# Financial statements 2017
# 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, 2017 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 2017 amounted to a profit of U.S.$4.7 million compared to a loss of U.S.$8.7 million for the year 2016. EBITDA for the year 2017 was U.S.$155.6 million compared to U.S.$190.0 million for the year 2016. The financial results of 2017 were mainly impacted by the following items:

The SPM division generated U.S.$35.6 million EBITDA for the year 2017 compared to U.S.$39.2 million EBITDA for the year 2016. In 2017, progress on the running SPM projects are either in design or in final stages, resulting in lower EBITDA recognition compared to the year 2016. The fourth quarter of 2017 showed an increase in EBITDA compared to the third quarter of 2017.

The 2017 EBITDA for the FPSO division was U.S.$128.2 million compared to U.S.$160.4 million EBITDA for the year 2016. The U.S.$32.2 million decrease in EBITDA compared to the year 2016 was mainly driven by a U.S.$26.0 million decrease in EBITDA for the FPSO Glas Dowr. This decrease in EBITDA is due to the recognition of the largest part of the termination fee following the termination for convenience by ENI in 2016 compared to the lay-up of the vessel in the year 2017. EBITDA of the FPSO Aoka Mizu reduced by U.S.$10.2 million. FPSO Aoka Mizu stopped production from the Ettrick field on June 1, 2016. EBITDA of the FPSO Bleo Holm decreased by U.S.$3.9 million due to lower tariff income in the year 2017 compared to the year 2016 mainly as a result of a planned maintenance shut down in July 2017 and some technical issues in October and November of this year. EBITDA for the FPSO Haewene Brim increased by U.S.$4.6 million compared to the year 2016. This increase was caused by lower credits on the lease in 2017 compared to 2016 following high availability of the FPSO during the reporting period. The company achieved cost savings on the lay-up of the Munin in the year 2017 compared to the year 2016, thereby realizing a U.S.$1.2 million EBITDA improvement for the FPSO. Finally FPSO tender costs in the year 2017 decreased by U.S.$2.1 million, despite the increase in number of tender prospects in 2017.

During the year 2017, unallocated expenses amounted to U.S.$8.2 million, compared to U.S.$9.7 million for the year 2016. The unallocated expenses for the year 2016 include a reorganization provision of U.S.$0.8 million. The portion unallocated expenses in 2017 was lower than in same period of 2016 despite higher one-off legal, advisory and professional services costs associated with the various amendments of our existing finance facilities and a lower overhead charge as a result of FPSO Aoka Mizu and FPSO Glas Dowr being off contract for the full year. This was compensated by a higher utilisation of engineering and project management staff.

Depreciation and amortization expenditure for the year 2017 amounted to U.S.$107.7 million compared to U.S.$150.7 million for the year 2016 which includes the impairment of intangible assets of U.S.$33.1 million. Decommissioning of FPSO Glas Dowr was completed on March 1, 2016 and decommissioning of FPSO Aoka Mizu on August 1, 2016. As from these dates the FPSOs were classified as 'FPSOs held for conversion' and are depreciated on an adjusted depreciation rate after the reassessment of the anticipated useful life. Since August 14, 2017 the Aoka Mizu has been under contract for conversion for the Lancaster project for Hurricane. As of that date the Aoka Mizu has been re-classified from 'FPSO held for conversion' to 'FPSO under construction'. Management also assessed indications for potential impairment of the intangible assets and other financial investments related to its upstream activities, concluding that for an amount of U.S.$33.1 million of capitalized license fees and other financial investments required impairment in the year 2016 compared to nil in 2017.

Finance expenses were U.S.$2.0 million lower compared to the previous year, at U.S.$56.2 million versus U.S.$58.2 million for the year 2016. The amendment agreements to the senior secured project finance facility and corporate credit facility have led to one-off additional amortization expenditures of debt arrangement fees of U.S.$1.3 million due to recalculation of the debt arrangement fees over the remainder period of the facilities in 2016. In the third quarter of 2017 an amount of U.S.$4.7 million was added to the debt arrangement fees. These arrangement fees consist of legal, advisory, professional, upfront and commission fees and costs incurred to get in place the overrun finance facility for the Hurricane project of which U.S.$1.8 million was amortized in 2017. The bond interest costs increased with U.S.$1.9 million in 2017 compared with 2016 as a result of quiet enjoyment in favour of Hurricane of the Aoka Mizu needed to ensure the Hurricane contract. This increase in bond interest is added to the bond value as payment in kind interest. Other interest costs decreased by U.S.$4.4 million compared to the previous year, mainly due to further reduction of net debt.

Currency exchange results were U.S.$2.1 million negative in the year 2017 compared to U.S.$3.3 million positive in the year 2016. The significant decrease in the value of the U.S. Dollar against the Euro and Pound Sterling has led to negative exchange results in the year 2017. The currency exchange rate moved from EUR/USD 1.06 and GBP/USD 1.23 at the begin of the year to EUR/USD 1.20 and GBP/USD 1.35 at the end of the year 2017. 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 in the fourth quarter of the year 2017 there were currency exchange contracts in place, the remainder of the year there were no credit lines.

Income tax benefit for the year 2017 amounted U.S.$14.3 million versus U.S.$5.8 million income tax benefit for the year 2016. The 2016 income tax benefit relates to a U.S.$6.4 million increase in the deferred tax asset and a U.S.$0.6 million tax expense mainly in relation to Glas Dowr withholding tax and Australian corporate tax. The U.S.$14.3 million income tax benefit in 2017 relates to a U.S.$12.7 million increase in the deferred tax asset and the remainder of U.S.$1.6 million mainly relates to refunds as a result of recalculation of Glas Dowr corporate income tax paid in prior years.

### Other developments

On November 28, 2016, the Company has signed a Heads of Terms with Hurricane Energy, a UK listed oil and gas-company focused on hydrocarbon resources in naturally fractured basement reservoirs, for the use of the Aoka Mizu FPSO on the Lancaster field, West of Shetland. Following the signing of the Agreement, the Company and Hurricane have substantially concluded the second phase FEED study at the end of March, 2017. On April 4, 2017, the bondholders were served with a notice of a written resolution to permit the implementation of the Head of Terms with Hurricane and related bond amendments. On April 11, 2017, The Nordic Trustee ASA confirmed that the proposed resolution was passed with the requisite majority of voting bonds voting in favour of the proposed resolution and therefore the bond agreement was changed as set out in the notice. On May 3, 2017, the project finance facility lenders consented to enter into a Hurricane letter of quiet enjoyment and bond coupon increase. Subsequently, Hurricane agreed to authorize the Company to procure long lead items in order to keep the project on schedule to deliver first oil by end of 1H 2019. On June 23, 2017, the Company and Hurricane Energy plc ("Hurricane") reached agreement on the key contracts outlining terms for the upgrade, lease and operation of the FPSO Aoka Mizu ("Transaction Documents") in connection with the Early Production System on Hurricane's Lancaster Field ("Lancaster EPS"). On June 30, 2017, Hurricane announced a fundraising of U.S.$530.0 million to fund capital expenditure in relation to the Lancaster EPS. The Transaction Documents became effective in accordance with their terms on August 14, 2017.

On June 30, 2017, Repsol Sinopec Resources UK Limited gave notice of extending the firm period of the bareboat charter for FPSO Bleo Holm at unchanged charter terms. The firm contract period now runs up until June 30, 2019.

In the SPM Segment, the Company has commenced works for the delivery of 3 buoy systems, with delivery of these buoy systems being expected by Q2 2018.

The corporate facility that was scheduled to mature on December 31, 2017 has been extended till March 31, 2018. The availability under the facility is U.S.$5.0 million until a new lender or lenders are found.

## Outlook

The outlook for the year 2018 looks promising for the Company. The increase in the oil price and the economic upturn has led to multiple interests in both assets held for conversion as well as for SPM opportunities. We started with paid preparatory studies for these FPSOs. Also the interest of our clients in the SPM segment has significantly increased.

The Company has entered into discussions with its existing and new lenders to arrange a new corporate facility, reflecting the improved market conditions and the performance of the Company. This goes in parallel with the target to refinance the unsecured subordinated bond in prior to its expiry in 2019. The solvability and liquidity improved in 2017 compared to 2016. Furthermore there are no significant changes to be expected in personnel.

Given the current business outlook and the liquidity forecast Bluewater expects 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.

## Risk management

Strategic risks:

Longer lasting lower crude oil price

In the event that the price of oil should continue to remain low over the long-term, the current industry downturn will be prolonged accordingly and the demand for offshore services may be impacted with cancellation or delay of planned investments and capital expenditures, with an ultimate severe effect on Bluewater's new order intake.
Although Bluewater's business model allows for a solid and stable cash flow depending on the leased FPSOs contract terms, cost optimization and acquisition of new profitable projects at lower oil prices remain a priority for Bluewater.

Liquidity risks:

Access to capital

Access to multiple sources of debt funding is necessary in order to ensure new projects and a sustainable growth of Bluewater's FPSO fleet and SPM projects. Failure to obtain such financing could hamper growth for Bluewater and ultimately prevent it from taking on new projects and could adversely affect Bluewater's business, results and financial condition. Bluewater envisages an adequate capital structure and continues to evaluate the various options to attract capital necessary to sustain the current activities of Bluewater in the mid to long term as well as to fund any investments necessary to redeploy the FPSOs for new contracts.

Covenants

Financial covenants need to be met with Bluewater's lenders. Failure to maintain financial covenants may adversely impact the results and financial condition of Bluewater. The available facilities contain a set of financial covenants. Bluewater aims to have sufficient headroom in relation to the financial ratios. The covenants are monitored continuously, with a 24 months forward horizon. Bluewater will continue to engage with existing and new lenders to, where needed, explore solutions to ensure compliance with the financial covenants. In the case of any anticipated risk impacting the financial condition of Bluewater, Bluewater will engage with the existing and/or new lenders in a timely manner to discuss proposed solutions.

Compliance risks: Failures of governance, transparency and integrity

Integrity failure could harm severely Bluewater's reputation, finances and business results, and it is of utmost importance across Bluewater's management that such events shall be prevented. Bluewater's Compliance Program provides policy, training, guidance and risk-based oversight and control on compliance risk and its components aim to strengthen awareness and enhance employees' capabilities for ethical decision making. Bluewater's Anti Bribery & Corruption and Code of Conduct guide employees and business partners on compliant behaviours in line with Bluewater's principles.

Operational risks: FPSO operations risk and project execution risk

With an integrated approach to quality and safety within the Company's offshore operations and projects, the Company achieves high performance with no appetite to harm people or to damage its assets or the environment in the execution in any of its activities. In the normal course of business the Company has to deal with operational risks associated with deadlines and milestones. These deadlines and milestones can be critical to achieve the anticipated end result of a project. To ensure compliance with the agreed deadlines and milestones, larger projects are split up into sub-projects while the smaller projects are coordinated and followed securely. Modern planning techniques are used to define the critical path of the project and possible delays are anticipated upon and resolved within the project. This is also the case with the Hurricane project as Hurricane has committed itself to produce first oil in H1 2019. These milestones are followed with great attention. Risk assessments ensures that milestones and deadlines are met and are in line with forecasts and expectations. Dedicated task forces are allocated in case issues arise at any given time.

## 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 and interest rate risks. 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 2017 and 2016, our research and development expenditures were U.S.$0.3 million and U.S.$0.8 million, respectively. We expect to expend similar amounts on research and development in future periods.

Hoofddorp, March 9, 2018

President and CEO:
H.J. Heerema

# Consolidated income statement

**For the year ended December 31**

| *In thousands of U.S.$* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Operating activities** | | | |
| Revenue | *6* | 342,007 | 440,254 |
| Raw materials, consumables used and other operating costs | | (134,001) | (199,492) |
| Employee benefits expense | *7* | (52,383) | (50,740) |
| **EBITDA** | *6* | 155,623 | 190,022 |
| Depreciation, impairment and amortization expense | *11,12* | (107,652) | (150,681) |
| **Results from operating activities (EBIT)** | *6* | 47,971 | 39,341 |
| | | | |
| Finance income | | 879 | 991 |
| Finance expense | | (56,235) | (58,231) |
| Currency exchange results | | (2,148) | 3,319 |
| **Net finance expense** | *9* | (57,504) | (53,921) |
| | | | |
| **Loss before income tax** | | (9,533) | (14,580) |
| Income tax benefit | *10* | 14,264 | 5,845 |
| **Profit / (Loss) for the period** | | 4,731 | (8,735) |

## Consolidated statement of comprehensive income

**For the year ended December 31**

| *In thousands of U.S.$* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Profit / (Loss) for the period** | | 4,731 | (8,735) |
| | | | |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to consolidated income statement:* | | | |
| Re-measurement of defined benefits obligation | | 5,354 | (3,914) |
| | | 5,354 | (3,914) |
| | | | |
| *Items that may be reclassified subsequently to consolidated income statement:* | | | |
| Exchange differences on translating foreign operations | | 661 | (142) |
| Net change in fair value of available-for-sale financial assets | | (7) | 5 |
| Net change in fair value of cash flow hedges transferred to consolidated income statement | | (184) | 129 |
| | | 470 | (8) |
| | | | |
| **Other comprehensive income, net of tax** | | 5,824 | (3,922) |
| | | | |
| **Total comprehensive income for the period** | | 10,555 | (12,657) |

The comprehensive income for the period is fully attributable to the shareholder.

# Consolidated statement of financial position

**As at December 31**

| *In thousands of U.S.$* | *(after appropriation of result)* | ***Note*** | **2017** | **2016** |
|---|---|---|---|---|
| **Assets** | | | | |
| | Property, plant and equipment | *11* | 644,762 | 747,856 |
| | Intangible assets | *12* | 2,158 | 3,559 |
| | Other financial investments, including derivatives | *13* | 36 | 196 |
| | Deferred tax assets | *14* | 75,071 | 62,378 |
| **Total non-current assets** | | | 722,027 | 813,989 |
| | Inventories | *15* | 1,189 | 1,602 |
| | Trade and other receivables | *16* | 11,576 | 16,706 |
| | Construction contracts | *17* | 10,166 | 2,146 |
| | Prepayments for current assets | | 1,804 | 1,963 |
| | Cash and cash equivalents | *18* | 179,884 | 67,975 |
| **Total current assets** | | | 204,619 | 90,392 |
| **Total assets** | | *6* | 926,646 | 904,381 |
| **Equity** | | | | |
| | Issued share capital | | 170,000 | 170,000 |
| | Share premium | | 198,568 | 198,568 |
| | Translation reserve | | (11,336) | (11,997) |
| | Investment revaluation reserve | | (2,811) | (2,804) |
| | Employee benefits reserve | | (8,680) | (14,034) |
| | Hedging reserve | | 10 | 194 |
| | Accumulated deficit | | (150,680) | (155,411) |
| **Total equity attributable to equity holder of the Company** | | | 195,071 | 184,516 |
| **Liabilities** | | | | |
| | Loans and borrowings | *19* | 453,690 | 477,367 |
| | Deferred income | *22* | 12,270 | 85,887 |
| | Employee benefits | *20* | 15,153 | 18,348 |
| **Total non-current liabilities** | | | 481,113 | 581,602 |
| | Loans and borrowings | *19* | 25,084 | 23,730 |
| | Trade and other payables | *21* | 54,186 | 27,815 |
| | Deferred income | *22* | 171,192 | 86,718 |
| **Total current liabilities** | | | 250,462 | 138,263 |
| **Total liabilities** | | *6* | 731,575 | 719,865 |
| **Total equity and liabilities** | | | 926,646 | 904,381 |

# Consolidated statement of changes in equity

**Attributable to shareholder of the Company**

| *In thousands of U.S.$* | Issued Share Capital | Share Premium | Translation reserve | Investment revaluation reserve | Employee benefits reserve (IAS 19) | Hedging reserve | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **170,000** | **198,568** | **(11,855)** | **(2,809)** | **(10,120)** | **65** | **(146,676)** | **197,173** |
| Result for the period | - | - | - | - | - | - | (8,735) | (8,735) |
| Foreign currency translation differences | - | - | (142) | - | - | - | - | (142) |
| Fair value of available-for-sale financial assets (OCI) | - | - | - | 5 | - | - | - | 5 |
| Movement employee benefits reserve (IAS 19) | - | - | - | - | (3,914) | - | - | (3,914) |
| Fair value of cash flow hedges transferred to consolidated income statement (OCI) | - | - | - | - | - | 129 | - | 129 |
| Total comprehensive income | - | - | (142) | 5 | (3,914) | 129 | (8,735) | (12,657) |
| **Balance at December 31, 2016** | **170,000** | **198,568** | **(11,997)** | **(2,804)** | **(14,034)** | **194** | **(155,411)** | **184,516** |
| **Balance at January 1, 2017** | **170,000** | **198,568** | **(11,997)** | **(2,804)** | **(14,034)** | **194** | **(155,411)** | **184,516** |
| Result for the period | - | - | - | - | - | - | 4,731 | 4,731 |
| Foreign currency translation differences | - | - | 661 | - | - | - | - | 661 |
| Fair value of available-for-sale financial assets (OCI) | - | - | - | (7) | - | - | - | (7) |
| Movement employee benefits reserve (IAS 19) | - | - | - | - | 5,354 | - | - | 5,354 |
| Fair value of cash flow hedges transferred to consolidated income statement (OCI) | - | - | - | - | - | (184) | - | (184) |
| Total comprehensive income | - | - | 661 | (7) | 5,354 | (184) | 4,731 | 10,555 |
| **Balance at December 31, 2017** | **170,000** | **198,568** | **(11,336)** | **(2,811)** | **(8,680)** | **10** | **(150,680)** | **195,071** |

# Consolidated statement of cash flows

| *In thousands of U.S.$* | ***Note*** | **2017** | **2016** |
|---|---|---|---|
| **Cash flows provided by operating activities** | | | |
| Profit/ (Loss) for the year | | 4,731 | (8,735) |
| | | | |
| **Adjustments for:** | | | |
| Depreciation and impairment of property, plant and equipment | | 106,251 | 115,824 |
| Amortization and impairment of intangible assets | | 1,401 | 34,857 |
| Finance expense recognized | | 56,235 | 58,231 |
| Income tax expense recognized | | 14,264 | 556 |
| Change in deferred income taxes | | (12,693) | (6,401) |
| Change in employee benefits | | (3,195) | 2,476 |
| Change in net realizable value of current assets | | (1,292) | 92 |
| Change in other financial assets, including derivatives | | 160 | (132) |
| Change in inventories | | 413 | (135) |
| Change in trade and other receivables | | 5,543 | 58,891 |
| Change in work in progress | | (8,020) | 5,650 |
| Change in prepayments for current assets | | 159 | 1,217 |
| Change in trade and other payables | | 13,242 | (31,237) |
| Change in deferred income | *22* | 10,857 | (134,717) |
| Interest paid | | (48,483) | (50,983) |
| Income tax (paid)/ received | | 1,611 | (210) |
| | | | |
| Net cash from operating activities | | 141,184 | 45,244 |
| | | | |
| **Cash flows used in investing activities** | | | |
| Payments for property, plant and equipment | | (3,138) | (42) |
| Interest received | | 879 | 991 |
| | | | |
| Net cash (used in)/generated by investing activities | | (2,259) | 949 |
| | | | |
| **Cash flows from financing activities** | | | |
| Redemption of loans and borrowings | | (25,334) | (74,542) |
| Debt arrangement fees | | (4,700) | (3,528) |
| | | | |
| Net cash (used in)/from financing activities | | (30,034) | (78,070) |
| | | | |
| Translation effect on cash | | 3,018 | (1,677) |
| | | | |
| Net increase/ (decrease) in available cash and cash equivalents | | 111,909 | (33,554) |
| Cash and cash equivalents at the beginning of the year | | 67,975 | 101,529 |
| Cash and cash equivalents at the end of the year | | 179,884 | 67,975 |

# 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: 65489/66566908 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, 2017 comprise the Company and its subsidiaries (together referred to as the "Group" or "Bluewater" and individually as "Group entities") and the Group's interest in jointly controlled entities. The Group is primarily engaged in the supply of services and products to the oil industry.

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

### Activities

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

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

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

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

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

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

Bluewater has decided not to early adopt the new standards IFRS 9 Financial Instruments, IFRS 15 Revenue Recognition and 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 9 – Financial Instruments
This Standard includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard will be mandatory as of January 1, 2018. Bluewater is analyzing the impacts and practical consequences of these standard's future application. It is expected that the main impact will relate to the new impairment model whereby impairment of the financial assets are based on a current expected credit losses model.

IFRS 15 – Revenue Recognition
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. This standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This standard will be mandatory as of January 1, 2018. Bluewater is analysing the impacts and practical consequences of these standard's future application. The preliminary analysis of the existing contracts demonstrates that the construction contract represents one performance obligation and the progress-based measurement of revenue will still be the main method used by Bluewater for the construction contracts. The lease contracts are not impacted by IFRS 15 as they are covered by IFRS 16. For the operating and maintenance contracts no major changes are anticipated. A detailed assessment will be made on a contract by contract basis and the impact of the standard will only become clear when the terms and conditions of these contracts are known (some of 2018 revenues will be based on contracts that are currently not existing).

IFRS 16 – Leases
IFRS 16 was issued in January 2016. This standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
The accounting for contracts where Bluewater is the lessor is expected to be unchanged. Bluewater has a number of lease contracts for land and buildings and instalment vessel that are currently accounted for under IAS 17 as operating leases. The following changes are expected upon transition to IFRS 16:

- Assets and liabilities are expected to increase by an amount close to the net present value of future lease payments.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) will increase as the lease payments will be presented as depreciation and finance cost rather than operating expenses.
- Operating cash flow will increase and investing and financing cash flow will decrease as the lease payments will no longer be considered as operational. Bluewater will continue to analyze the impacts and practical consequences of these standard's future application. The new standard for leases is effective January 1, 2019.

Other new or revised accounting standards are not considered to have a material impact on Bluewater's consolidated 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 (IFRS) and interpretations adopted and endorsed by the European Union.

### (b) Basis of preparation

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

The preparation of financial statements in conformity with IFRS 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 recognized 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 recognized 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 2017 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 (including the Corporate Facility, the Project Finance Facility and the Bond Loan) and to have sufficient funds to continue its operations for at least the coming 12 months. The financial statements have therefore been prepared on a going concern basis of accounting.

### (c) Basis of consolidation

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

#### (i) Subsidiaries

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

### (ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany 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 of income and comprehensive income except where hedge accounting is applied.

### (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 recognized 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 recognized initially at fair value plus, for instruments not at fair value through consolidated income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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 recognized 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, interest rate swaps and interest rate caps to hedge its risks associated with foreign currency and interest rate 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in equity remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized 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 recognized as a deduction from equity, net of any tax effects.

*Dividends*
The terms and conditions of the current corporate credit facility prohibit 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 recognized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized 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 recognized 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 15 years
- machinery and process equipment 3-10 years
  (In case of long-term contracts greater than 10 years, these items are fully depreciated over the contract duration. For shorter term contracts, a decision is made as to the applicable useful life).
- office equipment 4 years
- other 4-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 realizable 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 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 deferred income 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated income statement. Impairment losses recognized 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 recognized as an employee benefit expense in the consolidated income statement when they are due. Prepaid contributions are recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the consolidated income statement.

### (n) Government grants
Government grants that compensate Bluewater for expenses incurred are recognized in the consolidated income statement on a systematic basis in the same periods in which the expenses are recognized, 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 recognized in the consolidated income statement. Interest income is recognized as it accrues in the consolidated income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the consolidated income statement, impairment losses recognized on financial assets and losses on hedging instruments that are recognized in the consolidated income statement. Borrowing costs are recognized 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 recognized to the extent that realization of such benefits is probable.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

## 4. Financial risk management

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

### Interest rate risk

Bluewater's exposure to changes in interest rates on borrowings is mitigated by entering into interest rate swaps and interest rate caps.

### 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 19, 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.$* | **2017** | **2016** |
|---|---|---|
| **EBITDA** | 155,623 | 190,022 |
| **Interest bearing debt** | | |
| Long-term bank loans | 55,344 | 82,760 |
| Current portion of bank loans | 25,084 | 23,730 |
| Unsecured subordinated bond | 398,346 | 394,607 |
| Debt service reserve account | (20,127) | (6) |
| Interest bearing debt | 458,647 | 501,091 |

## 6. Segment information

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

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

| **Business segments** | **FPSO** | | **SPM** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| *In thousands of U.S.$* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Total segment revenue | 206,151 | 302,594 | 135,856 | 137,660 | 342,007 | 440,254 |
| Total cost of operations | (77,963) | (142,150) | (100,250) | (98,432) | (178,213) | (240,582) |
| Unallocated expenses | | | | | (8,171) | (9,650) |
| EBITDA | 128,188 | 160,444 | 35,606 | 39,228 | 155,623 | 190,022 |
| Depreciation and amortization | (106,928) | (116,749) | (724) | (837) | (107,652) | (117,586) |
| Unallocated impairment | | | | | - | (33,095) |
| Results from operating activities (EBIT) | 21,260 | 43,695 | 34,882 | 38,391 | 47,971 | 39,341 |
| Finance income and (expense) | (57,504) | (53,921) | - | - | (57,504) | (53,921) |
| Income tax benefit / (expense) | | | | | 14,264 | 5,845 |
| Profit / (Loss) for the period | | | | | 4,731 | (8,735) |
| | | | | | | |
| Segment assets | 764,588 | 792,077 | 84,793 | 46,171 | 849,381 | 838,248 |
| Unallocated assets | | | | | 77,265 | 66,133 |
| Total assets | | | | | 926,646 | 904,381 |
| | | | | | | |
| Segment liabilities | 580,955 | 675,473 | 150,620 | 44,392 | 731,575 | 719,865 |
| | | | | | | |
| Capital expenditure | 2,954 | - | 203 | 42 | 3,157 | 42 |

There are no unallocated capital expenditures in 2016 and 2017.

| **Geographical segments** | **Revenues** | | **Assets** | | **Capital expenditures** | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Europe | 334,883 | 367,565 | 417,267 | 606,034 | 203 | 42 |
| Americas | 2,085 | (2,253) | 1,622 | 1,989 | - | - |
| Asia | 3,636 | 23,844 | 506,077 | 294,855 | 2,954 | - |
| Africa | 1,403 | 1,278 | 1,398 | 1,481 | - | - |
| Australia | - | 49,820 | 282 | 22 | - | - |
| Total | 342,007 | 440,254 | 926,646 | 904,381 | 3,157 | 42 |

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 2017, revenues from three such major customers amounted to U.S.$171.7 million, U.S.$71.2 million and U.S.$40.8 million respectively. In 2016, revenues from three such major customers amounted to U.S.$182.3 million, U.S.$101.6 million and U.S.$50.0 million respectively.

## 7. Employee benefits expense

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 26,405 | 28,846 |
| Pension costs defined contribution plans in the United Kingdom | 1,014 | (116) |
| Pension costs defined benefit plans in the Netherlands | 4,279 | 3,565 |
| Other social security contributions | 2,880 | 3,115 |
| | 34,578 | 35,410 |
| Personnel from agencies | 17,805 | 15,330 |
| | 52,383 | 50,740 |

The average number of full time employees (fte's) during the year 2017 was 370.5 (2016: 481.3), divided over the following departments:

| | 2017 | 2016 |
|---|---|---|
| Engineers | 161.2 | 170.5 |
| Sales | 7.7 | 8.4 |
| Crew | 87.1 | 164.7 |
| General and administrative | 114.4 | 137.7 |
| | 370.5 | 481.3 |
| Personnel from agencies | 100.3 | 87.6 |

The average number of fte's working outside the Netherlands in 2017 was 110.8 (2016: 204.1).

## 8. Research and development expense

Total net research and development expenditures in 2017 amounted to U.S.$286 thousand (2016: U.S.$777 thousand). These net expenditures include government grants related to research and development activities amounting to U.S.$478 thousand (2016: U.S.$339 thousand).

## 9. Finance income and expense

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Interest income | 879 | 991 |
| **Financial income** | 879 | 991 |
| Interest expense | (56,235) | (58,231) |
| **Financial expense** | (56,235) | (58,231) |
| Currency exchange results | (2,148) | 3,319 |
| **Currency exchange results** | (2,148) | 3,319 |
| **Net financing costs** | (57,504) | (53,921) |

In 2017 and 2016, no interest costs were capitalized.

## 10. Income tax benefit / (expense)

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

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Current period taxes | 1,571 | (556) |
| Change in deferred tax asset | 12,693 | 6,401 |
| Total income tax benefit / (expense) | 14,264 | 5,845 |

Current period taxes relate primarily to tax repayments incurred on the Glas Dowr contract.

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.$* | | **2017** | | **2016** |
|---|---|---|---|---|
| Loss before income taxes | | (9,533) | | (14,580) |
| Income tax using the Company's domestic tax rate | 25% | 2,383 | 3% | 437 |
| Difference between statutory tax rate and tax ruling | | (2,330) | | (437) |
| Foreign current taxes offset against losses carried forward | | - | | - |
| Other foreign taxes | | 1,518 | | (556) |
| Deductions in foreign jurisdictions | | - | | (695) |
| Movement valuation allowance loss carry forward | | 12,693 | | 7,096 |
| Income tax benefit / (expense) | | 14,264 | | 5,845 |

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

Based on current business performance as well as recent agreements and ongoing negotiations with customers for the deployment of FPSOs, Bluewater expects to generate sufficient profits in the coming years to recover the deferred tax assets.

## 11. 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, 2017 | 842,363 | 1,187,976 | | 10,090 | 2,040,429 |
| Reclassification | - | (639,755) | 639,755 | - | - |
| Additions | - | 2,954 | - | 203 | 3,157 |
| Disposals | - | - | - | - | - |
| Translation result | - | - | - | 19 | 19 |
| As at December 31, 2017 | 842,363 | 551,175 | 639,755 | 10,312 | 2,043,605 |
| | | | | | |
| **Accumulated depreciation and impairment losses:** | | | | | |
| As at January 1, 2017 | 628,436 | 661,380 | - | 2,757 | 1,292,573 |
| Reclassification | - | (405,705) | 405,705 | - | - |
| Depreciation for the year | 80,090 | 14,663 | 10,694 | 804 | 106,251 |
| Disposals | - | - | - | - | - |
| Translation result | - | - | - | 19 | 19 |
| As at December 31, 2017 | 708,526 | 270,338 | 416,399 | 3,580 | 1,398,843 |
| | | | | | |
| Net book value | 133,837 | 280,837 | 223,356 | 6,732 | 644,762 |

| *In thousands of U.S.$* | FPSOs | FPSOs held for conversion | FPSO under construction | Office equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| As at January 1, 2016 | 1,901,279 | 129,060 | - | 10,089 | 2,040,428 |
| Reclassification | (1,058,916) | 1,058,916 | - | - | - |
| Additions | - | - | - | 42 | 42 |
| Disposals | - | - | - | - | - |
| Translation result | - | - | - | (41) | (41) |
| As at December 31, 2016 | 842,363 | 1,187,976 | - | 10,090 | 2,040,429 |
| | | | | | |
| **Accumulated depreciation and impairment losses:** | | | | | |
| As at January 1, 2016 | 1,094,165 | 80,613 | - | 2,012 | 1,176,790 |
| Depreciation for the year | 97,889 | 17,149 | - | 786 | 115,824 |
| Reclassification | (563,618) | 563,618 | - | - | - |
| Disposals | - | - | - | - | - |
| Translation result | - | - | - | (41) | (41) |
| As at December 31, 2016 | 628,436 | 661,380 | - | 2,757 | 1,292,573 |
| | | | | | |
| Net book value | 213,927 | 526,596 | - | 7,333 | 747,856 |

FPSOs reclassification for the period ended December 31, 2016 relates to FPSO Glas Dowr and FPSO Aoka Mizu. FPSO Glas Dowr was fully decommissioned on February 29, 2016. FPSO Aoka Mizu was fully decommissioned on July 31, 2016. FPSO reclassification for the period ended December 31, 2017 relates to FPSO Aoka Mizu. FPSO Aoka Mizu is under contract for conversion for the Lancaster project for Hurricane. As of December 31, 2017, an amount of U.S.$101,481 (December 31, 2016: U.S.$101,481) relating to capitalized interest is included in the historical cost value of the FPSOs, FPSOs held for conversion and FPSO under construction. Interest capitalized for the periods ended December 31, 2017 and 2016 amounts to U.S.$ 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, 2017 (December 31, 2016: 3 FPSOs). As of January 1, 2016 prospectively all 'FPSOs held for conversion' and 'FPSO under construction' are depreciated, based on an assumed remaining economic lifetime of 20 years.

A sensitivity analysis depending on WACC, future cash flow, oil price and crude oil production has been performed.

As of December 31, 2017, the gross carrying amount of certain office equipment amounting to nil is fully disposed (2016: U.S.$ nil). The carrying amount of property, plant and equipment sold during 2017 amounted to nil (2016: U.S.$ nil).

At December 31, 2017 properties with a carrying amount of U.S.$638.0 thousand (2016: U.S.$740.5 thousand) are subject to a registered debenture to secure bank loans.

## 12. Intangible assets

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

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

| *In thousands of U.S.$* | **Oil production licences and field development costs** | **Software costs** | **Total** |
|---|---|---|---|
| **Cost:** | | | |
| As at January 1, 2016 | 9,280 | 12,615 | 21,895 |
| Movement | - | - | - |
| As at December 31, 2016 | 9,280 | 12,615 | 21,895 |
| **Accumulated amortization and impairment losses:** | | | |
| As at January 1, 2016 | 396 | 7,295 | 7,691 |
| Amortization for the year | - | 1,761 | 1,761 |
| Impairment | 8,884 | - | 8,884 |
| As at December 31, 2016 | 9,280 | 9,056 | 18,336 |
| Net book value | - | 3,559 | 3,559 |

Management assessed indications for potential impairment of the Oil production licences and field development costs, concluding that for an amount of U.S.$9.1 million these intangible assets required impairment in the year 2016 compared to nil in 2017.

## 13. Other financial assets, including derivatives

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| **Non-current investments** | | |
| Equity securities | 6 | 11 |
| Derivatives used for hedging | 30 | 185 |
| | 36 | 196 |

The equity securities consist of a 11.1% equity investment in Emerald Energy Resources Ltd, a Nigerian indigenous oil company, a 11.1% equity investment in Amni Oil and Gas Ltd, a Nigerian company and an equity investment in San Leon Energy Plc. (former Island Oil & Gas Plc). The equity investment in San Leon Energy is stated at fair value. For the other investments, which are unlisted, there is no way of reliably measuring the fair value using valuation techniques, therefore these investments are stated at historical cost. Management assessed indications for potential impairment of the equity securities related to its upstream activities, concluding that based on the significant uncertainties involved with these investments for an amount of U.S.$24.0 million of other financial assets required impairment in the year 2016 compared to nil in 2017.

## 14. Deferred tax assets

At December 31, 2017, the tax effects of tax loss carry forward that gave rise to Bluewater's deferred income tax assets are as follows:

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Tax losses carry-forward and difference in fiscal and commercial valuations | 71,283 | 57,791 |
| Pensions | 3,788 | 4,587 |
| Deferred tax assets | 75,071 | 62,378 |

The deferred tax asset relate to the group companies in the Netherlands. The tax loss carry-forwards in the Netherlands result primarily from the amortization of goodwill and interest expense on intercompany debt. Additionally, the tax loss carry-forward increased 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 will take 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 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.$75.1 million will be fully realized.

At December 31, 2017 Bluewater has Tax Losses Carries Forward in the Netherlands of a total nominal amount of U.S.$250.9 million expiring between 2018 and 2025. The following table specifies the years in which Bluewater's Tax Losses Carries Forward will expire:

| *In thousands of U.S.$* | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and Beyond | Total |
|---|---|---|---|---|---|---|---|
| Loss carry forwards in the Netherlands | 58,699 | - | - | - | - | 192,186 | 250,885 |

At December 31, 2017 Bluewater has loss carry forwards in the United Kingdom that do not expire of a total nominal amount of U.S.$120.4 million, resulting primarily from operational losses incurred. Based on the history of earnings of the UK companies, Bluewater does not consider it probable that these tax losses and the deferred tax asset relating thereto will be realized. Accordingly, Bluewater has not recognized a deferred tax asset related to these losses.

## 15. 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.

## 16. Trade and other receivables

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Trade debtors | 7,995 | 12,255 |
| Other receivables | 3,581 | 4,451 |
| | 11,576 | 16,706 |

The cumulative adjustment of the net realizable value of doubtful debtors amounting to U.S.$11,318 thousand (2016: U.S.$12,610 thousand) has been deducted from trade debtors.

## 17. Construction contracts

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Costs incurred plus profits recognized to date | 427,449 | 504,973 |
| Progress billings | (514,857) | (515,927) |
| | (87,408) | (10,954) |
| Amounts due from customers under construction contracts | 10,166 | 2,146 |
| Amounts due to customers under construction contracts | (97,574) | (13,100) |
| | (87,408) | (10,954) |

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

## 18. Cash and cash equivalents

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Bank balances | 179,405 | 66,336 |
| Deposits | 479 | 1,639 |
| Cash and cash equivalents in the statement of cash flows | 179,884 | 67,975 |

The total amount of outstanding guarantees at December 31, 2017 is U.S.$16,992 thousand (2016: U.S.$21,275 thousand). Cash collateral for bank guarantees outstanding kept in restricted accounts amounted to nil at December 31, 2017 (2016: U.S.$ nil). The amount of U.S.$179,405 thousand in bank balances includes U.S.$20,127 thousand (2016: U.S.$ nil) debt service reserve account, a restricted account which relates to the half year interest payment of the unsecured subordinated bond. The interest payment of the unsecured subordinated bond of December 10, 2016 was paid from the debt service reserve account. The same amount has been replenished to the debt service reserve account on February 10, 2017. Furthermore cash and cash equivalents include an amount of U.S.$2,434 thousand (2016: U.S.$2,528 thousand) of restricted accounts which are not directly available for use.

## 19. Loans and borrowings

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| **Non-current liabilities** | | |
| Long-term bank loans | 55,344 | 82,760 |
| Unsecured subordinated bond | 398,346 | 394,607 |
| | 453,690 | 477,367 |
| **Current liabilities** | | |
| Current portion of bank loans | 25,084 | 23,730 |

The amount of long-term bank loans as per December 31, 2017 amounting to U.S.$55.3 million includes a U.S.$25.0 million deposit kept in a debt service reserve account which has been netted with the related bank loan. The amount of the unsecured subordinated bond as per December 31, 2017 amounting to U.S.$398.3 million is the net balance of the U.S.$401.9 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.$3.6 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** | **2017 Face Value** | **2017 Carrying Amount** |
|---|---|---|---|---|---|
| Senior secured project finance facility | **USD** | LIBOR + 4.0% | 2019 | 110,013 | 83,365 |
| Amended corporate credit facility | **USD** | LIBOR + 3.0% | 2017 | - | - |
| Unsecured subordinated bond | **USD** | Fixed 10-12% | 2019 | 401,890 | 398,346 |
| Overdraft facility | **USD** | LIBOR + 10.0% | 2018 | - | (2,937) |
| Total interest-bearing liabilities | | | | 511,903 | 478,774 |

### 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** | **2016 Face Value** | **2016 Carrying Amount** |
|---|---|---|---|---|---|
| Senior secured project finance facility | **USD** | LIBOR + 4.0% | 2019 | 135,275 | 107,133 |
| Amended corporate credit facility | **USD** | LIBOR + 3.0% | 2017 | - | (643) |
| Unsecured subordinated bond | **USD** | Fixed 10-12% | 2019 | 400,000 | 394,607 |
| Total interest-bearing liabilities | | | | 535,275 | 501,097 |

### 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 is 3-months USD Libor plus 4% margin per annum and the maturity date is March 31, 2019. This facility reduces on a quarterly basis with the net proceeds generated by the FPSO Haewene Brim and FPSO Glas Dowr, which are subject to a debenture for this facility. 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. To mitigate the interest exposure on this facility, Bluewater entered into a floating to fixed interest rate swap, thereby fixing the interest on the facility including margin at 4.9125%. The interest rate swap is effective starting August 28, 2013 until February 28, 2018. On February 9, 2016, Bluewater entered into amendment agreements to the senior secured project finance facility. The repayment schedule for the senior secured project finance facility has been updated in accordance with the provisions of the facility to reflect the current position in relation to prepayments.

### Amended corporate credit facility

Effective May 28, 2013, Bluewater entered into a U.S.$102.5 million Amended corporate credit facility, consisting of a U.S.$52.5 million term loan and a U.S.$50.0 million working capital facility. Effective December 10, 2013, Bluewater has entered into a further amendment of the Amended corporate credit facility. This further amendment includes an increased facility amount of U.S.$120 million and interest at 3-months USD Libor plus 3% margin per annum with final repayment ultimately on March 4, 2016. Total fees in relation to the revisions of the Revolving Credit Facility amounting to U.S.$2.1 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 terms and conditions of the current corporate credit facility prohibit the payment of dividends. On February 9, 2016, Bluewater entered into amendment agreements to the corporate credit facility. The corporate credit facility had an original expiry date of March 4, 2016 and Bluewater has agreed an extension until March 31, 2017. The corporate credit facility is split between a U.S.$22.2 million RCF 1 and a U.S.$44.5 million RCF 2. Interest on RCF 1 is 3-months USD Libor plus 4% margin per annum plus a deferred margin of 1% per annum, interest on RCF 2 is 3-months USD Libor plus 3% margin per annum. The outstanding amount as per December 31, 2016 is nil. During 2017 the corporate credit facility has been extended until March 31, 2018. The availability under the facility was U.S.$5.0 million. The outstanding amount as per December 31, 2017 is nil.

### Unsecured subordinated bond

Effective December 10, 2013, Bluewater issued a U.S.$400 million unsecured subordinated bond with a fixed interest rate of 10% per year and a maturity date of December 10, 2019. On the same date the existing U.S.$360 million unsecured bond loan was called and redemption of this loan took place on January 27, 2014. The total fees amounting to U.S.$10.9 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 subordinated bond as per December 31, 2016 amounting to U.S.$394.6 million is the net balance of the U.S.$400 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.$5.4 million. To release the Aoka Mizu as a guarantor for the Lancaster project Bluewater agreed with an increased coupon by a payment in kind (PIK). From August 14, 2017, 1.25% per annum shall apply in addition to the fixed rate. From January 1, 2018, the PIK coupon of 1.25% shall be increased by a further 0.5% to 1.75% per annum, and from January 1, 2019, the PIK coupon of 1.75% shall be increased by a further 0.25% to 2.0% per annum. The PIK coupon shall be payable through the issuance of additional bonds at par value and capitalised on each interest payment date. The amount of the unsecured subordinated bond as per December 31, 2017 amounting to U.S.$398.1 million is the net balance of the U.S.$401.9 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.$3.5 million.

### 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 is 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 will be available till the sailaway date of FPSO Aoka Mizu. The amounts of a proposed advance must be a minimum amount of U.S.$1.0 million and will not be more than the EPC overrun amount. Repayment of the loan shall be by consecutive quarterly instalments, the first of which shall be on the date falling 3 months after First Oil. In case the facility is not used the commitment fee is 2.5% per annum. The amount of overdraft facility as per December 31, 2017 is nil. 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. The balance of unamortized borrowing costs as per December 31, 2017 is U.S.$2.9 million.

## 20. 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.$* | **2017** | **2016** |
|---|---|---|
| Present value of funded obligations | (96,478) | (91,498) |
| Fair value of plan assets | 81,325 | 73,150 |
| Net liability arising from defined benefit obligation | (15,153) | (18,348) |

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, 2017 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.$* | **2017** | **2016** |
|---|---|---|
| Defined benefit obligations at January 1, | 91,498 | 74,696 |
| Current service costs | 3,889 | 3,125 |
| Past service costs | 156 | - |
| Interest expense | 1,992 | 2,114 |
| Benefits payment from plan | (774) | (587) |
| Participant contributions | - | 41 |
| Plan amendment | - | (683) |
| Effect of changes in demographic assumptions | - | (321) |
| Effect of changes in financial assumptions | (4,527) | 16,412 |
| Effect of experience adjustments | (7,633) | - |
| Translation result | 11,877 | (3,299) |
| Defined benefit obligations at December 31, | 96,478 | 91,498 |

### Movement in the present value of plan assets

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Fair value of plan assets at January 1, | 73,150 | 58,824 |
| Interest income | 1,635 | 1,707 |
| Employer contributions | 4,729 | 3,862 |
| Participant contributions | - | 41 |
| Benefit payments from plan | (774) | (587) |
| Administrative expenses paid from plan assets | (34) | (33) |
| Re-measurements on plan assets | (7,134) | 11,988 |
| Translation result | 9,753 | (2,652) |
| Fair value of plan assets at December 31, | 81,325 | 73,150 |

### Expense recognized in the consolidated income statement and comprehensive income

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Current service costs | 3,889 | 3,125 |
| Past service costs | 156 | - |
| Interest expense on obligation | 1,992 | 2,114 |
| Interest (income) on plan assets | (1,635) | (1,707) |
| Administrative expenses and taxes | 34 | 33 |
| Defined benefits costs included in the consolidated income statement | 4,436 | 3,565 |
| | | |
| Effect of changes in demographic assumptions | - | (306) |
| Effect of changes in financial assumptions | (4,822) | 15,659 |
| Effect of experience adjustments | (8,130) | - |
| Re-measurements on plan assets (excluding interest income) | 7,598 | (11,438) |
| Defined benefits cost in other comprehensive income | (5,354) | 3,915 |
| Total defined benefit cost recognized in the consolidated income statement and comprehensive income | (918) | 7,480 |

### Actuarial assumptions

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

| | 2017 | 2016 |
|---|---|---|
| Discount rate at December 31, | 2.25% | 2.05% |
| Future salary increases | 2.0% | 2.0% |
| Future pension increases | 0.0% | 0.0% |
| Inflation | 1.7% | 1.7% |

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

| | Basis scenario | Scenario with increased assumption | Scenario with decreased assumption |
|---|---|---|---|
| Discount rate | 2.25% | 2.50% | 2.00% |
| Benefit obligation | 96,478 | 90,825 | 102,601 |
| Service cost at beginning of year | 4,053 | 3,756 | 4,379 |

The Group expects U.S.$4,461 thousand in contributions to be paid to the defined benefit plans in 2018.

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 2017 and 2016 contributions charged to income amount to U.S.$134 thousand and U.S.$229 thousand respectively.

## 21. Trade and other payables, including derivatives

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Trade payables | 24,155 | 11,931 |
| Accrued expenses | 23,871 | 9,665 |
| Accrued interest | 2,917 | 2,876 |
| Market to market value foreign currency exchange contracts | - | 751 |
| Related parties | 125 | 125 |
| Income taxes | 149 | 225 |
| Wages taxes and social securities | 2,969 | 2,242 |
| | 54,186 | 27,815 |

## 22. Deferred income

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

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| **Non-current liabilities** | | |
| Non-current part of pre-received operational revenues | 12,270 | 85,887 |
| | 12,270 | 85,887 |

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| **Current liabilities** | | |
| Billings in excess of cost incurred | 97,574 | 13,100 |
| Current part of pre-received operational revenues | 73,618 | 73,618 |
| Current deferred income | 171,192 | 86,718 |

## 23. 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.$* | **2017** | **2016** |
| Available-for-sale financial assets | 6 | 11 |
| Derivatives used for hedging | 30 | 185 |
| Cash and cash equivalents | 179,884 | 67,975 |
| Trade and other receivables | 11,576 | 16,706 |
| | 191,496 | 84,877 |

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

| *In thousands of U.S.$* | Carrying amount 2017 | 2016 |
|---|---|---|
| Europe | 5,054 | 6,025 |
| Asia | 1,581 | 5,472 |
| Africa | 1,293 | 408 |
| Australia | - | 346 |
| Other | 67 | 4 |
| | 7,995 | 12,255 |

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 2017, trade receivables from four such major customers amounted to U.S.$2.0 million, U.S.$1.8 million, U.S.$1.2 million and U.S.$1.0 million respectively. In 2016, trade receivables from three such major customers amounted to U.S.$3.3 million, U.S.$2.7 million and U.S.$2.0 million respectively.

### Impairment losses

The ageing of trade receivables at the reporting date was:

| *In thousands of U.S.$* | Gross 2017 | Provision 2017 | Gross 2016 | Provision 2016 |
|---|---|---|---|---|
| Current 0 - 30 days | 7,192 | 409 | 7,265 | - |
| Past due 31 – 60 days | 1,163 | - | 1,259 | - |
| Past due 61 - 90 days | - | - | 1,214 | - |
| Past due 91 – 180 days | - | - | 4,317 | 2,226 |
| More than 180 days | 10,958 | 10,909 | 10,810 | 10,384 |
| Total | 19,313 | 11,318 | 24,865 | 12,610 |

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

| *In thousands of U.S.$* | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | 12,610 | 15,436 |
| Additions | 1,782 | 92 |
| Impairment loss recognized | (3,074) | (2,918) |
| Balance at December 31 | 11,318 | 12,610 |

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

The following are the contractual maturities of financial liabilities, including expected interest payments at capped or swapped interest rates where applicable:

**December 31, 2017**

| *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 | 80,428 | 115,389 | 29,938 | 85,451 | - |
| Unsecured U.S.$400.0 million bond issue | 398,346 | 502,428 | 40,000 | 454,986 | - |
| Trade and other payables | 54,186 | 54,186 | 54,186 | - | - |
| | | | | | |
| **Derivative financial instruments** | | | | | |
| Interest rate swaps used for hedging | (30) | - | - | - | - |
| Forward exchange contracts used for hedging: | | | | | |
| Outflow | (375) | - | - | - | - |
| Total | 532,555 | 672,003 | 124,124 | 540,437 | - |

**December 31, 2016**

| *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 | 107,133 | 121,884 | 29,877 | 92,007 | - |
| Unsecured U.S.$400.0 million bond issue | 394,607 | 517,778 | 40,000 | 477,778 | - |
| Trade and other payables | 27,815 | 27,815 | 27,815 | - | - |
| | | | | | |
| **Derivative financial instruments** | | | | | |
| Interest rate swaps used for hedging | (185) | - | - | - | - |
| Forward exchange contracts used for hedging: | | | | | |
| Outflow | 751 | - | - | - | - |
| Total | 530,121 | 667,477 | 97,692 | 569,785 | - |

### Cash flow hedges

As per December 31, 2017 and December 31, 2016 there are no forward exchange contracts accounted for as cash flow hedges.

### Exposure to currency risk

Bluewater's revenues are primarily denominated in U.S. dollars and, to a lesser extent, Pound sterling and Euro. In 2017, approximately GBP 52.2 million (U.S.$67.2 million) of Bluewater's revenues was denominated in Pound sterling, approximately EUR 9.5 million (U.S.$10.5 million) was denominated in Euro and approximately Kz 202.7 million (U.S.$1.2 million) was denominated in Angolan kwanza. 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 recognized as part of its income from financing activities.

In the years 2017 and 2016 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 recognized as part of the hedging reserve.

The following significant exchange rates applied during the year:

| USD | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| EUR 1 | 1.1246 | 1.1062 | 1.1977 | 1.0555 |
| GBP 1 | 1.2870 | 1.3674 | 1.3498 | 1.2303 |

### Sensitivity analysis

A ten percent change in the value of the U.S. dollar against the above currencies at December 31, 2017 would have increased (decreased) the value of the forward exchange contracts by approximately U.S.$1.7 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

## Interest rate risk

### Profile

The majority of our indebtedness consists of advances under our senior secured project finance facility, the amended corporate facility and our unsecured subordinated bond. We expect that in the future we will continue to have significant indebtedness under our senior secured project finance facility and that our unsecured subordinated bond will continue to be outstanding. Advances under the senior secured project finance facility, the amended corporate facility and the subordinated 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 | |
|---|---|---|
| | **2017** | **2016** |
| Fixed rate financial liabilities | (434,635) | (515,232) |
| Variable rate financial liabilities | (77,268) | (20,043) |

Under the documentation of the senior secured project finance facility, Bluewater is required at any time to have financial instruments in place to mitigate the interest risk to at least 75% of the total amount outstanding under the facility.

To this end, Bluewater entered into a floating to fixed interest rate swap, thereby fixing the interest on the facility including margin at 4.9125%. The interest rate swap is effective starting August 28, 2013 until February 28, 2018.

### 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 amended corporate credit facility. However at December 31, 2017 the outstanding balance is nil. A change of 50 basis points in interest rates compared to the interest rates at the reporting date would therefore have no effect 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 subordinated U.S.$401.9 million bond, which amounts to U.S.$406.4 million as per December 31, 2017.

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).

## 24. 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.$38,379 in 2017 (2016: U.S.$36,530). Operational lease expenses in 2017 amounted to U.S.$3,769 (2016: U.S.$4,361).

Non-cancellable operating lease rentals are payable as follows:

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Less than one year | 3,872 | 3,334 |
| Between one and five years | 13,945 | 12,595 |
| More than five years | 20,562 | 20,601 |
| | 38,379 | 36,530 |

### Leases as lessor

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

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Less than one year | 53,700 | 52,925 |
| Between one and five years | 60,005 | 49,805 |
| More than five years | - | - |
| | 113,705 | 102,730 |

## 25. Commitments and contingencies

### Claims and suits

Bluewater is 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.

## 26. Related parties

### Key management personnel compensation

Key management personnel compensation comprises:

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Short-term employee benefits | 2,484 | 2,169 |
| Post-employment benefits | 207 | 152 |
| | 2,691 | 2,321 |

## 27. Subsequent events

There are no subsequent events.

## 28. Group entities

### Subsidiaries

The consolidated financial statements integrally include the financial statements of the Company and the group companies listed below, which are economically and organizationally linked to the Company. Bluewater Energy Services (Malaysia) Sdn Bhd. in which the Company has a 49% ownership interest, and Bluemar Lda., in which the Company has a 49% ownership interest, are fully consolidated because these subsidiaries are fully controlled by the Company based on shareholder agreements. Except for these two companies mentioned, all subsidiaries are wholly owned.

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

Bluewater Ettrick Production (UK) Ltd., Bluewater Manning Services Limited, Bluewater Operations (UK) Ltd., Bluewater Tidal Energy Ltd. , Bluewater (UK) Ltd. and Bluewater Lancaster Production (UK) Ltd. are exempt from the audit requirements of the UK Companies Act 2006 by virtue of s479A of that UK Act. On December 18, 2017 Bluewater Energy Services (Malaysia) Sdn Bhd. filed for liquidation and is in the process of voluntary winding up.

## Company income statement

**For the year ended 31 December**

| *In thousands of U.S.$* | **2017** | **2016** |
| --- | --- | --- |
| Company result after taxes | 94 | (216) |
| Income/ (Loss) from investments | 4,637 | (8,519) |
| **Profit/ (Loss) for the period** | 4,731 | (8,735) |

The profit/ (loss) 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* | 2017 | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| | Financial assets | 2 | 190,233 | 179,772 |
| **Total non-current assets** | | | 190,233 | 179,772 |
| | | | | |
| | Trade and other receivables | | - | - |
| | Loans and borrowings | | 932 | 768 |
| | Affiliate receivables | 4 | 2,826 | 2,862 |
| | Cash and cash equivalents | | 1,080 | 1,146 |
| | | | | |
| **Total current assets** | | | 4,838 | 4,776 |
| **Total assets** | | | 195,071 | 184,548 |
| | | | | |
| **Equity** | | | | |
| | Issued share capital | | 170,000 | 170,000 |
| | Share premium | | 198,568 | 198,568 |
| | Translation reserve | | (11,336) | (11,997) |
| | Investment revaluation reserve | | (2,811) | (2,804) |
| | Employee benefits reserve | | (8,680) | (14,034) |
| | Hedging reserve | | 10 | 194 |
| | Accumulated deficit | | (150,680) | (155,411) |
| **Total equity attributable to equity holder of the Company** | | 3 | 195,071 | 184,516 |
| | | | | |
| **Liabilities** | | | | |
| | Loans and borrowings | | - | - |
| **Total non-current liabilities** | | | - | - |
| | | | | |
| | Trade and other payables | | - | 32 |
| **Total current liabilities** | | | - | 32 |
| **Total liabilities** | | | - | 32 |
| **Total equity and liabilities** | | | 195,071 | 184,548 |

# Notes to the company financial statements

## 1. Basis of preparation

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

In accordance with Article 2:402 of the Dutch Civil Code, the company income statement is presented in an abbreviated form.

## 2. Financial assets

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Investments in group companies | 190,233 | 179,772 |
| | 190,233 | 179,772 |

The investments in group companies are specified as follows:

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Bluewater Offshore Productions Systems Ltd. | 190,233 | 179,772 |
| | 190,233 | 179,772 |

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

| *In thousands of U.S.$* | **2017** | **2016** |
|---|---|---|
| Opening balance | 179,772 | 192,213 |
| Income/ (Loss) for the year | 4,637 | (8,519) |
| Capital addition | - | - |
| Other movements | 5,163 | (3,780) |
| Currency differences | 661 | (142) |
| As at December 31 | 190,233 | 179,772 |

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

## 3. Equity attributable to equity holder of the Company

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

### Share capital

The authorized and issued share capital, which has been fully paid, is U.S.$170 million divided into 34,000 preference A shares and 136,000 common B shares, each with a par value U.S.$1,000 per share. Each share is entitled 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.

New shares shall be issued to existing shareholders, in proportion to the shares held by them at the time. The Company may acquire fully-paid up shares for its own capital, provided that at least 20% of the authorized share capital remains issued and outstanding with other shareholders after any acquisitions. The Company may not vote or make a claim on any shares held and any shares held by the Company may not participate in any profit or liquidation balance.

***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 2017

Management proposes to add the net profit for the year of U.S.$4,731 to the accumulated deficit. This proposal has been reflected in the accompanying financial statements.

## 4. Affiliate receivables

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

## 5. Taxation

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

## 6. Remuneration of directors

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

## 7. Audit fees

Fees charged by Deloitte Accountants B.V. in relation to the audit of the 2017 and 2016 consolidated financial statements amount to U.S.$497 thousand and U.S.$522 thousand respectively. Additionally, audit fees were charged by other foreign Deloitte network auditors in relation to 2017 and 2016 statutory financial statements of foreign subsidiaries amounting to U.S.$109 thousand and U.S.$89 thousand respectively. Fees for non-audit services amounted to nil in 2017 and nil in 2016.

## 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 duly adopted consolidated income statement and comprehensive income may be reserved or paid out as a 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. 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. No dividends may be paid if any loss has been sustained during the year that cannot be covered by the reserves or compensated for in any other way. In 2017 and 2016 no dividends have been declared or paid.

# Independent auditor's report

To the shareholder of Aurelia Energy N.V.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 INCLUDED IN THE ANNUAL ACCOUNTS

### Our opinion

We have audited the accompanying financial statements the year ended 31 December 2017 of Aurelia Energy N.V., based in Willemstad, Curacao. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- o The accompanying consolidated financial statements give a true and fair view of the financial position of Aurelia Energy N.V. as at 31 December 2017, and of its result and its cash flows for the year ended 31 December 2017 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.
- o The accompanying company financial statements give a true and fair view of the financial position of Aurelia Energy N.V. as at 31 December 2017, and of its result for the year ended 31 December 2017 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 31 December 2017.
2. The following statements for 2017: 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 balance sheet as at 31 December 2017.
2. The company income statement for the year ended 31 December 2017.
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 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 ACCOUNTS

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

- o Director's Report
- o 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:

- o Is consistent with the financial statements and does not contain material misstatements.
- o 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.

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.:

- o 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.
- o 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.

Amsterdam, March 9, 2018
Deloitte Accountants B.V.

Initial for identification purposes:

K.G. Auw Yang