

Annual report 2020
Aurelia Energy N.V.

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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, 2020 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 2020 amounted to a loss of U.S.\$29.7 million compared to a profit of U.S.\$13.2 million for the year 2019. EBITDA for the year 2020 was U.S.\$93.3 million compared to U.S.\$98.6 million for the year 2019. The financial results of 2020 were mainly impacted by the following items:

The SPM division generated U.S.\$10.5 million EBITDA for the year 2020 which is equal with U.S.\$10.5 million EBITDA for the year 2019. In 2020 mainly two EPC projects contributed to the SPM EBITDA. In 2019 mainly one large EPC project contributed to the SPM EBITDA. Although one additional EPC contract in 2020 does not contribute a significant EBITDA for the SPM division, it does have a positive impact on the utilisation of the engineering and project management staff.

The 2020 EBITDA for the FPSO division was U.S.\$85.1 million compared to U.S.\$98.3 million EBITDA for the year 2019. The U.S.\$13.2 million decrease in EBITDA compared to the year 2019 was mainly driven by a decrease in EBITDA of the FPSO Haewene Brim of U.S.\$19.7 million. This decrease was mainly caused by U.S.\$12.3 million lower revenue related to the release of deferred revenue of the Brynhild investment. This investment is now fully depreciated, resulting in the same decrease of depreciation costs. The further decrease in EBITDA of the FPSO Haewene Brim was caused by lower topsides availability and discretionary bonus in the year 2020 compared to the year 2019 resulting from lower uptime caused by an technical issue. The EBITDA for FPSO Aoka Mizu increased with U.S.\$5.3 million in the year 2020 compared to the year 2019. First oil for FPSO Aoka Mizu was achieved in May 2019. Although the production period of FPSO Aoka Mizu is longer in the year 2020 compared to the year 2019, the increase of EBITDA was relative lower, as a result of the deteriorated oil price in 2020. In addition, there was a decrease in EBITDA of the FPSO Bleo Holm of U.S.\$1.1 million due to lower production income in the year 2020 compared to the year 2019. There was an increase in EBITDA of the FPSO Glas Dowr of U.S.\$1.8 million due to lower lay-up costs in the year 2020 compared to the year 2019. Finally the FPSO tender costs in the year 2020 decreased with U.S.\$0.5 million compared to the year 2019 as a result of exceptionally high tender activities in 2019 and the lower activity in the current (COVID 19) market.

During the year 2020, unallocated expenses amounted to U.S.\$2.3 million, compared to U.S.\$10.2 million unallocated expenses in 2019. Main contributor to the improved overhead recovery in the year 2020 compared to the year 2019, was the higher project activity and higher utilisation of engineering and project management staff.

Depreciation and amortization expenditure in 2020 amounted to U.S.\$39.9 million compared to U.S.\$50.1 million for the year 2019. This U.S.\$10.2 million decrease in depreciation costs was mainly driven by a U.S.\$12.3 million lower depreciation costs of FPSO Haewene Brim. The Brynhild investment was fully depreciated early 2019. The depreciation costs of FPSO Aoka Mizu increased with U.S.\$2.7 million as a result of a revision of the residual value of the FPSO Aoka Mizu in 2020 in combination with change in depreciation methodology in 2019. The vessel moved from depreciation under construction to depreciation in production during 2019. Finally the amortization of intangible fixed assets decreased with U.S.\$1.1 million compared with the year 2019. Additionally there was an impairment of the FPSO Glas Dowr for a total amount of U.S.\$53.5 million. This impairment has been recorded following analysing the prospects of the FPSO Glas Dowr.

Finance expenses were U.S.\$3.5 million lower compared to the previous year, at U.S.\$36.1 million versus U.S.\$39.6 million for 2019. The interest costs for the U.S.\$240.0 million bond amounted to U.S.\$24.0 million in 2020 which is equal to 2019.

The RCF interest decreased with U.S.\$3.5 million, at respectively U.S.\$4.9 million and U.S.\$8.4 million in 2020 and 2019. The interest expenses for the overdraft facility amounted to U.S.\$ 0.2 million in 2020. In 2020 the interest expenses decreased mainly due to further reduction of the net debt.

Currency exchange results were U.S.\$3.9 million negative in 2020 compared to U.S.\$1.5 million negative in 2019. The decrease in the value of the U.S. Dollar against the Euro and the volatility of the Pound Sterling has led to negative exchange results in the year 2020. The currency exchange rate moved from EUR/USD 1.12 and GBP/USD 1.31 at the beginning of the year to EUR/USD 1.23 and GBP/USD 1.37 at the end of the year 2020. 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. The Company only hedges part of the currency exposure.

Income tax benefit for the year 2020 amounted U.S.\$10.4 million versus U.S.\$5.5 million income tax benefit for the year 2019. The U.S.\$10.4 million income tax benefit in 2020 mainly relates to an increase of the deferred tax assets of U.S.\$11.6 million. This increase is mainly the result of the decision not to decrease the percentage of the corporate income tax rate ("vennootschapsbelasting") in the Netherlands in the foreseeable years. The corporate income tax rate will remain at 25% rather than the earlier proposed lower rate of 21.7%. Management re-assessed the forecast period of future cash flows related to the deferred tax asset. For financial year 2020 management has assumed a forecast period of future cash flows of 7 years (2019: 9 years), resulting in a decrease of the deferred tax asset of U.S.\$6.5 million. Other elements which justify the increase are the new recorded deferred tax asset of U.S.\$6.2 million for fiscal higher depreciation because the impairment of FPSO Glas Dowr is fiscally not followed and a new recorded deferred tax asset of U.S.\$2.0 million as consequence of newly introduced earning stripping rules. The excessive/ non-deductible interest will be utilized or credited in future years. U.S.\$0.4 million income tax expense was mainly related to UK tax. The income tax benefit in 2019 of U.S.\$5.5 million also mainly relates to an increase of the deferred tax assets of U.S.\$6.4 million. This increase was a result of the decision to lower the corporate income tax rate ("vennootschapsbelasting") in the Netherlands two years later and also to decrease the percentage of the corporate income tax rate to 21.5% instead of 20.5%. U.S.\$0.7 million income tax benefit in 2019 related to a new recorded deferred tax asset in the UK.

Other developments

On January 29, 2021 a Contract for the design, construction and delivery of a Single Point Mooring System for Benin was executed following the Letter of Award.

Outlook

The outlook for the year 2021 looks relatively promising for the Company. Even with the current Covid-19 pandemic, which resulted in high volatility of the oil prices, there are multiple interests in both assets held for conversion and contract extensions of assets in production. The interest of our clients in the SPM segment has revived in the last few months after a period of low market activities. Additionally, the Company has a written understanding for the extension of the lease contract for the FPSO Bleo Holm and preliminary discussions started for the extension of the production services for its client by the FPSO Aoka Mizu.

Investments

The Company is currently in discussion on new investments for FPSO related projects. However none of these discussions have reached to a level that contract signing is imminent in the near future.

Financing

Preliminary refinancing discussions have started with its lenders. Aim is to decrease the bond to a minimum, push back maturity of the remaining bond to the end of 2025 and to extend and increase the RCF to mid 2025 and optimise debt capacity from lease contract extensions.

Work force

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

Research & Developments

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

Risk management

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

Compliance risk:

Financial reporting

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

Strategic risk:

Crude oil price dependency

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

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

Operational risk:

Project execution risk

Inherent project execution risks require continuous oversight and control. This inherent risk exists due to a combination of geopolitical country risk, challenging regulatory environment, technical risk (such as related to technical specifications and harsh environments), asset integrity risks and third party management risks leading to potential negative impact on people, reputation, cost, schedule and environment.

Managing project execution risk is part of Bluewater's core competence and embedded in Bluewater's business processes and ways of working. Proper business case analysis, suitable project management capabilities and capacities combined with Bluewater's professional ways of working, processes and procedures mitigate project execution risk. Additional risk mitigating measures are in place related to knowledge and understanding of the countries of project execution and delivery.

Operational risks

Cyber Security Risks and data protection

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

Given the evolving nature of cyber security threats, this requires continuous focus. There is a dedicated ongoing improvement campaign in order to reduce the risk profile through

investments in hardware, software and training. The ability of the IT architecture and associated processes and controls to withstand cyber-attacks and meet recognised standards is periodically subject to independent testing and audits.

Financial risk:

Access to capital

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

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

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

Financial risk:

Absence of prolongation on leases of FPSO's

Bluewater is dependant for three of its five FPSO's to prolong the multiyear tenor of these leases. Failure to prolong these leases would hamper the ability of Bluewater for growth of its business and to attract new financing. Management is continuously monitoring the tenor of these leases and looking for ways to prolong the multiyear nature of the leases.

Financial risk:

Covenants

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

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

Compliance Risk:

Changes in applicable Laws and Regulations

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

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

Other than a potential covenants breach at year end 2020, none of the above listed risks materialized during financial year 2020. Management assessed in the 4th quarter that there was a risk of breach of certain covenants. Therefore management arranged amendments with its lenders of the covenants in December 2020. As a consequence thereof there was no breach of covenants at the year end 2020.

Company Appetite for Risks

The Risk Appetite Statement 2020 describes the boundaries within which Bluewater is willing to take risks in pursuit of its strategic objectives. Both the Management and Supervisory Board reviews the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities.

The underlying risk appetite metrics and boundary thresholds include sections on financial, strategic, operational and technological risks. The Management and Supervisory Board Audit and Finance Committee reviews these regularly. The Company has two explicit 'zero tolerance' criteria:

In relation to Safety Management:

Bluewater has zero tolerance for harm to people or for damage to its assets or the environment in the execution of its activities.

In relation to Compliance:

Bluewater has zero tolerance for non-compliance with the Bluewater Anti Bribery & Corruption Policy, and any related applicable laws and regulations. The Company will not work with business partners, contractors, vendors and clients whose decision makers/company executive leaders do not share the same (core) values and fundamental business principles as Bluewater.

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

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

Financial instruments

With most of its revenue in US dollars, Bluewater is exposed to currency exchange fluctuations. In addition, Bluewater is exposed to the risk of fluctuations of the value of financial instruments due to changes in the market rate of interest.

Bluewater uses (in the normal course of business) various types of financial instruments with the objective to minimize these currency risk. Procedures and policies are in place to control risks related to financial instruments, including a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used.

Bluewater's management is involved in the risk management process. Bluewater attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it believes to be creditworthy.

Going concern assumption, uncertainties and risks

In order to assess the appropriateness of the going concern assumption Management has made an effort to assure that Bluewater's outlook remains sufficiently stable. Negative changes in the (business) environment such as a decrease in the level of investments by oil & gas companies and the COVID-19 pandemic could affect Bluewater's ability to find a customer for the two FPSOs which are currently in lay-up, extend current lease contracts, to win new SPM contracts, to comply with loan covenants and to recover the deferred tax assets. Bluewater, despite general worries, has been dealing well with the COVID-19 pandemic that captured the world by storm early 2020 by not experiencing operational fall out, facilitating office workers to work from home, having sufficient work-in-hand and not being overly reliant on oil price swings. Management deems Bluewater is similarly capable to weather the remainder of the pandemic developments as well. Reflecting on the above mentioned as well as regulatory and market developments Management is not of the opinion that there is increased estimation uncertainty or alteration to the bandwidth it applies for making reasonable assumptions as a result of the COVID-19 pandemic. Neither has Management experienced any degradation in the quality or flow of information it has to its disposal in making estimations and assumptions.

Maintaining operational excellence, adhering to high safety standards and experiencing no supply chain disruptions Management also considers that Bluewater's project execution risk was and remains low. Progress on current SPM related work-in-hand was and remains steady without any notable setbacks. Prospective developments for Bluewater's operational FPSO vessels are in various stages. The FPSO vessel Haewene Brim is scheduled for maintenance and lifetime extension works in 2021 in Norway. In case of postponement of these works when so decided by the customer will not have any significant impact on Bluewater's operational and financial performance. Bluewater is in early talks with its customer for the FPSO vessel Aoka Mizu to extend the contract past June 2022. Significant comfort was obtained from reaching agreement with lenders on relaxing financial covenants, a recovering oil market and reaching a written understanding with customer for the renewal of the bareboat charter agreement for the FPSO vessel Bleo Holm past July 1, 2021.

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

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 2020 and 2019, our research and development expenditures were U.S.\$3,952 thousand and U.S.\$4,591 thousand, respectively. We expect to expend similar amounts on research and development in future periods.

Hoofddorp, March 12, 2021

President and CEO:
H.J. Heerema

Consolidated income statement

For the year ended December 31

In thousands of U.S.\$

| | <i>Note</i> | 2020 | 2019 |
|---|-------------|-----------|-----------|
| Operating activities | | | |
| Revenue | 7 | 327,839 | 250,233 |
| Raw materials, consumables used and other operating costs | | (178,199) | (100,484) |
| Employee benefits expense | 8 | (56,351) | (51,157) |
| EBITDA | 5 | 93,289 | 98,592 |
| Depreciation and amortization expense | 12/13/14 | (39,919) | (50,119) |
| Impairment of property, plant and equipment | 12 | (53,489) | - |
| Results from operating activities (EBIT) | | (119) | 48,473 |
| Finance income | | 54 | 220 |
| Finance expense | | (36,117) | (39,599) |
| Currency exchange results | | (3,862) | (1,468) |
| Net finance expense | 10 | (39,925) | (40,847) |
| Gain on disposal of subsidiaries | | - | 58 |
| (Loss)/profit before income tax | | (40,044) | 7,684 |
| Income tax benefit | 11 | 10,360 | 5,505 |
| (Loss)/profit for the year | | (29,684) | 13,189 |

Consolidated statement of comprehensive income

For the year ended December 31

In thousands of U.S.\$

| | <i>Note</i> | 2020 | 2019 |
|---|-------------|-----------------|----------------|
| (Loss)/profit for the year | | (29,684) | 13,189 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to consolidated income statement:</i> | | | |
| Re-measurement of defined benefit obligation | | (2,678) | (6,392) |
| Deferred tax on re-measurement of defined benefit obligation | 15 | 669 | 1,598 |
| | | <u>(2,009)</u> | <u>(4,794)</u> |
| <i>Items that may be reclassified subsequently to consolidated income statement:</i> | | | |
| Exchange differences on translating foreign operations | | 1,495 | 601 |
| Net change in fair value of available-for-sale financial assets | | - | 2,811 |
| | | <u>1,495</u> | <u>3,412</u> |
| Other comprehensive income, net of tax | | <u>(514)</u> | <u>(1,382)</u> |
| Total comprehensive income for the period | | <u>(30,198)</u> | <u>11,807</u> |

Consolidated statement of financial position

As at December 31

In thousands of U.S.\$

(after appropriation of result)

| | Note | 2020 | 2019 |
|--|------|----------------|----------------|
| Assets | | | |
| Property, plant and equipment | 12 | 404,876 | 495,159 |
| Right-of-use-assets | 13 | 22,115 | 22,452 |
| Intangible assets | 14 | 5,711 | 2,015 |
| Deferred tax assets | 15 | 90,827 | 79,272 |
| Total non-current assets | | 523,529 | 598,898 |
| Inventories | 16 | 2,083 | 1,203 |
| Trade and other receivables | 17 | 51,000 | 35,537 |
| Contract assets | 18 | 24,254 | 7,592 |
| Prepayments for current assets | | 2,296 | 2,779 |
| Cash and cash equivalents | 19 | 31,735 | 22,547 |
| Total current assets | | 111,368 | 69,658 |
| Total assets | 6 | 634,897 | 668,556 |
| Equity | | | |
| Issued share capital | | 170,000 | 170,000 |
| Share premium | | 198,568 | 198,568 |
| Translation reserve | | (10,195) | (11,690) |
| Investment revaluation reserve | | - | - |
| Other reserves | | 3,481 | - |
| Employee benefit reserve | | (14,692) | (12,683) |
| Accumulated deficit | | (153,323) | (120,158) |
| Total equity attributable to equity holder of the Company | | 193,839 | 224,037 |
| Liabilities | | | |
| Loans and borrowings | 20 | 268,190 | 348,419 |
| Lease liabilities | 21 | 17,920 | 18,821 |
| Employee benefits | 22 | 18,506 | 18,323 |
| Total non-current liabilities | | 304,616 | 385,563 |
| Loans and borrowings | 20 | 32,056 | - |
| Lease liabilities | 21 | 2,503 | 3,181 |
| Trade and other payables, including derivatives | 23 | 72,774 | 39,206 |
| Contract liabilities | 24 | 29,109 | 16,569 |
| Total current liabilities | | 136,442 | 58,956 |
| Total liabilities | 6 | 441,058 | 444,519 |
| Total equity and liabilities | | 634,897 | 668,556 |

Consolidated statement of changes in equity

Attributable to shareholder of the Company

| <i>In thousands of U.S.\$</i> | Issued Share Capital | Share Pre- mium | Translation reserve | Investment revaluation reserve | Employee benefits re- serve (IAS 19) | Accumu- lated deficit | Total eq- uity |
|--|-------------------------|--------------------|------------------------|--------------------------------------|---|--------------------------|-------------------|
| Balance at January 1, 2019 | 170,000 | 198,568 | (12,291) | (2,811) | (7,889) | (128,347) | 217,230 |
| Profit for the period | - | - | - | - | - | 13,189 | 13,189 |
| Dividend paid | - | - | - | - | - | (5,000) | (5,000) |
| Foreign currency translation differences | - | - | 601 | - | - | - | 601 |
| Fair value of available-for-sale financial as- sets (OCI) | - | - | - | 2,811 | - | - | 2,811 |
| Movement employee benefits reserve net of tax (IAS 19) | - | - | - | - | (4,794) | - | (4,794) |
| Total comprehensive income | - | - | 601 | 2,811 | (4,794) | 8,189 | 6,807 |
| Balance at December 31, 2019 | 170,000 | 198,568 | (11,690) | - | (12,683) | (120,158) | 224,037 |

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

| <i>In thousands of U.S.\$</i> | Issued Share Capital | Share Pre- mium | Translation reserve | Other re- serves | Employee benefits re- serve (IAS 19) | Accumu- lated deficit | Total eq- uity |
|---|-------------------------|--------------------|------------------------|---------------------|---|--------------------------|-------------------|
| Balance at January 1, 2020 | 170,000 | 198,568 | (11,690) | - | (12,683) | (120,158) | 224,037 |
| (Loss)/profit for the period | - | - | - | - | - | (29,684) | (29,684) |
| Addition to legal reserves | - | - | - | 3,481 | - | (3,481) | - |
| Foreign currency translation differences | - | - | 1,495 | - | - | - | 1,495 |
| Movement employee benefits reserve net of tax (IAS 19) | - | - | - | - | (2,009) | - | (2,009) |
| Total comprehensive income | - | - | 1,495 | 3,481 | (2,009) | (33,165) | (30,198) |
| Balance at December 31, 2020 | 170,000 | 198,568 | (10,195) | 3,481 | (14,692) | (153,323) | 193,839 |

The other reserves contains a legal reserve for U.S.\$ 3.5 million which is related to internally generated capitalized expenses for computer software reported under the Intangible assets.

Consolidated statement of cash flows

| <i>In thousands of U.S.\$</i> | Note | 2020 | 2019 |
|---|------|-----------------|-----------------|
| (Loss)/profit for the year | | (29,684) | 13,189 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | 37,045 | 46,274 |
| Impairment of property, plant and equipment | 12 | 53,489 | - |
| Depreciation of right-of-use assets | 13 | 2,940 | 2,841 |
| Amortization of intangible assets | 14 | (66) | 1,003 |
| Finance expense recognised | 10 | 36,117 | 39,599 |
| Income tax expense recognised | 11 | 526 | 5,505 |
| Change in deferred income taxes | 11 | (10,886) | (7,075) |
| Change in employee benefits reserve | | 183 | 3,847 |
| Movement provision for doubtful debtors | | (1,769) | (307) |
| Change in other investments, including derivatives | | - | 6 |
| Change in inventories | | (880) | (3) |
| Change in trade and other receivables | | (13,694) | (19,917) |
| Change in contract assets | | (16,662) | 3,823 |
| Change in prepayments for current assets | | 484 | (715) |
| Change in trade and other payables | | 29,413 | (22,581) |
| Change in contract liabilities | 24 | 12,540 | (8,721) |
| Currency exchange results | | (905) | - |
| Interest paid | | (27,855) | (33,613) |
| Income tax received (paid) | | (76) | 48 |
| Net cash from operating activities | | <u>70,260</u> | <u>23,203</u> |
| Cash flows used in investing activities | | | |
| Payments for property, plant and equipment | | (249) | (360) |
| Interest received | | 54 | 219 |
| Payments for intangible assets | | (3,630) | (1,619) |
| Net cash used in investing activities | | <u>(3,825)</u> | <u>(1,760)</u> |
| Cash flows from financing activities | | | |
| Redemption of loans and borrowings | | (52,000) | (54,000) |
| Repayment of lease liabilities | | (3,538) | (3,367) |
| Debt arrangement and waiver fees paid | | (2,020) | (1,273) |
| Net cash used in financing activities | | <u>(57,558)</u> | <u>(58,640)</u> |
| Translation effect on cash | | 311 | (36) |
| Net increase/ (decrease) in available cash and cash equivalents | | 9,188 | (37,233) |
| Cash and cash equivalents at the beginning of the year | | <u>22,547</u> | <u>59,780</u> |
| Cash and cash equivalents at the end of the year | 19 | <u>31,735</u> | <u>22,547</u> |

Notes to the consolidated financial statements

1. General information

Reporting entity

Aurelia Energy N.V. (the “Company”) has its legal seat in Willemstad (Curaçao). Registered number at the chamber of commerce in Curaçao: 66566908 and the chamber of commerce in the Netherlands: 856611281. The Company’s principal activity is to act as a holding company for the Bluewater group. The consolidated financial statements of the Company as at and for the year ended December 31, 2020 comprise the Company and its subsidiaries (together referred to as the “Group” or “Bluewater” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The Group is primarily engaged in the supply of services and products to the oil industry.

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

Activities

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

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

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

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

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

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

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Group has applied all amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. It relates to the following amendments: Amendments to References to the Conceptual Framework in IFRS Standards, Amendments to IFRS 3 Definition of a business and Amendments to IAS 1 and IAS 8 Definition of material.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 17 | Insurance Contracts |
| IFRS 10 and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current |
| Amendments to IFRS 3 | Reference to the Conceptual Framework |
| Amendments to IAS 16 | Property, Plant and Equipment—Proceeds before Intended Use |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Annual Improvements to IFRS Standards 2018-2020 Cycle | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

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

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

- Revenue recognition on construction contracts based on the percentage of completion method;
- Estimation of the anticipated useful life and future revenues earned with the FPSOs, which along with the discount rate, is the basis for the recoverable amounts of FPSOs;
- Estimation of the realizable amount of tax losses carried forward;
- Potential impact of claims and litigation.

Going concern assumption, uncertainties and risks

In order to assess the appropriateness of the going concern assumption Management has made an effort to assure that Bluewater's outlook remains sufficiently stable. Negative changes in the (business) environment such as a decrease in the level of investments by oil & gas companies and the COVID-19 pandemic could affect Bluewater's ability to find a customer for the two FPSOs which are currently in lay-up, extend current lease contracts, to win new SPM contracts, to comply with loan covenants and to recover the deferred tax assets. Bluewater, despite general worries, has been dealing well with the COVID-19 pandemic that captured the world by storm early 2020 by not experiencing operational fall out, facilitating office workers to work from home, having sufficient work-in-hand and not being overly reliant on oil price swings. Management deems Bluewater is similarly capable to weather the remainder of the pandemic developments as well. Reflecting on the above mentioned as well as regulatory and market developments Management is not of the opinion that there is increased estimation uncertainty or alteration to the bandwidth it applies for making reasonable assumptions as a result of the COVID-19 pandemic. Neither has Management experienced any degradation in the quality or flow of information it has to its disposal in making estimations and assumptions.

Maintaining operational excellence, adhering to high safety standards and experiencing no supply chain disruptions Management also considers that Bluewater's project execution risk was and remains low. Progress on current SPM related work-in-hand was and remains steady without any notable setbacks. Prospective developments for Bluewater's operational FPSO vessels are in various stages. The FPSO vessel Haewene Brim is scheduled for maintenance and lifetime extension works in 2021 in Norway. In case of postponement of these works when so decided by the customer will not have any significant impact on Bluewater's operational and financial performance. Bluewater is in early talks with its customer for the FPSO vessel Aoka Mizu to extend the contract past June 2022. Significant comfort was obtained from reaching agreement with lenders on relaxing financial covenants, a recovering oil market and reaching a written understanding with customer for the renewal of the bareboat charter agreement for the FPSO vessel Bleo Holm past July 1, 2021.

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

Changes in accounting estimate

As per December 31, 2020 Bluewater analysed the economic remaining useful lifetime and residual value of all FPSO's. Following this assessment, the residual value of all FPSO's have been decreased to a residual value of approximately U.S.\$ 10.0 million. In accordance with IAS 8, the company has accounted for this change in remaining useful lifetime and residual values as a change in accounting estimate which is accounted on a prospective basis as from FY2020. As a result, the depreciation charge for the period ended December 31, 2020 increased with U.S.\$ 1.5 million. The future depreciation charge will increase with approximately U.S.\$2.1 million per annum as a result of the decreased residual values.

(c) Basis of consolidation

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

(i) Subsidiaries

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

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

(ii) Transactions eliminated on consolidation

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

(d) Foreign currency

(i) Foreign currency transactions and balances

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

(ii) Foreign operations

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

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

(e) Financial instrument

(i) Non-derivative financial instruments

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

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

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

Other

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

(ii) Derivative financial instruments

Financial instruments at fair value through consolidated income statement

Bluewater uses derivative financial instruments such as forward contracts to hedge its risks associated with foreign currency fluctuations.

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

Cash flow hedges

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

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

(iii) Share capital

Ordinary shares

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

Dividends

The terms and conditions of the current corporate credit facility contains certain restrictions on the payment of dividends.

Other reserves

The other reserves contains a legal reserve which is related to internally generated capitalized expenses for computer software reported under the Intangible assets.

(f) Property, plant and equipment

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

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, taking into account its residual value. Depreciation of assets starts when they are available for their intended use.

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

- hulls 20-25 years
- swivel stack / turret 15-20 years

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis. FPSOs held for conversion' and 'FPSO under construction' are depreciated, based on an assumed remaining economic lifetime. Upon conversion a new assessment is made on the expected remaining useful life of converted FPSO. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the consolidated income statement.

(g) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated income statement when incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials and direct labour, borrowing costs paid during development and attributable overhead costs.

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

(ii) Oil production licences and field development costs

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

(iii) Software costs

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

(h) Inventories

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

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

(i) Construction contracts

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

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

(j) Impairment

The carrying amounts of financial assets and assets that are subject to amortization or depreciation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans in the Netherlands

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

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

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

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

(l) Provisions

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

(m) Revenue

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

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

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

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

(ii) Construction contracts

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

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

(n) Government grants

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

(o) Finance income and expenses

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

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

(p) Income tax

The income tax charge is based on the tax regime applicable to the various group companies in the countries in which they are legally seated. These tax regimes charge income taxes based on operating profits or on the basis of other criteria as agreed upon by the Group in specific tax rulings. Deferred taxation is considered in accounting for the income tax charge for the year.

Deferred income taxes are accounted for using the balance sheet method. Deferred income taxes are provided for temporary differences between the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Future tax benefits attributable to these differences, if any, are recognised to the extent that realization of such benefits is probable. Deferred tax assets for tax losses carry forward are recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are

expected to reverse in the foreseeable future.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(q) Leases

The Group as a lessee

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

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

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

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

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

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

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

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

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

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

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

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

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

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

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

The Group as lessor

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

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

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

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

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

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

The cash flow statement is prepared according to the indirect method.

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

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

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

4. Financial risk management

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

Bluewater's operations and sources of finance.

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

Credit risk

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

Liquidity risk

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

Currency risk

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

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, lease liabilities, 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.

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---------------------------------------|----------------|----------------|
| EBITDA | 93,289 | 98,592 |
| External interest-bearing debt | | |
| Long-term bank loans | 61,223 | 123,236 |
| Current portion of bank loans | 12,056 | - |
| Unsecured bond | 206,967 | 225,183 |
| Current portion of unsecured bond | 20,000 | - |
| Interest-bearing debt | <u>300,246</u> | <u>348,419</u> |

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 <i>In thousands of U.S.\$</i> | FPSO | | SPM | | Consolidated | |
|--|----------|----------|-----------|----------|--------------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Total segment revenue | 165,540 | 177,991 | 162,299 | 72,242 | 327,839 | 250,233 |
| Total cost of operations | (80,479) | (79,706) | (151,809) | (61,728) | (232,288) | (141,434) |
| Unallocated expenses | | | | | (2,262) | (10,207) |
| EBITDA | 85,061 | 98,285 | 10,490 | 10,514 | 93,289 | 98,592 |
| Depreciation and amortization | (36,423) | (46,984) | (3,496) | (3,135) | (39,919) | (50,119) |
| Impairment of property, plant and equipment | (53,489) | - | - | - | (53,489) | - |
| Results from operating activities (EBIT) | (4,851) | 51,301 | 6,994 | 7,379 | (119) | 48,473 |
| Finance expense and currency exchange result | | | | | (39,925) | (40,847) |
| Income tax benefit | | | | | 10,360 | 5,505 |
| Gain on disposal of subsidiaries | | | | | - | 58 |
| Profit for the period | | | | | (29,684) | 13,189 |
| Segment assets | 448,248 | 548,355 | 90,110 | 38,914 | 538,359 | 587,269 |
| Unallocated assets | | | | | 96,538 | 81,287 |
| Total assets | | | | | 634,897 | 668,556 |
| Segment liabilities | 316,813 | 392,688 | 124,264 | 51,831 | 441,058 | 444,519 |
| Capital expenditure | - | - | 249 | 361 | 249 | 361 |

There are no unallocated capital expenditures in 2020 and 2019.

| Geographical segments | Revenues | | Assets | | Capital expenditures | |
|-----------------------|----------|---------|---------|---------|----------------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Europe | 276,586 | 229,170 | 448,638 | 412,368 | 249 | 361 |
| Americas | 2,251 | 1,198 | 1,356 | 1,695 | - | - |
| Asia | 48,186 | 19,434 | 184,569 | 254,002 | - | - |
| Africa | 816 | 431 | 334 | 490 | - | - |
| Australia | - | - | - | 1 | - | - |
| Total | 327,839 | 250,233 | 634,897 | 668,556 | 249 | 361 |

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 2020, revenues from three such major customers amounted to U.S.\$111.3 million, U.S.\$75.0 and U.S.\$54.5 million respectively. In 2019, revenues from three such major customers amounted to U.S.\$104.9 million, U.S.\$85.7 and U.S.\$33.2 million respectively.

7. Revenue recognition

Assets and liabilities related to contracts with customers.

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

| <i>In thousands of U.S.\$</i> | Notes | 2020 | 2019 |
|-------------------------------|--------------|-------------|-------------|
| Current contract assets | 18 | 24,254 | 7,592 |
| Current contract liabilities | 24 | 29,109 | 16,569 |

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

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

Significant changes in contract assets and liabilities

In 2020, there are no material changes in the contract assets or contract liabilities. All changes are related to project receivables and liabilities for the ongoing contracts.

Revenue recognised in relation to contract liabilities

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|-------------------------------|---------------|---------------|
| As at January 1 | 16,569 | 25,290 |
| Invoiced amounts | 137,800 | 62,640 |
| Revenue recognised | (125,260) | (71,361) |
| As at December 31 | <u>29,109</u> | <u>16,569</u> |

Assets recognised from costs to fulfil a contract

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

| <i>In thousands of U.S.\$</i> | Note | 2020 | 2019 |
|--|-------------|---------------|--------------|
| Asset recognised from costs incurred to fulfil a contract at December 31 | 18 | <u>24,254</u> | <u>7,592</u> |

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

8. Employee benefits expense

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|--|---------------|---------------|
| Wages and salaries | 30,171 | 28,718 |
| Pension costs defined contribution plans in the United Kingdom | 516 | 428 |
| Pension costs defined benefit plans in the Netherlands | 5,638 | 4,743 |
| Other social security contributions | 3,308 | 3,423 |
| | <u>39,633</u> | <u>37,312</u> |
| Personnel from agencies | 16,718 | 13,845 |
| | <u>56,351</u> | <u>51,157</u> |

The average number of full time employees (fte's) during the year 2020 was 477.5 (2019: 465.3), divided over the following departments:

| | 2020 | 2019 |
|----------------------------|--------------|--------------|
| Engineers | 183.5 | 186.5 |
| Sales | 18.5 | 11.4 |
| Crew | 168.1 | 160.9 |
| General and administrative | 107.4 | 106.5 |
| | <u>477.5</u> | <u>465.3</u> |
| Personnel from agencies | 112.6 | 99.5 |

The average number of fte's working outside the Netherlands in 2020 was 210.6 (2019: 201.3).

9. Research and development expense

Total net research and development expenditures in 2020 amounted to U.S.\$3,952 thousand (2019: U.S.\$4,591 thousand). These net expenditures include government grants related to research and development activities amounting to U.S.\$686 thousand (2019: U.S.\$10 thousand).

10. Net finance expense

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---------------------------------------|-----------------|-----------------|
| Interest income | 54 | 220 |
| Financial income | <u>54</u> | <u>220</u> |
| Interest expense | (35,857) | (39,526) |
| Interest expense on lease liabilities | (260) | (73) |
| Financial expense | <u>(36,117)</u> | <u>(39,599)</u> |
| Currency exchange results | (3,862) | (1,468) |
| Currency exchange results | <u>(3,862)</u> | <u>(1,468)</u> |
| Net financing costs | <u>(39,925)</u> | <u>(40,847)</u> |

11. Income tax benefit

The breakdown of income tax benefit is as follows:

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---------------------------------------|---------------|--------------|
| Current period taxes | (503) | (54) |
| Adjustments in respect of prior years | (23) | 82 |
| Change in deferred tax asset | 10,886 | 5,477 |
| Total income tax benefit | <u>10,360</u> | <u>5,505</u> |

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

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

| <i>In thousands of U.S.\$</i> | | 2020 | | 2019 |
|--|-----|---------------|-----|--------------|
| Profit/(loss) before income taxes | | (40,044) | | 7,684 |
| Income tax using the Company's domestic tax rate | 25% | 10,011 | 25% | (1,921) |
| Difference between statutory tax rate and tax ruling | | (10,011) | | 1,921 |
| Other foreign taxes | | (503) | | (54) |
| Taxes related to prior years | | (23) | | 82 |
| Change in unrecognized deferred tax assets | | 4,582 | | 2,747 |
| Change in tax percentage | | 12,260 | | 2,324 |
| Origination and reversal of temporary differences | | (5,956) | | 406 |
| Total income tax benefit | | <u>10,360</u> | | <u>5,505</u> |

The effective tax rate of -25,9% (2019: -71,6%) differs from the statutory tax rate, mainly because Bluewater is subject to taxation in various countries with different statutory tax rates and taxable results vary in the various countries involved. Additionally, some group companies have significant tax losses carried forward, for which no (full) deferred tax asset is recognised (see note 15). Consequently, Bluewater's taxable result may differ from the operating result.

12. Property, plant and equipment

| <i>In thousands of U.S.\$</i> | FPSOs | FPSOs held for conversion | FPSO under construction | Office equipment | Total |
|--|------------------|---------------------------|-------------------------|------------------|------------------|
| Cost: | | | | | |
| As at January 1, 2020 | 1,482,118 | 552,563 | - | 11,420 | 2,046,101 |
| Additions | - | - | - | 249 | 249 |
| Disposals | - | - | - | (1,263) | (1,263) |
| Translation result | - | - | - | 15 | 15 |
| As at December 31, 2020 | <u>1,482,118</u> | <u>552,563</u> | <u>-</u> | <u>10,421</u> | <u>2,045,102</u> |
| Accumulated depreciation and impairment losses: | | | | | |
| As at January 1, 2020 | 1,245,736 | 299,991 | - | 5,215 | 1,550,942 |
| Depreciation for the year | 21,555 | 14,542 | - | 948 | 37,045 |
| Impairment | - | 53,489 | - | - | 53,489 |
| Disposals | - | - | - | (1,263) | (1,263) |
| Translation result | - | - | - | 13 | 13 |
| As at December 31, 2020 | <u>1,267,291</u> | <u>368,022</u> | <u>-</u> | <u>4,913</u> | <u>1,640,226</u> |
| Net book value | <u>214,827</u> | <u>184,541</u> | <u>-</u> | <u>5,508</u> | <u>404,876</u> |

| | FPSOs | FPSOs held for conversion | FPSO under construction | Office equipment | Total |
|--|-----------|---------------------------|-------------------------|------------------|-----------|
| <i>In thousands of U.S.\$</i> | | | | | |
| Cost: | | | | | |
| As at January 1, 2019 | 842,363 | 552,563 | 639,755 | 11,049 | 2,045,730 |
| Reclassification | 639,755 | - | (639,755) | - | - |
| Additions | - | - | - | 361 | 361 |
| Translation result | - | - | - | 10 | 10 |
| As at December 31, 2019 | 1,482,118 | 552,563 | - | 11,420 | 2,046,101 |
| Accumulated depreciation and impairment losses: | | | | | |
| As at January 1, 2019 | 788,030 | 285,110 | 427,093 | 4,427 | 1,504,660 |
| Reclassification | 431,102 | - | (431,102) | - | - |
| Depreciation for the year | 26,604 | 14,881 | 4,009 | 780 | 46,274 |
| Translation result | - | - | - | 8 | 8 |
| As at December 31, 2019 | 1,245,736 | 299,991 | - | 5,215 | 1,550,942 |
| Net book value | 236,382 | 252,572 | - | 6,205 | 495,159 |

FPSO reclassification for the period ended December 31, 2019 related to FPSO Aoka Mizu. FPSO Aoka Mizu was under contract for conversion for the Lancaster project for Hurricane. No interest was capitalized for the periods ended December 31, 2020 and 2019.

Bluewater has two FPSOs held for construction or in lay-up kept in the category 'FPSOs held for conversion' for the period ended December 31, 2020 (December 31, 2019: 2 FPSOs). Starting from January 1, 2016, prospectively all 'FPSOs held for conversion' and 'FPSO under construction' are depreciated, based on an assumed remaining economic lifetime of 0 - 25 years.

At December 31, 2020 properties with a carrying amount of U.S.\$214.8 million (2019: U.S.\$ 236.4 million) are subject to a registered debenture to secure bank loans.

During the year, as a result of an analysis of the prospects of the Glas Dowr FPSO and the current economic environment, the Group carried out a review of the recoverable amount the Glas Dowr FPSO. The carrying amount of the Glas Dowr FPSO has been compared with the value in use amounting to U.S.\$150.0 million. The review led to the recognition of an impairment loss of U.S.\$ 53.5 million, which has been recognised in the FY2020 profit or loss. Cash flow projections used in the determination of value in use were made using management's forecasts of key assumptions related to the expected contract term, day rate, residual value and the discount rate. The discount rate used in measuring value in use was 11.3%. No impairment assessment was performed in 2019 as there was no indication of impairment. The FPSO Glas Dowr belongs to the FPSO business segment and the impairment loss has been included in the profit and loss line item Impairment of property, plant and equipment.

13. Right of use assets

The Company leases assets including buildings and vehicles. The average lease term for vehicles is 4-5 years. The original lease term for the main property was 15 years.

| | Property | Vehicles | Office equipment | Total |
|-------------------------------|----------|----------|------------------|--------|
| <i>In thousands of U.S.\$</i> | | | | |
| Cost | | | | |
| As at January 1, 2020 | 24,290 | 497 | 480 | 25,267 |
| Additions | - | 515 | 121 | 636 |
| Disposals | - | (177) | - | (177) |
| Translation result | 2,307 | 74 | 56 | 2,437 |
| As at December 31, 2020 | 26,597 | 909 | 657 | 28,163 |

Accumulated depreciation

In thousands of U.S.\$

| | | | | |
|-------------------------|-------|-------|-----|-------|
| As at January 1, 2020 | 2,591 | 216 | 8 | 2,815 |
| Charge for the year | 2,624 | 211 | 105 | 2,940 |
| Disposals | - | (177) | - | (177) |
| Translation result | 439 | 22 | 9 | 470 |
| As at December 31, 2020 | 5,654 | 272 | 122 | 6,048 |

Carrying amount

| | | | | |
|-------------------------|--------|-----|-----|--------|
| As at December 31, 2020 | 20,943 | 637 | 535 | 22,115 |
|-------------------------|--------|-----|-----|--------|

In thousands of U.S.\$

Cost

| | Property | Vehicles | Office equipment | Total |
|-------------------------|----------|----------|------------------|--------|
| As at January 1, 2019 | 24,775 | 388 | - | 25,163 |
| Additions | - | 163 | 481 | 644 |
| Disposals | - | (46) | - | (46) |
| Translation result | (485) | (8) | (1) | (494) |
| As at December 31, 2019 | 24,290 | 497 | 480 | 25,267 |

Accumulated depreciation

In thousands of U.S.\$

| | | | | |
|-------------------------|-------|------|---|-------|
| As at January 1, 2019 | - | - | - | - |
| Charge for the year | 2,587 | 246 | 8 | 2,841 |
| Disposals | - | (30) | - | (30) |
| Translation result | 4 | - | - | 4 |
| As at December 31, 2019 | 2,591 | 216 | 8 | 2,815 |

Carrying amount

| | | | | |
|-------------------------|--------|-----|-----|--------|
| As at December 31, 2019 | 21,699 | 281 | 472 | 22,452 |
|-------------------------|--------|-----|-----|--------|

Amounts recognised in profit and loss

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|--|-------|-------|
| Depreciation expense on right-of-use assets | 2,940 | 2,841 |
| Interest expense on lease liabilities | 260 | 73 |
| Expense relating to short-term leases | - | 87 |
| Expense relating to leases of low value assets | 23 | 24 |

At December 31, 2020, the Group is not committed to short-term leases. The total cash outflow for leases amounts to U.S.\$3.5 million (2019: U.S.\$3.4 million)

14. Intangible assets

As at 31 December 2020 intangible assets consist of capitalized costs of computer software. The computer software additions of U.S.\$ 3,630 thousand (2019: U.S.\$ 1,619 thousand can be divided into an amount of U.S.\$ 2,404 thousand (2019: U.S.\$ 764 thousand) internal development hours and U.S.\$ 1,226 thousand (2019: U.S.\$ 855 thousand) external development costs. In 2019 the Oil production licences and field development-costs related to oil production blocks located in Nigeria, Guinea-Bissau and Ireland have been disposed. The movement of intangible assets is as follows:

| <i>In thousands of U.S.\$</i> | Oil production li- cences and field de- velopment costs | Software costs | Total |
|--|--|-----------------------|--------------|
| Cost: | | | |
| As at January 1, 2020 | - | 14,731 | 14,731 |
| Additions | - | 3,630 | 3,630 |
| As at December 31, 2020 | - | 18,361 | 18,361 |
| Accumulated amortization and impairment losses: | | | |
| As at January 1, 2020 | - | 12,716 | 12,716 |
| Amortization for the year | - | (66) | (66) |
| As at December 31, 2020 | - | 12,650 | 12,650 |
| Net book value | - | 5,711 | 5,711 |
| | | | |
| Cost: | | | |
| As at January 1, 2019 | 9,280 | 13,112 | 22,392 |
| Additions | - | 1,619 | 1,619 |
| Disposals | (9,280) | - | (9,280) |
| As at December 31, 2019 | - | 14,731 | 14,731 |
| | | | |
| Accumulated amortization and impairment losses: | | | |
| As at January 1, 2019 | 9,280 | 11,713 | 20,993 |
| Amortization for the year | - | 1,003 | 1,003 |
| Disposals | (9,280) | - | (9,280) |
| As at December 31, 2019 | - | 12,716 | 12,716 |
| Net book value | - | 2,015 | 2,015 |

15. Deferred tax assets

At December 31, 2020, the deferred tax assets comprise of tax losses carry forward (TLCF), temporary valuation differences for property plant and equipment (PPE), unused tax credit and temporary valuation differences for pensions (pension). The movements during the years 2019 and 2020 are as follows:

| <i>In thousands of U.S.\$</i> | TLCF | PPE | Unused Tax | | Total |
|--|-------------|------------|-------------------|----------------|--------------|
| | | | Credit | Pension | |
| As at January 1, 2019 | 14,287 | 47,368 | 7,502 | 3,040 | 72,197 |
| Recognised in OCI | - | - | - | 1,598 | 1,598 |
| Recognised in income statement | 5,569 | 320 | 250 | (662) | 5,477 |
| Change in tax % | 998 | 2,690 | 250 | 101 | 4,039 |
| Change in unrecognized deferred tax assets | 1,033 | 2,838 | - | - | 3,871 |
| Realization of temporary valuation differences | 3,538 | (5,208) | - | (763) | (2,433) |
| As at December 31, 2020 | 19,856 | 47,688 | 7,752 | 3,976 | 79,272 |

| <i>In thousands of U.S.\$</i> | Unused Tax | | | | Total |
|--|--------------|--------------|--------------|-------------|---------------|
| | TLCF | PPE | Credit | Pension | |
| As at January 1, 2020 | 19,856 | 47,688 | 7,752 | 3,976 | 79,272 |
| Recognised in OCI | - | - | - | 669 | 669 |
| Recognised in income statement | 5,933 | 1,813 | 3,159 | (19) | 10,886 |
| Change in tax % | 2,649 | 7,827 | 1,179 | 605 | 12,260 |
| Change in unrecognized deferred tax assets | 3,409 | (807) | 1,980 | - | 4,582 |
| Realization of temporary valuation differences | (125) | (5,207) | - | (624) | (5,956) |
| As at December 31, 2020 | 25,789 | 49,501 | 10,911 | 4,626 | 90,827 |

The deferred tax assets relate to the group companies in the Netherlands. The tax loss carry-forward exists due to operational losses in prior years. Due to the transfer of the vessels from the Curacao NV's to Dutch BV's a tax rejuvenation has taken place. The book result on this transfer will be compensated by Tax Losses Carried Forward in the current fiscal year while a higher tax book value will generate higher fiscal depreciation in the future. Additionally, since the impairment on the book value of the FPSO Glas Dowl cannot be taken into account from a tax perspective, the higher tax book value will generate higher fiscal depreciation in the future resulting in an increase of the deferred tax assets. 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.\$90.8 million will be fully realized.

At December 31, 2020 Bluewater has Tax Losses Carried Forward in the Netherlands of a total nominal amount of U.S.\$100.5 million expiring between 2023 and 2027. The following table specifies the years in which Bluewater's Tax Losses Carried Forward will expire:

| <i>In thousands of U.S.\$</i> | 2021 | 2022 | 2023 | 2024 | 2025 and beyond | Total |
|--|------|------|--------|-------|-----------------|---------|
| Loss carry forwards in the Netherlands | - | - | 42,276 | 6,509 | 51,731 | 100,516 |

At December 31, 2020 Bluewater has temporary differences related to property plant and equipment in the Netherlands. Due to the fact that these differences can only be utilized in 2027 and beyond, these differences are not valued. Regarding the temporary valuation differences for the property, plant and equipment an amount of U.S.\$171.6 million has not been valued as a deferred tax asset on the statement of financial position date.

At December 31, 2020 Bluewater has loss carry forwards in the United Kingdom that do not expire of a total nominal amount of U.S.\$57 million, resulting from trading losses incurred. Based on new secured commitments, Bluewater does consider it probable that tax losses for an amount of U.S.\$3,473 thousand will be realized. Accordingly, Bluewater has recognised a deferred tax asset related to these losses to an amount of U.S.\$660 thousand (year 2019: U.S.\$ 709 thousand).

16. Inventories

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

17. Trade and other receivables

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---------------------------------|---------------|---------------|
| Trade debtors | 41,563 | 22,752 |
| Other receivables | 4,813 | 10,416 |
| FX forward contract derivatives | 1,312 | 210 |
| Affiliated receivables | 3,312 | 2,159 |
| | <u>51,000</u> | <u>35,537</u> |

The cumulative adjustment of the net realizable value of doubtful debtors amounting to U.S.\$ 2,565 thousand (2019: U.S.\$4,334 thousand) has been deducted from trade debtors. The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The expected credit losses on trade receivables amounts to U.S.\$ nil (2019: U.S.\$ nil)

18. Contract assets

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---|----------------|----------------|
| Costs incurred plus profits recognised to date | 494,314 | 362,397 |
| Progress billings | (499,169) | (371,374) |
| | <u>(4,855)</u> | <u>(8,977)</u> |
| Amounts due from customers under construction contracts | 24,254 | 7,592 |
| Amounts due to customers under construction contracts | (29,109) | (16,569) |
| | <u>(4,855)</u> | <u>(8,977)</u> |

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

19. Cash and cash equivalents

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|--|---------------|---------------|
| Bank balances | 31,422 | 21,720 |
| Deposits | 313 | 827 |
| Cash and cash equivalents in the statement of cash flows | <u>31,735</u> | <u>22,547</u> |

The total amount of outstanding guarantees at December 31, 2020 is U.S.\$31,382 thousand (2019: U.S.\$23,591 thousand). Cash collateral for bank guarantees outstanding kept in restricted accounts amounted to nil at December 31, 2020 (2019: U.S.\$ nil). Furthermore, cash and cash equivalents include an amount of U.S.\$332 thousand (2019: U.S.\$ 2,182 thousand) of restricted accounts which are not directly available for use.

20. Loans and borrowings

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|------------------------------------|----------------|----------------|
| Non-current liabilities | | |
| Long-term bank loans | 61,223 | 123,236 |
| Unsecured bond | 206,967 | 225,183 |
| | <u>268,190</u> | <u>348,419</u> |
| Current liabilities | | |
| Current portion of unsecured bonds | 20,000 | - |
| Current portion of bank loans | 12,056 | - |
| | <u>32,056</u> | <u>-</u> |

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| <i>In thousands of U.S.\$</i> | Nominal Currency | interest rate | Year of Maturity | 2020 Face Value | 2020 Carrying Amount |
|------------------------------------|---------------------|---------------|---------------------|-----------------------|----------------------------|
| Revolving Credit Facility | USD | LIBOR + 3.0% | 2022 | 125,945 | 73,279 |
| Unsecured bond | USD | Fixed 10% | 2023 | 226,967 | 226,967 |
| Total interest-bearing liabilities | | | | <u>352,912</u> | <u>300,246</u> |

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| <i>In thousands of U.S.\$</i> | Nominal Currency | interest rate | Year of Maturity | 2019 Face Value | 2019 Carrying Amount |
|------------------------------------|---------------------|---------------|---------------------|-----------------------|----------------------------|
| Revolving Credit Facility | USD | LIBOR + 3.0% | 2022 | 175,680 | 123,236 |
| Unsecured bond | USD | Fixed 10% | 2023 | 225,183 | 225,183 |
| Total interest-bearing liabilities | | | | <u>400,863</u> | <u>348,419</u> |

Revolving credit facility

Effective December 17, 2018 the Company entered into a U.S.\$220.0 million Revolving Credit Facility as amended on June 21, 2019, November 18, 2019 and December 23, 2020. The amendments provided the Company with extended repayment obligations, less challenging financial covenants to comply with and an uncommitted ancillary facility of U.S.\$70 million for guarantee and working capital. Interest on the U.S.\$220.0 million Revolving Credit Facility is 3-months USD Libor plus 3,375% margin (margin grit based on the leverage of the covenant level) per annum and the maturity date is June 30, 2022. In 2020 the company paid a fee of U.S.\$0.1 million for the amendment of December 23, 2020. Total fees in relation to the Revolving Credit Facility amounting to U.S.\$6.4 million have been accounted for as an adjustment to the carrying amount of the loan and are amortized over the term of the facility. FPSO's Aoka Mizu, Haewene Brim and Bleo Holm provide collateral for this facility.

Unsecured bond

Effective November 28, 2018 the Company issued a U.S.\$240.0 million unsecured bond, with a fixed interest rate of 10% per year and a maturity date of November 28, 2023. On December 18, 2020, the Company has agreed an amendment to the Bond Loan agreement. This amendment addressed 1) the Leverage Covenant level from November 1, 2020 to and including June 30, 2021 and 2) any Voluntary Early Redemption of the Bonds will reduce the mandatory Redemption of the Bonds in order of maturity. In 2020 the company paid an additional waiver fee of U.S.\$1.9 million.

The total fees amounting to U.S.\$20.1 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 amount of the unsecured bond as per December 31, 2020 amounting to U.S.\$227.0 million is the net balance of the U.S.\$240.0 million unsecured bond loan and the current balance of unamortized borrowing costs of U.S.\$13.0 million. On January 29, 2021, the Company exercised its right to call U.S.\$20 million of Bond. The mandatory Redemption of the Bond of U.S.\$20 million, that initially fell in November 2021, is fulfilled on January 29, 2021.

21. Lease liabilities

Lease liabilities included in the consolidated statement of financial position:

Analysed as:

| <i>In thousands of U.S.\$</i> | December 31, 2020 | December 31, 2019 |
|-------------------------------|-------------------|-------------------|
| Non-current | 17,920 | 18,821 |
| Current | 2,503 | 3,181 |
| Total lease liabilities | <u>20,423</u> | <u>22,002</u> |

Maturity analysis:

| <i>In thousands of U.S.\$</i> | December 31, 2020 | December 31, 2019 |
|-------------------------------|-------------------|-------------------|
| Year 1 | 2,503 | 3,181 |
| Year 2 | 2,892 | 2,899 |
| Year 3 | 2,754 | 2,485 |
| Year 4 | 2,586 | 2,364 |
| Year 5 | 2,313 | 2,257 |
| Onwards | 7,375 | 8,816 |
| Total lease liabilities | <u>20,423</u> | <u>22,002</u> |

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

22. Employee benefits

The group companies in the Netherlands provide a defined benefit pension plan for all its employees. Under the 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 15.1 thousand and up to a maximum of approximately EUR 85.8 thousand, for each year of service until retirement age of 68.

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

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---|-----------------|-----------------|
| Present value of funded obligations | (137,634) | (114,243) |
| Fair value of plan assets | 119,128 | 95,920 |
| Net liability arising from defined benefit obligation | <u>(18,506)</u> | <u>(18,323)</u> |

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, 2020 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

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|--|----------------|----------------|
| Defined benefit obligations at January 1, | 114,243 | 93,067 |
| Current service costs | 4,994 | 3,765 |
| Interest expense | 1,686 | 2,178 |
| Benefits payment from plan | (967) | (970) |
| Effect of changes in demographic assumptions | (3,423) | - |
| Effect of changes in financial assumptions | 7,914 | 18,238 |
| Effect of experience adjustments | 1,201 | - |
| Translation result | 11,986 | (2,035) |
| Defined benefit obligations at December 31, | <u>137,634</u> | <u>114,243</u> |

Movement in the present value of plan assets

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---|----------------|---------------|
| Fair value of plan assets at January 1, | 95,920 | 78,591 |
| Interest income | 1,494 | 1,901 |
| Employer contributions | 9,177 | 6,318 |
| Benefit payments from plan | (967) | (970) |
| Administrative expenses paid from plan assets | (36) | (35) |
| Re-measurements on plan assets | 3,239 | 11,807 |
| Translation result | 10,301 | (1,692) |
| Fair value of plan assets at December 31, | <u>119,128</u> | <u>95,920</u> |

Expense recognised in the consolidated income statement and comprehensive income

In thousands of U.S.\$

| | 2020 | 2019 |
|---|--------------|---------------|
| Current service costs | 4,994 | 3,764 |
| Interest expense on obligation | 1,686 | 2,178 |
| Interest (income) on plan assets | (1,494) | (1,901) |
| Administrative expenses and taxes | 36 | 35 |
| Defined benefits costs included in the consolidated income statement | <u>5,222</u> | <u>4,076</u> |
| Effect of changes in demographic assumptions | (3,694) | - |
| Effect of changes in financial assumptions | 8,005 | 18,699 |
| Effect of experience adjustments | 1,296 | - |
| Re-measurements on plan assets (excluding interest income) | (2,831) | (12,397) |
| Defined benefits cost in other comprehensive income | <u>2,776</u> | <u>6,302</u> |
| Total defined benefit cost recognised in the consolidated income statement and comprehensive income | <u>7,998</u> | <u>10,378</u> |

Actuarial assumptions

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

| | 2020 | 2019 |
|-------------------------------|------|------|
| Discount rate at December 31, | 1.3% | 1.6% |
| Future salary increases | 2.0% | 2.0% |
| Future pension increases | 1.3% | 0.0% |
| Inflation | 1.3% | 1.3% |

The duration of the liabilities is approximately 24.3 years based on the discount rate above. The sensitivity of the main driver which is the discount rate can be displayed as follows:

| | Basis scenario | Scenario with increased assumption | Scenario with decreased assumption |
|-----------------------------------|----------------|------------------------------------|------------------------------------|
| Discount rate | 1.30% | 1.55% | 1.05% |
| Benefit obligation | 137,634 | 129,685 | 146,233 |
| Service cost at beginning of year | 6,039 | 6,524 | 5,597 |

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

The average duration of the benefit obligation at the end of the reporting period is 24.3 years (2019: 24.7 years). This number can be subdivided into the duration related to:

- Active members: 26.6 years (2019: 27.2 years)
- Deferred members: 26.1 years (2019: 25.2 years)
- Retired members: 11.2 years (2019: 11.5 years)

The Group expects U.S.\$9,947 thousand in contributions to be paid to the defined benefit plans in 2021.

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 2020 and 2019 contributions charged to income amount to U.S.\$516 thousand and U.S.\$ 428 thousand respectively.

23. Trade and other payables, including derivatives

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|-----------------------------------|---------------|---------------|
| Trade payables | 22,975 | 16,556 |
| Affiliated payables | - | 5,000 |
| Accrued expenses | 27,775 | 12,183 |
| Accrued interest | 4,775 | 2,563 |
| Related parties | 125 | 125 |
| VAT payables | 13,435 | - |
| Income taxes | 438 | 50 |
| Wages taxes and social securities | 3,251 | 2,729 |
| | <u>72,774</u> | <u>39,206</u> |

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

24. Contract liabilities

Contract liabilities classified as current liability consist of instalments invoiced for construction contracts exceeding cost incurred, deferred bareboat revenues based on straight-lining of the contractual revenues over the duration of the contract and pre-received revenues from third parties.

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|--|---------------|---------------|
| Current contract liabilities | | |
| Billings in excess of contract liabilities | 29,109 | 16,569 |
| Current contract liabilities | <u>29,109</u> | <u>16,569</u> |

25. 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:

| <i>In thousands of U.S.\$</i> | Carrying amount | |
|-------------------------------|-----------------|---------------|
| | 2020 | 2019 |
| Cash and cash equivalents | 31,735 | 22,547 |
| Trade and other receivables | 51,000 | 35,537 |
| | <u>82,735</u> | <u>58,084</u> |

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

| <i>In thousands of U.S.\$</i> | Carrying amount | |
|-------------------------------|-----------------|---------------|
| | 2020 | 2019 |
| Europe | 37,773 | 16,012 |
| Asia | 3,736 | 6,497 |
| Africa | 54 | 243 |
| | <u>41,563</u> | <u>22,752</u> |

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 2020, trade receivables from three such major customers amounted to U.S.\$18.7 million, U.S.\$8.1 million and U.S.\$5.8 million. In 2019, trade receivables from four such major customers amounted to U.S.\$5.9 million, U.S.\$3.6 million, U.S.\$3.5 million and U.S.\$2.3 million.

Impairment losses

The ageing of trade receivables at the reporting date was:

| <i>In thousands of U.S.\$</i> | Gross 2020 | Provision 2020 | Gross 2019 | Provision 2019 |
|-------------------------------|------------|----------------|------------|----------------|
| Current 0 - 30 days | 20,445 | - | 13,488 | - |
| Past due 31 – 60 days | 18,442 | - | 7,811 | - |
| Past due 61 - 90 days | 1,848 | - | 1,099 | - |
| Past due 91 – 180 days | 107 | - | 118 | - |
| More than 180 days | 3,286 | 2,565 | 4,570 | 4,334 |
| Total | 44,128 | 2,565 | 27,086 | 4,334 |

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

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|-------------------------------|---------|-------|
| Balance at January 1 | 4,334 | 4,641 |
| Additions | 74 | 70 |
| Settlement release | (1,839) | (316) |
| Impairment loss recognised | (4) | (61) |
| Balance at December 31 | 2,565 | 4,334 |

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

In 2018, Bluewater has entered into a Revolving Credit Facility up to U.S.\$220 million as amended on June 21, 2019, November 18, 2019 and December 23, 2020, with this Facility it can access the capital needs to meet fluctuations in liquidity by drawing funds under this facility. Below are the contractual maturities of financial liabilities:

December 31, 2020

| <i>In thousands of U.S.\$</i> | Carrying amount | Contractual cash flows | 1 year | 2 – 5 years | More than 5 years |
|---|-----------------|------------------------|---------|-------------|-------------------|
| Non-derivative financial liabilities | | | | | |
| Secured bank loans | 73,279 | 78,351 | 14,513 | 63,838 | - |
| Lease liabilities | 20,423 | 28,979 | 2,964 | 13,833 | 12,182 |
| Unsecured U.S.\$240.0 million bond issue | 226,967 | 291,136 | 42,081 | 249,055 | - |
| Trade and other payables | 72,774 | 72,774 | 72,774 | - | - |
| Total | 393,443 | 471,240 | 132,332 | 326,726 | 12,182 |

December 31, 2019

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

Cash flow hedges

As per December 31, 2020 and December 31, 2019 there are no forward exchange contracts accounted for as cash flow hedges.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2019. The capital structure of the Group consists of net debt (borrowings disclosed in note 20 and lease liabilities disclosed in note 21) and equity of the Group (comprising issued capital, reserves, retained earnings). The Group is subject to externally imposed capital requirements regarding to Unsecured bond and the Revolving Credit Facility.

Gearing ratio

In thousands of U.S.\$

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| Debt | 320,669 | 370,421 |
| Cash and cash equivalents | (31,735) | (22,547) |
| Net debt | <u>288,934</u> | <u>347,874</u> |
| Equity | <u>193,839</u> | <u>224,037</u> |
| Net debt to equity ratio | 67.1% | 64.4% |

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

Exposure to currency risk

Bluewater's revenues are primarily denominated in U.S. dollars and, to a lesser extent, Pound sterling and Euro. In 2020, approximately U.S.\$96.3 million (2019: U.S.\$88.6 million) of Bluewater's revenues was denominated in Pound sterling and approximately U.S.\$40.5 million (2019: U.S.\$21.3 million) was denominated in Euro. Bluewater's expenses are denominated primarily in U.S. dollars and to a lesser degree, Euro, Pound sterling and several other currencies. Bluewater is exposed to fluctuations in foreign currency exchange rates, because a portion of its expenses and financial indebtedness is denominated in currencies that are different from Bluewater's revenues. Bluewater's policy is to match, through our FPSO service agreements, the revenues in a particular currency with its operating costs in that currency, thereby minimizing the risk associated with fluctuations in foreign currency exchange rates. Bluewater also matches its indebtedness denominated in U.S. dollars with its revenues denominated in U.S. dollars. Bluewater purchases foreign currency exchange contracts from financial institutions to the extent of any residual exposure. Bluewater manages its outstanding currency exposure on a regular basis and nets these exposures across its operations as a group. Gains and losses related to specific currency transactions are recognised as part of its income from financing activities.

In the years 2020 and 2019 Bluewater entered into foreign currency exchange contracts in relation to projects to hedge against the risk of fluctuations in foreign currency exchange rates for expenditures in currencies other than the project currency. Bluewater may designate certain foreign currency exchange contracts as cash flow hedges. For such contracts designated and that qualify as cash flow hedges gains and losses related to project specific currency transactions are recognised as part of the hedging reserve.

The following significant exchange rates applied during the year:

| USD | Average rate | | Reporting date mid-spot rate | |
|-------|--------------|--------|------------------------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| EUR 1 | 1.1379 | 1.1214 | 1.2280 | 1.1197 |
| GBP 1 | 1.2844 | 1.2754 | 1.3687 | 1.3122 |

Sensitivity analysis

A ten percent change in the value of the U.S. dollar against the above currencies at December 31, 2020 would have increased

(decreased) the value of the forward exchange contracts by approximately U.S.\$2.6 million (2019: U.S.\$1.6 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Profile

The majority of Group indebtedness consists of the amended corporate facility and unsecured bond. Management expects that in the future the Group will continue to have significant indebtedness under amended corporate facility and that unsecured bond will continue to be outstanding. The amended corporate facility and the loan bear interest at rates typically expressed as a margin over the appropriate interbank rate.

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

| <i>In thousands of U.S.\$</i> | Notional amounts | |
|-------------------------------------|-------------------------|-------------|
| | 2020 | 2019 |
| Fixed rate financial liabilities | (240,000) | (240,000) |
| Variable rate financial liabilities | (75,000) | (127,000) |

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

Interest sensitivity will remain for the Revolving Credit Facility. A change of 50 basis points in interest rates compared to the interest rates at the reporting date would therefore have an effect of U.S.\$375 thousand on the consolidated income statement

Fair values versus carrying amounts

The fair values of financial assets and liabilities are not materially different from the carrying amounts, except for the fair value of the unsecured U.S.\$240.0 million bond, which amounts to U.S.\$228.6 million as per December 31, 2020 (U.S.\$247.2 million as per December 31, 2019).

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).

26. Operating leases

Leases as lessor

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

| <i>In thousands of U.S.\$</i> | December 31, 2020 | December 31, 2019 |
|-------------------------------|--------------------------|--------------------------|
| Year 1 | 53,002 | 55,998 |
| Year 2 | 24,095 | 53,002 |
| Year 3 | 10,645 | 24,095 |
| Year 4 | 8,845 | 10,645 |
| Year 5 | 6,995 | 8,845 |
| Onwards | 5,475 | 12,470 |
| | 109,057 | 165,055 |

During 2020, the Group reported in profit or loss lease income on operating leases of U.S.\$ 55,797 thousand (2019: U.S.\$ 54,271 thousand).

27. Commitments and contingencies

Claims and suits

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

Purchase commitments

As per December 31, 2020 Bluewater has entered into purchase commitments for SPM projects of U.S.\$ 74,475 thousand (31 December 2019: U.S.\$ 19,359 thousand).

28. Related parties

Key management personnel compensation

Key management personnel compensation comprises:

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|-------------------------------|--------------|--------------|
| Short-term employee benefits | 2,442 | 2,860 |
| Post-employment benefits | 199 | 181 |
| | <u>2,641</u> | <u>3,041</u> |

The following amounts were outstanding at the reporting date:

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---------------------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 |
| Aurelia Holding N.V. | - | - | - | 5,000 |
| Receivable due from Management Board | - | - | 125 | 125 |
| Supernova Energy B.V. | 1,854 | 729 | - | - |
| Bluewater Oil and Gas Investments Ltd | 1,441 | 1,430 | - | - |
| Galaxy Energy B.V. | 17 | - | - | - |
| | <u>3,312</u> | <u>2,159</u> | <u>125</u> | <u>5,125</u> |

29. Subsequent events

There are no subsequent events.

30. Group entities

Subsidiaries

The consolidated financial statements integrally include the financial statements of the Company and the group companies listed below, which are economically and organizationally linked to the Company. Bluemar Lda., in which the Company has a 49% ownership interest, is fully consolidated because this subsidiary is fully controlled by the Company based on a shareholder agreement. Except for Bluemar Lda, all subsidiaries are wholly owned. No non-controlling interests is recorded for Bluemar Lda, due to the fact this entity has a negative equity value as at balance sheet date.

| Name | Legal seat |
|---|---|
| Bluemar Lda. | Luanda, Angola |
| Bluewater (Aoka Mizu) B.V. | Hoofddorp, the Netherlands |
| Bluewater Australia Pty Ltd. (in liquidation) | Melbourne, Victoria |
| Bluewater (Bleo Holm) B.V. | Hoofddorp, the Netherlands |
| 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 Floating Production B.V. | Hoofddorp, the Netherlands |
| Bluewater (Floating Production) Ltd. | London, United Kingdom |
| Bluewater (Glas Dowl) B.V. | Hoofddorp, the Netherlands |
| Bluewater (Glas Dowl) N.V. | Willemstad, Curaçao |
| Bluewater (Haewene Brim) B.V. | Hoofddorp, the Netherlands |
| Bluewater Holding B.V. | Hoofddorp, the Netherlands |
| Bluewater International B.V. | Hoofddorp, the Netherlands |
| Bluewater International Holdings B.V. | Hoofddorp, the Netherlands |
| Bluewater International US Inc. | Humble, Texas, United States of America |
| Bluewater Lancaster Production (UK) Ltd. | London, United Kingdom |
| Bluewater (Munin) B.V. | Hoofddorp, the Netherlands |
| Bluewater Offshore Productions Systems Ltd. | Valetta, Malta |
| Bluewater Offshore Productions Systems Nigeria Ltd. | Lagos, Nigeria |
| Bluewater Services International Private Ltd. | Singapore |
| Bluewater Services (UK) Ltd. | London, United Kingdom |
| Bluewater Technical Support N.V. | Willemstad, Curaçao |
| Bluewater Tidal Energy Ltd. | London, United Kingdom |
| Pierce Production Company Ltd. | London, United Kingdom |

Bluewater Australia Pty Ltd. is in the process of voluntary winding up.

Bluewater (Aoka Mizu) N.V., Bluewater (Bleo Holm) N.V., Bluewater (Haewene Brim) N.V. and Bluewater (Munin) N.V. were controlled and 100% owned by the Company before they are dissolved and liquidated as per respectively September 14, 2020, September 26, 2020, September 26, 2020 and September 26, 2020.

Bluewater Etrick Production (UK) Ltd., Operations (UK) Ltd. and Bluewater (UK) Ltd. were controlled and 100% owned by the Company before they were dissolved as per December 22, 2020

Bluewater Manning Services Ltd. was dissolved as per February 28, 2020.

Company income statement

For the year ended 31 December

In thousands of U.S.\$

| | 2020 | 2019 |
|-------------------------------------|-----------------|---------------|
| Company result after taxes | 33 | (121) |
| Result from investments | (29,717) | 13,310 |
| (Loss)/profit for the period | <u>(29,684)</u> | <u>13,189</u> |

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

Company statement of financial position

As at 31 December

In thousands of U.S.\$ (after appropriation of result)

| | Note | 2020 | 2019 |
|--|-------------|----------------|----------------|
| Assets | | | |
| Financial assets | 2 | 194,134 | 219,365 |
| Total non-current assets | | 194,134 | 219,365 |
| Trade and other receivables | | - | 4 |
| Receivables due from related parties | 4 | 4,710 | 9,692 |
| Cash and cash equivalents | | 7 | 6 |
| Total current assets | | 4,717 | 9,702 |
| Total assets | | 198,851 | 229,067 |
| Equity | | | |
| Issued share capital | | 170,000 | 170,000 |
| Share premium | | 198,568 | 198,568 |
| Translation reserve | | (10,195) | (11,690) |
| Investment revaluation reserve | | - | - |
| Other reserves | | 3,481 | - |
| Employee benefits reserve | | (14,692) | (12,683) |
| Accumulated deficit | | (153,323) | (120,158) |
| Total equity attributable to equity holder of the Company | 3 | 193,839 | 224,037 |
| Liabilities | | | |
| Trade and other payables | | 12 | 30 |
| Affiliated payables | | 5,000 | 5,000 |
| Total current liabilities | | 5,012 | 5,030 |
| Total liabilities | | 5,012 | 5,030 |
| Total equity and liabilities | | 198,851 | 229,067 |

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 15 to 23 of this report. Participations in group companies in which significant influence is exercised on the business and financial policy, are valued under the net equity value, but not lower than nil. If the net asset value is negative, the participating interest is valued at nil. This likewise takes into account other long-term interests that should effectively be considered part of the net investment in the participating interest.

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

2. Financial assets

The investments in group companies are specified as follows:

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|---|----------------|----------------|
| Bluewater Offshore Productions Systems Ltd. | 194,134 | 219,365 |
| | <u>194,134</u> | <u>219,365</u> |

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

| <i>In thousands of U.S.\$</i> | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| January 1, | 219,365 | 212,437 |
| Result for the year | (29,717) | 13,310 |
| Interim dividend paid | - | (5,000) |
| Cancellation of declared dividend | 5,000 | - |
| Other movements | (2,009) | (1,983) |
| Currency differences | 1,495 | 601 |
| December 31, | <u>194,134</u> | <u>219,365</u> |

In 2019 the Company recorded an interim dividend of U.S.\$ 5 million from its subsidiary. However, payment was not allowed due to insufficient reserves of subsidiary. As a result, the dividend amount was reversed in 2020.

Other movements contain the movement in employee benefits reserve (IAS 19). In 2019 the other movements additionally contains the movement in the fair value of available-for-sale financial assets and the movement related to the disposal of Supernova Energy B.V. For details, reference is made to the statement of changes in equity in the consolidated financial statements.

3. Equity attributable to equity holder of the Company

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

Share capital

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

Other reserves contain the following reserves:

Translation reserve

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

Other reserves

The other reserves contains a legal reserve which is related to internally generated capitalized expenses for computer software reported under the Intangible 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.

Appropriation of result for the financial year 2019

The annual report 2019 was adopted in the general meeting of shareholders held on April 6, 2020. The general meeting of shareholders has determined the appropriation of result in accordance with the proposal being made to that end.

Proposed appropriation of the result for the year 2020

Management proposes to add the net loss for the year of U.S.\$ 29,684 thousand to the accumulated deficit. This proposal has been reflected in the accompanying financial statements.

4. Affiliate receivables

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

5. Taxation

The fiscal seat of the Company is in 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 2020 and 2019 consolidated financial statements amount to U.S.\$439 thousand and U.S.\$423 thousand respectively. Additionally, audit fees were charged by other foreign Deloitte network auditors in relation to 2020 and 2019 statutory financial statements of foreign subsidiaries amounting to U.S.\$63 thousand and U.S.\$50 thousand respectively. Fees for non-audit services amounted to nil in 2020 and nil in 2019.

8. Personnel

The Company does not employ personnel.

Other information

Statutory rules concerning appropriation of the result

The Company's Articles of Association state that the net profit according to the Company's annual accounts may be reserved or distributed as dividend, at the discretion of a General Meeting of Shareholders.

Insofar as the profit permits, any declared dividends will be paid to preference A shareholders first to the extent for which those preference A shares have preference, over the amount paid up on the preference A shares with as a maximum the nominal value thereof. The remaining profit declared for dividends will be paid to common B shareholders in proportion to the amount of common B shares held by them. Unless the entire preferred dividend has been declared on the preference A shares over the fiscal year, a resolution to reserve profits can only be adopted by a General Meeting if for all issued preference A shares votes have been cast in favour of such resolutions. The management board is authorized at any time to pay out interim dividends in prepayment on the dividends expected. In the event that any loss has been sustained during the year that cannot be covered by the reserves or compensated for in any other way, no profit shall be distributed in any subsequent year as long as the loss has not been recovered. In 2020 no dividends have been declared.

Branches

The Company has branches in Norway and Kuwait for the purpose of project executions.

Independent auditor's report

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