



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

The following reflects the share data used in the basic and diluted earnings per share computations:

Earnings per share

	2018	2017
Earnings attributable to shareholders (in thousands of US\$)	212,045	(155,122)
Number of shares outstanding at January 1 (excluding treasury shares)	203,417,031	202,042,126
Average number of treasury shares transferred to employee share programs	853,579	807,161
Weighted average number of shares outstanding	204,270,610	202,849,287
Potential dilutive shares from stock option scheme and other share-based payments	34,813	-
Weighted average number of shares (diluted)	204,305,423	202,849,287
Basic earnings per share	US\$ 1.04	US\$ (0.76)
Fully diluted earnings per share	US\$ 1.04	US\$ (0.76)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, except for issuing of Value Creation Stake shares for the Management Board and matching shares for the Company's Senior Management (see note 4.3.6 Employee Benefit Expenses).

4.3.12 DIVIDENDS PAID AND PROPOSED

In accordance with the Company's dividend policy, and further taking into account the specific circumstances relating to 2018 including the nature of the non-recurring items, a dividend of US\$ 0.37 per share (based on the number of shares outstanding at December 31, 2018), to be paid out of retained earnings, will be proposed to the Annual General Meeting on April 10, 2019. This represents approximately 25% of the Company's US\$ 301 million Directional 2018 net income.

The Company reviews its dividend policy on a regular basis and intends to revise this as follows: the Company's policy is to maintain a stable dividend, which grows over time. Determination of the dividend is based on the Company's assessment of its underlying cash flow position. The proposed change will be presented for discussion at the AGM on April 10, 2019.

Regarding capital allocation, the Company prioritizes payment of the dividend, followed by the financing of growth, with the option thereafter to repurchase shares depending on residual liquidity and cashflow outlook. Based on this approach and having reviewed the current liquidity position, the requirement to fund growth and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 14, 2019 the Company will commence a euro 175 million share repurchase program, approximate to the net cash it has received for the Yme Insurance settlement.

4.3.13 PROPERTY, PLANT AND EQUIPMENT

The line item 'Property, plant and equipment' consists of property, plant and equipment owned by the Company and right-of-use assets following the early adoption of IFRS 16:

Property, plant and equipment (summary)

	31 December 2018	31 December 2017
Property, plant and equipment excluding leases	1,072	1,243
Right-of-use assets	126	-
Total	1,198	1,243

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PROPERTY, PLANT AND EQUIPMENT OWNED BY THE COMPANY

The movement of the property, plant and equipment during the year 2018 is summarized as follows:

2018

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	61	3,255	68	19	3,402
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	(2,160)
Book value at 1 January	41	1,170	13	19	1,243
Additions	0	17	8	9	34
Disposals	-	0	0	0	0
Depreciation	(5)	(203)	(5)	-	(212)
(Impairment)/impairment reversal	-	11	-	-	11
Foreign currency variations	(2)	-	(1)	0	(3)
Other movements	-	8	9	(17)	0
Total movements	(7)	(166)	11	(8)	(170)
Cost	58	3,266	75	11	3,410
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	(2,337)
Book value at 31 December	34	1,004	23	11	1,072

2017

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	55	3,570	66	4	3,694
Accumulated depreciation and impairment	(14)	(2,155)	(52)	-	(2,220)
Book value at 1 January	41	1,415	14	4	1,474
Additions	-	31	2	19	51
Disposals	0	0	0	0	0
Depreciation	(5)	(214)	(4)	-	(223)
(Impairment)/impairment reversal	-	10	-	-	10
Foreign currency variations	5	-	1	0	7
Other movements	(1)	(72)	0	(3)	(76)
Total movements	0	(245)	(1)	16	(231)
Cost	61	3,255	68	19	3,402
Accumulated depreciation and impairment	(20)	(2,084)	(55)	-	(2,160)
Book value at 31 December	41	1,170	13	19	1,243

During the 2018 period the following main events occurred:

- Additions to property, plant and equipment regarding the capitalization of major overhaul expenditure related to FPSO *Capixaba* according to the component approach method.
- Deep Panuke MOPU impairment reversal of US\$ 11 million; the impairment assessment of Deep Panuke MOPU was triggered by the last gas notification received from the client. This resulted in an increased value in use due to lower market rates and improved operating results when compared with the last impairment test performed in 2014. If the discount rate varies by +/- 1% the reversal of the impairment would be +/- US\$ 4 million.
- US\$ 212 million of annual depreciation charges.

Property, plant and equipment at year-end comprises of:

- Three (2017: three) integrated floating production, storage and offloading systems (FPSOs) (namely FPSO *Espirito Santo*, FPSO *Capixaba* and FPSO *Cidade de Anchieta*) each consisting of a converted tanker, a processing plant and one mooring system. These three FPSOs are leased to third parties under an operating lease contract.
- One second-hand tanker (2017: one).
- One semi-submersible production platform, the *Thunder Hawk* (2017: one), leased to third parties under operating lease contracts.
- One MOPU facility, the *Deep Panuke* (2017: one), leased to a third party under an operating lease contract.

The depreciation charge for the semi-submersible production facility Thunder Hawk is calculated based on its future anticipated economic benefits, resulting in a depreciation plan partly based on the unit of production method and, for the other part, based on the straight-line method.

All other property, plant and equipment is depreciated on a straight-line method.

Company-owned property, plant and equipment with a carrying amount of US\$ 569 million (2017: US\$ 662 million) has been pledged as security for liabilities, mainly for external financing.

No interest has been capitalized during the financial year as part of the additions to property, plant and equipment (2017: nil).

RIGHT-OF-USE ASSETS

The Company leases buildings, cars and an installation vessel. The most significant lease contract relates to the installation vessel SBM Installer. The charter contract is for a fixed period of twelve years with the option to acquire the vessel during the charter period. The other significant contracts relate to the lease of offices. The contract periods of the Company's office rentals vary between six to fifteen years and most of the contracts include extension options between three to fifteen years. The extension options are taken into account in the measurement of lease liabilities when the Company is reasonably certain to exercise these options. The lease agreements do not impose any covenants.

The movement of the right-of-use assets during the year 2018 is summarized as follows:

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value recognized at 1 January following early adoption of IFRS 16	73	71	2	146
Additions	3	-	0	3
Depreciation	(12)	(8)	0	(20)
Foreign currency variations	(3)	-	0	(3)
Total movements	(12)	(8)	(1)	(21)
Cost	73	71	2	146
Accumulated depreciation and impairment	(12)	(8)	(1)	(20)
Book value at 31 December	61	63	1	126

OPERATING LEASES AS A LESSOR

The category 'Vessels and floating equipment' mainly relates to facilities leased to third parties under various operating lease agreements which terminate between 2021 and 2030. Leased facilities included in the 'Vessels and floating equipment' amount to:

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Leased facilities included in the vessels and floating equipment

	31 December 2018	31 December 2017
Cost	3,230	3,220
Accumulated depreciation and impairment	(2,256)	(2,081)
Book value at 31 December	974	1,139

The nominal values of the future expected bareboat receipts (undiscounted lease payments) in respect of those operating lease contracts are:

Nominal values of the future expected bareboat receipts

	31 December 2018	31 December 2017
Within 1 year	320	376
2 years	324	328
3 years	302	323
4 years	141	301
5 years	126	156
After 5 years	607	723
Total	1,820	2,207

A number of agreements have extension options, which have not been included in the above table.

Purchase and termination options in operating lease contracts

The operating lease contracts of FPSO *Espirito Santo* and MOPU Deep Panuke, where the Company is the lessor, include call options for the client to (i) purchase the underlying asset or (ii) terminate the contract early without obtaining the underlying asset. The operating lease contract of semi-submersible Thunder Hawk includes a call option for the client to purchase the underlying asset. The exercise of any of the purchase options would have resulted in a gain for the Company as of December 31, 2018, while exercising the options for early termination as of December 31, 2018 would have resulted in a gain or a near break-even result for the Company.

4.3.14 INTANGIBLE ASSETS

2018

	Development costs	Goodwill	Software	Patents	Total
Cost	23	25	12	19	79
Accumulated amortization and impairment	(9)	-	(8)	(19)	(36)
Book value at 1 January	14	25	3	-	42
Additions	4	-	2	-	6
Amortization	(4)	-	(1)	-	(5)
(Impairment)/impairment reversal	-	(25)	-	-	(25)
Foreign currency variations	-	-	0	-	0
Other movements	-	-	0	-	0
Total movements	1	(25)	0	-	(23)
Cost	27	25	13	19	84
Accumulated amortization and impairment	(12)	(25)	(9)	(19)	(65)
Book value at 31 December	15	-	4	0	19