to the applicable useful life).
- office equipment 4 years
- other 4-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the consolidated income statement.

(g) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated income statement when incurred.
Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials and direct labour, borrowing costs paid during development and attributable overhead costs.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised in the consolidated income statement on a straight-line basis from the date they are available for use, over the estimated useful lives of intangible assets not exceeding 20 years.

(ii) Oil production licences and field development costs

Capitalized expenditures related to the acquisition of oil production licenses and field developments are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised in the consolidated income statement from the date the field starts production as the related oil and gas reserves are produced under the unit of production method. Field development costs are capitalized in accordance with IFRS 6.

(iii) Software costs

Capitalized expenditures related to the acquisition and development of software are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised in the consolidated income statement from the date the software is available for use, over the estimated useful lives of the software of 5 years.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Construction contracts

Construction contracts are measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group’s contract activities based on normal operating capacity.

If payments received from customers exceed the income recognised, then the difference is presented under contract liabilities in the consolidated statement of financial position.

(j) Impairment

The carrying amounts of financial assets and assets that are subject to amortization or depreciation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.
For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. For the purpose of impairment testing, assets are grouped together at the lowest level for which there are separately identifiable cash flows (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in prior periods are reversed if there has been a change in the estimates used to determine the recoverable amount, except for assets with indefinite useful lives.

(k) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans in the United Kingdom are recognised as an employee benefit expense in the consolidated income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans in the Netherlands

Provisions for pension obligations are established for benefits payable in the form of retirement and surviving dependant pensions. The funds are valued every year by professionally qualified independent actuaries. The obligations and costs of pension benefits are determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate of Dutch bonds, where the currency and terms of the bond are consistent with the currency and estimated terms of the defined benefit obligation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in employee benefits reserve in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to the consolidated income statement.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. No provision for the costs of demobilization of FPSOs at the end of the lease period is accounted for, if the lease contract provides for reimbursement of such costs by the lessee.

(m) Revenue

(i) Service agreements and/or operating lease arrangements for FPSOs

Revenues under service agreements and/or lease arrangements are recognised when the FPSO is made available to the lessee and the fee is due in accordance with the lease contract. Income under the lease agreements for the FPSOs comprises, depending on the vessel, the following:

- A facility fee representing a prescribed fee for the lease period. This fee may be increased or decreased based on actual availability of the FPSO, including an allowance for planned maintenance downtime, versus pre-determined thresholds.
- A production tariff. This fee depends on actual produced quantities.
- A fee for operating the FPSO.

Where applicable, lease revenues are recognised on a straight-line basis over the minimal non-cancellable lease term.

(ii) Construction contracts

Contract revenue from construction (design, engineering and project management) of SPMs and auxiliary equipment includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the consolidated income statement in proportion to the stage of completion of the contract.

The stage of completion is measured by the labour and material cost incurred as a percentage of total estimated labour and material cost for each contract, unless the physical progress significantly differs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the consolidated income statement.

(n) Government grants

Government grants that compensate Bluewater for expenses incurred are recognised in the consolidated income statement on a systematic basis in the same periods in which the expenses are recognised, provided there is reasonable assurance that Bluewater will comply with the conditions attached to the grant and the grants will be received.

(o) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through the consolidated income statement and gains on hedging instruments that are recognised in the consolidated income statement. Interest income is recognised as it accrues in the consolidated income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the consolidated income statement, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in the consolidated income statement. Borrowing costs are recognised in the consolidated income statement using the effective interest method, except for borrowing costs that qualify for capitalization. Foreign currency gains and losses are reported on a net basis.

(p) Income tax

The income tax charge is based on the tax regime applicable to the various group companies in the countries in which they are legally seated. These tax regimes charge income taxes based on operating profits or on the basis of other criteria as agreed upon by the Group in specific tax rulings. Deferred taxation is considered in accounting for the income tax charge for the year.
Deferred income taxes are accounted for using the balance sheet method. Deferred income taxes are provided for temporary differences between the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Future tax benefits attributable to these differences, if any, are recognised to the extent that realization of such benefits is probable. Deferred tax assets for tax losses carry forward are recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4. Financial risk management

In the normal course of business Bluewater uses various types of financial instruments based on financial policies and procedures as agreed by Bluewater's management. Financial instruments, other than derivatives, comprise accounts receivable, cash, deposits, long-term and short-term loans and accounts payable. Bluewater also uses derivative transactions; including principally forward rate currency contracts, with the purpose to manage currency risk arising from Bluewater's operations and sources of finance.

Bluewater has procedures and policies in place to control risks related to financial instruments. These policies and procedures include a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used. The spread of Bluewater's activities limits the exposure to concentrations of credit or market risk. Bluewater's management is involved in the risk management process. Bluewater attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it believes to be creditworthy.

Credit risk

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Bluewater attempts to minimize its credit risk as much as possible by thoroughly reviewing risks associated with contracts and negotiating bank or parent company guarantees from customers. Additionally, milestone payments are negotiated on lump-sum contracts and outstanding receivables are actively managed in order to minimize the number of days outstanding.

Liquidity risk

Bluewater has organized its liquidity management centrally, in order to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. Bluewater uses forward exchange contracts to hedge its currency risk. When necessary, forward exchange contracts are rolled over at maturity.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance.
The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to the shareholder of Bluewater. The Group's goal is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the capital structure and return on capital, including the cost of capital and the associated risks.

5. Non-IFRS financial performance measures

Bluewater uses certain non-IFRS financial performance measures in its financial statements and for the calculation of certain financial covenant ratios as required under its financing agreements. The definitions and calculation of some of these non-IFRS financial performance measures are as follows:

EBITDA: defined as operating result before depreciation, amortization, finance expense and taxes.

Interest bearing debt: defined as the amended corporate credit facility net of debt arrangement fees plus the senior secured project finance facility net of debt arrangement fees and debt service reserve account plus the unsecured subordinated bond net of debt arrangement fees and debt service reserve account.

In thousands of U.S.$	**2018**	**2017**
EBITDA	207,180	155,623
External interest bearing debt		
Long-term bank loans	139,290	55,344
Current portion of bank loans	36,556	25,084
Unsecured bond / Unsecured subordinated bond	222,055	398,346
Debt service reserve account	-	(20,127)
Interest bearing debt	397,901	458,647

6. Segment information

The disclosure of segment information is consistent with the internal reports in order to assess each segment's performance and to allocate resources to them. Internal reporting is primarily based on business segments since Bluewater's risks and rates of return are affected primarily by differences in services and products produced. Additionally information is reported geographically.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses, investments and related revenue and income tax assets and liabilities. For both presented periods there are no inter segment revenues. The presentation of revenues by geographical segments is determined by the client's country of domicile. No revenues were generated and no assets are located in the Company's country of domicile.

Business segments	**FPSO**		**SPM**		**Consolidated**	
In thousands of U.S.$	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Total segment revenue	217,320	206,151	248,229	135,856	465,549	342,007
Total cost of operations	(74,307)	(77,963)	(185,256)	(100,250)	(259,563)	(178,213)
Unallocated income/expenses					1,194	(8,171)
EBITDA	143,013	128,188	62,973	35,606	207,180	155,623
Depreciation and amortization	(106,414)	(106,928)	(691)	(724)	(107,105)	(107,652)
Results from operating activities (EBIT)	36,599	21,260	62,282	34,882	100,075	47,971
Finance income and (expense)	(72,937)	(57,504)	-	-	(72,937)	(57,504)
Income tax benefit / (expense)					(2,635)	14,264
Profit for the period					24,503	4,731
Segment assets	589,364	764,588	41,697	84,793	631,061	849,381
Unallocated assets					73,602	77,265
Total assets					704,663	926,646
Segment liabilities	427,520	580,955	59,913	150,620	487,433	731,575
Capital expenditure	1,388	2,954	775	203	2,163	3,157

There are no unallocated capital expenditures in 2018 and 2017.

Geographical segments	Revenues		Assets		Capital expenditures	
	2018	2017	2018	2017	2018	2017
Europe	451,868	334,883	220,741	417,267	2,163	203
Americas	164	2,085	1,815	1,622	-	-
Asia	13,075	3,636	481,311	506,077	-	2,954
Africa	429	1,403	794	1,398	-	-
Australia	13	-	2	282	-	-
Total	465,549	342,007	704,663	926,646	2,163	3,157

The geographical segments refer to the countries of origin of Bluewater's customers and assets. Several major customers in the FPSO and SPM segment have been identified, that each contributes to 10 percent or more of total revenues individually. In 2018, revenues from two such major customers amounted to U.S.$214,7 million and U.S.$181.3 million respectively. In 2017, revenues from three such major customers amounted to U.S.$171.7 million, U.S.$71.2 million and U.S.$40.8 million respectively.

7. Revenue recognition

(a) Assets and liabilities related to contracts with customers.

The group has recognised the following assets and liabilities related to contracts with customers:

In thousands of U.S.$	Notes	2018	2017
Current contract assets	*18*	11,415	10,166
Non-current contract liabilities	*23*	-	12,270
Current contract liabilities	*23*	25,290	171,192

Construction contracts are measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

If payments received from customers exceed the income recognized, then the difference is presented under contract liabilities in the consolidated statement of financial position.

Contract liabilities consists of instalments invoiced for construction contracts exceeding cost incurred, deferred bareboat revenues based on straight-lining of the contractual revenues over the duration of the contract, pre-received revenues from third parties and reimbursement of costs for modification and lifetime extension work performed on the FPSO Haewene Brim, which are recognized over the estimated duration of the related lease contract.

Significant changes in contract assets and liabilities
There are no material changes in the contract assets. All changes are related to project receivables on the ongoing contracts. The contract liabilities decreased with U.S.$158,2 million. The biggest decrease was related to billings to Bluewaters Lancaster project which amounted to U.S.$84.6 million. U.S.$73.6 million decrease is related to the deferred revenue received from client, for adjustments for the FPSO vessel Haewene Brim the Brynhild oil field.

Revenue recognised in relation to contract liabilities

In thousands of U.S.$	**2018**	**2017**
As at January 1	183,462	172,605
Invoiced amounts	129,999	174,049
Revenue recognised	(288,171)	(163,192)
As at December 31	25,290	183,462

Assets recognised from costs to fulfil a contract

In addition to the contract balances disclosed above, the group has also recognised an asset in relation to costs to fulfil a contract. If the Company's delivery performance obligation exceeds the invoiced instalment to the client, this will be recognised as a Contract asset.

In thousands of U.S.$	**Note**	**2018**	**2017**
Asset recognised from costs incurred to fulfil a contract at December 31	18	11,415	10,166

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

In adopting IFRS 15, the group recognised an asset in relation to costs incurred.

(b) Service agreements and/or operating lease arrangements for FPSOs

Revenues under service agreements and/or lease arrangements are recognised when the FPSO is made available to the lessee and the fee is due in accordance with the lease contract. Income under the lease agreements for the FPSOs comprises, depending on the vessel, the following:

- A facility fee representing a prescribed fee for the lease period. This fee may be increased or decreased based on actual availability of the FPSO, including an allowance for planned maintenance downtime, versus pre-determined thresholds.
- A production tariff. This fee depends on actual produced quantities.
- A fee for operating the FPSO.

Where applicable, lease revenues are recognised on a straight-line basis over the minimal non-cancellable lease term. For FPSO lease and operating arrangements, there are no warranties applicable.

(c) Construction contracts

Contract revenue from construction (design, engineering and project management) of SPMs and auxiliary equipment includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the consolidated income statement in proportion to the stage of completion of the contract.

The stage of completion is measured by the labour and material cost incurred as a percentage of total estimated labour and material cost for each contract, unless the physical progress significantly differs. For SPM projects warranty is usually a part of the project scope and, if needed, related obligations are part of the accounted project cost.

8. Employee benefits expense

In thousands of U.S.$	**2018**	**2017**
Wages and salaries	30,256	26,405
Pension costs defined contribution plans in the United Kingdom	1,193	1,014
Pension costs defined benefit plans in the Netherlands	4,411	4,279
Other social security contributions	3,377	2,880
	39,237	34,578
Personnel from agencies	28,454	17,805
	67,691	52,383

The average number of full time employees (fte's) during the year 2018 was 429.4 (2017: 370.5), divided over the following departments:

	2018	**2017**
Engineers	189.7	161.2
Sales	6.7	7.7
Crew	137.5	87.1
General and administrative	95.5	114.4
	429.4	370.5
Personnel from agencies	165.3	100.3

The average number of fte's working outside the Netherlands in 2018 was 169.4 (2017: 110.8).

9. Research and development expense

Total net research and development expenditures in 2018 amounted to U.S.$2,369 thousand (2017: U.S.$286 thousand). These net expenditures include government grants related to research and development activities amounting to U.S.$314 thousand (2017: U.S.$478 thousand).

10. Finance income and expense

In thousands of U.S.$	**2018**	**2017**
Interest income	1,932	879
Financial income	1,932	879
Interest expense	(70,745)	(56,235)
Financial expense	(70,745)	(56,235)
Currency exchange results	(4,124)	(2,148)
Currency exchange results	(4,124)	(2,148)
Net financing costs	(72,937)	(57,504)

11. Income tax benefit / (expense)

The breakdown of income tax (expense)/ benefit is as follows:

In thousands of U.S.$	**2018**	**2017**
Current period taxes	239	1,571
Change in deferred tax asset	(2,874)	12,693
Total income tax benefit / (expense)	(2.635)	14,264

Current period taxes relate primarily to the reversal of withholding tax accrual in Angola.

The reconciliation of the income tax benefit / expense) at statutory tax rates to the effective income tax is as follows:

In thousands of U.S.$		**2018**		**2017**
Profit/(loss) before income taxes		27,138		(9,533)
Income tax using the Company's domestic tax rate	25%	(6,785)	25%	2,383
Difference between statutory tax rate and tax ruling		6,785		(2,330)
Other foreign taxes		239		1,518
Movement valuation allowance loss carry forward		(2,874)		12,693
Total income tax benefit / (expense)		(2,635)		14,264

The effective tax rate for financial statement purposes differs from the statutory tax rate, mainly because Bluewater is subject to taxation in various countries with different statutory tax rates and taxable results vary in the various countries involved. Additionally, some group companies have significant tax losses carried forward, for which no (full) deferred tax asset is recognised (see note 15). Consequently, Bluewater's taxable result may differ from the operating result.

12. Property, plant and equipment

As at December 31

In thousands of U.S.$	FPSOs	FPSOs held for conversion	FPSO under construction	Office equipment	Total
Cost:					
As at January 1, 2018	842,363	551,175	639,755	10,312	2,043,605
Additions	-	1,388	-	775	2,163
Disposals	-	-	-	(20)	(20)
Translation result	-	-	-	(18)	(18)
As at December 31, 2018	842,363	552,563	639,755	11,049	2,045,730
Accumulated depreciation and impairment losses:					
As at January 1, 2018	708,526	270,338	416,399	3,580	1,398,843
Depreciation for the year	79,504	14,772	10,694	880	105,850
Disposals	-	-	-	(20)	(20)
Translation result	-	-	-	(13)	(13)
As at December 31, 2018	788,030	285,110	427,093	4,427	1,504,660
Net book value	54,333	267,453	212,662	6,622	541,070

In thousands of U.S.$	FPSOs	FPSOs held for conversion	FPSO under construction	Office equipment	Total
Cost:					
As at January 1, 2017	842,363	1,187,976		10,090	2,040,429
Reclassification	-	(639,755)	639,755	-	-
Additions	-	2,954	-	203	3,157
Translation result	-	-	-	19	19
As at December 31, 2017	842,363	551,175	639,755	10,312	2,043,605
Accumulated depreciation and impairment losses:					
As at January 1, 2017	628,436	661,380	-	2,757	1,292,573
Reclassification	80,090	14,663	10,694	804	106,251
Depreciation for the year	-	(405,705)	405,705	-	-
Translation result	-	-	-	19	19
As at December 31, 2017	708,526	270,338	416,399	3,580	1,398,843
Net book value	133,837	280,837	223,356	6,732	644,762

FPSO reclassification for the period ended December 31, 2017 related to FPSO Aoka Mizu. FPSO Aoka Mizu is under contract for conversion for the Lancaster project for Hurricane. As of December 31, 2018, an amount of U.S.$101,481 (December 31, 2017: U.S.$101,481) relating to capitalized interest is included in the historical cost value of the FPSOs, FPSOs held for conversion and FPSO under construction. Interest capitalized for the periods ended December 31, 2018 amounts to U.S.$ nil (2017: U.S.$ nil).

Bluewater has 2 FPSOs held for construction or in lay-up kept in the category ‘FPSOs held for conversion’ for the period ended December 31, 2018 (December 31, 2017: 2 FPSOs). As of January 1, 2016 prospectively all ‘FPSOs held for conversion’ and ‘FPSO under construction’ are depreciated, based on an assumed remaining economic lifetime of 20 years.

At December 31, 2018 properties with a carrying amount of U.S.$534.4 million (2017: U.S.$638.0 million) are subject to a registered debenture to secure bank loans.

13. Intangible assets

Intangible assets consist of interests in oil production licences and field development costs related to oil production blocks located in Nigeria, Guinea-Bissau and Ireland and capitalized costs of IT systems. The movement of intangible assets is as follows:

In thousands of U.S.$	**Oil production licences and field development costs**	**Software costs**	**Total**
Cost:			
As at January 1, 2018	9,280	12,615	21,895
Movement	-	497	497
As at December 31, 2018	9,280	13,112	22,392
Accumulated amortization and impairment losses:			
As at January 1, 2018	9,280	10,457	19,737
Amortization for the year	-	1,256	1,256
As at December 31, 2018	9,280	11,713	20,993
Net book value	-	1,399	1,399

In thousands of U.S.$	**Oil production licences and field development costs**	**Software costs**	**Total**
Cost:			
As at January 1, 2017	9,280	12,615	21,895
As at December 31, 2017	9,280	12,615	21,895
Accumulated amortization and impairment losses:			
As at January 1, 2017	9,280	9,056	18,336
Amortization for the year	-	1,401	1,401
As at December 31, 2017	9,280	10,457	19,737
Net book value	-	2,158	2,158

14. Other financial assets, including derivatives

In thousands of U.S.$	**2018**	**2017**
Non-current investments		
Equity securities	6	6
Derivatives used for hedging	-	30
	6	36

The equity securities consist of a 11.1% equity investment in Emerald Energy Resources Ltd, a Nigerian indigenous oil company, a 11.1% equity investment in Amni Oil and Gas Ltd, a Nigerian company and an equity investment in San Leon Energy Plc. (former Island Oil & Gas Plc). The equity investment in San Leon Energy is stated at fair value. For the other investments, which are unlisted, there is no way of reliably measuring the fair value using valuation techniques, therefore these investments are stated at historical cost.

15. Deferred tax assets

At December 31, 2018, the deferred tax asset comprise of tax losses carry forward (TLCF), temporary valuation differences for property plant and equipment (PPE), unused tax credit and temporary valuation differences for pensions (pension). The movement during the years 2017 and 2018 are as follows:

In thousands of U.S.$	TLCF	PPE	Unused Tax Credit	Pension	Total
As at January 1, 2017	57,791	-	-	4,587	62,378
Recognised in OCI	-	-	-	(1,339)	(1,339)
Recognised in income statement	3,566	-	-	1,109	4,675
Loss rejuvenation	(39,782)	49,708	-	(569)	9,357
As at December 31, 2017	21,575	49,708	-	3,788	75,071
As at January 1, 2018	21,575	49,708	-	3,788	75,071
Recognised in OCI	-	-	-	327	327
Recognised in income statement	(12,566)	-	8,931	1,103	(2,532)
Change in tax%	(988)	(8,438)	(1,429)	(579)	(11,444)
Other	6,276	-	-	(1,599)	(4,677)
DTA previously not recognised	-	6,098	-	-	6,098
As at December 31, 2018	14,287	47,368	7,502	3,040	72,197

The deferred tax assets relate to the group companies in the Netherlands. The tax loss carry-forward exists due to operational losses in prior years. Due to the transfer of the vessels from the Curacao NV's to Dutch BV's a tax rejuvenation has taken place. The book result on this transfer will be compensated by Tax Losses Carried Forward in the current fiscal year while a higher tax book value will generate higher fiscal depreciation in the future. Bluewater has analysed the future realization of the remaining losses carried forward as well as the temporary difference in book value, considering Bluewater's history of earnings, projected earnings based on current contracts as well as future contracts, the applicable tax rate, the new rules regarding limitation of deductibility of interest and the maximum carry forward period of the tax losses. Based on this analysis, Bluewater concluded that it is probable that an estimated amount resulting from temporary differences resulting in a deferred tax asset of U.S.$72.2 million will be fully realized.

At December 31, 2018 Bluewater has Tax Losses Carried Forward in the Netherlands of a total nominal amount of U.S.$ 61 million expiring between 2019 and 2025. The following table specifies the years in which Bluewater's Tax Losses Carried Forward will expire:

In thousands of U.S.$	2019	2020	2021	2022	2023 and beyond	Total
Loss carry forwards in the Netherlands	-	-	-	-	61,140	61,140

At December 31, 2018 Bluewater has temporary differences related to property plant and equipment in the Netherlands of U.S.$ 124.0 million. Due to the fact that these differences can only utilized in 2028 and beyond these differences are not valued.

At December 31, 2018 Bluewater has loss carry forwards in the United Kingdom that do not expire of a total nominal amount of U.S.$120.4 million, resulting primarily from operational losses incurred. Based on the history of earnings of the UK companies, Bluewater does not consider it probable that these tax losses and the deferred tax asset relating thereto will be realized. Accordingly, Bluewater has not recognised a deferred tax asset related to these losses.

16. Inventories

Inventories comprise a stock buoy and stock items available for sale to third parties or for use in future SPM or FPSO conversion projects.

17. Trade and other receivables

In thousands of U.S.$	**2018**	**2017**
Trade debtors	12,017	7,995
Other receivables	3,515	3,581
	15,532	11,576

The cumulative adjustment of the net realizable value of doubtful debtors amounting to U.S.$4,641 thousand (2017: U.S.$11,318 thousand) has been deducted from trade debtors. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18. Contract assets

In thousands of U.S.$	**2018**	**2017**
Costs incurred plus profits recognised to date	643,895	427,449
Progress billings	(645,500)	(514,857)
	(1,605)	(87,408)
Amounts due from customers under construction contracts	11,415	10,166
Amounts due to customers under construction contracts	(13,020)	(97,574)
	(1,605)	(87,408)

The cost incurred includes the amount of recognised profits or losses to date.

19. Cash and cash equivalents

In thousands of U.S.$	**2018**	**2017**
Bank balances	58,805	179,405
Deposits	975	479
Cash and cash equivalents in the statement of cash flows	59,780	179,884

The total amount of outstanding guarantees at December 31, 2018 is U.S.$ 2,743 thousand (2017: U.S.$16,992 thousand). Cash collateral for bank guarantees outstanding kept in restricted accounts amounted to nil at December 31, 2018 (2017: U.S.$ nil). Furthermore cash and cash equivalents include an amount of U.S.$2,524 thousand (2017: U.S.$2,434 thousand) of restricted accounts which are not directly available for use.

20. Loans and borrowings

In thousands of U.S.$	**2018**	**2017**
Non-current liabilities		
Long-term bank loans	139,290	55,344
Unsecured bond	222,055	398,346
	361,345	453,690
Current liabilities		
Current portion of bank loans	36,556	25,084

Effective December 17, 2018 the Company entered into a U.S.$220.0 million Revolving Credit Facility. Interest on the U.S.$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3% margin per annum and the maturity date is March 31, 2021. Total fees in relation to the Revolving Credit Facility amounting to U.S.$5.2 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility. The amount of the unsecured bond as per December 31, 2018 amounting to U.S.$222.1 million is the net balance of the U.S.$240.0 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.$17.9 million.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of U.S.$	**Nominal Currency**	**interest rate**	**Year of Maturity**	**2018 Face Value**	**2018 Carrying Amount**
Revolving Credit Facility	**USD**	LIBOR + 3.0%	2021	214,846	175,846
Unsecured bond	**USD**	Fixed 10%	2023	222,055	222,055
Total interest-bearing liabilities				436,901	397,901

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of U.S.$	**Nominal Currency**	**interest rate**	**Year of Maturity**	**2017 Face Value**	**2017 Carrying Amount**
Senior secured project finance facility	**USD**	LIBOR + 4.0%	2018	110,013	83,365
Unsecured subordinated bond	**USD**	Fixed 10-12%	2018	401,890	398,346
Overdraft facility	**USD**	LIBOR + 10.0%	2018	-	(2,937)
Total interest-bearing liabilities				511,903	478,774

Senior secured project finance facility

Effective May 28, 2013, Bluewater entered into a U.S.$415.0 million senior secured project finance facility. Interest on the U.S.$415.0 million project finance facility was 3-months USD Libor plus 4% margin per annum and the maturity date should be March 31, 2019. As per November 28, , 2018 this facility is terminated and the outstanding amount repaid. Fees amounting to U.S.$10.8 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility using the effective interest method. The remaining amount as per December 28 2018 have been expensed.

Revolving credit facility

Effective December 17, 2018 the Company entered into a U.S.$220.0 million Revolving Credit Facility. Interest on the U.S.$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3% margin per annum and the maturity date is March 31, 2021. Total fees in relation to the Revolving Credit Facility amounting to U.S.$5.2 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility. FPSOs Aoka Mizu, Haewene Brim and Bleo Holm are provided as a collateral for this facility.

Unsecured bond

Effective November 28, 2018 the Company issued a U.S.$240.0 million unsecured bond with a fixed interest rate of 10% per year and a maturity date of November 28, 2023. The total fees amounting to U.S.$18.2 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility. The amount of the unsecured bond as per December 31, 2018 amounting to U.S.$221.4 million is the net balance of the U.S.$240 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.$18.6 million. The previous bond was called on November 12, 2018 and redemption took place on December 28, 2018. A call premium was paid in the amount of U.S.$6.8 million and U.S.$1.7 million of outstanding debt arrangement fees in relation to the old bond were expensed.

Overdraft facility

Effective August 14, 2017, Bluewater entered into a U.S.$45.0 million overdraft facility with an interest rate of Libor plus 10%. The purpose of the overdraft facility was to finance part of the cost of the EPC works in relation to FPSO Aoka Mizu in so far as it may exceed the amount of the EPC budget. The facility should be available till the sailaway date of FPSO Aoka Mizu but the facility contract was terminated as per December 19, 2018. The total fees amounting to U.S.$4.7 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility and expensed at contract termination. The balance of unamortized borrowing costs as per December 31, 2018 is nil

21. Employee benefits

The group companies in the Netherlands provide a defined benefit pension plan for all its employees. Following the changes in the fiscal and legal legislation in the Netherlands as per January 1, 2018, Bluewater implemented certain changes to the pension plan as of this date. Under the adjusted pension plan the employees are entitled to post-retirement yearly instalments amounting to 1.83% of average salary in excess of a deductible of approximately EUR 14.0 thousand and up to a maximum of approximately EUR 81.0 thousand, for each year of service until retirement age of 68.

The liabilities and expenses arising from the plan are as follows:

In thousands of U.S.$	**2018**	**2017**
Present value of funded obligations	(93,067)	(96,478)
Fair value of plan assets	78,591	81,325
Net liability arising from defined benefit obligation	(14,476)	(15,153)

The plan is subject to the regulations as stipulated in the Pensions Act (in Dutch: 'Pensioenwet'). In the Pensions Act the plan needs to be fully funded and needs to be operated outside Bluewater by a separate legal entity. The plan has been insured by a third-party insurance company. Consequently, most of the risks associated with the plan have been transferred to this third-party insurance company and the funding requirements are determined by the third-party insurance company. The insurance company guarantees that all pension entitlements that have been accrued until December 31, 2018 are paid to the pension plan participants and is responsible for operating the plan in accordance with the pension agreement. The insurance company is also responsible for the investment policy with regard to the assets. The plan assets are deemed to be equal to the accrued pensions and the discount rate used to calculate the present value of the plan assets is equal to the discount rate used to calculate the projected benefit obligation.

Bluewater has no additional responsibilities for the governance of the pension plan. The risks associated with the plan that remain with Bluewater are limited to salary risk, risk of individual value transfers and the risk of default by the insurance company.

Movement in the present value of the defined benefit obligations in the Netherlands

In thousands of U.S.$	**2018**	**2017**
Defined benefit obligations at January 1,	96,478	91,498
Current service costs	4,097	3,889
Past service costs	-	156
Interest expense	2,136	1,992
Benefits payment from plan	(889)	(774)
Effect of changes in demographic assumptions	(919)	-
Effect of changes in financial assumptions	(3,471)	(4,527)
Effect of experience adjustments	-	(7,633)
Translation result	(4,365)	11,877
Defined benefit obligations at December 31,	93,067	96,478

Movement in the present value of plan assets

In thousands of U.S.$	**2018**	**2017**
Fair value of plan assets at January 1,	81,325	73,150
Interest income	1,858	1,635
Employer contributions	5,770	4,729
Benefit payments from plan	(889)	(774)
Administrative expenses paid from plan assets	(36)	(34)
Re-measurements on plan assets	(5,752)	(7,134)
Translation result	(3,685)	9,753
Fair value of plan assets at December 31,	78,591	81,325

Expense recognised in the consolidated income statement and comprehensive income

In thousands of U.S.$	**2018**	**2017**
Current service costs	4,097	3,889
Past service costs	-	156
Interest expense on obligation	2,136	1,992
Interest (income) on plan assets	(1,858)	(1,635)
Administrative expenses and taxes	36	34
Defined benefits costs included in the consolidated income statement	4,411	4,436
Effect of changes in demographic assumptions	(888)	-
Effect of changes in financial assumptions	(3,353)	(4,822)
Effect of experience adjustments	-	(8,130)
Re-measurements on plan assets (excluding interest income)	5,557	7,598
Defined benefits cost in other comprehensive income	1,316	(5,354)
Total defined benefit cost recognised in the consolidated income statement and comprehensive income	5,727	(918)

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2018	**2017**
Discount rate at December 31,	2.35%	2.25%
Future salary increases	2.0%	2.0%
Future pension increases	0.0%	0.0%
Inflation	1.7%	1.7%

The duration of the liabilities is approximately 25.5 years based on the discount rate above. The sensitivity of the main driver which is the discount rate can be displayed as follows:

	Basis scenario	Scenario with increased assumption	Scenario with decreased assumption
Discount rate	2.35%	2.65%	2.15%
Benefit obligation	93,067	87,814	98,744
Service cost at beginning of year	3,750	3,488	4,037

The Groups subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis. Employees pay no additional fund. The residual contribution (including back service payment) is paid by the entities of the Group. The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) should be paid immediately to the plan. Apart from paying the costs of the entitlements the Group’s subsidiaries are not liable to pay additional contributions in case the plan does not hold sufficient assets. In that case the case the plan should take other measures to restore its solvency such as a reduction of the entitlements of the plan members.

The average duration of the benefit obligation at the end of the reporting period is 24,1 years (2017: 24,9 years). This number can be subdivided into the duration related to:

- Active members: 26,8 years (2017: 27,9 years)
- Deferred members: 24,6 years (2017: 25,9 years)
- Retired members: 11,2 years (2017: 11,7 years)

The Group expects U.S.$3,635 thousand in contributions to be paid to the defined benefit plans in 2019. The group companies in the United Kingdom sponsor defined contribution plans based on local practice and regulations. The contributions relating to these plans are charged to income in the year to which they relate. For the years 2018 and 2017 contributions charged to income amount to U.S.$232 thousand and U.S.$134 thousand respectively.

22. Trade and other payables, including derivatives

In thousands of U.S.$	**2018**	**2017**
Trade payables	23,810	24,155
Accrued expenses	18,588	23,871
Accrued interest	2,523	2,917
Fx forward contract derivatives	1,000	-
Related parties	125	125
Income taxes	149	149
Wages taxes and social securities	3,571	2,969
	49,766	54,186

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For most suppliers no interest is charged on the trade payables for the first days from the date of the invoice. The directors consider the carrying amount of trade payables approximates to their fair value.

23. Contract liabilities

Contract liabilities classified as current liability consists of instalments invoiced for construction contracts exceeding cost incurred, deferred bareboat revenues based on straight-lining of the contractual revenues over the duration of the contract and pre-received revenues from third parties. Current and non-current pre-received operational revenues relate to the reimbursement of costs for modification and lifetime extension work performed on the FPSO Haewene Brim, which are recognised over the estimated duration of the related lease contract.

In thousands of U.S.$	**2018**	**2017**
Non-current contract liabilities		
Non-current part of pre-received operational revenues	-	12,270
	-	12,270

In thousands of U.S.$	**2018**	**2017**
Current contract liabilities		
Billings in excess of contract liabilities	13,020	97,574
Current part of pre-received operational revenues	12,270	73,618
Current contract liabilities	25,290	171,192

24. Financial risk management

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reported date was:

In thousands of U.S.$	Carrying amount 2018	2017
Available-for-sale financial assets	6	6
Derivatives used for hedging	-	30
Cash and cash equivalents	59,780	179,884
Trade and other receivables	15,532	11,576
	75,318	191,496

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

In thousands of U.S.$	Carrying amount 2018	2017
Europe	11,015	5,054
Asia	962	1,581
Africa	2	1,293
Other	38	67
	12,017	7,995

Several major customers in the FPSO and SPM segment have been identified, that each contributes to 10 percent or more of total trade receivables individually. In 2018, trade receivables from three such major customers amounted to U.S.$4.1 million, U.S.$3.4 million, and U.S.$2.9 million respectively. In 2017, trade receivables from three such major customers amounted to U.S.$2.0 million, U.S.$1.8 million and U.S.$1.2 million respectively.

Impairment losses

The ageing of trade receivables at the reporting date was:

In thousands of U.S.$	Gross 2018	Provision 2018	Gross 2017	Provision 2017
Current 0 - 30 days	8,813	-	7,192	409
Past due 31 – 60 days	2,999	19	1,163	-
Past due 61 - 90 days	240	154	-	-
Past due 91 – 180 days	53	15	-	-
More than 180 days	4,553	4,453	10,958	10,909
Total	16,658	4,641	19,313	11,318

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

In thousands of U.S.$	**2018**	**2017**
Balance at January 1	11,318	12,610
Additions	173	1,782
Settlement release	(6,850)	-
Impairment loss recognised	-	(3,074)
Balance at December 31	4,641	11,318

Based on past experience, Bluewater believes that no further impairment allowance is necessary in respect of past due trade receivables. The allowance accounts in respect of trade receivables are used to record impairment losses unless Bluewater is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Liquidity risk

Effective December 17, 2018, Bluewater has entered into a Revolving Credit Facility up to U.S.$220 million, with this Facility it can access the capital needs to meet fluctuations in liquidity by drawing funds under this facility. Below are the contractual maturities of financial liabilities:

December 31, 2018

In thousands of U.S.$	**Carrying amount**	Contractual cash flows	1 year	2 – 5 years
Non-derivative financial liabilities				
Secured bank loans	175,846	194,541	45,219	149,322
Unsecured U.S.$240.0 million bond issue	222,055	339,983	24,000	315,983
Trade and other payables	49,766	49,766	49,766	-
Total	447,667	584,290	118,985	465,305

December 31, 2017

In thousands of U.S.$	**Carrying amount**	Contractual cash flows	1 year	2 – 5 years
Non-derivative financial liabilities				
Secured bank loans	80,428	115,389	29,938	85,451
Unsecured U.S.$400.0 million bond issue	398,346	502,428	47,442	454,986
Trade and other payables	54,186	54,186	54,186	-
Derivative financial instruments				
Interest rate swaps used for hedging	(30)	-	-	-
Forward exchange contracts used for hedging:				
Outflow	(375)	-	-	-
Total	532,555	672,003	131,505	540,437

Cash flow hedges

As per December 31, 2018 and December 31, 2017 there are no forward exchange contracts accounted for as cash flow hedges.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017. The capital structure of the Group consists of net debt (borrowings disclosed in note 20) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests). The Group is subject to any externally imposed capital requirements regarding to Unsecured bond and the Revolving Credit Facility.

Gearing ratio

In thousands of U.S.$	**2018**	**2017**
Debt	398,853	479,706
Cash and cash equivalents	(59,780)	(179,884)
Net debt	339,073	299,822
Equity	217,230	195,071
Net debt to equity ratio	*64,1%*	*65,1%*

Debt is defined as long-and short-term borrowings (excluding derivatives and financial guarantee contracts).

Exposure to currency risk

Bluewater's revenues are primarily denominated in U.S. dollars and, to a lesser extent, Pound sterling and Euro. In 2018, approximately GBP 53.5 million (U.S.$71.6 million) of Bluewater's revenues was denominated in Pound sterling and approximately EUR 21,8 million (U.S.$25,8 million) was denominated in Euro. Bluewater's expenses are denominated primarily in U.S. dollars and to a lesser degree, Euro, Pound sterling and several other currencies. Bluewater is exposed to fluctuations in foreign currency exchange rates, because a portion of its expenses and financial indebtedness is denominated in currencies that are different from Bluewater's revenues. Bluewater's policy is to match, through our FPSO service agreements, the revenues in a particular currency with its operating costs in that currency, thereby minimizing the risk associated with fluctuations in foreign currency exchange rates. Bluewater also matches its indebtedness denominated in U.S. dollars with its revenues denominated in U.S. dollars. Bluewater purchases foreign currency exchange contracts from financial institutions to the extent of any residual exposure. Bluewater manages its outstanding currency exposure on a regular basis and nets these exposures across its operations as a group. Gains and losses related to specific currency transactions are recognised as part of its income from financing activities.
In the years 2018 and 2017 Bluewater entered into foreign currency exchange contracts in relation to projects to hedge against the risk of fluctuations in foreign currency exchange rates for expenditures in currencies other than the project currency. Bluewater may designate certain foreign currency exchange contracts as cash flow hedges. For such contracts designated and that qualify as cash flow hedges gains and losses related to project specific currency transactions are recognised as part of the hedging reserve.

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date mid-spot rate**	
	2018	**2017**	**2018**	**2017**
EUR 1	1.1841	1.1246	1.1439	1.1977
GBP 1	1.3382	1.2870	1.2750	1.3498

Sensitivity analysis

A ten percent change in the value of the U.S. dollar against the above currencies at December 31, 2018 would have increased (decreased) the value of the forward exchange contracts by approximately U.S.$3.6 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Profile

The majority of our indebtedness consists of advances under our senior secured project finance facility, the amended corporate facility and our unsecured bond. We expect that in the future we will continue to have significant indebtedness under our senior secured project finance facility and that our unsecured bond will continue to be outstanding. Advances under the senior secured project finance facility, the amended corporate facility and the loan bear interest at rates typically expressed as a margin over the appropriate interbank rate.

At the reporting date the interest rate profile of the Group's notional interest-bearing financial instruments was as follows:

In thousands of U.S.$	**Notional amounts**	
	2018	**2017**
Fixed rate financial liabilities	(240,000)	(434,635)
Variable rate financial liabilities	(181,000)	(77,268)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial liabilities at fair value through the consolidated income statement, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the consolidated income statement.

Cash flow sensitivity analysis for variable rate instruments

Interest sensitivity will remain for the Revolving Credit Facility. A change of 50 basis points in interest rates compared to the interest rates at the reporting date would therefore have an effect of U.S.$905 thousand on the consolidated income statement

Fair values versus carrying amounts

The fair values of financial assets and liabilities are not materially different from the carrying amounts, except for the fair value of the unsecured U.S.$240.0 million bond, which amounts to U.S.$226.1 million as per December 31, 2018.

Bluewater uses the following fair value hierarchy for financial instruments that are measured at fair value in the consolidated statement of financial position: the fair value of financial assets that are traded on an active liquid market are determined with reference to the quoted market price (level 1), fair values of forward exchange contracts, interest rate swaps and interest rate caps are based on quotes from banks (level 2). Bluewater does not use pricing models to determine fair values (level 3).

25. Operating leases

Leases as lessee

Annual lease obligations entered into with third parties in connection with building and office space and cars, extending through fiscal year 2029, amount to a total of U.S.$33,468 in 2018 (2017: U.S.$38,379). Operational lease expenses in 2018 amounted to U.S.$3,867 (2017: U.S.$3,769). The lease obligations for cars are for an average of 4-5 years. For the building in Hoofddorp the lease obligation is 15 years with an option for 2 times a further 5 years at the then prevailing market rate.

Non-cancellable operating lease rentals are payable as follows:

In thousands of U.S.$	**2018**	**2017**
Less than one year	3,693	3,872
Between one and five years	12,786	13,945
More than five years	16,989	20,562
	33,468	38,379

Leases as lessor

Bluewater leases its FPSOs under medium- and long-term service contracts and bareboat contracts. The future minimum lease payments under non-cancellable leases are as follows:

In thousands of U.S.$	**2018**	**2017**
Less than one year	59,025	53,700
Between one and five years	86,625	60,005
	145,650	113,705

26. Commitments and contingencies

Claims and suits

Bluewater is from time to time subject to various claims arising out of the ordinary course of business. While the ultimate result of all such matters is not presently determinable, based upon current knowledge and facts, management does not expect that their resolution will have a material adverse effect on Bluewater's consolidated financial position or results of operation.

Purchase commitments

As per December 31, 2018 Bluewater has entered into purchase commitments for SPM projects of U.S.$ 2,578.

27. Related parties

Key management personnel compensation

Key management personnel compensation comprises:

In thousands of U.S.$	**2018**	**2017**
Short-term employee benefits	2,999	2,484
Post-employment benefits	241	207
	3,240	2,691

28. Subsequent events

There are no subsequent events.

29. Group entities

Subsidiaries

The consolidated financial statements integrally include the financial statements of the Company and the group companies listed below, which are economically and organizationally linked to the Company. Bluewater Energy Services (Malaysia) Sdn Bhd. (in liquidation) in which the Company has a 49% ownership interest, and Bluemar Lda., in which the Company has a 49% ownership interest, are fully consolidated because these subsidiaries are fully controlled by the Company based on shareholder agreements. Except for these two companies mentioned, all subsidiaries are wholly owned. No non-controlling interests are recorded for Bluewater Energy Services (Malaysia) Sdn Bhd. (in liquidation) due to its insignificance and for Bluemar Lda. due to the fact this entity has a negative equity value as at balance sheet date.

Name	Legal seat
Bluemar Lda.	Luanda, Angola
Bluewater (Aoka Mizu) B.V.	Hoofddorp, the Netherlands
Bluewater (Aoka Mizu) N.V.	Willemstad, Curaçao
Bluewater Australia Pty Ltd.	Melbourne, Victoria
Bluewater (Bleo Holm) B.V.	Hoofddorp, the Netherlands
Bluewater (Bleo Holm) N.V.	Willemstad, Curaçao
Bluewater China Offshore Equipment Production Co Ltd (in liquidation)	Tianjin, China
Bluewater (Dili) Unipessoal, Ltda.	Dili, Timor Leste
Bluewater do Brasil Serviços de Energia Ltda.	Rio de Janeiro, Brasil
Bluewater Energy Contractors B.V.	Hoofddorp, the Netherlands
Bluewater Energy Services B.V.	Haarlemmermeer, the Netherlands
Bluewater Energy Services (Malaysia) Sdn Bhd. (in liquidation)	Kuala Lumpur, Malaysia
Bluewater Ettrick Production (UK) Ltd.	London, United Kingdom
Bluewater Floating Production B.V.	Hoofddorp, the Netherlands
Bluewater (Floating Production) Ltd.	London, United Kingdom
Bluewater (Glas Dowr) B.V.	Hoofddorp, the Netherlands
Bluewater (Glas Dowr) N.V.	Willemstad, Curaçao
Bluewater (Haewene Brim) B.V.	Hoofddorp, the Netherlands
Bluewater (Haewene Brim) N.V.	Willemstad, Curaçao
Bluewater Holding B.V.	Hoofddorp, the Netherlands
Bluewater International B.V.	Hoofddorp, the Netherlands
Bluewater International Holdings B.V.	Hoofddorp, the Netherlands
Bluewater Lancaster Production (UK) Ltd.	London, United Kingdom
Bluewater Manning Services Ltd. (in liquidation)	London, United Kingdom
Bluewater (Munin) B.V.	Hoofddorp, the Netherlands
Bluewater (Munin) N.V.	Willemstad, Curaçao
Bluewater Offshore Productions Systems Ltd.	Valetta, Malta
Bluewater Offshore Productions Systems Nigeria Ltd.	Lagos, Nigeria
Bluewater Oil & Gas Investments Ltd.	Lagos, Nigeria
Bluewater Operations (UK) Ltd.	London, United Kingdom
Bluewater Services International Private Ltd.	Singapore
Bluewater Services (UK) Ltd.	London, United Kingdom
Bluewater Technical Support N.V.	Willemstad, Curaçao
Bluewater Tidal Energy Ltd.	London, United Kingdom
Bluewater (UK) Ltd.	London, United Kingdom
Pierce Production Company Ltd.	London, United Kingdom
Supernova Energy B.V.	Hoofddorp, the Netherlands
Supernova Ireland Resources B.V.	Hoofddorp, the Netherlands

Bluewater Manning Services Ltd, Bluewater Energy Services (Malaysia) Sdn Bhd. and Bluewater China Offshore Equipment Production Co Ltd are currently filed for liquidation and are in the process of voluntary winding up. Bluewater Offshore Production System N.V. and Bluewater Terminal Systems N.V. are both dissolved and liquidated as per December 20, 2018. Lufeng Development Company ANS and Bluewater (Norway) ANS are both dissolved and liquidated on November 15, 2018.

Company income statement

For the year ended 31 December

In thousands of U.S.$	**2018**	**2017**
Company result after taxes	(45)	94
Income from investments	24,548	4,637
Profit for the period	24,503	4,731

The result for the period is fully attributable to the shareholder.

Company statement of financial position

As at 31 December

In thousands of U.S.$	*(after appropriation of result)*	**2018**	**2017**
Assets			
	Financial assets	212,437	190,233
Total non-current assets		212,437	190,233
	Trade and other receivables	-	-
	Loans and borrowings	952	932
	Receivables due from related parties	3,852	2,826
	Cash and cash equivalents	6	1,080
Total current assets		4,810	4,838
Total assets		217,247	195,071
Equity			
	Issued share capital	170,000	170,000
	Share premium	198,568	198,568
	Translation reserve	(12,291)	(11,336)
	Investment revaluation reserve	(2,811)	(2,811)
	Employee benefits reserve	(7,889)	(8,680)
	Hedging reserve	-	10
	Accumulated deficit	(128,347)	(150,680)
Total equity attributable to equity holder of the Company		217,230	195,071
Liabilities			
	Trade and other payables	17	-
	Affiliate payables	-	-
Total current liabilities		17	-
Total liabilities		17	-
Total equity and liabilities		217,247	195,071

Notes to the company financial statements

1. Basis of preparation

The company financial statements are prepared in accordance with the option provided in section 2:362 (8) of the Dutch Civil Code in which is stated that the principles for the recognition and measurement of assets and liabilities and the determination of the result of the company financial statements are the same as those applied for the consolidated financial statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted and endorsed by the European Union as described on pages 12 to 20 of this report. Subsidiaries are stated on the basis of the equity method. In accordance with Article 2:402 of the Dutch Civil Code, the company income statement is presented in an abbreviated form.

2. Financial assets

In thousands of U.S.$	**2018**	**2017**
Investments in group companies	212,437	190,233
	212,437	190,233

The investments in group companies are specified as follows:

In thousands of U.S.$	**2018**	**2017**
Bluewater Offshore Productions Systems Ltd.	212,437	190,233
	212,437	190,233

The movement in the investments in group companies is as follows:

In thousands of U.S.$	**2018**	**2017**
Opening balance	190,233	179,772
Profit for the year	24,548	4,637
Other movements	(1,389)	5,163
Currency differences	(955)	661
As at December 31	212,437	190,233

Other movements contain the movement in the fair value of available-for-sale financial assets, the movement in employee benefits reserve (IAS 19) and the movement in the fair value of cash flow hedges transferred to consolidated income statement. For details, reference is made to the statement of changes in equity in the consolidated financial statements.

3. Equity attributable to equity holder of the Company

For details of the shareholder’s equity, reference is made to the statement of changes in equity in the consolidated financial statements.

Share capital
The authorized and issued share capital, which has been fully paid, is U.S.$170 million divided into 34,000 preference A shares and 136,000 common B shares, each with a par value U.S.$1,000 per share. Each share shall entitle the holder thereof to one vote on all matters duly presented to a general meeting of shareholders for adoption. Cumulative voting is not permitted. Shares are issued by the management board and new shares may be issued from time to time by the management board, provided that the price of any newly issued shares may not be below par. The Company may acquire fully-paid up shares for its own capital, provided that at least one A share or one B share remains issued and outstanding with other shareholders after any acquisitions. The Company may not vote or make a claim on any shares held in its own capital.

Other reserves contain the following reserves:

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Investment revaluation reserve
The investment revaluation reserve comprises the cumulative change in the fair value of available-for-sale financial assets.

Employee benefits reserve (IAS 19)
The employee benefits reserve reflects the cumulative change in the defined benefit obligation and plan assets resulting from Bluewater's defined benefit pension plan. Such cumulative changes mainly result from actuarial gains and losses.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Proposed appropriation of the result for the year 2018
Management proposes to add the net profit for the year of U.S.$24,503 to the accumulated deficit. This proposal has been reflected in the accompanying financial statements.

4. Affiliate receivables

The receivable from affiliated companies represents a net receivable due from Bluewater Holding B.V.

5. Taxation

During the year 2016 the fiscal seat of the Company moved from Curaçao to the Netherlands.

6. Remuneration of directors

In accordance with Article 2:383 of the Dutch Civil Code, the remuneration of the only statutory director is not presented.

7. Audit fees

Fees charged by Deloitte Accountants B.V. in relation to the audit of the 2018 and 2017 consolidated financial statements amount to U.S.$392 thousand and U.S.$497 thousand respectively. Additionally, audit fees were charged by other foreign Deloitte network auditors in relation to 2018 and 2017 statutory financial statements of foreign subsidiaries amounting to U.S.$50 thousand and U.S.$109 thousand respectively. Fees for non-audit services amounted to nil in 2018 and nil in 2017.

8. Personnel

The Company does not employ personnel.

Other information

Statutory rules concerning appropriation of the result

The Company’s Articles of Association state that the net profit according to the Company’s annual accounts may be reserved or distributed as dividend, at the discretion of a General Meeting of Shareholders.
Insofar as the profit permits, any declared dividends will be paid to preference A shareholders first to the extent for which those preference A shares have preference, over the amount paid up on the preference A shares with as a maximum the nominal value thereof. The remaining profit declared for dividends will be paid to common B shareholders in proportion to the amount of common B shares held by them. Unless the entire preferred dividend has been declared on the preference A shares over the fiscal year, a resolution to reserve profits can only be adopted by a General Meeting if for all issued preference A shares votes have been cast in favour of such resolutions. The management board is authorized at any time to pay out interim dividends in prepayment on the dividends expected. In the event that any loss has been sustained during the year that cannot be covered by the reserves or compensated for in any other way, no profit shall be distributed in any subsequent year as long as the loss has not been recovered. In 2018 and 2017 no dividends have been declared or paid.

Independent auditor’s report

The auditor’s report is set out on the next pages.