



OFFSHORE

ENERGY. COMMITTED.



ANNUAL REPORT 2019

4 FINANCIAL STATEMENTS 2019

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

Earnings per share

	2019	2018
Earnings attributable to shareholders (in thousands of US\$)	365,896	212,045
Number of shares outstanding at January 1 (excluding treasury shares)	204,725,425	203,417,031
Average number of treasury shares transferred to employee share programs	1,421,227	853,579
Average number of shares repurchased	(7,576,677)	-
Weighted average number of shares outstanding	198,569,975	204,270,610
Impact shares to be issued	5,000	-
Weighted average number of shares (for calculations basic earnings per share)	198,574,975	204,270,610
Potential dilutive shares from stock option scheme and other share-based payments	5,333	34,813
Weighted average number of shares (diluted)	198,580,308	204,305,423
Basic earnings per share	US\$1.84	US\$1.04
Fully diluted earnings per share	US\$1.84	US\$1.04

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 AND SHARE REPURCHASE PROGRAM

The Company's dividend 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. As part of the Company's regular planning process, following review of its cash flow position and forecast, the Company has concluded that the outlook for cash flow generation has improved given the increase in the quantum of the Lease and Operate backlog and its duration. Based on this, a dividend of US\$150 million (which equals c. US\$0.76 per share, based on the number of shares outstanding at December 31, 2019), to be paid out of retained earnings, will be proposed at the Annual General Meeting on April 8, 2020. This represents an increase of c. 100% compared to the dividend paid in 2019.

The Company has invested equity in projects, which are under construction or recently completed. Most of this equity investment will be returned to the Company following drawdown of non-recourse project finance facilities in the near future. After having reviewed the current liquidity position including the return of this investment, taking account of future growth requirements and the resulting cash flow outlook, the Company has determined that it currently has the capacity to repurchase shares. Consequently, on February 13, 2020 the Company will commence a EUR150 million share repurchase program.

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:

Property, plant and equipment (summary)

	31 December 2019	31 December 2018
Property, plant and equipment excluding leases	890	1,072
Right-of-use assets	115	126
Total	1,005	1,198

PROPERTY, PLANT AND EQUIPMENT OWNED BY THE COMPANY

The movement of the property, plant and equipment during the year 2019 is summarized as follows:

2019

	Land and buildings	Vessels and floating equipment	Other fixed assets	Assets under construction	Total
Cost	58	3,266	75	11	3,410
Accumulated depreciation and impairment	(24)	(2,262)	(52)	-	(2,337)
Book value at 1 January	34	1,004	23	11	1,072
Additions	-	34	14	12	59
Depreciation	(5)	(203)	(7)	-	(214)
(Impairment)/impairment reversal	-	(25)	-	-	(25)
Foreign currency variations	(1)	-	(0)	(0)	(1)
Other movements	-	-	(0)	(1)	(1)
Total movements	(5)	(194)	6	10	(183)
Cost	56	3,299	82	22	3,459
Accumulated depreciation and impairment	(28)	(2,490)	(52)	-	(2,570)
Book value at 31 December	29	809	30	22	890

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
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

During the 2019 period the following main events occurred:

- Additions to property, plant and equipment include the capitalization of dry dock and other capital expenditures related to the IT infrastructure upgrade project.
- Impairment of Thunder Hawk semi-submersible production facility in the US Gulf of Mexico. Thunder Hawk is the only facility in the Company lease fleet portfolio for which revenues are linked to volumes produced. During the routine review in the first half of 2019, the Company received an update of the long term production profile from the current reserves. Based on this, the revised estimates of future deliverable volumes, and associated cash flows, will be insufficient to sustain the asset's current book value. During the period, an updated value-in-use calculation was prepared using the revised production profile and a discount rate of 6%. As a result, an impairment charge of US\$16 million has been accounted for in the 2019 half year results. If the revenue, which is based on production, varies by +/- 5% the impairment would vary by +/- US\$4 million respectively. If the discount rate varies by +/- 1% the impairment would vary by +/- US\$2 million respectively.
- An impairment assessment of Deep Panuke MOPU was performed following a reassessment of the towing and scrapping costs. This resulted in adverse cash flows related to the unit and in consequence an impairment of US\$9 million. The impairment assessment was performed assuming that the client will continue with the lease until the end of the contract. The impact of an early termination is disclosed below in the section 'Operating leases as a lessor'. If the discount rate used in the impairment test would vary by +/- 1%, the impairment would change by +/- US\$2 million.

4 FINANCIAL STATEMENTS 2019

- US\$214 million of annual depreciation charges.

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

- Three (2018: 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 (2018: one).
- One semi-submersible production platform, the *Thunder Hawk* (2018: one), leased to third parties under an operating lease contract.
- One MOPU facility, the *Deep Panuke* (2018: 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 based on the unit of production method. All other property, plant and equipment is depreciated on a straight-line basis.

Company-owned property, plant and equipment with a carrying amount of US\$479 million (2018: US\$569 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 (2018: 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 two to fourteen 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 2019 is summarized as follows:

2019

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	61	63	1	126
Additions	13	-	1	13
Depreciation	(14)	(8)	(1)	(23)
Foreign currency variations	(1)	-	(0)	(1)
Total movements	(2)	(8)	(0)	(11)
Cost	84	71	3	158
Accumulated depreciation and impairment	(25)	(16)	(1)	(43)
Book value at 31 December	59	55	1	115

2018

	Buildings	Vessels and floating equipment	Other fixed assets	Total
Book value at 1 January	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:

Leased facilities included in the vessels and floating equipment

	31 December 2019	31 December 2018
Cost	3,257	3,230
Accumulated depreciation and impairment	(2,481)	(2,256)
Book value at 31 December	777	974

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 2019	31 December 2018
Within 1 year	319	320
2 years	297	324
3 years	134	302
4 years	121	141
5 years	94	126
After 5 years	508	607
Total	1,473	1,820

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, 2019. The exercise of the early termination option for FPSO *Espirito Santo* as of December 31, 2019 would have resulted in a gain for the Company, while exercising the early termination option for MOPU *Deep Panuke* as of December 31, 2019 would have resulted in a non-material loss.