Annual report 2019
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, 2019 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 2019 amounted to a profit of U.S.$13.2 million compared to a profit of U.S.$24.5 million for the year 2018. EBITDA for the year 2019 was U.S.$98.6 million compared to U.S.$207.2 million for the year 2018. The financial results of 2019 were mainly impacted by the following items:

The SPM division generated U.S.$10.5 million EBITDA for the year 2019 compared to U.S.$63.0 million EBITDA for the year 2018. In the year 2018, mainly one large EPC project contributed to the SPM EBITDA which reached its final stage in the second quarter of 2019. New 2019 SPM projects are ongoing but the EBITDA contribution in the year 2019 was relatively low.

The 2019 EBITDA for the FPSO division was U.S.$98.3 million compared to U.S.$143.0 million EBITDA for the year 2018. The U.S.$44.7 million decrease in EBITDA compared to the year 2018 was mainly driven by a decrease in EBITDA of the FPSO Haewene Brim of U.S.$.66.4 million. This decrease was mainly caused by U.S.$61.3 million lower revenue related to the release of deferred revenue of the Brynhild investment. This investment is now also fully depreciated, resulting in the same decrease of depreciation costs. Operating result of the Haewene Brim decreased with U.S.$0.6 million as a result of the performance related revenues under the new POSA with Shell effective November 2018. On May 11, 2019, the Aoka Mizu produced first oil and contributed U.S.$22.1 million EBITDA in the year 2019. In addition, there was a decrease in EBITDA of the FPSO Bleo Holm of U.S.$2.5 million due to lower production income in 2019 compared to 2018. There was a decrease in EBITDA of the FPSO Glas Dowr of U.S.$0.2 million due to higher lay-up costs compared to 2018. Finally FPSO tender costs in 2019 decreased with U.S.$2.3 million compared to previous year, despite the increase in number of tender prospects in 2019.

During the year 2019, unallocated expenses amounted to U.S.$10.2 million, compared to U.S.$1.2 million unallocated income in 2018. Main contributor to the deteriorated overhead recovery in the year 2019 compared to the 2018 was the lower project activity and lower utilisation of engineering and project management staff.

Depreciation and amortization expenditure in 2019 amounted to U.S.$50.1 million compared to U.S.$107.1 million for the year 2018. This U.S.$57.0 million decrease in depreciation costs was mainly caused by U.S.$61.3 million lower depreciation costs of FPSO Haewene Brim. The Brynhild investment was fully depreciated. The depreciation costs increased as a result of depreciation of leased assets amounting to U.S.$2.8 million resulting from the introduction of IFRS 16 as per January 1, 2019. Finally the depreciation costs of FPSO Aoka Mizu increased with U.S.$2.5 million as a result of an assessment of the remaining economic lifetime at the moment the vessel moved from under construction to production.

Finance expenses were U.S.$31.1 million lower compared to the previous year, at U.S.$39.6 million versus U.S.$70.7 million for 2018. This U.S.$31.1 million decrease in finance expenses was mainly driven by the refinancing at the end of 2018. The interest costs for the U.S.$240.0 million bond amounted to U.S.$24.0 million in 2019 compared to U.S.$56.2 million for the U.S.$400.0 million subordinated bond in 2018. The RCF interest increased with U.S.$8.1 million while the repayment of the senior secured project facility in 2018, caused a decrease of U.S.$4.8 million interest expenses. Other finance costs decreased by U.S.$2.2 million in 2019 compared to 2018. These costs mainly relates to the decreased amortization costs in relation to the old Bond and the old overrun facility. In 2019 the interest expenses decreased mainly due to further reduction of the net debt.

Currency exchange results were U.S.$1.5 million negative in 2019 compared to U.S.$4.1 million negative in 2018. The decrease in the value of the U.S. Dollar against the Euro and Pound Sterling has led to negative exchange results in 2019. The currency exchange rate moved from EUR/USD 1.14 and GBP/USD 1.27 at the beginning of the year to EUR/USD 1.12 and GBP/USD 1.31 at the year 2019. Because the Company's revenues are primarily denominated in U.S. dollar and a part of the expenses are 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 benefit for the year 2019 amounted U.S.$5.5 million versus U.S.$2.6 million income tax expense for the year 2018. U.S.$6.4 million income tax benefit in 2019 relates to an increase of the deferred tax assets. This increase is a result of the decision to lower the corporate income tax rate ("vennootschapsbelasting") in the Netherlands two years later and also to decrease the percentage of the corporate income tax rate to 21.5% instead of 20.5%. U.S.$0.7 million income tax benefit in 2019 related to a new recorded deferred tax asset in the UK. The U.S.$0.2 million income tax benefit in 2018 relates to the reversal of a withholding tax accrual in Angola.

Other developments

On September 9, 2019 a contract with a client was signed for the engineering, fabrication and supply of a Single Point Mooring System. On January 30, 2020 Bluewater Energy Services B.V. received a request for termination of the contract. Currently Client and Bluewater Energy Services B.V. are exploring the consequences of this termination.

On September 23, 2019 a letter of intent was signed with a client with the intent to enter into a subcontract with Bluewater Energy Services B.V. as a total supplier of the Turret Mooring System. The letter of intent has a validity until March 15, 2020, during which parties intent to execute the agreement.

Outlook

The outlook for the year 2020 looks promising for the Company. Even with the current volatility of the oil price, there are multiple interests in both assets held for conversion. Bluewater has started with paid preparatory studies for these FPSOs. Also the interest of our clients in the SPM segment has significantly increased despite the current volatility of the oil price.

Investments

The Company is currently in discussion on new investments for FPSO related projects in the United Kingdom and Africa. Bluewater is in these discussion a member of a consortium.

Financing

In 2019 the Company has been able to have amendments for the Revolving Credit facility loan as discussed in Note 22 to the Annual Accounts. The amendments provided the Company with extended repayment obligations, less challenging financial covenants to comply with and an uncommitted ancillary facility of U.S.$30.0 million for guarantee and working capital. No significant changes are anticipated in the near future with regard 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 the 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 and faster performance, 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	<u>Cyber Security Risks and data protection</u> 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:	<u>Access to capital</u> 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:	<u>Covenants</u> 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:	<u>Changes in applicable Laws and Regulations</u> 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 2019.

Company Appetite for Risks

The Risk Appetite Statement 2019 describes the boundaries within which Bluewater is willing to take risks in pursuit of its strategic objectives. Both the Management and Supervisory Board reviews 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 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 2019 and 2018, our research and development expenditures were U.S.$4,591 thousand and U.S.$2,369 thousand, respectively. We expect to expend similar amounts on research and development in future periods.

Hoofddorp, March 11, 2020

President and CEO:
H.J. Heerema

Consolidated income statement

For the year ended December 31

In thousands of U.S.$	***Note***	**2019**	**2018**
Operating activities			
Revenue	*6*	250,233	465,549
Raw materials, consumables used and other operating costs		(100,484)	(190,678)
Employee benefits expense	*8*	(51,157)	(67,691)
EBITDA	*5*	98,592	207,180
Depreciation, impairment and amortization expense	*13/14/15*	(50,119)	(107,105)
Results from operating activities (EBIT)	*6*	48,473	100,075
Finance income		220	1,932
Finance expense		(39,599)	(70,745)
Currency exchange results		(1,468)	(4,124)
Net finance expense	*10*	(40,847)	(72,937)
Gain on disposal of subsidiaries	*12*	58	0
Profit before income tax		7,684	27,138
Income tax benefit / (expense)	*11*	5,505	(2,635)
Profit for the period		13,189	24,503

Consolidated statement of comprehensive income

For the year ended December 31

In thousands of U.S.$	***Note***	**2019**	**2018**
Profit for the period		13,189	24,503
Other comprehensive income			
Items that will not be reclassified subsequently to consolidated income statement:			
Re-measurement of defined benefit obligation		(6,392)	(1,308)
Deferred tax on re-measurement of defined benefit obligation		1,598	(71)
		(4,794)	(1,379)
Items that may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		601	(955)
Net change in fair value of available-for-sale financial assets		2,811	-
Net change in fair value of cash flow hedges transferred to consolidated income statement		-	(10)
		3,412	(965)
Other comprehensive income, net of tax		(1,382)	(2,344)
Total comprehensive income for the period		11,807	22,159

Consolidated statement of financial position

As at December 31

In thousands of U.S.$	*(after appropriation of result)*	***Note***	**2019**	**2018**
Assets				
	Property, plant and equipment	*13*	495,159	541,070
	Right-of-use-assets	*14*	22,452	-
	Intangible assets	*15*	2,015	1,399
	Other financial investments, including derivatives	*16*	-	6
	Deferred tax assets	*17*	79,272	72,197
Total non-current assets			598,898	614,672
	Inventories	*18*	1,203	1,200
	Trade and other receivables	*19*	35,537	15,532
	Contracts assets	*20*	7,592	11,415
	Prepayments for current assets		2,779	2,064
	Cash and cash equivalents	*21*	22,547	59,780
Total current assets			69,658	89,991
Total assets		*6*	668,556	704,663
Equity				
	Issued share capital		170,000	170,000
	Share premium		198,568	198,568
	Translation reserve		(11,690)	(12,291)
	Investment revaluation reserve		-	(2,811)
	Employee benefits reserve		(12,683)	(7,889)
	Accumulated deficit		(120,158)	(128,347)
Total equity attributable to equity holder of the Company			224,037	217,230
Liabilities				
	Loans and borrowings	*22*	348,419	361,345
	Lease liabilities	*23*	18,821	-
	Employee benefits	*24*	18,323	14,476
Total non-current liabilities			385,563	375,821
	Loans and borrowings	*22*	-	36,556
	Lease liabilities	*23*	3,181	-
	Trade and other payables, including derivatives	*25*	39,206	49,766
	Contract liabilities	*26*	16,569	25,290
Total current liabilities			58,956	111,612
Total liabilities		*6*	444,519	487,433
Total equity and liabilities			668,556	704,663

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**	**Accumu-lated defi-cit**	**Total eq-uity**
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 (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 in 2018 contains the recording of the deferred tax on the employee benefits, reserve which was previously recognised trough profit and loss under accumulated deficit.

Balance at January 1, 2019	**170,000**	**198,568**	**(12,291)**	**(2,811)**	**(7,889)**	**-**	**(128,347)**	**217,230**
Profit for the period	-	-	-	-	-	-	13,189	13,189
Dividend paid	-	-	-	-	-	-	(5,000)	(5,000)
Foreign currency translation differences	-	-	601	-	-	-	-	601
Fair value of available-for-sale financial assets (OCI)	-	-	-	2,811	-	-	-	2,811
Movement employee benefits reserve net of tax (IAS 19)	-	-	-	-	(4,794)	-	-	(4,794)
Total comprehensive income	-	-	601	2,811	(4,794)	-	8,189	6,807
Balance at December 31, 2019	**170,000**	**198,568**	**(11,690)**	**-**	**(12,683)**	**-**	**(120,158)**	**224,037**

The movement in the fair value of available-for-sale financial assets (OCI) of U.S.$ 2.8 million, is related to the disposal of Group’s subsidiary Supernova Energy B.V. as disclosed in Note 12.

Consolidated statement of cash flows

In thousands of U.S.$	Note	2019	2018
Cash flows from operating activities			
Profit for the year		13,189	24,503
Adjustments for:			
Depreciation of property, plant and equipment	*13*	46,274	105,850
Depreciation of right-of-use assets	*14*	2,841	-
Amortization and impairment of intangible assets	*15*	1,003	1,256
Finance expense recognised	*10*	39,599	70,745
Income tax expense recognised	*11*	5,505	(2,635)
Change in deferred income taxes	*11*	(7,075)	2,874
Change in employee benefits reserve		3,847	(2,847)
Movement provision for doubtful debtors		(307)	(6,677)
Change in other investments, including derivatives		6	30
Change in inventories		(3)	(11)
Change in trade and other receivables		(19,917)	788
Change in contract assets		3,823	(1,249)
Change in prepayments for current assets		(715)	(260)
Change in trade and other payables, including derivatives		(22,581)	625
Change in contract liabilities	*26*	(8,721)	(158,172)
Interest paid		(33,613)	(62,745)
Income tax received		48	21
Net cash from/ (used in) operating activities		23,203	(27,904)
Cash flows used in investing activities			
Payments for property, plant and equipment		(360)	(2,163)
Interest received		219	1,952
Payments for intangible assets		(1,619)	(497)
Net cash (used in) investing activities		(1,760)	(708)
Cash flows from financing activities			
Proceeds from loans and borrowings		-	390,264
Redemption of loans and borrowings		(54,000)	(456,167)
Repayment of lease liabilities		(3,367)	-
Debt arrangement fees paid		(1,273)	(23,364)
Net cash (used in) financing activities		(58,640)	(89,267)
Translation effect on cash		(36)	(2,225)
Net increase/ (decrease) in available cash and cash equivalents		(37,233)	(120,104)
Cash and cash equivalents at the beginning of the year		59,780	179,884
Cash and cash equivalents at the end of the year	*21*	22,547	59,780

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, 2019 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 controlled 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 2019 Bluewater applied 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:

IFRS 16 – Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease account. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability and commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group’s consolidated financial statement is described below.

The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:
• Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
• Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after January 1, 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on Lessee Accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognises right-of use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operational activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within “other expenses” in profit and loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases, Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for two types of leases differently.

Under IFRS 16, an intermediate lessor accounts for the head lease and sub-lease as two separate contracts. The intermediate lessor is required to classify the Sub-lease as a finance of operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS17).

(d) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on January 1, 2019 is 6% for property and 3,75% for vehicles.
The following table shows the operating lease commitments disclosed applying IAS 17 at December 31, 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Impact on retained earnings as at January 1, 2019

In thousands of U.S.$

Operating lease commitments at December 31, 2018	33,468
Short-term leases and leases of low-value assets	(111)
Effect of discounting the above amounts	(8,194)
Lease liabilities recognised at January 1, 2019	25,163

The Group has recognised U.S.$ 25,163 thousand of right-of-use assets and U.S.$ 25,163 thousand of lease liabilities upon transition to IFRS 16. No difference is recognised in retained earnings.

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.

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. Management considers application of IFRIC 23 to not have a material impact on the Group’s financial statements.

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 Company'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 2019 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.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intra 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 contains certain restrictions on 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 20-25 years
- swivel stack / turret 15-20 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.
FPSOs held for conversion' and 'FPSO under construction' are depreciated, based on an assumed remaining economic lifetime. Upon conversion a new assessment is made on the expected remaining useful life of converted FPSO. 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, interest expense on lease liabilities, 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.

(q) Leases

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from January 1, 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to equipment under medium- and long-term service contracts and bareboat contracts.

Leases for which the Group is a lessor are classified as operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Policies applicable prior to January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(r) Principles for preparation of the consolidated cash flow statement

The cash flow statement is prepared according to the indirect method.
The funds in the cash flow statement consist of cash and cash equivalents. Cash equivalents can be considered to be highly liquid investments.

Cash flows in foreign currencies are translated at an estimated average rate. Exchange rate differences concerning finances are shown separately in the cash flow statement.

Corporate income taxes, issuance of share capital, interest received and dividends received are presented under the cash flow from operating activities. Interest paid are presented under the cash flow from operating activities and dividends paid are presented under the cash flow from financing activities.

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 22, 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.$	**2019**	**2018**
EBITDA	98,592	207,180
External interest bearing debt		
Long-term bank loans	123,236	139,290
Current portion of bank loans	-	36,556
Unsecured bond	225,183	222,055
Interest-bearing debt	348,419	397,901

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

In thousands of U.S.$	FPSO 2019	FPSO 2018	SPM 2019	SPM 2018	Consolidated 2019	Consolidated 2018
Total segment revenue	177,991	217,320	72,242	248,229	250,233	465,549
Total cost of operations	(79,706)	(74,307)	(61,728)	(185,256)	(141,434)	(259,563)
Unallocated income/ (expenses)					(10,207)	1,194
EBITDA	98,285	143,013	10,514	62,973	98,592	207,180
Depreciation and amortization	(46,984)	(106,414)	(3,135)	(691)	(50,119)	(107,105)
Results from operating activities (EBIT)	51,301	36,599	7,379	62,282	48,473	100,075
Finance income and (expense)	(40,847)	(72,937)	-	-	(40,847)	(72,937)
Income tax benefit / (expense)					5,505	(2,635)
Gain on disposal of subsidiaries					58	-
Profit for the period					13,189	24,503
Segment assets	548,355	589,364	38,914	41,697	587,269	631,061
Unallocated assets					81,287	73,602
Total assets					668,556	704,663
Segment liabilities	392,688	427,520	51,831	59,913	444,519	487,433
Capital expenditure	-	1,388	361	775	361	2,163

There are no unallocated capital expenditures in 2019 and 2018.

Geographical segments

	Revenues 2019	Revenues 2018	Assets 2019	Assets 2018	Capital expenditures 2019	Capital expenditures 2018
Europe	229,170	451,868	412,368	220,741	361	2,163
Americas	1,198	164	1,695	1,815	-	-
Asia	19,434	13,075	254,002	481,311	-	-
Africa	431	429	490	794	-	-
Australia	-	13	1	2	-	-
Total	250,233	465,549	668,556	704,663	361	2,163

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 2019, revenues from three such major customers amounted to U.S.$104,9 million, U.S$ 85,7 and U.S.$33,2 million respectively. In 2018, revenues from two such major customers amounted to U.S.$214,7 million and U.S.$181,3 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**	**2019**	**2018**
Current contract assets	*20*	7,592	11,415
Current contract liabilities	*26*	16,569	25,290

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
In 2019, there are no material changes in the contract assets or contract liabilities. All changes are related to project receivables and liabilities for the ongoing contracts.

Revenue recognised in relation to contract liabilities

In thousands of U.S.$	**2019**	**2018**
As at January 1	25,290	183,462
Invoiced amounts	62,640	129,999
Revenue recognised	(71,361)	(288,171)
As at December 31	16,569	25,290

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**	**2019**	**2018**
Asset recognised from costs incurred to fulfil a contract at December 31	*20*	7,592	11,415

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.$	2019	2018
Wages and salaries	28,718	30,256
Pension costs defined contribution plans in the United Kingdom	428	1,193
Pension costs defined benefit plans in the Netherlands	4,743	4,411
Other social security contributions	3,423	3,377
	37,312	39,237
Personnel from agencies	13,845	28,454
	51,157	67,691

The average number of full time employees (fte's) during the year 2019 was 465.3 (2018: 429.4), divided over the following departments:

	2019	2018
Engineers	186.5	189.7
Sales	11.4	6.7
Crew	160.9	137.5
General and administrative	106.5	95.5
	465.3	429.4
Personnel from agencies	99.5	165.3

The average number of fte's working outside the Netherlands in 2019 was 201.3 (2018: 169.4).

9. Research and development expense

Total net research and development expenditures in 2019 amounted to U.S.$4,591 thousand (2018: U.S.$2,369 thousand). These net expenditures include government grants related to research and development activities amounting to U.S.$10 thousand (2018: U.S.$314 thousand).

10. Finance income and expense

In thousands of U.S.$	**2019**	**2018**
Interest income	220	1,932
Financial income	220	1,932
Interest expense	(39,526)	(70,745)
Interest expense on lease liabilities	(73)	-
Financial expense	(39,599)	(70,745)
Currency exchange results	(1,468)	(4,124)
Currency exchange results	(1,468)	(4,124)
Net financing costs	(40,847)	(72,937)

11. Income tax benefit / (expense)

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

In thousands of U.S.$	**2019**	**2018**
Current period taxes	28	239
Change in deferred tax asset	5.477	(2,874)
Total income tax benefit / (expense)	5,505	(2,635)

Current period taxes mainly relate to the movement in the employee benefit reserve.

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.$		**2019**		**2018**
Profit/(loss) before income taxes		7,684		27,138
Income tax using the Company's domestic tax rate	25%	(1,921)	25%	(6,785)
Difference between statutory tax rate and tax ruling		1,921		6,785
Other foreign taxes		(54)		239
Taxes related to prior years		82		-
Change in unrecognized deferred tax assets		2,747		6,098
Change in tax percentage		2,324		(11,444)
Origination and reversal of temporary differences		406		2,472
Total income tax benefit / (expense)		5,505		(2,635)

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 17). Consequently, Bluewater's taxable result may differ from the operating result.

12. Gain on disposal of subsidiaries

During 2019 the Group has decided to dispose of its subsidiaries Supernova Energy B.V. and Bluewater Oil and Gas investments Ltd, which both carried out all of the Group's investments in oil production licences and field development cost. The disposal was effected as the Group desires to focus on its core activities being the SPM and FPSO business where the working interest of the disposed Companies, upstream activities, do not have any complementary or synergetic function for the Group. The disposal of Supernova Energy B.V. was completed on October 1, 2019, the date on which control of the Company was passed to the acquirer. The disposal of Bluewater Oil and Gas Investments Ltd was completed on December 11, 2019, the date on which control of the Company was passed to the acquirer.

A loss of U.S.$ 2,289 thousand arose on the disposal of Supernova Energy B.V., being the difference between the proceeds of the disposal and the carrying amount of the subsidiary's net assets. For Bluewater Oil and Gas Investments Ltd a profit of U.S.$ 2,347 thousand arose, which also being the difference between the proceeds of the disposal and the carrying amount of Bluewater Oil and Gas Investments Ltd net assets. The net effect of the gain on disposal of subsidiaries of USD 58 thousand has been recorded on line item gain on disposal of subsidiaries in the consolidated income statement.

13. 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, 2019	842,363	552,563	639,755	11,049	2,045,730
Reclassification	639,755	-	(639,755)	-	-
Additions	-	-	-	361	361
Translation result	-	-	-	10	10
As at December 31, 2019	1,482,118	552,563	-	11,420	2,046,101
Accumulated depreciation and impairment losses:					
As at January 1, 2019	788,030	285,110	427,093	4,427	1,504,660
Reclassification	431,102	-	(431,102)	-	-
Depreciation for the year	26,604	14,881	4,009	780	46,274
Translation result	-	-	-	8	8
As at December 31, 2019	1,245,736	299,991	-	5,215	1,550,942
Net book value	236,382	252,572	-	6,205	495,159

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

Interest capitalized for the periods ended December 31, 2019 amounts to U.S.$ nil (2018: 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, 2019 (December 31, 2018: 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 - 25 years.

At December 31, 2019 properties with a carrying amount of U.S.$236.4 million (2018: U.S.$267.0 million) are subject to a registered debenture to secure bank loans.

14. Right of use assets

As of January 1, 2019 the Company implemented IFRS 16. International Financial Reporting Standard 16 Leases (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company leases assets including buildings and vehicles. The average lease term for vehicles is 4-5 years. The lease term for the main property is 15 years.

Cost

In thousands of U.S.$	**Property**	**Vehicles**	**Office equipment**	**Total**
As at January 1, 2019	24,775	388	-	25,163
Additions	-	163	481	644
Disposals	-	(46)	-	(46)
Translation result	(485)	(8)	(1)	(494)
As at December 31, 2019	24,290	497	480	25,267

Accumulated depreciation

In thousands of U.S.$				
As at January 1, 2019	-	-	-	-
Charge for the year	2,587	246	8	2,841
Disposals	-	(30)	-	(30)
Translation result	4	-	-	4
As at December 31, 2019	2,591	216	8	2,815

Carrying amount

In thousands of U.S.$				
As at December 31, 2019	21,699	281	472	22,452

Amounts recognised in profit and loss

In thousands of U.S.$	**2019**
Depreciation expense on right-of-use assets	2,841
Interest expense on lease liabilities	73
Expense relating to short-term leases	87
Expense relating to leases of low value assets	24

At December 31, 2019, the Group is not committed to short-term leases. The total cash outflow for leases amounts to U.S.$3.4 million.

15. Intangible assets

Intangible assets were 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. In 2019 the Oil production licences and field development-costs has been disposed. 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, 2019	9,280	13,112	22,392
Additions	-	1,619	1,619
Disposals	(9,280)	-	(9,280)
As at December 31, 2019	-	14,731	14,731
Accumulated amortization and impairment losses:			
As at January 1, 2019	9,280	11,713	20,993
Amortization for the year	-	1,003	1,003
Disposals	(9,280)	-	(9,280)
As at December 31, 2019	-	12,716	12,716
Net book value	-	2,015	2,015

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
Additions	-	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

16. Other financial assets, including derivatives

In thousands of U.S.$	**2019**	**2018**
Non-current investments		
Equity securities	-	6
Derivatives used for hedging	-	-
	-	6

The equity securities in 2018 consisted of an 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 was stated at fair value. For the other investments, which were unlisted, there was no way of reliably measuring the fair value using valuation techniques, therefore these investments were stated at historical cost.

In 2019 the Company disposed its subsidiary in Bluewater Oil and Gas Investments Ltd. And Supernova Energy B.V. as stated in note 12.

17. Deferred tax assets

At December 31, 2019, the deferred tax assets 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 movements during the years 2018 and 2019 are as follows:

In thousands of U.S.$	TLCF	PPE	Unused Tax Credit	Pension	Total
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 %	(998)	(8,438)	(1,429)	(579)	(11,444)
Other	6,276	-	-	(1,599)	4,677
Change in unrecognized deferred tax assets	-	6,098	-	-	6,098
As at December 31, 2018	14,287	47,368	7,502	3,040	72,197
As at January 1, 2019	14,287	47,368	7,502	3,040	72,197
Recognised in OCI	**-**	**-**	**-**	**1,598**	**1,598**
Recognised in income statement	**5,569**	**320**	**250**	**(662)**	**5,477**
Change in tax %	998	2,690	250	101	4,039
Change in unrecognized deferred tax assets	1,033	2,838	-	-	3,871
Realization of temporary valuation differences	3,538	(5,208)	-	(763)	(2.433)
As at December 31, 2019	19,856	47,688	7,752	3,976	79,272

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.$79.3 million will be fully realized.

At December 31, 2019 Bluewater has Tax Losses Carried Forward in the Netherlands of a total nominal amount of U.S.$86.9 million expiring between 2023 and 2027. The following table specifies the years in which Bluewater's Tax Losses Carried Forward will expire:

In thousands of U.S.$	2020	2021	2022	2023	2024 and beyond	Total
Loss carry forwards in the Netherlands	-	-	-	-	86,917	86,917

At December 31, 2019 Bluewater has temporary differences related to property plant and equipment in the Netherlands. Due to the fact that these differences can only utilized in 2028 and beyond differences are not valued. Regarding the temporary valuation differences for the property, plant and equipment an amount of U.S.$119.3 has not been valued as a deferred tax asset on the statement of financial position date.

At December 31, 2019 Bluewater has loss carry forwards in the United Kingdom that do not expire of a total nominal amount of U.S.$104.9 million, resulting from trading losses incurred. Based on new secured commitments, Bluewater does consider it probable that tax losses for an amount of U.S.$4,132 thousand will be realized. Accordingly, Bluewater has recognised a deferred tax asset related to these losses to an amount of U.S.$708 thousand.

18. 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.

19. Trade and other receivables

In thousands of U.S.$	**2019**	**2018**
Trade debtors	22,752	12,017
Other receivables	10,626	3,515
Affiliated receivables	2,159	-
	35,537	15,532

The cumulative adjustment of the net realizable value of doubtful debtors amounting to U.S.$4,334 thousand (2018: U.S.$4,641 thousand) has been deducted from trade debtors. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

20. Contract assets

In thousands of U.S.$	**2019**	**2018**
Costs incurred plus profits recognised to date	362,397	643,895
Progress billings	(371,374)	(645,500)
	(8,977)	(1,605)
Amounts due from customers under construction contracts	7,592	11,415
Amounts due to customers under construction contracts	(16,569)	(13,020)
	(8,977)	(1,605)

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

21. Cash and cash equivalents

In thousands of U.S.$	**2019**	**2018**
Bank balances	21,720	58,805
Deposits	827	975
Cash and cash equivalents in the statement of cash flows	22,547	59,780

The total amount of outstanding guarantees at December 31, 2019 is U.S.$23,591 thousand (2018: U.S.$2,743 thousand). Cash collateral for bank guarantees outstanding kept in restricted accounts amounted to nil at December 31, 2019 (2018: U.S.$ nil). Furthermore cash and cash equivalents include an amount of U.S.$2,182 thousand (2018: U.S.$2,524 thousand) of restricted accounts which are not directly available for use.

22. Loans and borrowings

In thousands of U.S.$	**2019**	**2018**
Non-current liabilities		
Long-term bank loans	123,236	139,290
Unsecured bond	225,183	222,055
	348,419	361,345
Current liabilities		
Current portion of bank loans	-	36,556

Effective December 17, 2018 the Company entered into a U.S.$220.0 million Revolving Credit Facility as amended on June 21, 2019 and November 18, 2019. The amendments provided the Company with extended repayment obligations, less challenging financial covenants to comply with and an uncommitted ancillary facility of U.S.$ 30 million for guarantee and working capital. Interest on the U.S.$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3% margin (margin grid bases on leverage covenant level) per annum and the maturity date is June 30, 2022. Total fees in relation to the Revolving Credit Facility amounting to U.S.$6.3 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, 2019 amounting to U.S.$225.2 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.$14.8 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**	**2019 Face Value**	**2019 Carrying Amount**
Revolving Credit Facility	**USD**	LIBOR + 3.0%	2022	175,680	123,236
Unsecured bond	**USD**	Fixed 10%	2023	225,183	225,183
Total interest-bearing liabilities				400,863	348,419

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

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 has been expensed.

Revolving credit facility

Effective December 17, 2018 the Company entered into a U.S.$220.0 million Revolving Credit Facility as amended on June 21, 2019 and November 18, 2019. The amendments provided the Company with extended repayment obligations, less challenging financial covenants to comply with and an uncommitted ancillary facility of U.S.$ 30 million for guarantee and working capital. Interest on the U.S.$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3% margin (based on the leverage of the covenant level) per annum and the maturity date is June 30, 2022. Total fees in relation to the Revolving Credit Facility amounting to U.S.$6.3 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 provide 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, 2019 amounting to U.S.$225.2 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.$14.8 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 sail-away 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.

23. Lease liabilities

Lease liabilities included in the consolidated statement of financial position:

Analysed as:

In thousands of U.S.$	**December 31, 2019**
Non-current	18,821
Current	3,181
Total lease liabilities	22,002

Maturity analysis:

In thousands of U.S.$	**December 31, 2019**
Year 2020	3,181
Year 2021	2,899
Year 2022	2,485
Year 2023	2,364
Year 2024	2,257
Year 2025	2,094
Onwards	6,722
Total lease liabilities	22,002

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

24. 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.$	**2019**	**2018**
Present value of funded obligations	(114,243)	(93,067)
Fair value of plan assets	95,920	78,591
Net liability arising from defined benefit obligation	(18,323)	(14,476)

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, 2019 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.$	**2019**	**2018**
Defined benefit obligations at January 1,	93,067	96,478
Current service costs	3,765	4,097
Interest expense	2,178	2,136
Benefits payment from plan	(970)	(889)
Effect of changes in demographic assumptions	-	(919)
Effect of changes in financial assumptions	18,238	(3,471)
Translation result	(2,035)	(4,365)
Defined benefit obligations at December 31,	114,243	93,067

Movement in the present value of plan assets

In thousands of U.S.$	**2019**	**2018**
Fair value of plan assets at January 1,	78,591	81,325
Interest income	1,901	1,858
Employer contributions	6,318	5,770
Benefit payments from plan	(970)	(889)
Administrative expenses paid from plan assets	(35)	(36)
Re-measurements on plan assets	11,807	(5,752)
Translation result	(1,692)	(3,685)
Fair value of plan assets at December 31,	95,920	78,591

Expense recognised in the consolidated income statement and comprehensive income

In thousands of U.S.$	**2019**	**2018**
Current service costs	3,764	4,097
Interest expense on obligation	2,178	2,136
Interest (income) on plan assets	(1,901)	(1,858)
Administrative expenses and taxes	35	36
Defined benefits costs included in the consolidated income statement	4,076	4,411
Effect of changes in demographic assumptions	-	(888)
Effect of changes in financial assumptions	18,699	(3,353)
Re-measurements on plan assets (excluding interest income)	(12,397)	5,557
Defined benefits cost in other comprehensive income	6,302	1,316
Total defined benefit cost recognised in the consolidated income statement and comprehensive income	10,378	5,727

Actuarial assumptions

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

	2019	**2018**
Discount rate at December 31,	1.60%	2.35%
Future salary increases	2.0%	2.0%
Future pension increases	0.0%	0.0%
Inflation	1.3%	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	1.60%	1.85%	1.35%
Benefit obligation	114,243	108,248	120,299
Service cost at beginning of year	4,650	4,345	4,961

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 24.7 years (2018: 24.1 years). This number can be subdivided into the duration related to:

- Active members: 27.2 years (2018: 26.8 years)
- Deferred members: 25.2 years (2018: 24.6 years)
- Retired members: 11.5 years (2018: 11.2 years)

The Group expects U.S.$4,590 thousand in contributions to be paid to the defined benefit plans in 2020.
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 2019 and 2018 contributions charged to income amount to U.S.$428 thousand and U.S.$232 thousand respectively.

25. Trade and other payables, including derivatives

In thousands of U.S.$	**2019**	**2018**
Trade payables	16,556	23,810
Affiliated payables	5,000	-
Accrued expenses	11,973	18,588
Accrued interest	2,563	2,523
Fx forward contract derivatives	210	1,000
Related parties	125	125
Income taxes	50	149
Wages taxes and social securities	2,729	3,571
	39,206	49,766

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.

26. Contract liabilities

Contract liabilities classified as current liability consist 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. 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.$	**2019**	**2018**
Current contract liabilities		
Billings in excess of contract liabilities	16,569	13,020
Pre-received revenues	-	12,270
Current contract liabilities	16,569	25,290

27. 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:

	Carrying amount	
In thousands of U.S.$	**2019**	**2018**
Available-for-sale financial assets	-	6
Cash and cash equivalents	22,547	59,780
Trade and other receivables	35,537	15,532
	58,084	75,318

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

	Carrying amount	
In thousands of U.S.$	**2019**	**2018**
Europe	16,012	11,015
Asia	6,497	962
Africa	243	2
Other	-	38
	22,752	12,017

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 2019, trade receivables from four such major customers amounted to U.S.$5.9 million, U.S.$3.6 million, U.S.$ 3.5 million and U.S.$2.3 million respectively. 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.

Impairment losses

The ageing of trade receivables at the reporting date was:

In thousands of U.S.$	Gross 2019	Provision 2019	Gross 2018	Provision 2018
Current 0 - 30 days	13,488	-	8,813	-
Past due 31 – 60 days	7,811	-	2,999	19
Past due 61 - 90 days	1,099	-	240	154
Past due 91 – 180 days	118	-	53	15
More than 180 days	4,570	4,334	4,553	4,453
Total	27,086	4,334	16,658	4,641

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

In thousands of U.S.$	2019	2018
Balance at January 1	4,641	11,318
Additions	70	173
Settlement release	(316)	(6,850)
Impairment loss recognised	(61)	-
Balance at December 31	4,334	4,641

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 as amended on June 21, 2019 and November 18, 2019, 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, 2019

In thousands of U.S.$	**Carrying amount**	Contractual cash flows	1 year	2 – 5 years	More than 5 year
Non-derivative financial liabilities					
Secured bank loans	123,236	138,605	4,564	134,041	-
Lease liabilities	22,002	30,010	3,436	15,471	11,103
Unsecured U.S.$240.0 million bond issue	225,183	315,983	24,000	291,983	-
Trade and other payables	39,206	39,206	39,206	-	-
Total	409,627	523,804	71,206	441,495	11,103

December 31, 2018

In thousands of U.S.$	**Carrying amount**	Contractual cash flows	1 year	2 – 5 years	More than 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	-

Cash flow hedges

As per December 31, 2019 and December 31, 2018 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 2018. The capital structure of the Group consists of net debt (borrowings disclosed in note 22 and lease liabilities disclosed in note 23) 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.$	**2019**	**2018**
Debt	370,421	398,853
Cash and cash equivalents	(22,547)	(59,780)
Net debt	347,874	339,073
Equity	224,037	217,230
Net debt to equity ratio	*64,4%*	*64,1%*

Debt is defined as long-and short-term borrowings and lease liabilities (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 2019, approximately GBP 69.3 million (U.S.$88.6 million) of Bluewater's revenues was denominated in Pound sterling and approximately EUR 19.0 million (U.S.$21.3 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 2019 and 2018 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	
	2019	**2018**	**2019**	**2018**
EUR 1	1.1214	1.1841	1.1197	1.1439
GBP 1	1.2754	1.3382	1.3122	1.2750

Sensitivity analysis

A ten percent change in the value of the U.S. dollar against the above currencies at December 31, 2019 would have increased (decreased) the value of the forward exchange contracts by approximately U.S.$1.6 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 the amended corporate facility and our unsecured bond. We expect that in the future we will continue to have significant indebtedness under our amended corporate facility and that our unsecured bond will continue to be outstanding. 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	
	2019	**2018**
Fixed rate financial liabilities	(240,000)	(240,000)
Variable rate financial liabilities	(127,000)	(181,000)

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.$635 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.$240.0 million bond, which amounts to U.S.$ 247.2 million as per December 31, 2019 ($226.1 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).

28. 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. Operational lease expenses in 2018 amounted to U.S.$3,867. 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.

Disclosure required by IAS 17

Non-cancellable operating lease rentals are payable as follows:

In thousands of U.S.$	**2018**
Less than one year	3,693
Between one and five years	12,786
More than five years	16,989
	33,468

Leases as lessor

Disclosure required by IFRS 16

Bluewater leases its FPSOs under medium- and long-term service contracts and bareboat contracts with lease terms between one and seven years. The lessee does not have an option to purchase the property at the expiry of the lease period. Maturity analysis of operating lease payments:

In thousands of U.S.$	**December 31, 2019**
Year 1	55,998
Year 2	53,002
Year 3	24,095
Year 4	10,645
Year 5	8,845
Onwards	12,470
	165,055

During 2019, the Group reported in profit or loss lease income on operating leases of U.S.$ 54,271 thousand (2018: U.S.$ 53,042 thousand).

Disclosure required by IAS 17

The future minimum lease payments under non-cancellable leases are as follows:

In thousands of U.S.$	**2018**
Less than one year	59,025
Between one and five years	86,625
	145,650

29. 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, 2019 Bluewater has entered into purchase commitments for SPM projects of U.S.$ 19,359 thousand.

30. Related parties

Key management personnel compensation

Key management personnel compensation comprises:

In thousands of U.S.$	**2019**	**2018**
Short-term employee benefits	2,860	2,999
Post-employment benefits	181	241
	3,041	3,240

The following amounts were outstanding at the reporting date:

	Amounts owed by related parties		**Amounts owed to related parties**	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Aurelia Holding N.V.	-	-	5,000	-
Receivable due from Management Board	-		125	125
Supernova Energy B.V.	729	-	-	-
Bluewater Oil and Gas Investments Ltd	1,430	-	-	-

31. Subsequent events

There are no subsequent events.

32. 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. Bluemar Lda., in which the Company has a 49% ownership interest, is fully consolidated because this subsidiary is fully controlled by the Company based on a shareholder agreement. Except for Bluemar Lda, all subsidiaries are wholly owned. No non-controlling interests is recorded 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 (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 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. (in liquidation)	Willemstad, Curaçao
Bluewater Offshore Productions Systems Ltd.	Valetta, Malta
Bluewater Offshore Productions Systems Nigeria 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

Bluewater Manning Services Ltd and Bluewater (Munin) N.V. are in the process of voluntary winding up.

Supernova Energy B.V. has been disposed on October 1, 2019. Bluewater Oil and Gas Investments Ltd has been disposed on December 11, 2019.

Bluewater China Offshore Equipment Production Co Ltd was controlled and 100% owned by the Company before it was liquidated on March 29, 2019.

The Company had a 49% ownership interest in Bluewater Energy Services (Malaysia) Sdn Bhd. However, based on a shareholder agreement this subsidiary was fully controlled by the Company and was therefore fully consolidated before it was liquidated on September 1, 2019.

Company income statement

For the year ended 31 December

In thousands of U.S.$	**2019**	**2018**
Company result after taxes	(121)	(45)
Income from investments	13,310	24,548
Profit for the period	13,189	24,503

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)*	Note	2019	2018
Assets			
Financial assets	2	219,365	212,437
Total non-current assets		219,365	212,437
Trade and other receivables		4	-
Loans and borrowings		-	952
Receivables due from related parties	4	9,692	3,852
Cash and cash equivalents		6	6
Total current assets		9,702	4,810
Total assets		229,067	217,247
Equity			
Issued share capital		170,000	170,000
Share premium		198,568	198,568
Translation reserve		(11,690)	(12,291)
Investment revaluation reserve		-	(2,811)
Employee benefits reserve		(12,683)	(7,889)
Accumulated deficit		(120,158)	(128,347)
Total equity attributable to equity holder of the Company	3	224,037	217,230
Liabilities			
Trade and other payables		30	17
Affiliated payables		5,000	-
Total current liabilities		5,030	17
Total liabilities		5,030	17
Total equity and liabilities		229,067	217,247

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 14 to 25 of this report.
Participations in group companies in which significant influence is exercised on the business and financial policy, are valued under the net equity value, but not lower than nil. If the net asset value is negative, the participating interest is valued at nil. This likewise takes into account other long-term interests that should effectively be considered part of the net investment in the participating interest.

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.$	**2019**	**2018**
Investments in group companies	219,365	212,437
	219,365	212,437

The investments in group companies are specified as follows:

In thousands of U.S.$	**2019**	**2018**
Bluewater Offshore Productions Systems Ltd.	219,365	212,437
	219,365	212,437

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

In thousands of U.S.$	**2019**	**2018**
Opening balance	212,437	190,233
Profit for the year	13,310	24,548
Interim dividend paid	(5,000)	-
Other movements	(1,983)	(1,389)
Currency differences	601	(955)
As at December 31	219,365	212,437

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 related to the disposal of Supernova Energy B.V. 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 2019

Management proposes to add U.S.$8,189 thousand of the net profit for the year of U.S.$13,189 thousand to the accumulated deficit. U.S.$5,000 thousand is proposed to be declared for dividend. 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 2019 and 2018 consolidated financial statements amount to U.S.$423 thousand and U.S.$392 thousand respectively. Additionally, audit fees were charged by other foreign Deloitte network auditors in relation to 2019 and 2018 statutory financial statements of foreign subsidiaries amounting to U.S.$50 thousand and U.S.$50 thousand respectively. Fees for non-audit services amounted to nil in 2019 and nil in 2018.

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 2019 U.S.$5,000 thousand of dividends have been declared (nil in 2018)

Independent auditor's report

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

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Independent auditor's report

To the shareholder of Aurelia Energy N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2019 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the accompanying financial statements 2019 of Aurelia Energy N.V., based in Willemstad, Curaçao. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Aurelia Energy N.V. as at December 31, 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

- The accompanying company financial statements give a true and fair view of the financial position of Aurelia Energy N.V. as at December 31, 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at December 31, 2019.

2. The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company statement of financial position as at December 31, 2019.

2. The company income statement for 2019.

3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Aurelia Energy N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in The Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contain other information that consists of:

- Director's report.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities.

Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit.

Rotterdam, March 11, 2020

Deloitte Accountants B.V.

Signed on the original: D.A. Sonneveldt