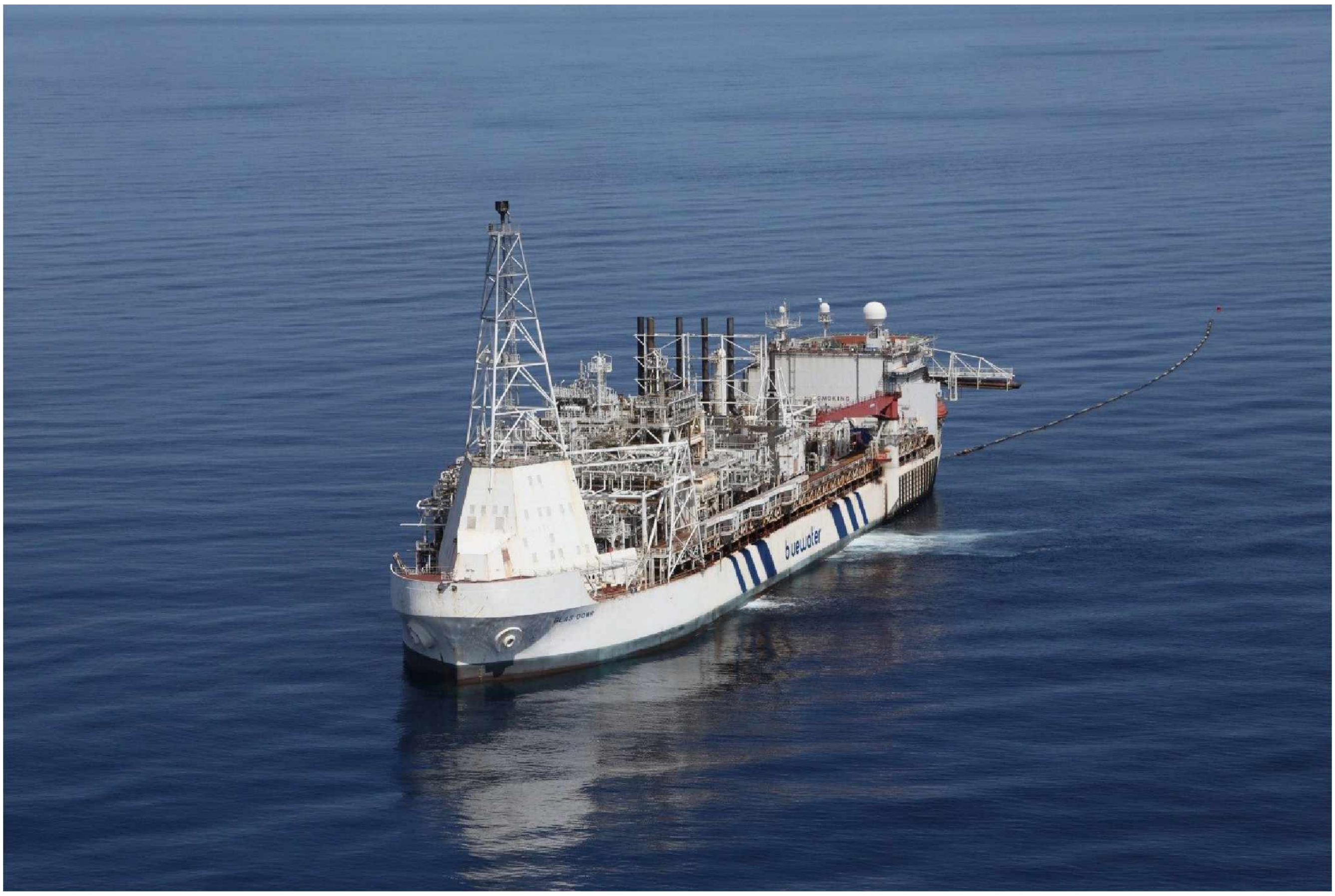
Bluewater Holding B.V.

Half-year report

For the six-month period ended June 30, 2014



FPSO Glas Dowr

Results and main developments for the six-month period ended June 30, 2014

Half year results

The net result after tax for the six-month period ended June 30, 2014 was U.S.$67.3 million loss compared to U.S.$50.9 million loss for the six-month period ended June 30, 2013. EBITDA for the six-month period ended June 30, 2014 was U.S.$86.0 million compared to U.S.$96.9 million for the six-month period ended June 30, 2013. The financial results for the first half year 2014 were mainly impacted by the following:

The SPM division generated U.S.$12.7 million EBITDA for the six-month period ended June 30, 2014 compared to U.S.$17.3 million EBITDA in the six-month period ended June 30, 2013. Progress on our current SPM projects is in early stages, resulting in a relatively low EBITDA contribution for the first half year of 2014. In the first half year of 2013, several SPM projects were in an advanced stage of completion, resulting in higher EBITDA.

EBITDA for the FPSO division for the six-month period ended June 30, 2014 was U.S.$78.9 million compared to U.S.$86.4 million for the six-month period ended June 30, 2013. The U.S.$7.5 million decrease in EBITDA compared to the first half year of 2013 was caused by a U.S.$3.0 million EBITDA reduction for the FPSO Glas Dowr due to higher operational expenditures and lower production income, both resulting from gas compressor failures. Additionally, EBITDA of the FPSO Aoka Mizu decreased by U.S.$2.5 million due to declining field production and repair costs related to the water injection swivel. Finally, EBITDA of the FPSO Haewene Brim decreased by U.S.$2.0 million mainly due to higher operational maintenance costs.

The FPSO Haewene Brim has been back on location since November 16, 2013 and preparations are ongoing to prepare the vessel for recommencement of production on the Pierce field and start-up of the Brynhild field. The costs related to the modification and life time extension work to prepare the vessel for tie-in and production of the Brynhild field are fully reimbursed by the Brynhild field owners. During the first half year of 2014, such costs, amounting to US$42.4 million, have been capitalized and related revenues have been deferred, resulting in nil impact on EBITDA. Income will be recognized once oil production on the Brynhild field commences and will be offset by depreciation of the capitalized costs.

Overhead costs for the first half year of 2014 were U.S.$5.5 million versus U.S.$6.8 million for the first half year of 2013. The decrease in overhead costs was largely driven by an increased recovery on overhead costs as a result of a higher workload of the engineering organization compared to the first half year of 2013.

Depreciation expenditure was U.S.$41.8 million for the first half year of 2014, compared to U.S.$45.8 million for the first half year of 2013.

Finance expenses are U.S.$8.4 million higher compared to the previous year, at U.S.$107.0 million versus U.S.$98.6 million in the first half year of 2013. Interest on the subordinated loan due to parent company is U.S.$6.3 million higher compared to the previous year due to the interest being accrued to the loan balance each year. Finance expense for the first half year of 2014 includes U.S.$20.0 million interest accrued on the new U.S.$400 million bond loan and U.S.$1.4 million interest in relation to the U.S.$360 million unsecured bond loan that was repaid on January 27, 2014, compared to U.S.$13.1 million interest on the U.S.$360 million unsecured bond in the first half year of 2013. Furthermore, the first half year of 2014 includes U.S.$0.4 million of non-recurring costs in relation to the cancellation of the interest rate swap on the U.S.$360 million unsecured bond loan. Other interest costs decreased by U.S.$6.6 million during the first half year of 2014 compared to the first half year of 2013. This decrease resulted from U.S.$4.0 million of non-recurring costs in relation to the refinancing of the Glas Dowr project financing and amendment of the corporate facility included in the first half year of 2013 and from further reduction in net debt, resulting from steady operating cash flow.

Currency exchange results were U.S.$0.2 million positive in the first half year of 2014 compared to U.S.$0.1 million positive in the first half year of 2013. The currency exchange results relate mainly to the fluctuation in the fair value of forward currency contracts.

Income tax expense for the first half year of 2014 was U.S.$4.7 million versus U.S.$3.6 million for the first half year of 2013. The income tax expense in the first half year of 2014 relates to U.S.$3.4 million withholding tax incurred in relation to the Glas Dowr revenues and U.S.$1.3 million corporate taxes in other jurisdictions. The U.S.$3.6 million income tax expense in the first half year of 2013 relates fully to withholding tax incurred in relation to the Glas Dowr.

Other developments

On May 26, 2014, a major SPM contract was awarded for the engineering and related procurement and construction of two turret and swivel systems, with total revenues amounting to ca U.S.$300 million. This project is expected to start contributing to EBITDA early 2015.

On June 30, 2014, a legal dispute that arose from the ordinary course of business several years ago, with Bluewater as claimant, was resolved in Bluewater's favour. This has resulted in a claim award amounting to U.S.$6.4 million which has subsequently been collected and has been included in the second quarter SPM result.

General information

Bluewater Holding B.V. ("the Company") is the holding company of the Bluewater group (Bluewater), 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, 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 onboard the FPSO vessel, and the treated crude oil is stored before being exported by 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- or 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. Further, Bluewater engages subcontractors in the fabrication of FPSOs, SPMs and auxiliary equipment.

Condensed consolidated interim income statement
For the six-month period ended June 30

In thousands of U.S.$		**June 30, 2014**	**June 30, 2013**
Operating activities			
Revenue	*1*	265,204	278,459
Raw materials, consumables used and other operating costs		(139,170)	(144,186)
Employee benefits expense		(40,059)	(37,362)
EBITDA		85,975	96,911
Depreciation and amortisation expense		(41,774)	(45,838)
Results from operating activities (EBIT)		44,201	51,073
Finance income		77	39
Finance expenses		(107,032)	(98,562)
Currency exchange results		170	106
Net finance expense		(106,785)	(98,417)
Loss before income tax		(62,584)	(47,344)
Income tax benefit/(expense)		(4,686)	(3,562)
Loss for the period		(67,270)	(50,906)

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

The interim financial statements have not been audited

Condensed consolidated interim statement of financial position

In thousands of U.S.$	*Note*	June 30, 2014	December 30, 2013
Assets			
Property, plant and equipment	2	1,087,830	1,083,059
Intangible assets		14,349	12,925
Other financial investments, including derivatives		24,056	24,108
Deferred tax assets		55,706	55,706
Total non-current assets		1,181,941	1,175,798
Inventories		1,161	1,293
Trade and other receivables		136,196	119,716
Construction contracts		17,607	38,273
Prepayments for current assets		9,477	3,875
Cash and cash equivalents		64,714	122,188
Total current assets		229,155	285,345
Total assets		1,411,096	1,461,143
Equity			
Share capital		131	138
Share premium		1,195,244	1,195,244
Accumulated deficit		(2,446,629)	(2,379,359)
Other reserves		(15,288)	(17,055)
Total equity attributable to equity holders of the Company		(1,266,542)	(1,201,032)
Liabilities			
Loans and borrowings, including derivatives	3	2,173,634	2,215,309
Employee benefits		5,827	6,038
Total non-current liabilities		2,179,461	2,221,347
Loans and borrowings	3	71,637	68,391
Trade and other payables, including derivatives		126,799	120,277
Deferred income		299,741	252,160
Total current liabilities		498,177	440,828
Total liabilities		2,677,638	2,662,175
Total equity and liabilities		1,411,096	1,461,143

The interim financial statements have not been audited

Condensed consolidated statement of changes in equity

Attributable to equity holder of the Company

	Issued Share Capital	Share Premium	Translation reserve	Investment revaluation reserve	Equity settled employee benefits reserve	Hedging reserve	Accumulated deficit	Total equity
Balance at Dec 30, 2013	**138**	**1,195,244**	**(8,783)**	**(2,713)**	**(4,349)**	**(1,210)**	**(2,379,359)**	**(1,201,032)**
Loss for the period	-	-	-	-	-	-	(67,270)	(67,270)
Foreign currency translation differences	(7)	-	1,081	-	-	(10)	-	1,064
Fair value of available-for-sale financial assets	-	-	-	(54)	-	-	-	(54)
Movement cash flow hedges	-	-	-	-	-	750	-	750
Total comprehensive income	(7)	-	1,081	(54)	-	740	(67,270)	(65,510)
Balance at June 30, 2014	**131**	**1,195,244**	**(7,702)**	**(2,767)**	**(4,349)**	**(470)**	**(2,446,629)**	**(1,266,542)**

The interim financial statements have not been audited

Condensed consolidated interim statement of cash flows

In thousands of U.S.$	**June 30, 2014**	**June 30, 2013**
Net cash from (used in) operating activities	112,857	87,912
Net cash from (used in) investing activities	(63,844)	(36,966)
Net cash from (used in) financing activities	(107,664)	(43,406)
Translation effect on cash	1,177	(469)
Net increase/(decrease) in available cash and cash equivalents	(57,474)	7,071
Cash and cash equivalents at the beginning of the period	122,188	76,621
Cash and cash equivalents at end of the period	64,714	83,692

The interim financial statements have not been audited

Notes to the unaudited condensed consolidated interim financial statements

Reporting entity
Bluewater Holding B.V. ("the Company") has its legal seat in Hoofddorp, the Netherlands. The unaudited condensed consolidated interim financial statements of the Company as at and for the six-month period ended June 30, 2014 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.

Statement of compliance
The unaudited condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) as applied in the most recent annual financial statements.

Basis of preparation
These unaudited condensed consolidated interim financial statements are presented in thousands of US dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand. The unaudited condensed consolidated interim financial statements have been prepared based on the same accounting policies and methods as those of the annual financial statements for the year ended December 30, 2013. The information furnished in the unaudited interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for fair presentation of such financial statements. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto for the year ended December 30, 2013.

The preparation of these unaudited interim financial statements 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 unaudited interim 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 leased facilities;
- Estimation of the realizable amount of tax losses carried forward;
- Potential impact of claims and litigation.

Sales and operating results for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year.

1. Segment reporting

The disclosure of segment information is consistent with the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Internal reporting is primarily based on business segments since the Company's risks and rates of return are affected primarily by differences in services and products produced.

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 employee benefits expense, head office expenses, investments and related revenue and income tax assets and liabilities. For both presented periods there are no inter segment revenues.

In thousands of U.S.$	FPSO June 30, 2014	FPSO June 30, 2013 Restated	SPM June 30, 2014	SPM June 30, 2013 Restated	Consolidated June 30, 2014	Consolidated June 30, 2013 Restated
Total segment revenue	178,227	171,119	86,977	107,340	265,204	278,459
Total cost of operations	(99,297)	(84,743)	(74,254)	(90,051)	(173,551)	(174,794)
Unallocated expenses					(5,678)	(6,754)
EBITDA	78,930	86,376	12,723	17,289	85,975	96,911
Depreciation and amortisation	(41,527)	(45,597)	(247)	(241)	(41,774)	(45,838)
Results from operating activities (EBIT)	37,403	40,779	12,476	17,048	44,201	51,073
Net finance costs					(106,785)	(98,417)
Income tax expense					(4,686)	(3,562)
Loss for the period					(67,270)	(50,906)
Segment assets	1,200,880	1,033,641	116,106	108,403	1,316,986	1,142,044
Unallocated assets					94,110	99,447
Total assets					1,411,096	1,241,491
Segment liabilities	2,581,477	2,352,278	96,161	54,331	2,677,638	2,406,609
Capital expenditure	42,421	36,966	3,487	-	45,908	36,966

As of January 1, 2014, certain FPSO related costs previously treated as unallocated are presented as part of the FPSO segment. The 2013 figures have been restated accordingly, resulting in a U.S.$1.5 million decrease of FPSO EBITDA and unallocated expenses.

2. Property, plant and equipment

In thousands of U.S.$	FPSOs	FPSO under construction	Office equipment	Total
Cost:				
As at December 30, 2013	1,803,434	129,060	6,488	1,938,982
Additions	42,421	-	3,487	45,908
Disposals	-	-	-	-
Translation result	-	-	17	17
As at June 30, 2014	1,845,855	129,060	9,992	1,984,907
Accumulated depreciation and impairment losses:				
As at December 30, 2013	770,833	80,613	4,477	855,923
Depreciation for the year	41,042	-	95	41,137
Disposals	-	-	-	-
Translation result	-	-	17	17
As at June 30, 2014	811,875	80,613	4,589	897,077
Net book value	1,033,980	48,447	5,403	1,087,830

As of June 30, 2014, an amount of U.S.$101,481 (December 30, 2013: U.S.$101,481) relating to capitalized interest is included in the historical cost value of the FPSOs and FPSOs under construction. Interest capitalized for the six-months period ended June 30, 2014 and 2013 amounts to U.S.$ nil.

3. Loans and borrowings

In thousands of U.S.$	**June 30, 2014**	**December 30, 2013**
Non-current liabilities		
Long-term bank loans	234,810	322,173
Unsecured subordinated bond	369,981	389,060
Derivatives	470	8,037
Subordinated loan due to parent company	1,568,373	1,496,039
	2,173,634	2,215,309
Current liabilities		
Current portion of bank loans	70,798	67,574
Current portion of loan related party	839	817
	71,637	68,391

The amount of long-term bank loans as per June 30, 2014 amounting to U.S.$234.8 million includes a U.S.$25.0 million deposit kept in a debt service reserve account which has been netted with the related bank loan.

The amount of the Unsecured subordinated bond as per June 30, 2014 amounting to U.S.$370.0 million is the net balance of the U.S.$400 million unsecured bond loan, the borrowing costs of U.S.$10.0 million and a U.S.$20.0 million deposit kept in a debt service reserve account.