BW OFFSHORE LIMITED 2010

BW OFFSHORE

COMPETENCE

REFERENCES

- BW OFFSHORE HAS A CLASS LEADING PRODUCTION UPTIME – FIVE YEAR AVERAGE UPTIME IS 99.0%.
- FPSO BW PIONEER, THE FIRST IN THE US GULF OF MEXICO, THE DEEPEST MOORED FPSO TO DATE, WITH A TURRET AND MOORING SYSTEM FOR 2,500 METERS WATER DEPTH.
- FDPSO AZURITE, THE WORLD'S ONLY COMBINED DRILLING AND PRODUCTION UNIT.
- FPSO BW CIDADE DE SÃO VICENTE, THE FIRST FPSO ON THE TUPI FIELD.
- FPSO YÚUM K'AK' NÁAB, THE LARGEST CONVERTED FPSO TO DATE, IN THE GULF OF MEXICO.

WE DEPENDABLY BUILD, LEASE AND OPERATE

BW OFFSHORE OFFERS ENGINEERING PROCUREMENT CONSTRUCTION INSTALLATION SERVICES (EPCI), LEASE AND OPERATION OF FPSOS AND FSOS.

BW OFFSHORE'S TRACK RECORD INCLUDES 24 FPSO PROJECTS AND 9 FSO PROJECTS.

ADAPTING THROUGH COMPETENCE, BW OFFSHORE MEETS ITS CLIENTS' NEEDS THROUGH VERSATILE SOLUTIONS, WITH EXECUTION AND OPERATIONAL EXCELLENCE FOR OFFSHORE OIL AND GAS PROJECTS.

GLOBAL FOOTPRINT

BW OFFSHORE IS REPRESENTED IN ALL THE MAJOR OIL AND GAS REGIONS WORLD-WIDE, ACROSS ASIA PACIFIC, AMERICAS, AUSTRALIA, EUROPE AND WEST AFRICA. THE COMPANY CURRENTLY OPERATES FPSO AND FSO UNITS IN 15 DIFFERENT COUNTRIES, SUPPORTED BY LOCAL ONSHORE TEAMS AND AN ORGANIZATION WITH A GLOBAL PRESENCE.

BW OFFSHORE LTD

FOR MORE INFORMATION PLEASE VISIT
www.bwoffshore.com

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KEY EVENTS

Q1 Q2 Q3 Q4

- SUCCESSFUL ACQUISITION OF PROSAFE PRODUCTION WITH A TOTAL ENTERPRISE VALUE OF USD 1.66 BILLION
- SUCESSFUL SALE OF THE APL DIVISION TO NATIONAL OILWELL VARCO FOR USD 531.5 MILLION
- OPERATIONAL UPTIME 2010: 98.7%
- RECORD HIGH ORDER INTAKE USD 1.8 BILLION:
  - GAS FPSO FOR THE TSB PROJECT (INDONESIA)
  - FPSO FOR THE ATHENA PROJECT (UK)
  - EXTENSIONS OF CONTRACTS FOR FPSO SENDJE BERGE, FPSO ABO AND FSO ENDEAVOR
- ALL CONVERSION PROJECTS ON SCHEDULE
- STRONG FINANCIAL CAPABILITIES

KEY FIGURES

(MUSD)	2010	2009
Operating revenue	549.3	219.9
EBITDA	152.3	101.3
EBITDA margin	27.7%	21.7%
Net profit (loss) for the period	23.4	(8.8)
Total assets	3,670.2	2,393.5
Net interest bearing debt (NIBD)	1,401.5	849.3
Equity ratio	37.5%	38.5%
Net change in cash and cash equivalents	160.2	0.3
Cash and cash equivalents at end of period	228.2	68.0
Market cap	1,915.0	671.0
Enterprise value (EV)	3,317.0	1,521.0

EMPLOYEES 1,900

(FEBRUARY 2011)

FPSO CONTRACTS

UNIT	TYPE	CONTRACT	'09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23 '24 '25
SENDJE BERGE	FPSO	LEASE	ADDAX/SINOPEC, NIGERIA: 2005-2013
BERGE HELENE	FPSO	LEASE	PETRONAS, MAURITANIA: 2006-2013 (2021)
YÙUM K'AK'NÁAB	FPSO	LEASE	PEMEX, MEXICO: 2007-2022 (2025)
BW CIDADE DE SÃO VICENTE	FPSO	LEASE	PETROBRAS, BRAZIL: 2009-2019 (2024)
BW PIONEER	FPSO	LEASE	PETROBRAS, US: 2011-2016 (2019)
BW ATHENA (EX BW CARMEN)	FPSO	LEASE	ITHACA, UK: 2011-2014 (2019)
BW JOKO TOLE (EX BW GENIE)	FPSO	LEASE	KANGEAN, INDONESIA: 2012-2022 (2026)
UMUROA	FPSO	LEASE	AWE, NEW ZEALAND: 2007-2015 (2022)
POLVO	FPSO	LEASE	DEVON, BRAZIL: 2007-2014 (2022)
ABO	FPSO	LEASE	AGIP, NIGERIA: 2003-2012 (2013)
ESPOIR IVORIEN	FPSO	LEASE	CNR, IVORY COAST: 2002-2012 (2022)
PETROLEO NAUTIPA (50%)	FPSO	LEASE	VAALCO, GABON: 2002-2015 (2017)
CIDADE DE SAO MATEUS	FPSO	LEASE	PETROBRAS, BRAZIL: 2009-2018 (2024)
NINGALOO VISION	FPSO	LEASE	APACHE, AUSTRALIA: 2010-2017 (2025)
AZURITE	FDPSO	LEASE	MURPHY, CONGO: 2009-2016 (2024)
BELOKAMENKA	FSO	LEASE	ROSNEFT/SOVCOMFLOT, RUSSIA: 2004-2019
ENDEAVOUR	FSO	LEASE	ABAN, INDIA: 1997-2011
P-63/PAPA TERRA	FPSO	EPC/LEASE	PETROBRAS, BRAZIL: 2013-2016
OSX-1	FPSO	EPC	OSX, BRAZIL
BW ARA	VLCC		
TAKAMA	VLCC		
BW OFFSHORE FLEET	FPSO		EBITDA WEIGHTED AVERAGE CONTRACT LENGTH OF BW OFFSHORE'S FPSO FLEET IS 6 YRS (FIXED) AND 11 YRS (INCL OPTIONS)

CONSTRUCTION / EPC
OPERATION - FIXED PERIOD
OPERATION - OPTION PERIOD

CEO'S REPORT

BW OFFSHORE, A LEADING FPSO CONSTRUCTION, LEASING AND OPERATING COMPANY.

BW Offshore changed and augmented its position in the FPSO construction, leasing and operating business during 2010. The company sold its APL technology division to National Oilwell Varco and completed the acquisition of Prosafe Production Ltd. Its combined fleet is the second biggest in the world, providing a strong foothold in all major offshore oil provinces.

BW Offshore completed two major transactions during 2010: the sale of its APL technology division for USD 531.5 million to National Oilwell Varco and the acquisition of Prosafe Production for a total enterprise value of approximately USD 1.7 billion. This has made the company the second biggest operator of FPSOs measured by market capitalization and by the number of lease units. BW Offshore and Prosafe Production's comparably sized fleets in the Asia Pacific, Africa/Europe and Americas regions provide an excellent basis for further expansion and investment as well as sound economies of scale for most local operations. Agreements put in place as part of the transaction with National Oilwell Varco will give BW Offshore preferential access to world-class turret technology for seven years.

A return to normal exploration and production activity levels was seen during 2010. Both the BW Offshore divisions – Floating Production, Storage and Offloading (FPSO) and the Advanced Production and Loading (APL) business (sold and consequently discontinued in 2010) – enjoyed rising levels of activity during the year as a result.

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'OPERATIONS WERE STEADY ON ALL UNITS DURING 2010, AND THE COMPANY HAS AGAIN COMPLETED A YEAR WITH CLOSE TO 100 PER CENT UPTIME'

BW Offshore further consolidated its position as a top tier company by entering into four contracts in 2010:

- The provision of a gas FPSO to the Indonesian TSB project for Kangean Energy, which is a traditional conversion. This unit represents a total investment of about USD 400 million over a two-year period. The contract has a 10-year fixed term with four one-year options.

- The provision of the BW Athena FPSO to the British Athena project for Ithaca Energy is a conversion of the existing BW Carmen FPSO. This unit represents a total investment of some USD 200 million over one year. The contract has a four-year fixed term with options until the end of the field's producing life.

- The provision of the marine conversion in a joint venture with QUIP for Brazil's Papa Terra project operated by Petrobras is a turnkey contract with milestone payments for providing Petrobras with the converted unit, including certain specified utility systems but excluding the topside. The project involves no investment by the group.

- The FPSO OSX-1 conversion for Brazil's OSX, which involves management and assistance to OSX for the completion and adaptation of the existing OSX-1 unit for field-specific service. The project represents no investment for the group.

Since the beginning of 1982, BW Offshore has completed more than 30 conversion projects, and has established an excellent reputation over the years for its project execution capabilities. Consolidating experience within the company from a very significant portfolio of 'world-first' projects – including the world's deepest production facility to

A RETURN TO NORMAL ACTIVITY LEVELS WAS SEEN DURING 2010 IN EXPLORATION FOR AND PRODUCTION (E&P) OF OFFSHORE OIL AND GAS.

date as well as the first combined drilling and production unit (FDPSO) – constitutes a key competitive advantage in the industry.

Operations were steady on most units during 2010. The company has overall completed a year with close to 100 per cent uptime. The attention devoted to health, safety and the environment (HSE) in all operations has kept the impact of company activities on staff, contractors and the environment at a level which makes BW Offshore a leader in its class. We consider the focus on HSE to be not only important morally but also a key competitive strength in the progress of our business. Clients as well as staff will equally feel and appreciate that BW Offshore does not cut corners or costs for expediency if that affects HSE.

THESE OPTIONS AND REDEPLOYMENT POSSIBILITIES REPRESENTS A CONSIDERABLE UPSIDE IN THE BUSINESS.

BW Offshore expects the level of activity in the offshore business to persist and even increase in line with the healthy oil price observed during 2010. Capacity in the supply chain will generally be more than sufficient to underpin expected levels of activity, except for some local constraints which are building up in certain markets. Generally speaking, the company believes that execution risk owing to supply chain constraints will remain moderate in a three- to five-year time frame.

BW Offshore expects no major change in the competitive landscape in the immediate future, and is consequently confident that it will be able to meet its current plans for future capital deployment at attractive levels of return.
BW Offshore will maintain its focus on national oil companies (NOCs) and independent E&P companies, and expects these companies to contribute to increasing share of future developments. Retaining a balanced and diverse portfolio of clients and/or countries will be important in our selection criteria for new investment opportunities in the future.

With an average of six years – 11 including options – of contracted revenue, the company's fleet of operating units will generate a healthy cash flow in the time to come and provide a sound basis for dividend payments as well as for further development of the company. As demonstrated by the recent extensions for Abo and Sendje Berge, the company believes that the current oil price projections make it very likely that its clients will exercise their existing options. These options and redeployment possibilities represents a considerable upside in the business.

Through the course of 2010 BW Offshore became a much larger group also in terms of employees. The integration of Prosafe Production employees started in November and is expected to be completed by end of second quarter 2011. It has been high on the agenda of BW Offshore to ensure that best practice of both companies is implemented in all operations. We are pleased that the newly integrated team is already engaged and has the right spirit needed to take on the challenges ahead and continue to build the company.

Combined with production and consumption trends, current oil price levels underpin continued high levels of activity in the offshore E&P industry. BW Offshore's service offering and investment capability make it an attractive partner for its clients. The company has the right mix of opportunities and capabilities to be an attractive vehicle for investors and lenders, and the challenges offered make it a very attractive employer. BW Offshore will be looking forward to a period of growth and prosperity.

Carl K. Arnet
CEO

MANAGEMENT

Carl K. Arnet
CEO

Knut R. Sæthre
CFO

David Sverre
EVP Projects

Jon Myran
EVP Operations

Tom Arne Kristiansen
EVP BD & Technology

Elisabeth Barstad Dehlie
EVP Business Strategy & Processes

Anders Holm
EVP Engineering

Fritz Ekløff
SVP IT & Systems

Stuart Bannerman
SVP Compliance & Internal Auditing

Birgitte Nordvik
SVP Supply Chain

Benedicte Barthold
SVP Corporate HSEQ

Magda Karim Vakil
General Counsel

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WE BUILD

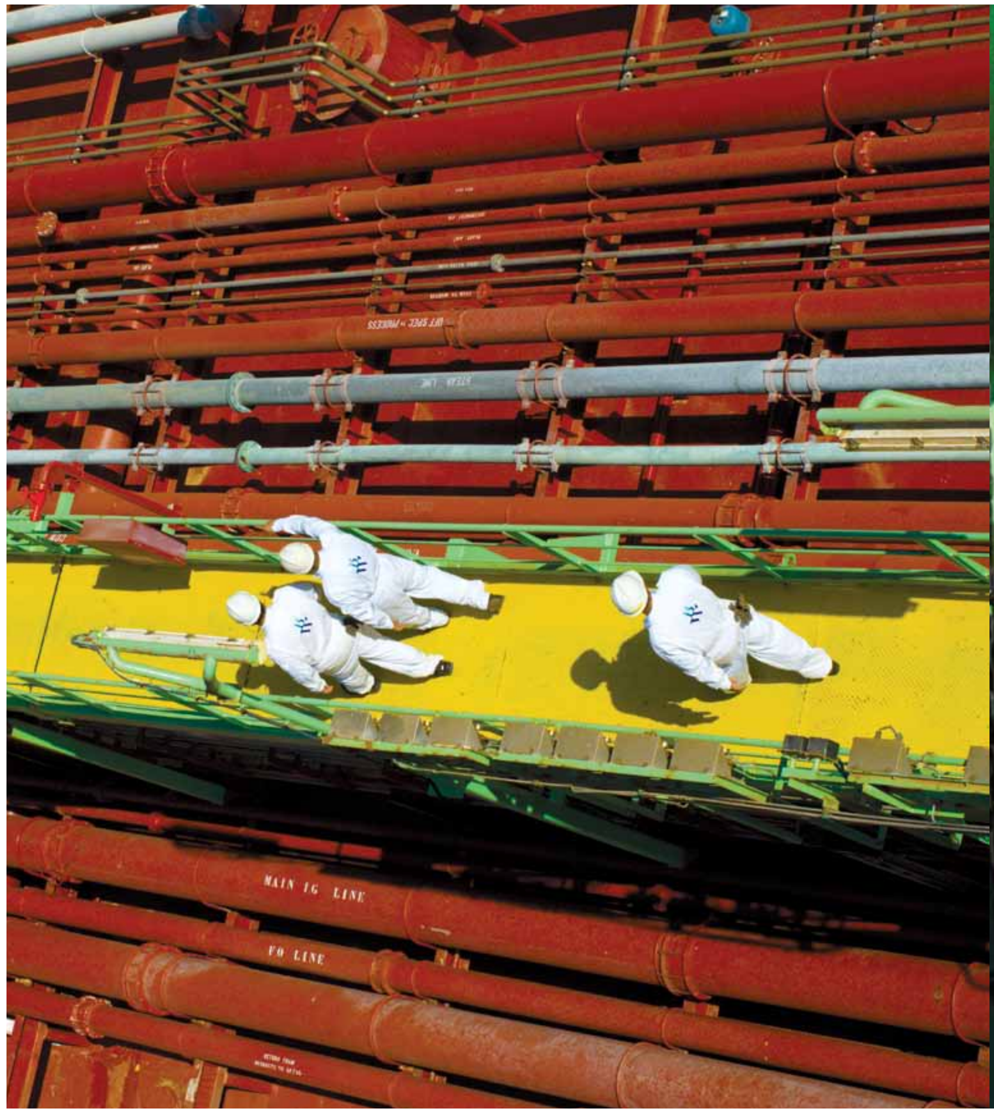
PROVEN TRACK RECORD

A proven track record of more than 30 FPSO and FSO conversions over nearly three decades ensures experience and a highly professional organisation, capable of addressing project execution, operations and decommissioning. With FPSOs operating in deeper and less benign waters, with higher reservoir pressure and difficult temperature conditions, both the environmental and the technical challenges are on the rise. BW Offshore has shown the capability to cost effectively undertake a range of conversion or construction assignments related to floating production, from relatively straightforward to the most advanced challenges.

THE BW OFFSHORE TEAM COMBINES THE ABILITY TO SOURCE INNOVATIVE SOLUTIONS AT COMPETITIVE PRICES WHILE SECURING THE HIGH QUALITY REQUIRED.

EARLY ENGAGEMENT

BW Offshore can participate in the early business and concept development phase. Such early engagement allows the client to complement internal processes with BW Offshore's experience and engineering expertise when evaluating various development scenarios. By partnering at an early stage in the process, oil companies have a



better basis for selecting a final concept that helps optimise their financial and technical objectives.

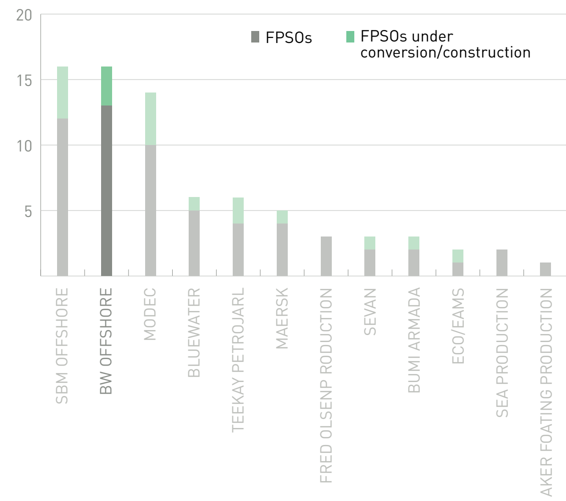
ENGINEERING EXPERTISE
BW Offshore's engineering division is responsible for establishing optimised design criteria on the basis of best practice, client requirements and relevant rules and regulations. The role of this division is to standardise and optimise engineering activities and technical documentation, thereby improving project execution and fleet operation. Oil companies with floating production projects will benefit through reduced life cycle costs.

OIL COMPANIES WITH FLOATING PRODUCTION PROJECTS WILL BENEFIT THROUGH REDUCED LIFE CYCLE COSTS.

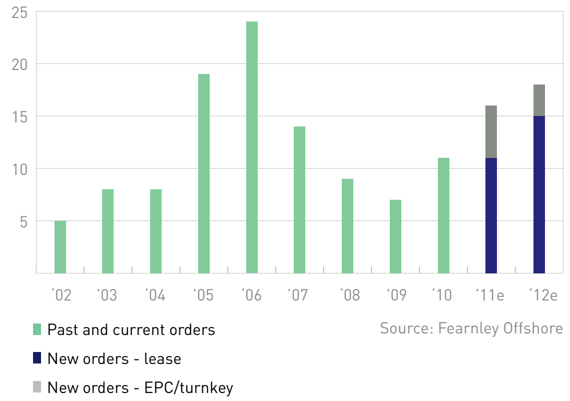
PROFESSIONAL PROCUREMENT
BW Offshore has organised its global supply chain team to deliver a step change in performance related to procurement and subcontracting. Procurement is a critical success factor for FPSO projects. Access to a highly professional global supply network and the best qualified suppliers is essential. The BW Offshore team combines the ability to source innovative solutions at competitive prices while securing the high quality required.

CRUCIAL CLOSE
Project completion and start-up is a critical phase, and BW Offshore devotes significant resources to this activity. A group of operations and project resources leads the key mechanical completion and commissioning functions to ensure that projects are ready for operations on the agreed start-up date.

OWERVIEW OF THE FPSO PLAYERS
Excludes FSOs and hulls



FPSO DEMAND
Excellent portfolio of prospects



Source: Fearnley Offshore

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WE LEASE

WITH FOCUS ON THE CLIENTS' NEEDS

BW Offshore's solid balance sheet ensures the ability to fully fund the FPSO projects the company undertakes. BW Offshore's standing in the capital market and with lenders allows the company to tap into the appropriate sources of both equity and debt, allow it to structure for attractive financial packages and to offer lease charters to clients. BW Offshore's global footprint and market access enables the company to handle residual value of the units effectively.

> BW OFFSHORE IS COMMITTED TO OPERATE AND MAINTAIN, AND IF REQUESTED BY A CLIENT, UPGRADE OR CHANGE THE PRODUCTION ASSET TO SUIT THE PRODUCTION REQUIREMENTS FOR THE TOTAL DURATION OF THE FIELD LIFE.

BUSINESS BENEFIT

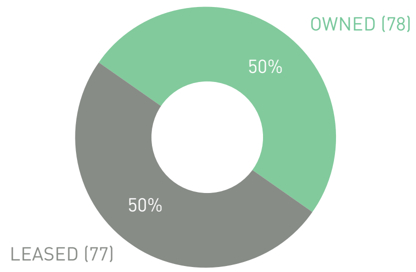
Lease arrangements of the production asset allow oil companies to concentrate their efforts on their core competencies of reservoir development and management. BW Offshore's core competency is to engineer, build, finance and dispose of production assets. Reducing investment in major production assets reduces the financial exposure to non-core activities.

BW Offshore is committed to operate and maintain, and if requested by a client, upgrade or change the production asset to suit the production requirements for the total duration of the field life. This involves providing the right competencies and knowhow of production equipment, as well as the necessary funding.

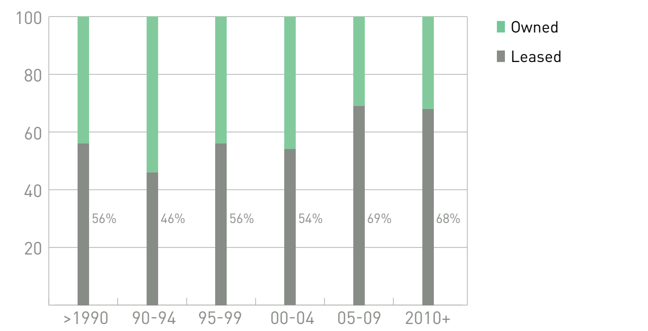
KEY CONTRACT

The contract between the oil company or the operator and BW Offshore regulates the operational and financial obligations involved, including production and processing performance. Leases are structured to ensure that unit ownership and other details comply with local law and tax regulations in the country of operation. Providing the field owners with a single point of contact for all such issues, BW Offshore offers significant support in the form of management resources and staff to execute, arranging and managing the necessary funding, while providing the field partners with a transparent lease day rate.

CURRENT FPSO FLEET IS EQUALLY DIVIDED...

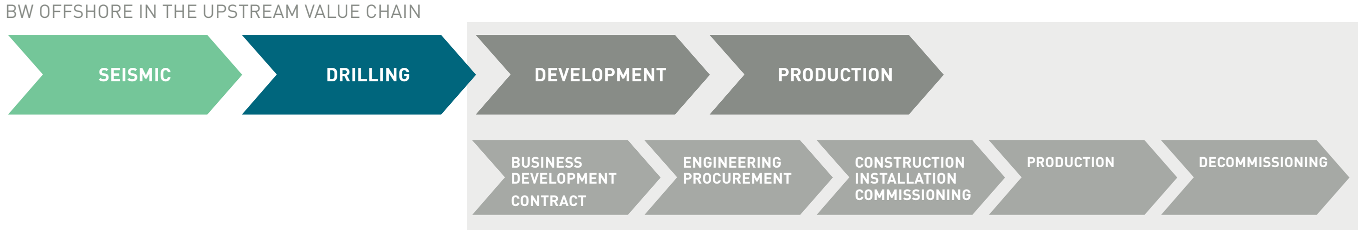


BUT OVER TIME THE LEASING OF FPSOS HAS INCREASED



Source: IMA, ABN AMRO

BW OFFSHORE IN THE UPSTREAM VALUE CHAIN



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WE OPERATE

DELIVERING SAFE OPERATIONS AND HIGH UPTIME TO THE CLIENT

Meeting the highest Health, Safety and Environmental (HSE) standards and undertaking quality maintenance to ensure asset integrity is the main focus to make BW Offshore's units perform with class leading production uptime. BW Offshore ensures dedicated, highly qualified and competent personnel trained to provide worldwide support and logistics services to the fleet consisting of 16 FPSOs and two FSOs, deployed on every continent around the world. The BW Offshore fleet had an average oil production in 2010 of 343 000 barrels of oil per day, generating significant cash flow for our clients.

THE COMPANY HAS SUCCEEDED IN ITS EFFORT TO AVOID ALL SERIOUS INJURIES AND HARM TO THE ENVIRONMENT.

PEAK PERFORMANCE
BW Offshore's focus on HSE gives the company a key competitive advantage. In 2010 the company succeeded in its effort to avoid all serious injuries and harm to the environment, with the majority of BW Offshore's FPSOs operating without any lost-time injuries. BW Offshore is certified to several international HSE standards, as well as for quality management.

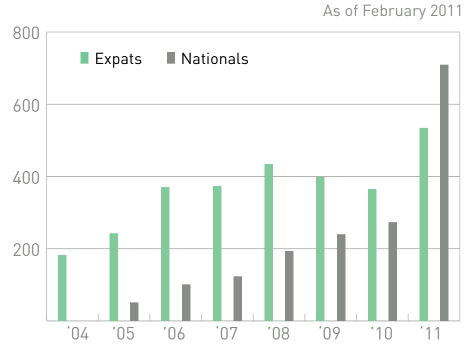
BW Offshore meets client expectations on production uptime and is in the top tier for FPSO operations worldwide, with an average uptime of 99% over the past five years. This performance has been achieved in areas as diverse as Northern Russia, Nigeria, the South Atlantic off Brazil, the Gulf of Mexico and Southeast Asia. Fleet operations call for the highest levels of skill and experience. The fleet ranges from FSOs serving as oil storage and export terminals to highly sophisticated FPSOs, which can disconnect in case of hurricanes, as well as test production units that are frequently relocated at the client's request.

TOP TEAM
A network of BW Offshore offices and bases around the world supports local operations, the two principal centres being located in Singapore and Oslo. Availability of top class talent will always be limited. The company's class leading projects, the focus on the company values, continual improvement, cultural awareness and opportunity to further individual careers has made it possible to attract some of the best talents in the business.

BW Offshore is committed to develop and deploy local employees, and focuses on enhancing the proportion of native personnel in the countries where the company operate. In addition, BW Offshore has global recruitment centres for expatriate employees in Latvia, Russia, India, Norway and in the Philippines.

BW OFFSHORE EMPLOYED PERSONNEL OFFSHORE
Expats and Nationals 2004-2011

As of February 2011



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HSSEQ

A LONG TERM AND TARGETED COMMITMENT TO QUALITY, HEALTH, SAFETY AND THE ENVIRONMENT

Effective quality, health, safety and environmental practices are essential for success.

QUALITY MANAGEMENT
BW Offshore has implemented effective management systems and routines. Our focus is on continous improvement. BW Offshore is certified in accordance with the ISO 9001 quality management standard. This certificate recognises the way the company is managed.

The acquisition of Prosafe Production has provided a unique opportunity to compare, identify and implement the best practices from each of the two former companies.

HEALTH, SAFETY AND THE ENVIRONMENT
BW Offshore is committed to the highest level of HSE performance in all its operations, for all personnel on all its units and at all its premises. The company seeks to provide a safe working environment which prevents injuries and ill health, and works to reduce the environmental impact of its operations. BW Offshore is certified in accordance with ISO 14001 on environment management, OHSAS 18001 on occupational health and safety management, and the International Safety Management (ISM) code.

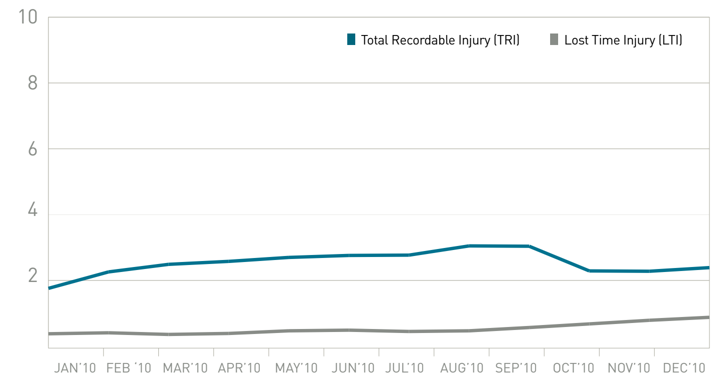
BW Offshore did not experience any serious personnel injuries or significant environmental incidents in 2010.The majority of the FPSOs in the total fleet succeeded in operating for the full year with no Lost Time Injuries (LTI's).

The company continually monitors trends in injuries and strives to immediately take action to reverse any unwanted developments.

The graph 'BW Offshore HSE statistics' shows the rolling average injury trend for BW Offshore in 2010. The following terms are used:

- **Lost Time Injury (LTI):** an injury at work which means the injured person is unable to resume their normal duties in the next or subsequent shifts.
- **Total Recordable Injuries (TRI):** the sum of all work-related lost time owing to injuries, cases of restricted working and cases requiring medical treatment.
- **Rates:** number of injuries per one million hours of total exposure.

BW OFFSHORE HSE STATISTICS, ALL HOURS
(12 months rolling average)



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GLOBAL FOOTPRINT

BW OFFSHORE OFFICES

- A NORWAY
- B SINGAPORE
- C BRAZIL
- D MEXICO
- E AUSTRALIA
- F NEW ZEALAND
- G NIGERIA
- H MAURITANIA
- I USA
- J CÔTE D'IVOIRE
- K CONGO
- L CHINA
- M CYPRUS
- N BERMUDA
- O NETHERLANDS
- P INDIA

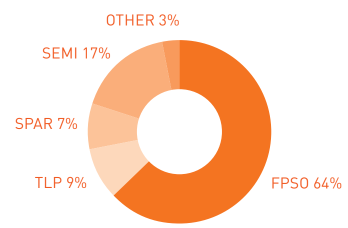
BW OFFSHORE UNITS

1. ABO FPSO, Agip
2. BERGE HELENE FPSO, Petrobas
3. BW ATHENA FPSO, Ithaca Energy
4. BW CIDADE DE SÃO VICENTE FPSO, Petrobas
5. BW JOKO TOLE FPSO, KEI
6. BW NISA FPSO, Petrobas
7. BW PIONEER FPSO, Petrobas
8. CIDADE DE SÃO MATEUS FPSO, Petrobas
9. ESPOIR IVORIEN FPSO, CNR
10. NINGALOO VISION FPSO, Apache
11. PETRÓLEO NAUTIPA FPSO, Vaalco
12. POLVO FPSO, Devon
13. SENDJE BERGE FPSO, Addax/Sinopec
14. UMUROA FPSO, AWE
15. YÙUM K'AK'NÀAB FPSO, Pemex
16. AZURITE, FDPSO Murphy
17. BELOKAMENKA FSO, Rosneft
18. ENDEAVOR FSO, Aban

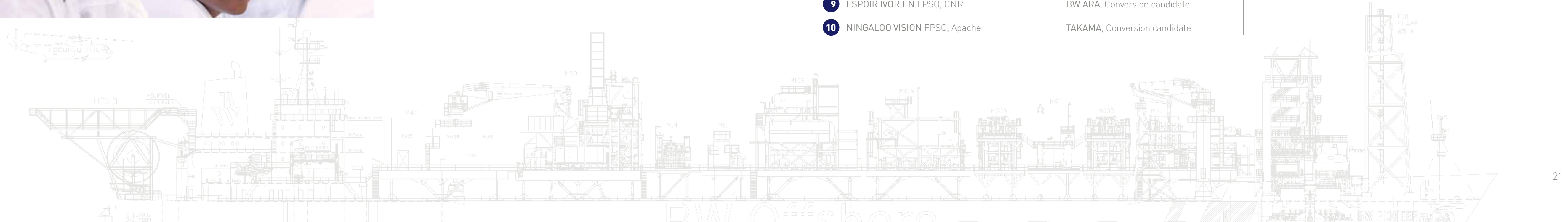
BW ARA, Conversion candidate

TAKAMA, Conversion candidate

WORLD-WIDE FLOATING PRODUCTION UNITS



Source: IMA, based on a total number of 245 FPUs



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TRACK RECORD

NAME	TYPE	LOCATION	CLIENT
BERGE TROLL	LPG FPSO	CABINDA, ANGOLA	CHEVRONTEXACO(KOMMA E CABINDA
NAVION MUNIN	FPSO	SOUTH CHINA SEA	STATOIL ORIENT
BERGE HUGIN	FPSO	PIERCE FIELD, UK	ENTERPRISE OIL
SENDJE BERGE	FPSO	EQUATORIAL GUINEA	TRITON ENERGY
SENDJE CEIBA	FPSO	EQUATORIAL GUINEA	HESS
BERGE HELENE	FSO	AL SHAHEEN, QUATAR	MAERSK OIL
SENDJE BERGE *	FPSO	OKWORI, NIGERIA	ADDAX PETROLEUM
BERGE OKOLOBA TORU	LPG FPSO	BONNY RIVER, NIGERIA	GLOBAL ENERGY
BW NISA *	FSO	MALAYSIA	VITOL
BERGE HELENE *	FPSO	CHINGUETTI, MAURITANIA	PETRONAS
BELOKAMENKA *	FSO	MURMANSK	ROSNEFT
YÙUM K'AK'NÀAB *	FPSO	KMZ, MEXICO	PEMEX
BW CARMEN	FPSO - DP	NORTH SEA	STATOILHYDRO
BW CIDADE DE SÃO VICENTE *	FPSO	TUPI, BRAZIL	PETROBRAS
BW CARMEN	FPSO - DP	NORTH SEA	SHELL
BW PIONEER *	FPSO	US GULF OF MEXICO	PETROBRAS
ASOKA NUSANTARA	FSO	MADURA, INDONESIA	KODECO ENERGY

NAME	TYPE	LOCATION	CLIENT
CAMAR NUSANTARA	FSO	CAMAR, INDONESIA	ENTERPRISE OIL
CAMAR AYU	FSO	CAMAR, INDONESIA	GFB RESOURCES
AL ZAAFARANA	FPSO	AL ZAAFARANA, EGYPT	ZAAFARANA OIL COMPANY
ENDEAVOR *	FSO	PY-3, INDIA	TATA OIL / HARDY OIL
PETRÓLERO NAUTIPA *	FPSO	ETAME, GABON	RANGER OIL
RUBY PRINCESS	FPSO	RUBY, VIETNAM	PETRONAS CARIGALI
MADURA AYU	FSO	POLING, INDONESIA	KODECO ENERGY
ABO *	FPSO	OPL 316, NIGERIA	AGIP
MADURA JAYA	FSO	MADURA SEA, INDONESIA	KODECO ENERGY
ESPOIR IVORIEN *	FPSO	ESPOIR, IVORY COAST	CANADIAN NATURAL RESOURCES
POLVO *	FPSO	POLVO, BRAZIL	DEVON ENERGY
UMUROA *	FPSO	TUI, NEW ZEALAND	AWE
CIDADE DE SÃO MATEUS *	FPSO	CIDADE DE SÃO MATEUS, BRAZIL	PETROBRAS
AZURITE *	FDPSO	AZURITE, REPUBLIC OF CONGO	MURPHY
NINGALOO VISION *	FPSO	VAN GOGH, AUSTRALIA	APACHE

* UNITS CURRENTLY IN BW OFFSHORE'S FLEET

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CORPORATE GOVERNANCE

BW Offshore Limited is a Bermuda limited liability company listed on Oslo Børs (the Oslo Stock Exchange).

BW Offshore Limited (hereinafter 'BW Offshore' or 'Company') and its activities are primarily governed by the Bermuda Companies Act, its Memorandum of Association and its Bye-laws. Certain aspects of the Company's activities are governed by Norwegian law pursuant to the Listing Agreement between the Oslo Stock Exchange and the Company. In particular, the Norwegian Securities Trading Act and the Norwegian Stock Exchange Regulations will apply. However, the provisions regarding mandatory offer obligations in Chapter 4 of the Securities Trading Act do not apply to the Company, as these only apply to Norwegian companies.

The Board of Directors (the 'Board') is of the opinion that the best interests of the Company, and its shareholders taken as a whole, are best served by the adoption of business policies and practices which are legal, compliant, ethical and open in relation to all dealings with customers, potential customers and other third parties. These policies are fair and in accordance with best market practice in relationships with employees and are also sensitive to reasonable expectations of public interest.

The Board therefore commits the Company to good corporate governance, and has adopted the revised version - October 21, 2010 - of the Norwegian Code of Practice for Corporate Governance (the 'Code'), prepared by the Norwegian Corporate Governance Board.

BW Offshore has implemented ethical values and guidelines described in the Code of Conduct and other internal policies.

1 The Business
The purpose of the Company is described in the Company's articles of association (bye-laws).

The Company's objectives and main strategies are described in this annual report.

2 Equity and Dividends
The Board continuously evaluates the Company's capital requirements to ensure that the Company has an equity ratio adapted to its goal, strategy and risk profile.

Pursuant to the Company's Bye-laws, the Board is authorised to declare dividend to the shareholders. The Board has drawn up a clear and predictable dividend policy for approval by the Annual General Meeting as a basis for declarations of dividends. Full details of the dividend policy can be found on BW Offshore's website.

3 Equitable treatment of shareholders and transactions with close associates
The Company has one class of shares, and each share has one vote at the general assembly.

The Board's authority to alter the share capital and to purchase its own shares means that the Board, within the scope of the Bermuda Companies Act, is free to decide how the alteration of share capital and purchase or sale of its own shares shall take place. The Board will monitor the process of such alteration of share capital and purchase or sale of its own shares to ensure the equal treatment of shareholders.

In the event that BW Offshore waives the pre-emption rights of existing shareholders, the Board of Directors will explain the justification in the stock exchange announcement issued in connection with the increase in share capital.

In case of material transactions between the Company and a shareholder, director, officer, other leading personnel, or persons closely related to any of these, the Board will obtain a valuation from an independent third party.

During 2010, no material transaction of such nature took place.

Directors and officers of the Company and other leading personnel shall notify the Board if they directly or indirectly have a significant interest in an agreement to be entered into by the Company.

4 Freely negotiable shares
In general, the shares in the Company are freely transferable. However, the Board may refuse to register the transfer of any share, and may direct the Registrar to decline (and the Registrar shall decline if so requested) to register the transfer of any interest in a share held through Verdipapirsentralen

(VPS), where such transfer would, in the opinion of the Board, likely result in 50% or more of the aggregate issued and outstanding share capital of the Company, or shares of the Company to which are attached 50% or more of the votes attached to all issued and outstanding shares of the Company, being held or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares being effectively connected to a Norwegian business activity, or the Company otherwise being deemed a Controlled Foreign company pursuant to Norwegian tax legislation.

5 General meetings
The annual general meeting will normally take place by 31 May each year. Notice of the meeting will normally be sent at least two weeks before the general meeting takes place. Documentation containing the information necessary for the shareholders to make decisions on all the items on the agenda will be included in this notice, including the recommendation from the Nomination and Compensation Committee. The Board may decide by the notice of the meeting that shareholders who intend to attend the general meeting shall give notice to the Company within a time limit expiring not earlier than five days prior to the general meeting.

Registration is made in writing, per telefax or by e-mail. The Board wishes to make efforts to enable as many shareholders as possible to attend. Shareholders who are not able to attend are invited to meet by proxy, and efforts will be made for the proxies to relate to each individual item on the agenda.

Pursuant to the Company's Bye-laws, the general meeting will be chaired by the chairman of the Board unless otherwise agreed by a majority of those shares represented at the meeting.

6 Nomination and Compensation Committee
The Company's Nomination and Compensation Committee has the responsibility of proposing members to the Board of Directors.

As this committee also addresses compensation issues, the Nomination and Compensation Committee consists of Board members only and as such does not follow the recommendations of the Code. However, the majority of the members serving on the Nomination and Compensation Committee are independent non-executive directors. Furthermore, the committee does not include the chief executive or other executive personnel, as recommended by the Code.

7 The Board; composition and independence
The Board shall consist of between six to ten directors. The directors are elected for a period of two years unless otherwise determined by the general meeting. Only a minority of the directors participating in any decision can be domiciled or living in Norway. The same shall be reflected in the composition of the Board. The Board appoints the chairman amongst the elected Board members.

The Company shall have a majority of directors that are independent from the manager, the main shareholder and main business partners. Furthermore, the Board shall include at least two directors that are independent from the Company's main shareholders, i.e. shareholders holding more than 10% of the shares.

Currently, the Company has six Board members, with one female director. The composition of the Board does not meet the recommended gender guidelines of the Code, but meets the Company's need for expertise and diversity. The directors are presented on the Company's website (www.bwoffshore.com).

8 The work of the Board
The Board is ultimately responsible for the management of the Company and for supervising its day-to-day management. The duties and tasks of the Board are detailed in the Company's Bye-laws.

In order to conduct its work, the Board each year fixes in advance a number of regular scheduled meetings of the Board for the following calendar year, although additional meetings may be called by the chairman. The directors shall normally meet in person, but if so allowed by the chairman, directors may participate in any meeting of the Board by means of telephone. Minutes in respect of the meetings of the Board of Directors are kept by the Company in Bermuda.

The Board has approved mandates for and established an Audit Committee and a Nomination and Compensation Committee in order to ensure enhanced attention to financial reporting and remuneration.

The Board carries out an annual evaluation of its work.

9 Risk management and internal control
The Board ensures that the Company has satisfactory internal control procedures to manage its exposure to risks related to the conduct of the Company's business, to support the quality of its financial reporting and to ensure compliance with laws and regulations. Such procedures and systems shall contribute to securing shareholders investment and the Company's assets.

Management and internal control is based on Company-wide policies and internal guidelines in areas such as Finance and Accounting, HSE, Project Management, Operation, Technical and Business Development, in addition to implementation and follow-up of a risk assessment process. The Company's management system is central in the Company's internal control and ensures that the Company's vision, policies, goals and procedures are known and adhered to.

HSSEQ and Risk Management Division (including Internal Control) is independent from the line management and reports directly to the CEO. In addition to its own controlling bodies and external audit, the Company is subject to external supervision by Det Norske Veritas (DNV) for classification in accordance with ISO.

An annual supervisory plan for internal audit work is approved by the CEO, based on HSSEQ recommendations and risk assessments carried out.

The Board's Audit Committee follows up internal control in connection with quarterly reviews of the Group's financial reporting in addition to two meetings in which internal control issues are addressed specifically. The chief financial officer, the internal auditor, the Company's other relevant senior staff and representatives of the external auditor, attend the meetings of the Audit Committee.

The systems for risk management and internal control also encompass the Company's corporate values and ethical guidelines.

BW Offshore has established a Code of Conduct for the Company and its employees.

10 Remuneration of the Board of Directors
The general meeting decides the remuneration of the Board. The remuneration of the Board and its individual directors shall reflect the Board's responsibility, competence, use of resources and the complexity of the business activities.

The directors do not receive profit related remuneration or share options or retirement benefits from the Company.

Directors or companies related to BW Offshore, shall not normally undertake special tasks for the Company in addition to the directorship. However, if they do so, the entire Board shall be informed, and the fee shall be approved by the Board.

Remuneration of the directors is stated in the annual report.

11 Remuneration of the executive personnel
Remuneration of the executive personnel is reviewed annually. The work is carried out by the Nomination and Compensation Committee, which considers the executive personnel's performance and also gathers information from comparable companies before making its recommendation to the Board for approval.

The Board approves any share option programs in the Company available to the employees of the Company and subsidiaries. Detailed information of remuneration, loans, shareholding of the management and any share option programs can be found in note 9, which is included as an integral part of the consolidated financial statements.

Any performance-related remuneration to executive personnel is subject to an absolute limit. The limit is approved by the Board of Directors based on a recommendation from the Nomination and Compensation Committee.

12 Information and communications
The Company is committed to provide information in a manner that contributes to establishing and maintaining confidence with important interest groups and stakeholders. The information shall be based upon transparency, openness and equal treatment of all shareholders. A precondition for the share value to reflect the underlying values in the Company is that all relevant information is disclosed to the market. Based on this, the Company will endeavour to keep the shareholders informed about profit developments, prospects and other relevant factors for their analysis of the Company's position and value. It is emphasised that the information is uniform and simultaneous.

A currently updated financial calendar with dates for important events, such as general meeting, publishing of interim annual reports, dates for payment of potential dividend etc shall be accessible for the shareholders on www.oslobors.no and on the Company's website www.bwoffshore.com. Public investor presentations are arranged in connection with submission of annual and quarterly results for the Company. The presentations are accessible on the Company's website. Furthermore, continuous dialogue is held with, and presentations are given, to analysts and investors.

13 Take-over
BW Offshore has no defence mechanisms stated in the Company's bye-laws against acquisition of shares other than referred to in section 5 above, and no measures are taken to limit the opportunity of acquiring shares in the Company.

In the event that an offer is made for the shares of the Company, the Board will:

- Issue a statement evaluating the offer and making recommendations as to whether the shareholders should accept the offer or not. If the Board finds that it is unable to give a recommendation, the Board will explain the reason for not giving a recommendation. The statement should show whether the decision was unanimous, and if not, the background for why certain Board members did not adhere to the statement; and
- Consider arranging a valuation from an independent expert. If any member of the Board or executive personnel or close associates of such individuals or anyone who has recently held such position is either the bidder or has a particular interest in the Company, the Board will arrange for an independent valuation in any case. The same applies if the bidder is a major shareholder.

Any such transaction that comprises a disposal of the entire business of the Company shall be decided by the general meeting.

14 Auditor
The auditor is appointed by the general meeting and is responsible for the audit of the consolidated financial statements of the Company. The auditor shall annually present an audit plan to the Audit Committee and/or the Board.

The auditor participates in the Audit Committee's review and discussion of the annual accounts and quarterly interim accounts.

In these meetings, the Audit Committee is informed of the annual and quarterly accounts and issues of special interest to the auditor, including possible disagreements between the auditor and the management.

The Audit Committee annually arranges for a meeting with the auditor in which a report from the auditor dealing with the Company's accounting principles, risk management and internal control routines are reviewed. At least once a year a meeting is held between the auditor and the Audit Committee without the presence of representatives from the management.

The auditor shall annually confirm his independence in writing to the Audit Committee. The Board shall give an account to the general meeting of the auditor's fee, including details of the fee paid for audit work and any fees paid for other specific assignments.

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CORE VALUES

/ COMMIT WITH OPENNESS

/ ADAPT THROUGH COMPETENCE

/ ENGAGE BY TEAM SPIRIT

/ ACT RELIABLY IN EVERYTHING WE DO

VISION

/ TO BECOME #1 FPSO OWNER AND PRODUCTION OPERATOR IN THE WORLD

MISSION

/ WE DELIVER BEST IN CLASS SHAREHOLDER VALUE

/ WE PROVIDE COST EFFICIENT OFFSHORE SOLUTIONS DRIVEN BY CUSTOMER NEEDS AND SEEK CONTINUOUS IMPROVEMENT THROUGH ADAPTATION AND USE OF TECHNOLOGY

/ WE UNDERSTAND AND MANAGE RISK WITH THE HIGHEST REGARD FOR HEALTH, SAFETY AND ENVIRONMENT

/ WE CONTRIBUTE TO LOCAL DEVELOPMENT THROUGH OUR BEHAVIOUR WHERE WE OPERATE

/ WE PROMOTE TALENT AND DIVERSITY AMONG OUR EMPLOYEES

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DIRECTORS' REPORT

BW Offshore (the 'Company') is one of the world's leading owners and operators of offshore floating production and storage facilities.

BW Offshore was incorporated in Bermuda on 7 June 2005 and has been listed on the Oslo Stock Exchange (ticker 'BWO') since 2006. The Company was established to capitalise on the growing demand for offshore floating production and storage facilities.

BW Offshore is a provider of Floating Production, Storage and Offloading vessels (FPSOs) and Floating Storage and Offloading vessels (FSOs) by offering Engineering Procurement Construction Installation (EPCI) contracts, as well as operational services and lease arrangements. In 2010, the Company was present in 15 countries, and had units operating offshore Brazil, India, Malaysia, Mauritania, Mexico, Nigeria, Ivory Coast, Gabon, Congo, Australia, New Zealand and Russia. The Company will commence operations in the USA and in the UK in 2011 and in Indonesia in 2012.

The Company's core strengths are:
- Wide geographical presence
- Engineering
- Project execution
- Operations
- Installation services
- Financial and lease services

In selecting new projects BW Offshore strives to increase shareholder value. The Company will actively consider consolidation opportunities if these contribute to shareholder value.

SALE OF THE APL DIVISION
In September 2010, BW Offshore entered into an agreement to sell all its shares in APL (Advanced Production & Loading) Plc (the 'APL division'). The transaction was concluded on 8 December 2010 and the preliminary sales proceeds of USD 531.5 million were received by BW Offshore on this date. As a result of the sale, the APL division has been classified as discontinued operations in 2010.

SUCCESSFUL ACQUISITION OF THE COMPANY PROSAFE PRODUCTION PUBLIC LIMITED
On 1 October 2010, the Company obtained control of the company Prosafe Production Public Limited ('PROD') through a voluntary exchange offer to acquire all issued and outstanding shares in PROD.
As a consequence PROD became a subsidiary of BW Offshore and is consolidated as of that date. PROD is an owner and operator of FPSOs with significant operational experience from the world's important oil and gas fields. The combination with PROD has created a player with diversification, presence, financial scale and competence to play an even more significant role within the FPSO business.

OPERATIONS
Subsequent to the acquisition of PROD, BW Offshore owns and operates thirteen FPSOs and two FSOs and has three ongoing conversion projects. In addition, the Company owns the conversion candidates BW Ara and M/T Takama.

1. The FPSO Yùum K'ak' Nàab is in operation at the KMZ field for Pemex and commenced operation in 2007. The duration of the contract is fifteen years fixed and with an option to extend for additional three years.

2. The FPSO Sendje Berge is in operation at the Okwori field offshore Nigeria for Sinopec. The vessel started operation in the Equatorial Guinea in 2000 and was later modified, upgraded and relocated to Nigeria in 2005. Late 2010, the client extended the contract for another two years.

3. The FPSO Berge Helene is in operation on the Chinguetti field offshore Mauritania for Petronas. The duration of the contract is seven years fixed and four two-year options. The vessel started operation in 2006.

4. The FPSO BW Cidade de São Vicente is in operation at the Tupi field offshore Brazil for Petrobras. The vessel commenced operations in April 2009 on a 10 year firm lease contract. The client has five options to extend the contract with one year in addition to having a purchase option.

5. The Arctic FSO Belokamenka operates as an oil terminal in the Kola Bay, Russia for Rosneft/Sovcomflot. The contract was entered into in 2004 and the duration of the contract is fifteen years.

6. The FPSO Cidade de São Mateus commenced its nine-year firm contract with Petrobras on the Camarupim field off the coast of Espirito Santo, Brazil, in October 2009. Petrobras has the option to extend the contract by up to six years.

7. The FDPSO Azurite is the world's first FPSO with drilling capabilities. The unit is equipped with a modular drilling package, which can be removed and used elsewhere once drilling is completed.

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The unit commenced operations on Murphy's deepwater Azurite development field in the Mer Profonde Sud block offshore the Republic of Congo in April 2009. The firm part of the contract is seven years, while there is an eight years of extension options.

8. The FPSO Ningaloo Vision is working in the Exmouth basin off the North-Western coast of Australia. The unit is employed by Apache on a seven-year fixed term contract plus eight optional years. The vessel commenced operation in February 2010 but is not operating at full capacity.

9. The FPSO Polvo started operations for Devon offshore Brazil in August 2007. The contract has a firm seven year period with an eight-year extension option.

10. The FPSO Umuroa entered into a five-year contract with five one-year extension options for Australian Worldwide Exploration offshore New Zealand in August 2007. This contract was adjusted in May 2008 to an eight-year firm period to 31 December 2015, with seven one-year extension options to 31 December 2022.

11. The FPSO Abo is on a contract with Nigerian Agip Exploration offshore Nigeria until April 2012.

12. The FPSO Espoir Ivoirien is located on the Espoir field off the Ivory Coast for Canadian Natural Resources (CNR). The firm period of the contract lasts until 2012. In addition, CNR has the option to extend it by up to ten years.

13. The FPSO Petróleo Nautipa is chartered to Vaalco on the Etame field off Gabon. The contract was extended in 2005 and in 2007 and currently runs until September 2015 with options for two additional years.

14. The FSO Endeavor is operating for Aban Loyd Chiles Offshore on the PY-3 field off India. The contract runs until April 2011.

15. The FPSO BW Pioneer was hooked up to the buoy in October 2010. The FPSO is expected to start operations for Petrobras in the US Gulf of Mexico by the end of first quarter 2011, first on stand-by rate until First Oil and then on full day rate from commencement of production.

BW Offshore signed a contract with Petrobras America Inc. in October 2007 for the conversion, installation and operation of the FPSO for the Cascade & Chinook fields. The contract is for a fixed term of five years and with an optional period of up to three years.

16. The FPSO BW Athena (former BW Carmen) is chartered to Ithaca Energy and partners and is currently undergoing conversion. Operation in the UK is expected to commence at the end of 2011.

17. The FPSO BW Joko Tole (former BW Genie) is chartered to Kangean Energy Indonesia and is currently undergoing conversion. The FPSO is expected to commence operation in Indonesia in the first quarter of 2012.

18. The M/T Takama is a VLCC tanker ready for conversion.

19. The BW Ara is a VLCC tanker ready for conversion

BW Offshore, together with its Brazilian consortium partner QUIP, is converting a FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility will be to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The ULCC BW Nisa (323,000 dwt) has been utilised for this project. The project has been accounted for as a construction contract (EPC) applying the percentage of completion method. BW Offshore will, under an additional contract, subsequently be responsible for the operation of the vessel with the Brazilian JV partner, Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.
BW Offshore is also performing project management and engineering services to OSX for the FPSO OSX 1. Revenue is booked on a monthly basis.

The order backlog for the Company represents a value of approximately USD 4.3 million related to non-cancellable contracts and if including options, USD 8.2 billion.

FINANCIAL RESULT
The operating profit before depreciation, interest and taxes (EBITDA) for BW Offshore with subsidiaries (the 'Group') for 2010 was USD 152.3 million compared to USD 101.3 million in 2009. Operating profit was USD 19.9 million in 2010, compared to USD 56.2 million in 2009. Operating result in 2010 included impairment charges of USD 85.0 million related to the operating vessels and vessels under conversion, restructuring costs of USD 34.7 million related to the PROD acquisition and a charge of USD 14.0 million related to disputed import duties for the importation of the FPSO Yùum K'ak' Nàab to Mexico in 2007 offset by a settlement of USD 32.5 million related to the Basker Manta Gummy project. Net profit including discontinued operations of USD 122.9 million was USD 23.4 million compared to a loss of USD 8.8 million in 2009.

The Group's revenue derived from charter hire was USD 311.5 million compared to USD 185.2 million in 2009. The increase is primarily attributable to increased activity resulting from the acquisition of PROD on 1 October 2010. Revenue derived from lease interests was USD 19.3 million compared to USD 20.2 million in 2009. Lease revenue derives from the operation of the FPSO Yùum K'ak' Nàab and of the lease of the FSO Belokamenka.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs, including charges for doubtful debts. Total operating expenses were USD 382.2 million in 2010 compared to USD 112.5 million in 2009. The increase in operating expenses was mainly attributable to the consolidation of PROD as of 1 October 2010 together with restructuring costs and a charge for import duties in Mexico.

Administrative expenses include expenses that are not directly attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo and Singapore, and all other administrative expenses including restructuring expenses. Total administrative expenses amounted to USD 66.0 million in 2010 compared to USD 29.5 million in 2009. The increase is mainly due to restructuring costs included in 2010.

Depreciation and amortisation amounted to USD 87.2 million in 2010, compared to USD 43.6 million in 2009. The increase is mainly due to the consolidation of PROD as of 1 October 2010.

Net interest expense in 2009 was USD 26.2 million compared to USD 16.1 million in 2009. The increase is due to higher interest bearing debt in 2010 mainly due to the acquisition of PROD.
Tax expense was USD 16.4 million in 2010 compared to USD 7.7 million in 2009. The increase is mainly due to increased activity resulting from the consolidation of PROD as of 1 October 2010.The Group is not subject to taxation in Bermuda, but the Group is subject to taxation in the various countries in which it operates.

Total assets were USD 3,670.2 million at 31 December 2010 compared to USD 2,393.5 million in 2009. The net increase of USD 1,276.7 million (53%) mainly relates to the consolidation of PROD, increased book values of vessels undergoing conversion, increased cash deposits offset by the sale of APL assets and reduced receivables. Goodwill at 31 December 2010 relates to the acquisition of PROD while at 31 December 2009, the goodwill related to the acquisition of APL in 2007. At 31 December 2010, the Group had a net equity of USD 1,375.6 million compared to USD 920.9 million at 31 December 2009. The increase is mainly due to the issue of new equity in relation to the acquisition of PROD. At 31 December 2010, the Group had interest-bearing debt of USD 1,728.9 million compared to USD 1,080.3 million in 2009.

BW Offshore completed on 29 December 2010 a syndication process for a USD 2.4 billion seven year senior secured credit facility. The credit facility was substantially oversubscribed by a group of fifteen leading international banks. The USD 2.4 billion facility was concluded on 15 March 2011 and the USD 1.5 billion and USD 1.2 billion facilities were cancelled and repaid.

A favorable export financing scheme (CIRR financing) totalling USD 99.2 million has been drawn down on two loan facilities with Eksportfinans ASA at 31 December 2010. The proceeds of the CIRR financing have been invested as long term bank deposits. Net interest-bearing debt at 31 December 2010 was USD 1,401.5 million at an average interest rate of 1.7% in 2010.

Net cash inflow from operating activities, including discontinued operations in 2010, amounted to USD 357.5 million compared to net cash inflow of USD 186.9 million in 2009. The improved cash inflow reflects the improvements in operations experienced in 2010 and the effect of consolidating PROD as of 1 October 2010. Net cash inflow from investment activities, including discontinued operations in 2010, amounted to USD 204.9 million compared to net cash outflow of USD 367.9 million in 2009. The improvement is due to the proceeds received from selling APL. Cash outflow from investment activities in 2010 mainly relates to the conversion of the FPSO BW Joko Tole, the FPSO BW Athena and the FPSO BW Pioneer.

HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY
Health, safety, security, environment and quality ('HSSEQ') have the highest priority in all parts of the Company's management, conversions and operations of FPSOs and FSOs, construction and support service processes. BW Offshore's management has established policies for safety, security, occupational health and environmental management. Measurable targets are defined for each onshore and offshore unit to ensure compliance with the adopted policies and to maintain a continuous improvement cycle. Personnel training and familiarisation with the said policies are recognised as key activities in order to achieve a HSSEQ culture of the highest standard and to minimise risks.

BW Offshore's management systems address HSSEQ in detail and are compliant with and certified pursuant to the International Safety Management code ('ISM') for the safe operation of ships and for pollution prevention. BW Offshore's FPSOs are certified in accordance with the requirements of the International Ship and Port Facility Security Code. In addition, BW Offshore is certified by the following international HSSEQ standards:

- ISO 9001 - Quality Management
- ISO 14001 - Environmental Management
- OHSAS 18001 - Occupational Health and Safety Management

Total LTI-rate and total TRI-rate (Total Recordable Incidents) for the Company in 2010 were 0.9 (0.6) and 2.4 (2.4), respectively.

The Board considers that the working environment in the Company is good. In 2010, absence due to sickness amounted to 2.7% of total hours worked by the employees. During the year, several initiatives were taken to further improve working environment. Offshore personnel conferences, including cultural awareness program, as well as leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while alignment of policies and procedures on a global scale is an example of an onshore initiative.

BW Offshore currently has approximately 1,900 employees. The Company wants to be considered an attractive workplace and attaches prime importance to offering challenging and motivating jobs and equal development opportunities for all, regardless of gender, nationality, culture or religion. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitments.

The activities of the Company are subject to environmental regulations pursuant to a variety of international conventions and state and municipal laws and regulations, which the Company is committed to uphold, and where appropriate, exceed. Compliance with such regulations can require significant expenditures and in the unlikely event breaches occur, this may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcements, larger fines and liability and potentially increased capital expenditures and operating costs. Environmental legislation may result in a material increase in the costs of operating the Company's units or otherwise adversely affect the Company's financial condition, results of operations or prospects. These concerns apply to all entities operating in the FPSO and FSO market.

The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. Environmental legislation may also expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault. The Company had no significant harmful environmental spills during 2010.

The Company takes out insurance cover for injuries to crew, damage to vessels, loss of income and third-party liabilities. The insurance also covers losses resulting from acts of war and terrorism. Cover for oil pollution and oil pollution caused by war and war-like actions are limited per incident.

CORPORATE GOVERNANCE
Good Corporate Governance plays a key role in creating shareholder value and building investor confidence, thereby ensuring an optimal capital cost. Bermuda does not have a corporate governance code applicable to the Company, but the Board of Directors of the Company has adopted a Corporate Governance Policy to reflect BW Offshore's commitment to good Corporate Governance. This Policy is based on the 'Norwegian Guidelines on Corporate Governance' dated 21 October 2010, prepared by the Norwegian Corporate Governance Board. The objective of the Code of Practice is that companies listed in Norway will practice corporate governance that regulates the division of roles between shareholders, the Board of Directors and executive management more comprehensively than is required by legislation. BW Offshore's Corporate Governance Policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the annual report.

GOING CONCERN
Based on the Company's current fleet, contracts and overall position at the end of the year, and the current amendments to the loan facilities, the Board is of the opinion that the Company has a good basis for continued operations. The accounts have therefore been prepared on a 'going concern' basis.

RISK
The Company's risk exposure is analyzed and evaluated at Group level to ensure sound internal control and appropriate risk management based on the Group's values and code of ethics. The most important operational risk factors are related to the operation of FPSOs and the execution of projects.
The financial risks mainly comprise of currency, credit and interest rate risks as well as the performance of the Company's investment in associates. Future oil prices will to a significant degree decide the number of available projects and their attractiveness in respect of costs and terms and conditions of contracts. It could also be challenging in the current market to obtain financing for new projects at acceptable terms, which could limit new opportunities.

EVENTS AFTER THE BALANCE SHEET DATE
The FSO Madura Jaya was under charter to Kodec Energy before it was sold in February 2011.
On 15 March 2011, the USD 2.4 billion facility was completed and the USD 1.5 billion and USD 1.2 billion facilities were cancelled and repaid.

OUTLOOK
The outlook for the energy market in general and BW Offshore's position in particular remains strong. Based on BW Offshore's diversification, presence, financial scale and competence, the Company will play a significant role in the FPSO market and continue to grow its business. BW Offshore is currently pursuing several prospective projects with expected award in 2011 and beyond, and expects a continued increase in activity level both in the short and long term.

The operating cash flow from the operating vessels is secure and based on long term contracts with large national oil companies and robust independent oil companies. BW Offshore is fully funded for all ongoing projects and additional financial capacity is available for new growth opportunities.

The consolidation of the Prosafe Production fleet will contribute to a significant growth in the EBITDA in 2011. The run rate EBITDA will also grow significantly with the start up of the three FPSOs BW Pioneer, BW Athena and BW Joko Tole.

BW Offshore is committed to increasing shareholder returns, and will only pursue projects meeting the Company's targeted returns. The future dividend policy will be an important factor to achieve class leading shareholder returns based on share price performance and dividend payments.

BOARD OF DIRECTORS

Bermuda, 24 March 2011

Mr. Christophe Pettenati-Auzière

Mr. Maarten R. Scholten

Mr. Andreas Sohmen-Pao

Mr. Ronny Johan Langeland
Vice Chairman

Mrs. Carine Smith Ihenacho

Dr. Helmut Sohmen
Chairman

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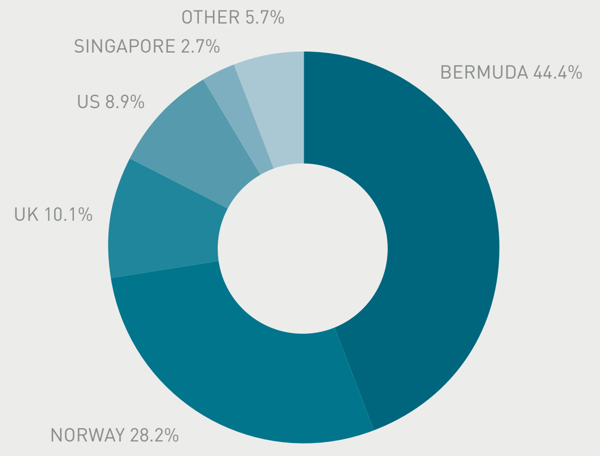
BW OFFSHORE'S INVESTOR RELATIONS ACTIVITIES AIM TO ENSURE THAT:

- the information it provides to the financial markets gives market players the best possible basis for establishing a precise picture of the company's financial condition and factors which might affect its future value creation.
- the market price of BW Offshore's shares reflects the fair value of the company.
- BW Offshore's shares remain as liquid as possible, with lowest possible volatility.
- BW Offshores maintains access to capital markets on the most favourable possible terms.
- BW Offshore's Board of Directors and executive management are adequately informed about developments in financial markets and about stakeholder views on the company's position and development.

20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2010

	NAME	TYPE	COUNTRY	SHARES #	SHARES%
1	BW GROUP LIMITED		BERMUDA	305,436,227	44.39%
2	MORGAN STANLEY & CO INTERNAT. PLC	NOM	UNITED KINGDOM	24,232,612	3.52%
3	RASMUSSENGRUPPEN AS		NORWAY	23,843,565	3.47%
4	BW EUROHOLDINGS LTD		SINGAPORE	18,398,736	2.67%
5	CREDIT SUISSE SECURITIES (USA) LLC	NOM	UNITED STATES	15,822,888	2.30%
6	ODIN OFFSHORE		NORWAY	14,718,400	2.14%
7	ODIN NORDEN		NORWAY	10,969,275	1.59%
8	ODIN NORGE		NORWAY	9,178,601	1.33%
9	UBS AG, LONDON BRANCH	NOM	UNITED KINGDOM	7,828,169	1.14%
10	PARETO AKSJE NORGE		NORWAY	7,502,703	1.09%
11	RBC DEXIA INVESTOR SERVICES TRUST	NOM	UNITED KINGDOM	7,269,126	1.06%
12	KLP AKSJE NORGE VPF		NORWAY	7,176,247	1.04%
13	ORKLA ASA		NORWAY	7,044,352	1.02%
14	JPMORGAN CHASE BANK	NOM	UNITED KINGDOM	7,000,386	1.02%
15	BROWN BROTHERS HARRIMAN & CO	NOM	UNITED STATES	6,231,661	0.91%
16	HSBC BANK PLC		UNITED KINGDOM	6,063,143	0.88%
17	KOLBJØRN INVEST II AS		NORWAY	5,720,000	0.83%
18	KOMMUNAL LANDSPENSJONSKASSE		NORWAY	5,134,439	0.75%
19	SKANDINAVISKA ENSKILDA BANKEN	NOM	SWEDEN	4,937,208	0.72%
20	STATE STREET BANK AND TRUST CO.	NOM	UNITED STATES	4,509,342	0.66%
	Top 20 shareholders			499,017,080	72.53%
	Total shares outstanding			688,006,004	

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS



TOTAL NUMBER OF SHAREHOLDERS: 3.064

FINANCIAL INFORMATION

	2010	2009
P&L (MUSD)		
Operating revenue	549.3	219.9
Operating expenses	(382.1)	(112.5)
Transactions related to associates	(14.8)	(6.1)
EBITDA	152.3	101.3
Depreciation and amortisation	(87.2)	(43.6)
Impaiment, gains (loss) on sale	(85.0)	(1.5)
Operating profit (loss) (EBIT)	(19.9)	56.2
Net financial items	(63.2)	(23.6)
Profit (loss) before tax	(83.1)	32.6
Income tax expense	(16.4)	(7.7)
Net profit (loss) from continuing operations	(99.5)	24.9
Net profit (loss) from discontinued operations	122.9	(33.7)
Net profit (loss) for the period	23.4	(8.8)
BALANCE SHEET (MUSD)		
Total assets	3,670.2	2,393.5
Interest bearing debt	1,728.9	988.0
Cash and cash equivalents	228.2	68.0
Non-current deposits	99.2	163.3
Net interest bearing debt (NIBD)	1,401.5	849.3
Total equity	1,375.6	920.9
CASH FLOW (MUSD)		
Net cash flow from operating activities	357.5	186.9
Net cash flow from investing activities	204.9	(367.9)
Net cash flow from financing activities	(402.2)	181.3
Net change in cash and cash equivalents	160.2	0.3
Cash and cash equivalents at end of period	228.2	68.0
KEY FIGURES %		
Equity ratio	37.5%	38.5%
EBITDA margin	27.7%	21.7%
Return on equity (ROE)	0.2%	(0.1%)
Number of shares (mill)	688.0	456.2
Number of shares fully diluted	688.0	456.2
Shareprice (NOK)	16.3	8.5
Market cap (MNOK)	11,214.0	3,877.8
Market cap (MUSD)	1,915.0	671.3
Enterprise value (EV, MUSD)	3,316.5	1,520.6

SHAREHOLDER INFORMATION

BW Offshore will maintain a reliable and open relationship with its shareholders, and its objective is to provide a higher return than alternative investments with a comparable risk profile. The BW Offshore share will be an attractive investment opportunity.

All shareholders in BW Offshore have equal rights and the company treats all shareholders equally. The company has one share class and each share carries one vote at the annual general meeting. The company's shares are freely transferable and no restriction are placed on the purchase or sale of shares.

The company is a Bermuda limited liability company listed on the Oslo Stock Exchange. It is therefore obliged to comply with the Bermuda Companies Act as well as the disclosure requirements of the Oslo Stock Exchange. The company also seeks to comply with the Norwegian code of practice for corporate governance (the code). Information and communication are regulated by the company's disclosure policy.

Any transactions by the company with its own shares are carried out either through the stock exchange or at prevailing stock exchange prices. In the event of any material transactions between the company and its shareholders, directors, members of the executive management or close associates of any such parties, the board will arrange for a valuation to be obtained from an independent third party.

The company operates guidelines to ensure that directors and members of the executive management notify the board if they have any material direct or indirect interest in any transaction entered into by the company.

As recommended by the code, BW Offshore's Bye-Laws impose no restrictions on the negotiability of its shares.

SHAREPRICE (NOK)

FINANCIAL CALENDAR 2011

22.02.2011	Q4 2010 RESULTS
12.05.2011	AGM
24.05.2011	Q1 2011 RESULTS
30.08.2011	Q2 2011 RESULTS
29.11.2011	Q3 2011 RESULTS

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Global presence
Norway: Oslo, Arendal, Stavanger
Singapore
Brazil: Rio de Janeiro, Cidade de Santos, Vitória
USA: Houston, Houma
Mexico: Ciudad del Carmen
Australia: Perth
New Zealand: New Plymouth
India: Mumbai
Nigeria: Lagos
Mauritania: Nouakchott
Republic of Côte d'Ivoire: Abidjan
Congo: Pointe-Noire
The People's Republic of China: Shanghai
Cyprus: Limassol
Bermuda: Hamilton
Netherlands: Amsterdam

ADDRESSES

BW OFFSHORE LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

BW OFFSHORE 2010

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DIRECTORS' REPORT

BW Offshore (the 'Company') is one of the world's leading owners and operators of offshore floating production and storage facilities.

BW Offshore was incorporated in Bermuda on 7 June 2005 and has been listed on the Oslo Stock Exchange (ticker 'BWO') since 2006. The Company was established to capitalise on the growing demand for offshore floating production and storage facilities.

BW Offshore is a provider of Floating Production, Storage and Offloading vessels (FPSOs) and Floating Storage and Offloading vessels (FSOs) by offering Engineering Procurement Construction Installation (EPCI) contracts, as well as operational services and lease arrangements. In 2010, the Company was present in 14 countries. and had units operating offshore Brazil, India, Malaysia, Mauritania, Mexico, Nigeria, Ivory Coast, Gabon, Congo, Australia, New Zealand and Russia. The Company will commence operations in the USA and in the UK in 2011 and in Indonesia in 2012.

The Company's core strengths are:
- Wide geographical presence
- Engineering
- Project execution
- Operations
- Installation services
- Financial and lease services

In selecting new projects BW Offshore strives to increase shareholder value. The Company will actively consider consolidation opportunities if these contribute to shareholder value.

SALE OF THE APL DIVISION
In September 2010, BW Offshore entered into an agreement to sell all its shares in APL (Advanced Production & Loading) Plc (the 'APL division'). The transaction was concluded on 8 December 2010 and the preliminary sales proceeds of USD 531.5 million were received by BW Offshore on this date. As a result of the sale, the APL division has been classified as discontinued operations in 2010.

SUCCESSFUL ACQUISITION OF THE COMPANY PROSAFE PRODUCTION PUBLIC LIMITED
On 1 October 2010, the Company obtained control of the company Prosafe Production Public Limited ('PROD') through a voluntary exchange offer to acquire all issued and outstanding shares in PROD. As a consequence PROD became a subsidiary of BW Offshore and is consolidated as of that date. PROD is an owner and operator of FPSOs with significant operational experience from the world's important oil and gas fields. The combination with PROD has created a player with diversification, presence, financial scale and competence to play an even more significant role within the FPSO business.

OPERATIONS
Subsequent to the acquisition of PROD, BW Offshore owns and operates thirteen FPSOs and two FSOs and has three ongoing conversion projects. In addition, the Company owns the conversion candidates BW Ara and M/T Takama.

1. The FPSO Yùum K'ak' Nàab is in operation at the KMZ field for Pemex and commenced operation in 2007. The duration of the contract is fifteen years fixed and with an option to extend for additional three years.

2. The FPSO Sendje Berge is in operation at the Okwori field offshore Nigeria for Sinopec. The vessel started operation in the Equatorial Guinea in 2000 and was later modified, upgraded and relocated to Nigeria in 2005. Late 2010, the client extended the contract for another two years.

3. The FPSO Berge Helene is in operation on the Chinguetti field offshore Mauritania for Petronas. The duration of the contract is seven years fixed and four two-year options. The vessel started operation in 2006.

4. The FPSO BW Cidade de São Vicente is in operation at the Tupi field offshore Brazil for Petrobras. The vessel commenced operations in April 2009 on a 10 year firm lease contract. The client has five options to extend the contract with one year in addition to having a purchase option.

5. The Arctic FSO Belokamenka operates as an oil terminal in the Kola Bay, Russia for Rosneft/Sovcomflot. The contract was entered into in 2004 and the duration of the contract is fifteen years.

6. The FPSO Cidade de São Mateus commenced its nine-year firm contract with Petrobras on the Camarupim field off the coast of Espirito Santo, Brazil, in October 2009. Petrobras has the option to extend the contract by up to six years.

7. The FDPSO Azurite is the world's first FPSO with drilling capabilities. The unit is equipped with a modular drilling package, which can be removed and used elsewhere once drilling is completed. The unit commenced operations on Murphy's deepwater Azurite development field in the Mer Profonde Sud block offshore the Republic of Congo in April 2009. The firm part of the contract is seven years, while there is an eight years of extension options.

8. The FPSO Ningaloo Vision is working in the Exmouth basin off the North-Western coast of Australia. The unit is employed by Apache on a seven-year fixed term contract plus eight optional years. The vessel commenced operation in February 2010 but is not operating at full capacity.

9. The FPSO Polvo started operations for Devon offshore Brazil in August 2007. The contract has a firm seven year period with an eight-year extension option.

10. The FPSO Umuroa entered into a five-year contract with five one-year extension options for Australian Worldwide Exploration offshore New Zealand in August 2007. This contract was adjusted in May 2008 to an eight-year firm period to 31 December 2015, with seven one-year extension options to 31 December 2022.

11. The FPSO Abo is on a contract with Nigerian Agip Exploration offshore Nigeria until April 2012.

12. The FPSO Espoir Ivoirien is located on the Espoir field off the Ivory Coast for Canadian Natural Resources (CNR). The firm period of the contract lasts until 2012. In addition, CNR has the option to extend it by up to ten years.

13. The FPSO Petróleo Nautipa is chartered to Vaalco on the Etame field off Gabon. The contract was extended in 2005 and in 2007 and currently runs until September 2015 with options for two additional years.

14. The FSO Endeavor is operating for Aban Loyd Chiles Offshore on the PY-3 field off India. The contract runs until April 2011.

15. The FPSO BW Pioneer was hooked up to the buoy in October 2010. The FPSO is expected to start operations for Petrobras in the US Gulf of Mexico by the end of first quarter 2011, first on stand-by rate until First Oil and then on full day rate from commencement of production. BW Offshore signed a contract with Petrobras America Inc. in October 2007 for the conversion, installation and operation of the FPSO for the Cascade & Chinook fields. The contract is for a fixed term of five years and with an optional period of up to three years.

16. The FPSO BW Athena (former BW Carmen) is chartered to Ithaca Energy and partners and is currently undergoing conversion. Operation in the UK is expected to commence at the end of 2011.

17. The FPSO BW Joko Tole (former BW Genie) is chartered to Kangean Energy Indonesia and is currently undergoing conversion. The FPSO is expected to commence operation in Indonesia in the first quarter of 2012.

18. The M/T Takama is a VLCC tanker ready for conversion.

19. The BW Ara is a VLCC tanker ready for conversion

BW Offshore, together with its Brazilian consortium partner QUIP, is converting a FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility will be to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The ULCC BW Nisa (323,000 dwt) has been utilised for this project. The project has been accounted for as a construction contract (EPC) applying the percentage of completion method. BW Offshore will, under an additional contract, subsequently be responsible for the operation of the vessel with the Brazilian JV partner, Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.

BW Offshore is also performing project management and engineering services to OSX for the FPSO OSX 1. Revenue is booked on a monthly basis.

The order backlog for the Company represents a value of approximately USD 4.3 million related to non-cancellable contracts and if including options, USD 8.2 billion.

FINANCIAL RESULT
The operating profit before depreciation, interest and taxes (EBITDA) for BW Offshore with subsidiaries (the 'Group') for 2010 was USD 152.3 million compared to USD 101.3 million in 2009. Operating profit was USD 19.9 million in 2010, compared to USD 56.2 million in 2009. Operating result in 2010 included impairment charges of USD 85.0 million related to the operating vessels and vessels under conversion, restructuring costs of USD 34.7 million related to the PROD acquisition and a charge of USD 14.0 million related to disputed import duties for the importation of the FPSO Yùum K'ak' Nàab to Mexico in 2007 offset by a settlement of USD 32.5 million related to the Basker Manta Gummy project. Net profit including discontinued operations of USD 122.9 million was USD 23.4 million compared to a loss of USD 8.8 million in 2009.

The Group's revenue derived from charter hire was USD 311.5 million compared to USD 185.2 million in 2009. The increase is primarily attributable to increased activity resulting from the acquisition of PROD on 1 October 2010. Revenue derived from lease interests was USD 19.3 million compared to USD 20.2 million in 2009. Lease revenue derives from the operation of the FPSO Yùum K'ak' Nàab and of the lease of the FSO Belokamenka.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs, including charges for doubtful debts. Total operating expenses were USD 382.2 million in 2010 compared to USD 112.5 million in 2009. The increase in operating expenses was mainly attributable to the consolidation of PROD as of 1 October 2010 together with restructuring costs and a charge for import duties in Mexico.

Administrative expenses include expenses that are not directly attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo and Singapore, and all other administrative expenses including restructuring expenses. Total administrative expenses amounted to USD 66.0 million in 2010 compared to USD 29.5 million in 2009. The increase is mainly due to restructuring costs included in 2010.

Depreciation and amortisation amounted to USD 87.2 million in 2010, compared to USD 43.6 million in 2009. The increase is mainly due to the consolidation of PROD as of 1 October 2010.

Net interest expense in 2009 was USD 26.2 million compared to USD 16.1 million in 2009. The increase is due to higher interest bearing debt in 2010 mainly due to the acquisition of PROD.
Tax expense was USD 16.4 million in 2010 compared to USD 7.7 million in 2009. The increase is mainly due to increased activity resulting from the consolidation of PROD as of 1 October 2010.The Group is not subject to taxation in Bermuda, but the Group is subject to taxation in the various countries in which it operates.

Total assets were USD 3,670.2 million at 31 December 2010 compared to USD 2,393.5 million in 2009. The net increase of USD 1,276.7 million (53%) mainly relates to the consolidation of PROD, increased book values of vessels undergoing conversion, increased cash deposits offset by the sale of APL assets and reduced receivables. Goodwill at 31 December 2010 relates to the acquisition of PROD while at 31 December 2009, the goodwill related to the acquisition of APL in 2007. At 31 December 2010, the Group had a net equity of USD 1,375.6 million compared to USD 920.9 million at 31 December 2009. The increase is mainly due to the issue of new equity in relation to the acquisition of PROD. At 31 December 2010, the Group had interest-bearing debt of USD 1,728.9 million compared to USD 1,080.3 million in 2009.

BW Offshore completed on 29 December 2010 a syndication process for a USD 2.4 billion seven year senior secured credit facility. The credit facility was substantially oversubscribed by a group of fifteen leading international banks. The USD 2.4 billion facility was concluded on 15 March 2011 and the USD 1.5 billion and USD 1.2 billion facilities were cancelled and repaid.

A favorable export financing scheme (CIRR financing) totalling USD 99.2 million has been drawn down on two loan facilities with Eksportfinans ASA at 31 December 2010. The proceeds of the CIRR financing have been invested as long term bank deposits. Net interest-bearing debt at 31 December 2010 was USD 1,401.5 million at an average interest rate of 1.7% in 2010.

Net cash inflow from operating activities, including discontinued operations in 2010, amounted to USD 357.5 million compared to net cash inflow of USD 186.9 million in 2009. The improved cash inflow reflects the improvements in operations experienced in 2010 and the effect of consolidating PROD as of 1 October 2010. Net cash inflow from investment activities, including discontinued operations in 2010, amounted to USD 204.9 million compared to net cash outflow of USD 367.9 million in 2009. The improvement is due to the proceeds received from selling APL. Cash outflow from investment activities in 2010 mainly relates to the conversion of the FPSO BW Joko Tole, the FPSO BW Athena and the FPSO BW Pioneer.

HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY
Health, safety, security, environment and quality ('HSSEQ') have the highest priority in all parts of the Company's management, conversions and operations of FPSOs and FSOs, construction and support service processes. BW Offshore's management has established policies for safety, security, occupational health and environmental management. Measurable targets are defined for each onshore and offshore unit to ensure compliance with the adopted policies and to maintain a continuous improvement cycle. Personnel training and familiarisation with the said policies are recognised as key activities in order to achieve a HSSEQ culture of the highest standard and to minimise risks.

BW Offshore's management systems address HSSEQ in detail and are compliant with and certified pursuant to the International Safety Management code ('ISM') for the safe operation of ships and for pollution prevention. BW Offshore's FPSOs are certified in accordance with the requirements of the International Ship and Port Facility Security Code. In addition, BW Offshore is certified by the following international HSSEQ standards:

- ISO 9001 - Quality Management
- ISO 14001 - Environmental Management
- OHSAS 18001 - Occupational Health and Safety Management

Total LTI-rate and total TRI-rate (Total Recordable Incidents) for the Company in 2010 were 0.9 (0.6) and 2.4 (2.4), respectively.

The Board considers that the working environment in the Company is good. In 2010, absence due to sickness amounted to 2.7% of total hours worked by the employees. During the year, several initiatives were taken to further improve working environment. Offshore personnel conferences, including cultural awareness program, as well as leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while alignment of policies and procedures on a global scale is an example of an onshore initiative.

BW Offshore currently has approximately 1,900 employees. The Company wants to be considered an attractive workplace and attaches prime importance to offering challenging and motivating jobs and equal development opportunities for all, regardless of gender, nationality, culture or religion. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitments.

The activities of the Company are subject to environmental regulations pursuant to a variety of international conventions and state and municipal laws and regulations, which the Company is committed to uphold, and where appropriate, exceed. Compliance with such regulations can require significant expenditures and in the unlikely event breaches occur, this may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcements, larger fines and liability and potentially increased capital expenditures and operating costs. Environmental legislation may result in a material increase in the costs of operating the Company's units or otherwise adversely affect the Company's financial condition, results of operations or prospects. These concerns apply to all entities operating in the FPSO and FSO market.

The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. Environmental legislation may also expose the

Company to liability for the conduct of or conditions caused by others, or for acts of the Company which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault. The Company had no significant harmful environmental spills during 2010.

The Company takes out insurance cover for injuries to crew, damage to vessels, loss of income and third-party liabilities. The insurance also covers losses resulting from acts of war and terrorism. Cover for oil pollution and oil pollution caused by war and war-like actions are limited per incident.

CORPORATE GOVERNANCE

Good Corporate Governance plays a key role in creating shareholder value and building investor confidence, thereby ensuring an optimal capital cost. Bermuda does not have a corporate governance code applicable to the Company, but the Board of Directors of the Company has adopted a Corporate Governance Policy to reflect BW Offshore's commitment to good Corporate Governance. This Policy is based on the 'Norwegian Guidelines on Corporate Governance' dated 21 October 2010, prepared by the Norwegian Corporate Governance Board. The objective of the Code of Practice is that companies listed in Norway will practice corporate governance that regulates the division of roles between shareholders, the Board of Directors and executive management more comprehensively than is required by legislation. BW Offshore's Corporate Governance Policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the annual report.

GOING CONCERN

Based on the Company's current fleet, contracts and overall position at the end of the year, and the current amendments to the loan facilities, the Board is of the opinion that the Company has a good basis for continued operations. The accounts have therefore been prepared on a 'going concern' basis.

RISK

The Company's risk exposure is analyzed and evaluated at Group level to ensure sound internal control and appropriate risk management based on the Group's values and code of ethics. The most important operational risk factors are related to the operation of FPSOs and the execution of projects. The financial risks mainly comprise of currency, credit and interest rate risks as well as the performance of the Company's investment in associates. Future oil prices will to a significant degree decide the number of available projects and their attractiveness in respect of costs and terms and conditions of contracts. It could also be challenging in the current market to obtain financing for new projects at acceptable terms, which could limit new opportunities.

EVENTS AFTER THE BALANCE SHEET DATE

The FSO Madura Jaya was under charter to Kodec Energy before it was sold in February 2011.
On 15 March 2011, the USD 2.4 billion facility was completed and the USD 1.5 billion and USD 1.2 billion facilities were cancelled and repaid.

OUTLOOK

The outlook for the energy market in general and BW Offshore's position in particular remains strong. Based on BW Offshore's diversification, presence, financial scale and competence, the Company will play a significant role in the FPSO market and continue to grow its business. BW Offshore is currently pursuing several prospective projects with expected award in 2011 and beyond, and expects a continued increase in activity level both in the short and long term.

The operating cash flow from the operating vessels is secure and based on long term contracts with large national oil companies and robust independent oil companies. BW Offshore is fully funded for all ongoing projects and additional financial capacity is available for new growth opportunities.

The consolidation of the Prosafe Production fleet will contribute to a significant growth in the EBITDA in 2011. The run rate EBITDA will also grow significantly with the start up of the three FPSOs BW Pioneer, BW Athena and BW Joko Tole.

BW Offshore is committed to increasing shareholder returns, and will only pursue projects meeting the Company's targeted returns. The future dividend policy will be an important factor to achieve class leading shareholder returns based on share price performance and dividend payments.

Bermuda, 24 March 2011

Dr. Helmut Sohmen Chairman	Mr. Ronny Johan Langeland Vice Chairman	Mrs. Carine Smith Ihenacho
Mr. Christophe Pettenati-Auzière	Mr. Maarten R. Scholten	Mr. Andreas Sohmen-Pao

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2010 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

Bermuda, 24 March 2011

Dr. Helmut Sohmen Chairman	Mr. Ronny Johan Langeland Vice Chairman	Mrs. Carine Smith Ihenacho
Mr. Christophe Pettenati-Auzière	Mr. Maarten R. Scholten	Mr. Andreas Sohmen-Pao

INDEPENDENT AUDITOR'S REPORT

pwc

PricewaterhouseCoopers AS
Postboks 748 Sentrum
NO-0106 Oslo
Telefon 02316

To the Annual Shareholders' Meeting of BW Offshore Limited

Independent auditor's report

We have audited the accompanying financial statements of BW Offshore Limited, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of group comprise the balance sheet as at 31 December 2010, income statement, statement of comprehensive income, changes in equity, cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Group CEO's Responsibility for the Financial Statements

The Board of Directors and the Group CEO are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Board of Directors and the Group CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company and the group BW Offshore Limited as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Oslo, 24 March 2011
PricewaterhouseCoopers AS

Rita Granlund

Rita Granlund
State Authorised Public Accountant (Norway)

BW Offshore Limited consolidated financial statements I 2010

CONSOLIDATED STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2010	2009
Charter hire	5,6	311.5	195.5
Construction contract revenue	7	162.5	4.2
Lease interest	6	19.3	20.2
Other income	6	56.0	-
Total revenues		**549.3**	**219.9**
OPERATING EXPENSES			
Operating expenses vessels	8,9	(186.0)	(104.2)
Construction contract expenses	7	(128.9)	(4.2)
Currency hedges and other currency effects	18	(1.3)	25.4
Administrative expenses	8,9,19	(66.0)	(29.5)
Total expenses		**(382.2)**	**(112.5)**
Share of loss of associated companies	14	(14.8)	(6.1)
Operating profit before depreciation, amortisation & sale of assets		152.3	101.3
Depreciation and amortisation	11,12,13	(87.2)	(43.6)
Impairment	11,22	(85.0)	-
Net gain (loss) on sale of tangible fixed assets	11,12	-	(1.5)
Operating profit (loss)		**(19.9)**	**56.2**
FINANCIAL INCOME AND FINANCIAL EXPENSE			
Net currency exchange gain (loss)		(8.7)	-
Interest income		5.8	6.6
Fair value loss on financial instruments		(9.5)	(5.5)
Interest expense		(32.0)	(22.7)
Other financial expences		(18.8)	(2.0)
Net financial expenses		**(63.2)**	**(23.6)**
Profit (loss) before tax		**(83.1)**	**32.6**
Income tax expense	10	(16.4)	(7.7)
Net profit (loss) for the year continued operations		**(99.5)**	**24.9**
Net profit (loss) from discontinued operations		122.9	(33.7)
Net profit (loss) for the year		23.4	(8.8)
Profit (loss) attributable to equity shareholders		23.4	(8.8)
Basic/diluted earnings/per share (figures in USD) from continuing operations	23	(0.20)	0.05
Basic/diluted earnings/per share discontinued operation (figures in USD)	23	0.24	(0.07)
Basic/diluted earnings/per share net profit (loss)	23	0.05	(0.02)

The notes in pages 14-36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

USD million (Year ended 31 December)	Note	2010	2009
Profit (loss) for the year		23.4	(8.8)
Other comprehensive income			
Currency translation differences		14.2	-
Cash flow hedges		5.5	4.2
Share of other comprehensive income of associates		(6.7)	4.2
Total other comprehensive income for the period, net of tax		13.0	8.4
Total comprehensive income for the year		**36.4**	**(0.4)**
Attributable to			
Equity holders of the parent		36.4	(2.5)
Non-controlling interests		-	-

The notes in pages 14-36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

USD million (As at 31 December)	Note	2010	2009
ASSETS			
Vessels and vessels under construction	11	2,777.0	1,205.9
Property and other equipment	12	5.0	21.9
Goodwill	13	157.6	270.6
Other intangible assets	13	5.8	73.6
Finance lease receivable	6	203.9	214.0
Investments in associates	14	-	185.0
Non-current deposits	15	99.2	163.3
Other non-current assets	10	38.9	0.5
Total non-current assets		**3,287.4**	**2,134.8**
Inventory		9.0	10.7
Trade and other receivables	17	138.5	128.4
Due from customes for contract work	7	-	51.6
Cash and deposits	15	228.2	68.0
Assets of disposal group held for sale		7.1	
Total current assets		**382.8**	**258.7**
TOTAL ASSETS		**3,670.2**	**2,393.5**
EQUITY			
Share capital	16	6.9	4.6
Share premium		1,334.9	918.8
Other equity		33.9	(2.5)
Total shareholder's equity		**1,375.6**	**920.9**
Long-term loan facilities	18,20	200.0	1,080.3
Retirement benefit obligations	19	6.2	14.0
Deferred tax liabilities	10	-	22.3
Other non-current liabilities	6	131.5	120.9
Total non-current liabilities		**337.7**	**1,237.5**
Trade and other payables	27	406.2	219.4
Interest-bearing short term debt	18,20	1,528.9	0.3
Income tax liabilities	10	14.7	15.4
Liabilities of disposal group held for sale		7.1	-
Total current liabilities		**1,956.9**	**235.1**
Total liabilities		**2,294.6**	**1,472.6**
TOTAL EQUITY AND LIABILITIES		**3,670.2**	**2,393.5**

The notes in pages 14-36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD million	Note	Share Capital	Share Premium	Other Equity	Total
At 1 January 2009		**4.6**	**1,444.6**	**(525.8)**	**923.4**
Reduction share premium against other equity		-	(525.8)	525.8	-
Currency translation adjustments		-	-	2.1	2.1
Share of other comprehensive income of associates		-	-	4.2	4.2
Loss for the period		-	-	(8.8)	(8.8)
Total comprehensive income		**-**	**-**	**(2.5)**	**(2.5)**
At 31 December 2009		**4.6**	**918.8**	**(2.5)**	**920.9**
Issued new shares 8 October 2010		2.2	382.6	-	384.7
Issued new shares 22 November 2010		0.2	33.5	-	33.6
Total issued capital		**2.3**	**416.0**	**-**	**418.3**
Currency translation adjustments		-	-	14.2	14.2
Share of other comprehensive income of associates		-	-	(6.7)	(6.7)
Net gain on cash flow hedges		-	-	5.5	5.5
Profit for the period		-	-	23.4	23.4
Total comprehensive income		**-**	**-**	**76.9**	**76.9**
At 31 December 2010		**6.9**	**1,334.9**	**33.9**	**1,375.6**

The notes in pages 14-36 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOW

USD million (Year ended 31 December)	Note	2010	2009
Operating activities			
Profit (loss) before tax		(83.1)	32.7
Income tax paid	10	(13.2)	(2.9)
Loss (gain) on disposal of fixed assets	11,12	-	1.5
Fair value change on financial instruments	18	(4.5)	(22.6)
Share of loss of associated companies	14	14.8	6.1
Currency exchange differences		11.8	-
Depreciation and amortisation	11,12,13	87.2	43.5
Impairment charges		85.0	-
Add back of net interest expense		24.7	15.5
Other changes		11.2	15.6
Changes in inventories, receivables and accounts payable		215.5	128.2
Cash flows from operating acivities discontinued operations		**31.7**	**(30.7)**
Net cash flows from operating activities		**357.5**	**186.9**
Investing activities			
Investments in operating fixed assets and other assets	11,12,13,15	(250.3)	(460.0)
Investments in non-current bank deposit		-	60.4
Proceeds from disposal of fixed assets	11	-	8.0
Purchase of subsidiary, net of cash aquired	14,28	22.6	(25.0)
Interest received		5.8	0.8
Net investment in other non-current assets	6	-	(5.0)
Cash flows from investing activities discontinued operations	**29**	**426.8**	**52.9**
Net cash flows used in investing activities		**204.9**	**(367.9)**
Financing activities			
Received payments from raising new long-term debt	20	349.8	305.0
Repayment of long-term debt	20	(720.0)	(80.0)
Received payments from raising new short-term debt	20	-	-
Investments in own shares		-	-
Interest paid		(30.5)	(16.2)
Repayment of short-term debt	20	-	-
Cash flows from financing activities discontinued operations		**(1.5)**	**(27.5)**
Net cash flow from/(used in) financing activities		**(402.2)**	**181.3**
Net change in cash and cash equivalents		160.2	0.3
Cash and cash equivalents at 1 January		68.0	67.7
Cash and cash equivalents at 31 December		**228.2**	**68.0**

The notes in pages 14-36 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 GENERAL

BW Offshore Limited ('BW Offshore' or 'the Company') was incorporated in Bermuda in 2005 and is domiciled in Bermuda with registered address at
Clarendon House,
2 Church Street,
Hamilton HM11,
Bermuda.

The Company is listed on the Oslo Stock Exchange (OSE).

BW Offshore and its subsidiaries are referred to as the 'Group'. The Group develops, owns and operates Oil and Gas FPSOs (Floating Production, Storage and Offloading vessels) and FSOs (Floating, Storage and Offloading vessels).

All figures are in USD million if not otherwise stated.

The financial statements were approved by the Board of Directors on 24 March 2011.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS FOR PREPARATION

The consolidated financial statements of BW Offshore have been prepared pursuant to International Financial Reporting Standards ('IFRS') as adopted by the European Union. The consolidated financial statements have been prepared in accordance with the historical cost convention, modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through equity or the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of complying with the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for chartering and rendering of operational services related to FPSOs and FSOs. In addition, the Group has revenues deriving from the development and sales of mooring and turret systems.

Operational services

Income from the rendering of services from FPSOs and FSOs operating contracts is recognised as revenue since the related services are provided based on contractual daily rates.

Chartering of vessels

The chartering of FPSOs and FSOs to customers is recognised as revenue based on whether the chartering contract is considered to be an operating lease or a finance lease pursuant to IAS 17.

Operating lease

Leases in which a significant portion of the risks and rewards of owner-ship are retained by the lessor, are classified as operating leases. Payments received under operating leases are recognised as revenue on a straight line basis based on contractual daily rates.

Finance lease

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Assets held pursuant to a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. The recognition of finance income on the receivable is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Fixed price construction contracts

When a contract to charter a vessel is considered to be a finance lease, this implies a fixed price construction contract in which the fixed price is the net investment in the lease. The development and delivery of mooring and turret systems are also derived from fixed price construction contracts. Revenue from fixed-price contracts is recognised pursuant to the percentage-of-completion ('POC') method. Pursuant to the POC method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit that can be attributed to the proportion of work completed, unless other measures better represent progress. The stage of completion of contracts is measured as the cost incurred compared to the total estimated cost. When the outcome of construction contracts cannot be estimated reliably, no gain is recognised. When the project's results cannot be reliably estimated, only revenues equal to the accrued project costs are taken to revenue.

Any estimated loss on a contract will be recognised in the income statement for the period when it is identified that the project will lead to a loss.

In the balance sheet, the gross amount due from customers for contract work is presented as an asset, and the gross amount due to customers for contract work is presented as a liability.

Interest income

Interest income, including interest income arising from a finance lease, is recognised on a time proportion basis applying the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

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Other revenues

Sales are recognised after transfer of the significant risks and rewards connected with the ownership of goods being sold to the buyer. The Group retains neither a continuing right to dispose of the goods, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are presented net of indirect sales taxes and discounts. Other revenues also include settlements from previous disputes.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, being responsible for allocating resources and assessing performance of the operating segments, has been identified as the management group that makes strategic decisions.

CONSOLIDATION

Subsidiaries

The subsidiaries are all legal entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated as of the date on which the control is transferred to the Group. They are de-consolidated as of the date the control ceases.

The purchase method of accounting is applied to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value as of the date of acquisition, irrespective of the extent of any minority interest. Minority interests represent the portion of the income statement and net assets in the subsidiaries not held by the Group, and the amount attributable to the minority interest is shown beneath the income statement and is included in the equity in the consolidated balance sheet.

The cost of acquisition exceeding the fair value of the Group's share of identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities in which the Group has a significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for applying the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill and excess values identified as per the date of acquisition, net of any accumulated impairment loss. Any excess values that are to be amortised are deducted from the profit pursuant to the same principles as for consolidated companies. Goodwill is not amortised. Dividends received from associates are recognised as a deduction from the investment in the balance sheet and is regarded as repayment of capital. By this, the balance sheet value of associates represents the original cost price (equalling the fair value at the time of purchase) plus profit accumulated up to the present, less any amortisation of excess values and accumulated dividends received.

The Group's share of its associates´ post-acquisition profits or losses is recognised in the income statement, and the share of post-acquisition movements in reserves is recognised as reserves. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Share of profit of associates is presented as part of operating profit when such investments are considered to be strategic to the Group. See 'impairment of non-financial assets' for impairment assessment.

Joint ventures

Joint ventures are entities that the Group have contractual arrangements with to jointly share the control with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements by proportionate consolidation. Proportionate consolidation involves combining the Group's share of joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

TANGIBLE FIXED ASSETS

Measurement

(i) Vessels, vessels under construction, conversion candidates and other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.
(ii) The cost of vessels, vessels under construction, conversion candidates and other tangible fixed assets include expenditure that is directly attributable to the acquisition of the items.
(iii) Instalments on conversion projects are capitalised as vessels under construction as they are paid. Capitalised value is reclassified as vessels upon successful commissioning on the oil field. The acquisition cost reported is the sum of instalments paid plus costs incurred during the construction period, including interest expenses.

FPSOs and FSOs are reclassified from conversion candidates to vessels under construction when the Company signs a conversion/ lease agreement on the vessels. Further, as noted above, the FPSOs and FSOs are reclassified to vessels upon successful commissioning on the oil field.

Depreciation

Depreciation is calculated applying a straight-line method to allocate the depreciable amounts of vessels, conversion candidates and other tangible fixed assets, after taking into account the residual values of their estimated useful lives, of which both the residual values and estimated useful lives are subject to review at each balance sheet date.

Depreciation is charged from the point in time when the vessel is successfully installed on the oil field. Conversion candidates are only subject to depreciation if the vessels have entered into temporary revenue earning contracts awaiting conversion.

Subsequent cost and cost regarding repairs and maintenance

Subsequent costs can be included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they incur.

Disposal activities

Gains and losses that result from the disposal of vessels, vehicles and equipment are recorded in a separate line in the consolidated income statements.

Impairment of tangible fixed assets

Assets including vessels, vessels under construction, conversion candidates and other tangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A contract and the associated vessel are grouped and assessed together when testing for impairment. Each vessel is specific to the contract. An impairment loss is recognised for the amount that the asset's carrying amount exceeds its recoverable amount, being the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units). Each FPSO and FSO is identified as a cash-generating unit.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the cost of an acquisition exceeding the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/ associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in the intangible assets. Goodwill on acquisitions of associates is included in 'Investments in associates' and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination from which the goodwill arose. BW Offshore allocates goodwill to each cash generating unit.

Computer software

Acquired computer software licenses are capitalised on the basis of the cost incurred in relation to acquiring and bringing to use the specific software. These costs are amortised over their estimated useful lives. Costs to external suppliers directly associated with the development of identifiable and unique software products controlled by the Group, and which will probably generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets. Directly attributable costs are capitalised as part of the computer software. Other development expenditures are recognised as an expense when incurred.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES CONT.

Other intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are annually tested for impairment.

Other identifiable intangible assets such as order back-log and tender portfolio are capitalised at their fair values identified at the date of the acquisition of the acquired subsidiary. The fair values identified are amortised over their estimated useful economic lives.

Intangible assets subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised but instead expensed as incurred.

Research and development
Expenses relating to research activities are recognised in the income statement as incurred.

Expenses relating to development activities are capitalised to the extent that the product or process is technically and commercially viable and that the Group has sufficient resources to complete the development work. Expenses capitalised include the costs of materials and external suppliers, direct wage costs and a share of the directly attributable common expenses. Capitalised development costs are recognised at their cost minus accumulated amortisation and impairment losses.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset.

Impairment of non-financial assets
Assets with an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill subject to impairment are reviewed for possible reversal of the impairment at each reporting date.

Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and such sale is considered highly probable. The assets are stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Where a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate key line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, it is classified as discontinued operations. As a result, the figures relating to the continuing operations are presented exclusive of the discontinued operations. The comparative figures in the statement of income and statement of cash-flows are restated and presented on a single line as discontinued operations.

CONTINGENT ASSET AND LIABILITY
A contingent liability is:
a. a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
b. a present obligation arising from past events but is not recognised because:
i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
ii. the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is disclosed, as required by IAS 37, unless the possibility of an outflow of resources embodying economic benefits is remote. The Group assesses the contingent liabilities continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are recognised when it becomes virtually certain that those assets are recoverable.

A contingent liability is disclosed, as required by IAS 37, unless the possibility of an outflow of resources embodying economic benefits is remote.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards incidental to ownership of the leased item to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction rather than the form of the contract, and the determination is made when the leasing agreement is entered into.
Most of the lease contracts include one or several options for the charterer to purchase the vessel and/or option(s) for the charterer to extend the lease period beyond the firm period. At the inception of the lease, these options are taken into consideration when assessing whether the lease is a finance lease or an operational lease. Cash flows in the option periods are included in the minimum lease payments described in Note 6 if it is reasonably certain that the option(s) will be exercised.

The Group as lessor
Assets held pursuant to a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease income is recognised over the term of the lease applying the net investment method, reflecting a constant periodic rate of return.

Assets held pursuant to an operating lease
These assets are included in the balance sheet based on the nature of the asset. 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.

The Group as lessee
Generally, the Group has no significant arrangements whereby it is the lessee.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement during the period of the borrowings, applying the effective interest method.
Fees paid in relation to the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

BORROWING COSTS
Borrowing costs directly attributable to an acquisition or conversion of vessels, which take a substantial period of time to get ready for their intended use, are added to the cost of the vessels, until such time as the vessels are ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

TRADE AND OTHER RECEIVABLES
Trade and other receivables are initially recognised at originally invoiced amount, where this approximates fair value, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The allowance amount is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

Trade and other receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

TRADE AND OTHER PAYABLES
Trade and other payables are initially measured at fair value and subsequently measured at amortised cost, applying the effective interest method.

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INVENTORIES
Inventories comprise mainly of fuel oil remaining on board the vessels and other consumables. Inventories are measured at the lower of cost or net realisable value. Cost is determined by the 'first-in first-out' (FIFO) method. The cost of purchase of inventories comprises the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted when determining the costs of the purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash on hand, short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and short term deposits with an original maturity of three months or less. Restricted cash related to withholding tax from employees is included as cash and cash equivalents.

FINANCIAL ASSETS
In accordance with IAS 39, 'Financial instruments: recognition and measurement, financial instruments' within the scope of IAS 39 are classified in the following categories: At fair value with changes in value through the income statement, held to maturity, loans and receivables, available for sale and other liabilities.

Investments held to maturity, loans and receivables and other liabilities are recognised at their amortised cost. Changes in the fair value of financial instruments classified as held for trading purposes or designated as being at fair value with changes in value through the income statement, are recognised in the income statement and presented as a financial income/expense.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. IFRS group classifies derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) Hedges of a net investment in a foreign operation (net investment hedge).

Currently, the Group uses only hedges of cash flow (b).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.
The cash flow hedges of various derivative instruments used for hedging purposes are disclosed in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Trading derivatives are classified as a current asset or liability. Changes in the fair value of derivatives designated and qualifying as cash flow hedges are recorded in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Other financial income/(expense)".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the hedged forecast sale takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'revenue'. However, when the hedged forecast transaction results in the recognition of a nonfinancial asset (for example inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement within 'other financial income/(expense)'.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES
Provisions are recognised when the Group has a legal or constructive obligation resulting from past events, when it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

EMPLOYEE BENEFITS
Defined benefit plans
The Group has both funded and unfunded defined benefit pension plans. The funded schemes are funded through payments to insurance companies determined by periodic actuarial calculations.

Unfunded schemes are financed through the Group's operations. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans equals the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries applying the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds denominated in the currency in which the benefits will be paid and at terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets, or 10% of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives.

Defined contribution plans
In addition to the defined benefit plan described above, the Group has made contributions to other pension plans. These contributions have been made to pension plans for full-time employees. The pension premiums are charged to expenses as they are incurred. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Employee-leave entitlement
Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Variable payment schemes
The Group recognises a liability and an expense for variable payments to employees when the Group contractually is obliged or when there is a past practice that has created a constructive obligation. The loans granted to employees in respect of the Stock Owning Program are treated as variable payments schemes pursuant to IAS 19.

CURRENCY TRANSLATION
Functional and presentation currency
The Group's presentation currency is United States Dollars ('USD'). This is also the functional currency of the Company and most of its subsidiaries. For consolidation purposes, the balance sheet figures for subsidiaries with a different functional currency are translated at the rate applicable at the balance sheet date and their income statements are translated at the exchange rate prevailing at the date of transaction. As an approximation, the monthly average exchange rates are applied in translating the income statements. Exchange differences are recognised in equity. When foreign subsidiaries are disposed of, the accumulated exchange differences relating to the subsidiary are recorded as income/expense.

Transactions and balances
Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates prevailing at the date of transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

TAXES AND DEFERRED TAX LIABILITIES
The Company is not subject to any income taxes, but

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES CONT.

some of its subsidiaries are subject to income tax in the countries in which they operate. The Group provides for tax on profit based on the profit for financial reporting purposes, adjusted for non-taxable revenue and expenses. Income tax expense represents the sum of the tax currently payable, changes in deferred tax liabilities and deferred tax assets, and withholding tax on charter hire.

The Group's liability for current tax payable is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is calculated at the tax rates applied when the related temporary differences reverse, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided for in the balance sheet and calculated on the basis of temporary differences between book and tax values that exist at the end of the financial period. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in the equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and where the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax is provided for by temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

DIVIDEND DISTRIBUTION
Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

SHARE CAPITAL
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

USE OF ESTIMATES
The preparation of the financial statements in conformity with IFRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

EVALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES – MAIN PRINCIPLES
Assets for long-term ownership or use are classified as fixed assets. Other assets are classified as current assets. Liabilities which fall due more than one year after being incurred are classified as long-term liabilities, with the exception of next year's instalment on long-term debt. This is presented as current interest-bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

CHANGES IN ACCOUNTING POLICIES
The accounting policies adopted are consistent with those of the previous financial year except as follows:

Changes in accounting policy and disclosures.

(a) New and amended standards adopted by the Group. The Group has adopted the following new and amended IFRSs as of 1 January 2010:

IFRS 3 (revised), 'Business combinations', and IAS 27, 'Consolidated and separate financial statements (amended)'. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without the loss of control) is accounted for as a transaction with owners in their capacity as owners. The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

IFRS 5, 'Non-current Assets Held-for-sale and Discontinued Operations (Amendment)'. It clarifies that all assets and liabilities of a subsidiary are classified as held for sale if a partial disposal sale plan results in a loss of control. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.

The Group has also adopted the following new interpretations during the year. However, adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

IFRS 2, 'Share-based Payment (Amendment)'.

IAS 1 (Amendment), Presentation of financial statements.

IAS 36 (Amendment) – Impairment of assets, effective 1 January 2010.

IFRIC 9, 'Reassessment of embedded derivatives' and IAS 39, 'Financial instruments: Recognition and measurement', effective 1 July 2009.

IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'.

IFRIC 17, 'Distribution of non-cash assets to owners'.

IFRIC 18, 'Transfers of assets from customers'.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

IFRS 9, 'Financial instruments'. IFRS 9 introduces new requirements for classifying and measuring financial assets. It is not applicable until 1 January 2013. In subsequent phases, the International Accounting Standards Board will address classification and measurement of financial liabilities, hedge accounting and derecognition.

IAS 24 (Revised) – Related party disclosure. The revised standard is effective for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party. When the revised standard is applied, the group and parent will need to disclose any transactions between subsidiaries and its associates. It is not expected to have a material impact on the Group's financial statement.

'Classification of rights issues', amendment to IAS 32. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. It is effective for annual periods beginning on or after 1 February 2010. It is not expected to have a material impact on the Group's financial statement.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting for an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It is effective from 1 July 2010 and is not expected to have a material impact on the Group's financial statement.

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NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND ASSESSMENTS

The following is a summary of the assessments, estimates and assumptions that could have a material effect on the consolidated financial statement.

VESSELS
The level of depreciation depends on the estimated useful life of the vessels and residual value at the end of useful life. The estimated useful life is based on previous experience and knowledge of the vessels owned by the Company and is normally equal to the design life of the vessel.

Assumptions about residual value are based on assumption of redeployment of the vessels and knowledge of scrap values which in turn depend on steel prices in the world market and demobilisation costs.

Impairment
The Group reviews periodically whether tangible assets, including vessel related contracts, vessels under construction and conversion candidates suffered any impairment in accordance with the accounting policy stated in Note 2. The recoverable amounts of each vessel, being defined as a cash-generating unit, have been determined based on the highest of fair value less cost to sell and value-in-use calculations. The value-in-use calculations are based on contracted cash flows and estimates of uncontracted cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate.

The Group reviews periodically whether cash-generating units containing goodwill have suffered any impairment in accordance with the accounting policy stated in Note 2. The impairment testing for cash-generating units requires a number of estimates and judgments in order to calculate the net present value of future cash flows such as the development of revenues and costs, the discount rate, etc. The key assumptions used for the impairment testing of goodwill are described in Note 22.

All impairment assessment calculations demand a high degree of estimation. Management must make complex assessment of the expected cashflows arising from such assets and the selection of discount rates. Changes to these estimates would have significant impact on the impairments recognised and future changes may lead to reversals of currently recognised impairments.

CONTINGENT ASSETS
As explained in Note 2 to the financial statements, contingent assets are recognised in the balance sheet, with a corresponding credit to the income statements, once it becomes 'virtually certain' that an inflow of economic benefits will arise. The contingent assets arise generally from legal claims, insurance claims and/or other operational claims with business partners. The likelihood of each individual claim can vary, as can the facts and circumstance of the individual claims. Factors that impact the Group's management assessment of the claims are the results of technical investigations, legal proceedings, advice received from legal counsel, previous experience and developing legal or industrial precedents. This assessment requires the use of estimates, and is based on a careful assessment of the most up to date information available.

CONSTRUCTION CONTRACTS
The Group applies the percentage-of-completion method in accounting for its fixed-price contracts. Applying the percentage-of-completion method requires the Group to estimate the degree of completion and the total cost and revenue related to the construction contract. When the total outcome of the construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred provided that it is probable that the contract cost will be recovered. This process requires management to make detailed assessment of expected cost outflows and levels of completion.

OPERATING LEASES – GROUP AS LESSOR
The Group has entered into lease contracts for its fleet of FPSOs/FSOs. In determining lease classification, the Group evaluate whether risks and rewards incidental to ownership lies with the Group or with the lessee. The Group is responsible for the operating performance, which will determine the charter rate obtainable, and is also responsible for the maintenance of the vessels.

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these assets and therefore accounts for the leases as operating leases.

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NOTE 4 LIST OF SUBSIDIARIES

Name of companies	Country of incorporation	Ownership 2010	Ownership 2009
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Private Limited	Singapore	100%	100%
Berge Helene Limited	Bermuda	100%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
Bergesen Worldwide Limited	Bermuda	100%	100%
Bergesen Worldwide Mexico, S.A. de C.V. Mexico	Mexico	100%	100%
Bergesen Worldwide Offshore Mexico S. de RL de CV	Mexico	100%	100%
BW Ara Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	100%	100%
BW Carmen Limited	Bermuda	100%	100%
BW Cidade de São Vicente Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW LPG FPSO I Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore (KL) Sdn Bhd (former BW Offshore Asia Sdn. Bhd)	Malaysia	100%	100%
BW Offshore (M) Sdn Bhd	Malaysia	100%	100%
BW Offshore China Ltd (former APL China Ltd)	China	100%	100%
BW Offshore Cyprus Limited	Cyprus	100%	100%
BW Offshore do Brazil Ltda	Brazil	99%	99%
BW Offshore Global Manning Private Limited	Singapore	100%	100%
BW Offshore Management USA Inc	USA	100%	0%
BW Offshore Netherlands B.V.	Netherlands	100%	100%
BW Offshore Nigeria Limited	Nigeria	99%	99%
BW Offshore Norway AS	Norway	100%	0%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Poland sp z o.o.	Poland	100%	0%
BW Offshore Shipholding Ltd (former BW Brazil Limited)	Bermuda	100%	100%
BW Offshore Shipholding Cyprus Ltd	Cyprus	100%	0%
BW Offshore Singapore Pte Ltd	Singapore	100%	0%
BW Offshore TSB Invest Pte Ltd (former BW OffshoreTechnology Private Limited)	Singapore	100%	100%
BW Offshore UK Ltd	United Kingdom	100%	0%
BW Offshore USA, Inc	USA	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
BW Offshore Pioneer sp z o.o.	Poland	100%	0%
Egyptian Winlines Shipping Co. SAE	Egypt	100%	0%
Madura FSO Private Limited	Singapore	100%	0%
OCS Services Limited	India	50%	0%
PPB do Brasil Servicos Maritimos Ltda	Brazil	100%	0%
Prosafe FPSO (D) Pte Ltd	Singapore	100%	0%
Prosafe FPSO (D) SARL	Congo	100%	0%
Prosafe GFPSO I BV	Netherlands	100%	0%
Prosafe GFPSO I Pte Ltd	Singapore	100%	0%
Prosafe Nautipa AS	Norway	100%	0%
Prosafe Production B.V.	Netherlands	100%	0%
Prosafe Production do Brasil Ltda	Brazil	100%	0%
Prosafe Production Holding Limited*	Cyprus	100%	23.9%
Prosafe Production Inc.	USA	100%	0%
Prosafe Production Limited	Cyprus	100%	0%
Prosafe Production Management B.V.	Netherlands	100%	0%
Prosafe Production Nigeria Limited	Nigeria	100%	0%
Prosafe Production Pte Ltd	Singapore	100%	0%
Prosafe Production Services Australia Pty Ltd	Australia	100%	0%
Prosafe Production Services Pte Ltd	Singapore	100%	0%
Prosafe Services Cote d'Ivoire Pte Ltd	Singapore	100%	0%
PT BW Offshore TSB Invest Pte Ltd (Indonesia)	Indonesia	100%	0%
Sendje Berge Limited	Bermuda	100%	100%
Tinworth Pte Ltd	Singapore	50%	0%
Advanced Production and Loading (M) Sdn Bhd	Malaysia	49%	49%
APL Angola SA	Angola	49%	49%
DISCONTINUED OPERATIONS			
Advanced Production and Loading Inc Houston	USA	0%	100%
Advanced Production and Loading Private Limited	Singapore	0%	100%
APL (Advanced Production & Loading) Plc	Cyprus	0%	100%
APL APL do. Brasil Ltda	Brazil	0%	100%
APL Management Pte Ltd (former BW Offshore Singapore Private Limited)	Singapore	0%	100%
APL Norway AS (former BW Offshore AS)	Norway	0%	100%
APL Property AS	Norway	100%	100%
APL Technology AS	Norway	0%	100%
APL UK Limited	United Kingdom	0%	100%
BW Offshore France SAS	France	0%	100%

Tinworth Pte Ltd, Madura FSO Pte Ltd are consolidated in the financial statements of the Group by proportional consolidation based on ownership percentage, while OCS Services Ltd is consolidated using the equity method.

*The shareholding of 23.9% held in Prosafe Production Holding Limited in 2009 was accounted for as shares in associates up until 1 October 2010.

NOTE 5 SEGMENT INFORMATION

The Groups's activites are focused on construction, ownership and operation of FPSOs and FSOs. The Group's activities are primarily directed from Bermuda.

For management purposes, subsequent to the sale of the APL division and the acquisition of PROD, the Group is organised as one business unit and the internal reporting is structured thereafter.

Revenues of approximately USD 62.8 million (USD 64.6 million) are derived from an FPSO operating in Africa.

The Company is domiciled in Bermuda. The Group revenue from external customers in Bermuda is USD 0.0 million (USD 0.0 million).

The total of non-current assets other than financial instruments and deferred tax assets located in Bermuda is USD 0.0 million (USD 0.0 million), and the total of these non-current assets located in other countries is USD 3,149.3 million (USD 1,769.3 million)

NOTE 6 LEASES

The Group has entered into lease contracts as lessor. The contracts are described below.

Finance leases

The FPSO Yùum K'ak' Náab commenced operations in Mexico in July 2007 on a firm 15 year lease contract. The title of the vessel will automatically be transferred to the customer at the end of the lease term without compensation. The net present value of the minimum lease payments amounts to substantially all the fair value of the vessel at the inception of the lease. In addition, the firm contract period is for the major part of the economic life of the FPSO. Accordingly, this contract is classified as a finance lease.

The Group will operate and maintain this vessel over the 15 year contract period. Revenues and expenses arising from this operation are recognised as Charter hire, lease interest and Operating expenses vessels.

With effect from February 2004, the FSO Belokamenka commenced a 15 year transhipment agreement with the customer. The vessel is leased from the Group on a bareboat charter agreement to the joint venture company OOO 'Oil Terminal Belokamenka', which in turn has sub-leased the FSO to a customer on the same terms as in the lease agreement with the Group. The Group's partner in the joint venture is a related company of the customer. The net present value of the minimum lease payments under the transhipment agreement amounts to substantially all of the fair value of the vessel at the inception of the lease. The customer has continuous purchase options each quarter after the initial 5 years of the contract. In addition, the firm contract period is for the major part of the economic life of the FSO. Accordingly, this contract is classified as a finance lease by the Group and by OOO Oil Terminal Belokamenka.

The future minimum lease payments receivable from finance lease, are presented in the table below:

	2010	2009
Not later than one year	30.4	30.4
Later than one year and not later than five years	121.7	121.7
Later than five years	181.7	210.0
Gross receivables from finance leases	**333.8**	**362.2**
Unearned future finance income on finance leases	(117.8)	(137.1)
Net investment in finance leases	**216.0**	**225.1**
Included in non-current assets (Financial lease receivables)	203.9	214.0
Included in current assets (Trade and other receivables)	12.1	11.1

Operating leases

BW Offshore has entered into contracts on operating leases on all FPSO/FSOs owned by year end. These leases include a clause to enable annual upward revision according to certain cost and price indices. Future minimum payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables are set out in the table below:

	2010	2009
Not later than one year	827.6	242.2
Later than one year and not later than five years	2,650.0	820.0
Later than five years	813.0	196.3
Total nominal amount	**4,290.6**	**1,258.5**

NOTE 7 CONSTRUCTION CONTRACTS

The Group's construction contracts during 2010 consisted of the conversion of the vessel BW Nisa into an FPSO for the 'Papa Terra project'.

All construction contracts are at a fixed price. Revenue from fixed-price contracts is recognised in accordance with the 'percentage-of-completion' (POC) method. Pursuant to the POC method, contract revenue is matched with the contract costs incurred reaching the stage of completion, resulting in the recognition of revenue, expenses and profit that can be attributed to the proportion of work completed. The stage of completion of contracts is measured on basis of costs incurred compared to the total estimated cost. When the outcome of construction contracts cannot be estimated reliably, no gain is recognised and only revenues equal to the accrued project costs are taken to revenue to the extent cost incurred are expected to be recoverable.

	2010	2009
Contract revenue FPSO	162.5	4.2
Contract cost FPSO	(128.9)	(4.2)
Net profit recorded in the income statement	**33.6**	**-**
Due from customers for contract work	-	51.7
Advance payments	(43.5)	(42.3)
Net receivable at 31 December	(43.5)	**9.4**

At 31 December 2010, retentions held by customers for contract work amounted to USD 0.0 million (USD 0.0 million).

At 31 December 2010, an amount of USD 0.0 million (USD 0.0 million) included in trade and other receivables and arising from construction contracts, are due for settlement after more than 12 months.

NOTE 8 SPECIFICATION OF OPERATING EXPENSES VESSELS AND ADMINISTRATIVE EXPENSES

Operating expenses vessels	2010	2009
Employee benefit expenses crew (Note 9)	54.8	33.3
Insurance	13.5	11.5
Operation, maintenance, spare parts and repairs	113.1	59.4
Charges for bad debt and other provisions	4.7	-
Total	**186.0**	**104.2**

Administrative expenses	2010	2009
Employee benefit expenses (Note 9)	28.1	14.0
Travel expenses	1.0	0.1
Auditors	0.8	1.1
IT & communication	3.0	0.6
Offices (rent etc)	2.8	3.3
Other expenses including restructuring costs	30.3	10.4
Total	**66.0**	**29.5**

NOTE 9 EMPLOYEE BENEFIT EXPENSES, REMUNERATION TO DIRECTORS AND AUDITORS ETC.

Employee benefit expenses	2010	2009
Wages, crew	54.8	33.3
Wages, administrative personnel	28.1	14.0
Social security tax	3.4	2.5
Pension costs defined benefit plans (Note 19)	3.5	3.8
Total employee benefit expenses	**89.8**	**53.7**

Total employee benefit expenses are included in the following accounts:

Operating expenses	61.7	39.7
Administrative expenses	28.1	14.0
Total employee benefit expenses	**89.8**	**53.7**
Number of man years employed	1,900	953

The increase in man years employed is due to the acquisition of PROD.

Remuneration paid to Top management and Board of Directors (USD '000)

Top management **	Year	Salary	Bonus	Pension	Other benefits	Shares owned	Share option
Top Management	2010	2,428.9	63.4	828.8	596.9	6,495.7	-
Top Management	2009	2,369.9	124.1	872.1	596.2	6,375.7	-

Board of Directors***	Year	Directors fee	Shares owned	Share option
Board of Directors	2010	298.3	*	-
Board of Directors	2009	189.0	*	-

* Companies affiliated with BW Offshore directors Dr. Helmut Sohmen and Mr. Andreas Sohmen-Pao owns 323,834,963 shares or approximately 47,1% (67,0% at 31 December 2009) of the shares in the Company. A company affiliated with BW Offshore director Mr. Ronny Johan Langeland owns 25,000 shares of the company.

	2010	2009
Loans to Top Management	-	8.7
Loans to other employees	539.1	1,697.0
Total	**539.1**	**1,706.0**

** The Top Management comprises the Chief Executive Officer, the Chief Financial Officer and the Executive Vice Presidents. The Top Management have agreements that give them the right to compensation after termination of employment before retirement that equals 100% of the salary for a maximum of 18 months. Compensation received from other employers during this period reduces this compensation, but not below 25% of the compensation. There are no similar agreements with the members of the Board of Directors.

*** The compensation for board services for the period May 2010 to May 2011 will be decided at the annual general meeting in May 2011.

VARIABLE PAYMENT SCHEME

The incentive compensation program consists of a yearly variable payment arrangement. The yearly variable arrangement is offered to permanent on-shore employees and a limited number of key offshore employees.

FEES TO AUDITORS (USD '000)	2010	2009
Statutory audit	511.0	571.9
Other attestation services	179.5	348.9
Tax related services	82.3	214.8
Total fees	**772.8**	**1,135.6**

NOTE 10 INCOME TAX EXPENSE

BW Offshore Limited is a company registered on Bermuda. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that it will be exempt from taxation until 2016. Certain subsidiaries operate in jurisdictions where taxes are imposed. Consequently, income taxes have been recorded in these jurisdictions when appropriate.

The Group's operational activities are subject to profit taxation rates which range from 0% to 30%. Taxes in Nigeria and Mauritania are based on a deemed profit of gross revenue derived from the operation. The withholdings are made by the client who pays the taxes directly to the local tax authorities in the name of the Group.

Tax expense for the year	2010	2009
Changes in temporary differences	(1.2)	0.7
Tax payable ex withholding tax	9.3	0.3
Withholding tax	8.3	6.7
Total	**16.4**	**7.7**

Effective income tax rate	2010	2009
Net result before income tax	(83.1)	32.6
Income tax at Bermuda statutory income tax rate of 0%	-	-
Non-deductible expenses	0.1	0.1
Withholding taxes	8.3	6.7
Effect of higher tax rates outside Bermuda	9.3	1.0
Income tax at the effective income tax rate	**17.6**	**7.7**
Effective tax rate	(21.0%)	24.0%

Tax liabilities at 31 December	2010	2009
Tax payable	14.7	15.4
Withholding taxes payable	-	-
Tax payable	**14.7**	**15.4**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes.

Deferred tax liabilities and deferred tax assets (-) can be specified as follows:

Deferred tax assets	2010	2009
Pensions	(0.7)	(3.2)
Vessels	(36.6)	-
Deferred tax assets - gross	**(37.3)**	**(3.2)**
Deferred tax liabilities		
Fixed assets	1.6	0.3
Projects in progress	-	7.5
Other	-	0.1
Intangible assets	-	17.5
Deferred tax liabilities - gross	**1.6**	**25.2**
Net recognised deferred tax liabilities/ deferred tax assets (-)	(35.7)	22.3

Net recognised deferred tax asset are expected to be recovered or settled after more than 12 months.

No tax effects are recorded directly against equity since income in Bermuda is not subject to income tax.

Deferred tax asset is included in other non-current assets in the consolidated statements of financial position.

NOTE 11 FPSO'S, FSO'S AND VESSELS UNDER CONSTRUCTION

The fleet at 31 December 2010 included the following vessels: Sendje Berge, Berge Helene, Belokamenka, Yùum Kák'Náab, BW Nisa, BW Cidade de São Vicente, BW Pioneer, BW Athena, ABO, Espoir Ivoirien, Petróleo Nautipa, Cidade De São Mateus, Polvo, Azurite, Ningaloo Vision, Umuroa, Madura Jaya, Endeavor, Takama and BW Ara.

Belokamenka (Note 21) and YÙUM K'AK'NÁAB (Note 6) are accounted for as finance leases and are not included in the table below.

2010	Uncommitted vessels	Committed vessels	FSO	Total
Cost at 1 January 2010	137.9	1254.3	22.8	1415.0
Additions	-	246.4	-	246.4
Additions PROD fleet (Note 28)	9.0	1484.6	11.9	1505.5
Disposals	-	-	(22.9)	(22.9)
Reclassification*	(78.7)	78.7	-	-
Cost at 31 December 2010	**68.2**	**3,063.3**	**11.9**	**3,144.0**
Accumulated depreciation and impairment charge at 1 January 2010	(56.0)	(144.5)	(8.6)	(209.3)
Current year depreciation	-	(81.3)	-	(81.3)
Impairment charge / reversal	-	(85.0)	-	(85.0)
Disposals	-	-	8.6	8.6
Reclassification	8.4	(8.4)	-	-
Accumulated depreciation at 31 December 2010	**(47.6)**	**(319.2)**	**-**	**(367.0)**
BV at 31 December 2010	20.6	2,744.7	11.9	2,777.0
Useful life	N/A	15-25 years	15 years	
Capitalised interest cost for vessels under construction.		2.8		
Vessels under construction are not subject to depreciation.				

* BW Athena was reclassified from uncommitted vessels to committed vessels.
Additions include the PROD fleet measured at fair value identified per 1 October 2010.

** In 2010, the USD 85.0 million impairment loss represent the write down and reversal of previous impairments of certain vessels to the recoverable amount. This has been recognised in the income statement in the line 'Impairment charges and write offs'. The recoverable amount was based on value-in-use calculations and was determined at the level of cash generating unit. Each vessel is regarded as a cash generating unit. The calculations are based on contracted cash flows and estimates of uncontracted cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate.

The cash flows were discounted at a rate of 6.7% for the firm period and 7.7% for the option period on a pre-tax basis. If the estimated pre-tax discount rate applied to the discounted cash flows for the vessels had been 1% higher than management's estimates (for example, 7.7% and 8.7% instead of 6.7% and 7.7%), the Group would have recognized a further impairment of the vessel of USD 36.8 million.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was in average 1.6 % based on LIBOR + 1.25% margin.

2009	Uncommitted vessels	Committed vessels	FSO	Total
Cost at 1 January 2009	63.5	943.5	20.7	1,027.7
Additions	7.6	387.9	2.1	397.6
Disposals	(4.5)	(5.8)	-	(10.2)
Reclassification*	71.3	(71.3)	-	-
Cost at 31 December 2009	**137.9**	**1,254.3**	**22.8**	**1,415.1**
Accumulated depreciation and impairment charge at 1 January 2009	(47.6)	(119.7)	(8.6)	(175.9)
Current year depreciation	(2.6)	(36.3)	-	(39.1)
Impairment charge	-	-	-	-
Disposals	-	5.7	-	5.7
Reclassification	(5.8)	5.8	-	-
Accumulated depreciation at 31 December 2009	**(56.0)**	**(144.5)**	**(8.6)**	**(209.3)**
Book value at 31 December 2009	81.9	1,109.8	14.2	1,205.9
Useful life	N/A	15-25 years	15 years	
Capitalised interest cost for vessels under construction.	8.6		8.6	
Vessels under construction are not subject to depreciation.				

*BW Carmen was reclassified from committed vessel to uncommitted vessel.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was in average 1.9% based on LIBOR + 1.25% margin.

NOTE 12 PROPERTY AND OTHER EQUIPMENT

2010 in USD million	Vehicles and equipment	Computer hardware	Held for sale Land	Held for sale Building	Discontinued operation Machinery	Total
Cost at 1 January 2010	5.0	3.2	0.9	13.5	11.3	33.9
Additions	0.9	0.9	-	-	-	1.8
Disposals (impairment/discontinued operation)	(0.1)	-	-	-	(11.3)	(11.4)
Reclassified as held for sale	-	-	(0.9)	(13.5)	-	(14.4)
Exchange difference	-	-	-	-	-	-
Cost at 31 December 2010	**5.8**	**4.1**	**-**	**-**	**11.3**	**9.9**
Accumulated depreciation at 1 January 2010	(1.2)	(2.0)	-	(1.3)	(7.5)	(12.0)
Current year depreciation	(0.9)	(0.8)	-	-	-	(1.7)
Disposals	-	-	-	-	7.5	7.5
Reclassified as held for sale	-	-	-	1.3	-	1.3
Accumulated depreciation at 31 December 2010	(2.1)	(2.8)	-	-	-	(4.9)
Balance at 31 December 2010	**3.7**	**1.3**	**-**	**-**	**-**	**5.0**
Useful life	5-11 years	3 years	Indefinite	50 years	3-5 years	

2009 in USD million	Vehicles and equipment	Computer hardware	Land	Building	Machinery	Total
Cost at 1 January 2009	5.0	2.6	0.9	9.8	9.6	27.9
Additions	0.7	0.6	-	3.7	0.3	5.3
Disposals	(0.7)	-	-	-	(0.4)	(1.1)
Exchange difference	-	-	-	-	1.8	1.8
Cost at 31 December 2009	**5.0**	**3.2**	**0.9**	**13.5**	**11.3**	**33.9**
Accumulated depreciation at 1 January 2009	(1.1)	(1.1)	-	(0.9)	(6.5)	(9.6)
Current year depreciation	(0.6)	(0.9)	-	(0.4)	(1.2)	(3.1)
Disposals	0.5	-	-	-	0.2	0.7
Accumulated depreciation at 31 December 2009	(1.2)	(2.0)	-	(1.3)	(7.5)	(12.0)
Balance at 31 December 2009	**3.8**	**1.2**	**0.9**	**12.2**	**3.8**	**21.9**
Useful life	5-11 years	3 years	Indefinite	50 years	3-5 years	

NOTE 13 INTANGIBLE ASSETS

BW Offshore has the following intangible assets (including internally developed intangible assets as specified below):

	Goodwill	Other intangible assets						Total intangible assets
	Goodwill	Internal development	Soft-ware	Techno-logy	Order Backlog	Tender portifolio	Customer rel intangibles	Total
Cost								
At 1 January 2010	437.8	11.5	12.1	15.4	31.1	5.3	60.9	574.1
Additions	157.6	-	-	-	-	-	-	157.6
Additions – internal development	-	-	2.8	-	-	-	-	2.8
Disposal	(437.8)	(6.1)	(1.2)	(15.4)	(31.1)	(5.3)	(60.9)	(557.8
Carrying amount, 31 December 2010	**157.6**	**5.4**	**13.7**	**-**	**-**	**-**	**-**	**176.7**
Effect of foreign exchange	-	-	-	-	-	-	-	-
At 31 December 2009	**157.6**	**5.4**	**13.7**	**-**	**-**	**-**	**-**	**176.7**
Amortisation and impairment								
At 1 January 2010	(167.2)	(2.7)	(6.5)	(4.0)	(30.8)	(2.5)	(16.2)	(229.9)
Amortisation and impairment	-	(1.4)	(2.7)	-	-	-	-	(4.1)
Disposal	167.2	-	-	4.0	30.8	2.5	16.2	220.7
At 31 December 2009	**-**	**(4.1)**	**(9.2)**	**-**	**-**	**-**	**-**	**(13.3)**
Net book value								
At 31 December 2010	**157.6**	**1.3**	**4.5**	**-**	**-**	**-**	**-**	**163.4**
At 31 December 2009	**270.6**	**8.8**	**5.6**	**11.4**	**0.3**	**2.8**	**44.7**	**344.2**
Economic life	indefinite		3 years	10 years	3 years	4 years	10 years	
Amortisation method			linear	linear			linear	

There have been no development activity in 2010 (USD 0.5 million in 2009).

Refer also to Note 22 for more information on goodwill and intangibles.

NOTE 14 INVESTMENTS IN ASSOCIATED COMPANIES

BW Offshore had the following investments in associates at 31 December:

2010	Nexus Floating Production
Entity	**Limited (Nexus)**
Country	Norway
Industry	**Floating Production**
Ownership interest	49.7%
Carrying value 1 January 2010	-
Share of net profit*	-
Carrying amount 31 December 2010	-
Fair value	0.4

BW Offshore has no continuing obligation to fund losses and any further potentially negative results from Nexus will therefore not have any impact on the financial statements.

The fair value is based on quoted market prices at the balance sheet date.

A summary of book values of the consolidated financial accounts of the associated company, on a 100% basis:

Entity	Assets	Liabilities	Equity	Revenues	Result for the year
Nexus	3.5	69.2	(65.7)	-	(1.7)

PROD
Until 30 September 2010, the investment in PROD was accounted for as investments in associates. On 1 October 2010, the Company, through a voluntary exchange offer to acquire all shares in PROD, gained control of the company and consequently the accounting for the interest in PROD changed from associate to subsidiary. Refer also to note 28.

Carrying value 1 January 2010	**185.0**
Share of net loss for the period 1 January 2010 until 30 September 2010	(14.8)
Share of other comprehensive income for the period 1 January 2010 until 30 September 2010	(6.7)
Carrying value 30 September 2010	163.5
Fair value of shareholding per 30 September 2010	161.0
Write down of shares in associates in 2010	(2.5)

2009	Nexus Floating Production	Prosafe Production Ltd	
Entity	**Limited (Nexus)**	**(PROD)**	
Country	Norway	Cyprus	
Industry	**Floating production**	**Floating production**	
Ownership interest	49.7%	23.9%	Total
Carrying value 1 January 2009	**38.7**	**186.9**	**225.6**
Share of net profit*	(39.5)	(6.1)	(45.6)
Other changes	0.8	-	0.8
Share of other comprehensive income	-	4.2	4.2
Carrying amount 31 December 2009	**-**	**185.0**	**185.0**
Fair value	1.1	131.3	132.4

* Share of net profit of associated company, less depreciation of excess value identified in the preliminary purchase price allocation.

The fair value is based on quoted market prices at the balance sheet date.

A summary of book values of the consolidated financial accounts of the individual associated companies, on a 100% basis:

Entity	Assets	Liabilities	Equity	Revenues	Result for the year
Nexus	3.6	67.7	(64.0)	0.1	(164.3)

NEXUS
BW Offshore has a 49.7% interest in Nexus, a company that sold its only FPSO vessel during 2009 with a loss. Nexus has an option to build a similar FPSO with the shipyard Samsung Heavy Industries in South Korea. The Group does not have power over more than half of the voting rights in Nexus. Further, the Group does not have the power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body. Nexus has been considered an associate since 8 May 2007.

During 2010, Nexus booked a net loss, however as the carrying value of the shares in Nexus is USD 0.0 million, the net loss will not impact on the financial statements of the Group.

The updated estimated recoverable amount equals the book value of USD 0.0 million at 31 December 2009. The discount rate used to estimate the value in use was 10.0%. If the estimated pre-tax discount rate applied to the discounted cash flows had been 1% higher or lower than management's estimates, the Group would have recognised a further/reversal of impairment against the investment in Nexus of USD 0.0 million.

NOTE 15 CASH AND CASH DEPOSITS

Cash and cash equivalents are denominated primarily in USD and NOK. Restricted bank deposits at 31 December 2010 and 31 December 2009 amounted to USD 3.0 million and USD 2.4 million, respectively, and relate to taxes withheld from employees. In addition, the Group has a bank guarantee related to additional liabilities regarding taxes withheld from employees.

Other non-current assets include cash deposits amounting to USD 99.2 million (USD 161.1) related to CIRR financing schemes for the FPSO Yùum K'ak'Náab and the FPSO Berge Helene (Note 20). The interest rates on these deposits are 4.8% and 3.6% respectively.

NOTE 16 SHARE CAPITAL OF THE COMPANY, LARGEST SHAREHOLDERS, PAR VALUE ETC.

Share capital	USD '000
Authorised share capital	
At 31 December 2009: 500,000,000 ordinary shares at par value USD 0.01 each	
Increase during 2010: 200,000,000 ordinary shares at par value USD 0.01 each	
At 31 December 2010: 700,000,000 ordinary shares at par value USD 0.01 each	
Issued and fully paid	
At 1 January 2010	4,562.0
Increased during 2010	2,318.0
At 31 December 2010	**6,880.0**

The Company held a total of 2,798,159 own shares at 31 December 2010 (2,798,159). These shares are held as 'treasury shares'. Book value of the treasury shares was USD 9.3 million at 31 December 2010 (USD 9.3 million).

The 20 largest shareholders at 31 December 2010 were:

	Name	No of shares	Holding
1	BW GROUP LIMITED*	305,436,227	44.4%
2	MORGAN STANLEY & CO INTERNAT. PLC	24,232,612	3.5%
3	RASMUSSENGRUPPEN AS	23,843,565	3.5%
4	BW EUROHOLDINGS LTD*	18,398,736	2.7%
5	CREDIT SUISSE SECURITIES (USA) LLC	15,822,888	2.3%
6	ODIN OFFSHORE	14,718,400	2.1%
7	ODIN NORDEN	10,969,275	1.6%
8	ODIN NORGE	9,178,601	1.3%
9	UBS AG, LONDON BRANCH	7,828,169	1.1%
10	PARETO AKSJE NORGE	7,502,703	1.1%
11	RBC DEXIA INVESTOR SERVICES TRUST	7,269,126	1.1%
12	KLP AKSJE NORGE VPF	7,176,247	1.0%
13	ORKLA ASA	7,044,352	1.0%
14	JPMORGAN CHASE BANK	7,000,386	1.0%
15	BROWN BROTHERS HARRIMAN & CO	6,231,661	0.9%
16	HSBC BANK PLC	6,063,143	0.9%
17	KOLBJØRN INVEST II AS	5,720,000	0.8%
18	KOMMUNAL LANDSPENSJONSKASSE	5,134,439	0.7%
19	SKANDINAVISKA ENSKILDA BANKEN	4,937,208	0.7%
20	STATE STREET BANK AND TRUST CO.	4,509,342	0.7%
Top 20 shareholders		**499,017,080**	**72.5%**
Total shares outstanding		688,006,004	

* BW Group Limited is controlled by corporate interests associated with the Sohmen family.

The 20 largest shareholders at 31 December 2009 were:

	Shareholder	No of shares	Holding
1	BW GROUP LIMITED*	305,436,227	67.0%
2	BANK OF NEW YORK	18,666,535	4.1%
3	CREDIT SUISSE SECURITIES	12,705,949	2.8%
4	ODIN NORDEN	11,426,975	2.5%
5	ODIN NORGE	10,767,601	2.4%
6	ODIN OFFSHORE	9,809,000	2.2%
7	KOLBJØRN INVEST II AS	5,600,000	1.2%
8	JPMORGAN CHASE BANK	5,184,224	1.1%
9	SKANDINAVISKA ENSKIL	3,888,100	0.9%
10	BANK OF NEW YORK	3,825,934	0.8%
11	DNB NOR SMB VPF	3,300,000	0.7%
12	HOLBERG NORDEN	3,253,525	0.7%
13	KLP LK AKSJER	3,192,000	0.7%
14	DEUTSCHE BANK AG	3,089,000	0.7%
15	UBS AG, LONDON BRANCH	3,001,209	0.7%
16	BANK OF NEW YORK	2,813,120	0.6%
17	BW OFFSHORE LTD	2,760,793	0.6%
18	ODIN EUROPA	2,190,174	0.5%
19	HOLBERG NORGE	2,130,600	0.5%
20	ODIN MARITIM	1,900,000	0.4%
Top 20 shareholders		**414,940,966**	**91.0%**
Total shares outstanding		456,213,515	

* BW Group Limited is controlled by corporate interests associated with the Sohmen family.

NOTE 17 TRADE RECEIVABLES

Total	2010	2009
Trade and other receivables – gross	126.4	117.5
Finance lease receivable – current	12.1	11.1
Provision for doubtful debt	(4.7)	(0.2)
Trade and other receivables – net	138.5	128.4
Current portion	138.5	128.4

All non-current receivables are due within five years from the balance sheet date.

The fair value of trade and other receivables is as follows:

	2010	2009
Trade and other receivables	138.5	128.4

As of 31 December 2010, trade receivables of USD 19.0 million (USD 39.0 million) were overdue but not impaired. These relate to customers whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2010	2009
Up to 3 months	7.1	25.5
3 – 6 months	1.3	13.5
6 - > months	10.6	-
Total	**19.0**	**39.0**

As of 31 December 2010, trade receivables of USD 4.9 million (USD 0.2 million) were impaired and provided for. The aging of these receivables is as follows:

	2010	2009
Up to 3 months	-	-
Over 3 months	4.9	0.2
Total	**4.9**	**0.2**

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2010	2009
NOK	-	14.5
USD	138.5	106.0
Other currencies	-	7.9
Total	**138.5**	**128.4**

Trade receivables not invoiced relating to construction contracts are described to in Note 7.

Charges for doubtful debt are classified as other operating expenses vessles in the income statement.

Changes in provision for impairment of trade receivables are as follows:

	2010	2009
Provision at 1 January	0.2	53.7
Charge for doubtful debt during the period	4.7	-
Deductibles and other charges relates to insurance claims	-	-
Realized losses for the year	-	(53.5)
Provision at 31 December	**4.9**	**0.2**

The other classes within trade and other receivables do not contain any impaired assets.

Credit risk and foreign exchange risk regarding accounts receivable is described in Note 18.

NOTE 18 FINANCIAL RISK MANAGEMENT

The Group's central finance division has the responsibility of financing, treasury management and financial risk management.

FINANCIAL RISK FACTORS
The Group's activities expose the Company to a variety of financial risks: Price risk (including currency risk and market risk), credit risk, liquidity risk and interest rate risk. Historically, demand for offshore exploration, development and production has been volatile and closely linked to the oil price. Low oil prices typically lead to a reduction in exploration as the oil companies' scale down their own investment budgets. Most of the Company's units at 31 December 2010 are fixed on long-term contracts, and this, to some extent, reduces the Company's exposure against intermediate oil and gas price fluctuations. Nevertheless, a decrease in the oil prices may have an adverse impact on the financial position of the Company.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. A risk management team identifies and evaluates financial risks in close co-operation with the Group's operating units. The risk management team is governed by written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investing excess liquidity.

The Group does not use financial instruments, including financial derivatives, for trading purposes.

FOREIGN CURRENCY RISK
The functional currency of the Company and most of its subsidiaries is USD. In general, most of the operating revenue and operating expense as well as interest bearing debt are denominated in USD. The Group's vessels are also valued in USD when trading in the second-hand market. The Group is exposed to expenses incurred in currencies other than USD, the major currencies being Norwegian Kroner ('NOK'), Singapore Dollars ('SGD'), British Pounds ('GBP'), Brazilian Reals and Euro ('EUR'). Operating expenses denominated in NOK, SGD, GBP and EUR constitute a minor part of the Group's total operating expenses. However, capital expenditures related to ongoing conversions of FPSOs and the construction contracts regarding oil field related equipment will to some extent be denominated in other currencies than USD. Consequently, fluctuations in the exchange rate of NOK, SGD, GBP and EUR may have significant impact on the financial statements of the Group.

The Group enters into forward/futures contracts in order to reduce the exchange-rate risk in cash flows nominated in foreign currencies. The exchange-rate risk is calculated for each foreign currency and takes into account assets and liabilities, liabilities not recognised in the balance sheet and expected purchases and sales in the currency in question. Currency hedges and other currency effects include changes in fair value of currency hedges, effects or settlement of these hedges, and other currency effects related to operating cash flows.

Hedging of capital expenditures related to ongoing conversions of FPSO's. The conversions of FPSOs give rise to capital expenditures in other currencies than USD. In order to reduce the exposure to changes in foreign currencies against USD, the Group uses forward exchange contracts to hedge the risks related to expenditures in foreign currency. The use of foreign exchange contracts in these circumstances qualifies for hedge accounting as cash flow hedges in accordance with IAS 39.

Fair values of foreign exchange contracts at 31 December 2010 amounted to USD 7.0 million (USD 3.4 million) and USD -0.5 million (USD 0.0 million) and are presented gross in the statement of financial position. Net effect of forward exchange contracts recognised in the income statement in 2010 is USD 2.2 million (USD -11.7 million) while the net effect recognised against equity amounts to USD 3.9 million.

CREDIT RISK
Several of the Group's contracts are long-term. There are no guarantees that the financial position of the Group's major partners will not materially change during the contracted period. Given the limited number of major partners of the Group and the significant portion these represent to the Group's income, the inability of one or more of them to make full payment on any of the Group's contracted units may have a significant adverse impact on the financial position of the Group. As most of the Group's portfolio is with National oil companies, the Group believes that the credit risk related to counterparties is at an acceptable level. The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Another risk factor to be addressed is whether negative reservoir development may affect the oil company's ability to fulfil its obligations also within the fixed contract. The probability for options to be exercised and extension of contracts to be entered into will be negatively affected by a reduction in actual reservoir reserves. It is common for customers, i.e. the oil companies, to contract the firm period for the FPSO lease corresponding to the expected producing life of the reserves. The existing contracts are essentiality covered against these risks through termination fees, cash-flow arrangements and financial and corporate guarantees. The Group will continue its active risk management to mitigate these risk factors. Furthermore, the Group has implemented policies to ensure that cash funds are deposited with internationally recognised financial institutions with a good credit rating. The maximum risk exposure is represented by the carrying amount of the financial assets in the balance sheet. Counterparties for derivative financial instruments are normally a bank and the credit risk linked to these financial derivatives is limited. The Group regards its maximum credit risk exposure to the carrying amount of trade receivables (Note 17), other current assets and financial lease receivables (Note 6).

LIQUIDITY RISK
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains sufficient cash for its daily operations via short-term cash deposits at banks and a commitment from the Company undertaking to make available funds from the unutilised portion of revolving facilities offered by financial institutions to the Company.

The table following on the next page sets out the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. When counterparties have a choice of when to settle an amount, the liability is included based on the earliest date of which the counterparty can be required to pay. Financial liabilities that can be required to be repaid on demand are included in the column 'within 1 month'.

	Period left					
Year ended 2010	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
USD 1,500 million facility	-	611.6	-	-	-	611.6
USD 1,200 million facility (PROD)	-	901.9	-	-	-	901.9
USD 2,400 million facility (BWO & PROD)	-	-	160.3	1,456.7	522.4	2,139.4
CIRR financing schemes*	-	31.0	22.8	45.5	-	99.2
Umuroa facility	4.2	-	12.5	96.8	-	113.5
Nautipa facility	-	-	2.2	5.8	-	8.0
Other liabilites non-current	-	-	-	-	6.2	6.2
Interest rate swaps	4.5	8.9	39.2	56.6	-	109.2
Interest payments	2.3	4.4	33.2	213.0	18.7	271.6
Trade and other payables current	-	-	371.2	-	-	371.2
Total	**11.0**	**1,557.8**	**78.4**	**1,851.7**	**534.9**	**3,876.9**

* A total amount of USD 99.2 million has been placed as long term bank deposits securing full settlement of the total debt and interest expenses related to these financing schemes.

NOTE 18 FINANCIAL RISK MANAGEMENT CONT.

Year ended 2009	Period left: Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
USD 1,500 million facility	-	-	-	893.3	-	893.3
CIRR financing schemes*	-	31.0	31.0	99.1	-	161.1
Mortgage loan	0.1	-	0.2	1.2	3.6	5.1
Bond loan	-	-	-	20.8	-	20.8
Other short term loan and borrowings	-	-	0.3	-	-	0.3
Other liabilities non-current	-	-	-	143.2	14.0	157.2
Interest rate swaps	-	6.1	18.2	33.5	-	57.8
Interest payments	0.1	4.4	13.2	61.9	1.1	80.7
Trade and other payables current	-	-	208.7	-	-	208.7
Total	**0.2**	**41.5**	**271.6**	**1,253.0**	**18.7**	**1,585.0**

* A total amount of USD 161.1 million has been placed as long term bank deposits securing full settlement of the total debt and interest expenses related to these financing schemes.

The Group has the following undrawn borrowing facilities:

	2010	2009
Floating rate		
Expire within one year	-	-
Expire beyond one year	1,190.0	600.0
Fixed rate		
Expire within one year	-	-

The loan facility with BW Group amounts to USD 1,500 million. The undrawn amount is USD 890.0 million, which can be utilised as long as the Group are in compliance with its loan covenants. In addition, a total of USD 300.0 million can be drawn on the USD 1,200 million facility as long as the Group are in compliance with loan coventants.

The Group had no loans advanced to associates at 31 December 2010.

INTEREST RATE RISK
The exposure of the Group's borrowings to interest rate changes and the contractual revaluation dates at the balance sheet dates are as follows:

	2010	2009
6 months or less	1,510.0	919.2
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	1,510.0	919.2

Average interest rate on cash deposits was 2.4% in 2010 (4.0%).

Effective 1 January 2009, the Group adopted the amendments to IFRS 7 for financial instruments, being measured in the statement of financial position at fair value. This requires disclosures of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market date (unobservable inputs) (level 3)

The fair value of the Group's currency hedges are determined using forward exchange rates at balance sheet date, with the resulting value discounted to present value (level 2) and are included in trade and other payables in the statement of financial position.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves (level 2) and are included in trade and other payables on the statement of financial position.

The fair value of the currency hedge amounts to USD 6.5 million (nominal value USD 128.4 million) while the fair value of the interest rate swaps amounts to USD -94.1 million (nominal value USD 1,600.0 million).

The carrying amounts of fair value of the non-current borrowings are as follows:

	Carrying amount 2010	Carrying amount 2009	Fair value 2010	Fair value 2009
CIRR	99.2	161.1	99.2	161.1
BW Group facility	610.0	893.3	610.0	900.0
USD 1.2 facility	900.0	-	900.0	-
Umuroa facility	111.9	-	102.7	-
Nautipa facility	7.7	-	7.6	-
Mortgage loan	-	5.1	-	5.1
Bond loan	-	20.8	-	17.8
	1,728.8	1,080.3	1,719.5	1,084.0

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The carrying amounts of short-term borrowings approximate their fair value.

The Group is exposed to interest-rate risk through its funding activities. A significant part of the interest bearing debt has floating interest rate conditions, making the Group influenced by changes in the market rates.

The Group holds interest derivatives of USD 1,600 million in total. A collar of USD 200 million was entered into in August 2007 (LIBOR floor rate of 4.23% and LIBOR cap rate of 5.5%, maturity 3Q 2012). In April 2008, the Group entered into a interest swap of USD 300 million (LIBOR 3.425%, maturity 2Q 2013) and a interest swap of USD 200 million (LIBOR 3.740%, maturity 2Q 2013). In May 2010 the Group entered into a interest swap of USD 100 million (LIBOR 3.185%, maturity 2018). As a consequence of the acquisition of PROD the group also held interest swaps at a notional amount of USD 800 million. The swaps are held to hedge the quarterly cash flow from interest payments on the USD 1,200 million, floating rate, debt facility. The maturity profile is USD 100 million in 2011 pay 3.01% receive Libor, USD 200 million in 2012 pay 3.14% and 3.26% receive Libor, USD 200 million in 2013 pay 3.37% and 3.44% receive Libor, USD 200 million in 2014 pay 3.53% and 3.64% receive Libor and USD 100 million in 2015 pay 3.74% receive Libor. The market value of the interest derivatives amounted to USD -94.1 million at 31 December 2010 (USD -34.7 million) and is recognised as a fair value loss on financial instruments.

The following table shows the Group's sensitivity for fluctuations in interest rates. The calculation includes all interest bearing instruments and interest rate financial derivatives.

	Increase/decrease in basis points	Effect on profit before tax and equity
2010	+/- 50	+/- 7.8
2009	+/- 50	+/- 3.7

The average interest rate on financial instruments was as follows:

	2010	2009
Loans secured by collateral	2.0%	4.6%
Bank loans - unsecured	1.6%	1.9%

CAPITAL STRUCTURE AND EQUITY
Capital structure is monitored by the Group. The primary focus of the Group's financial strategy is to ensure a healthy capital structure to support its business, fulfil all financial obligations and maximise shareholder values. The Group also monitors and manages its capital structure in light of changes in the economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to its shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

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NOTE 19 RETIREMENT BENEFIT OBLIGATIONS

All office employees in Norway, Norwegian seafaring personnel and parts of office employees in other countries than Norway are covered by pension plans, of which two are funded. The funding obligations connected to the pension plans are coordinated with anticipated future payments from the state pension regulations in Norway. The individual future retirement benefit includes the total of payments from the Company's pension plan, of which a provision is recorded in the consolidated accounts as well as pension payments from the Norwegian state. The plans also include survivor/dependants and disability pensions. The pension entitlements are accrued on a linear basis with an average service life of 30 years. The main terms for office staff pensions are 66% of final salary on attainment of retirement age of 65-67. The main condition for seafaring personnel is a pension of 50% of final salary on attainment of retirement age of 60. The Group's pension schemes follow the requirements as set out in the Norwegian Act on Mandatory Company pensions.

The abovementioned pension plans had 121 members at 31 December 2010 and 304 members at 31 December 2009. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the defined benefit obligation were carried out at 31 December 2010 by Storebrand Actuarial Services, a member of the Norwegian Institute of Actuaries.

The pension liabilities are presented under liabilities in the balance sheet and any change is charged to the income statement. The impact of changed actuarial estimates is amortised over the estimated remaining time to retirement to the extent that it exceeds 10% of the pension liabilities or pension funds, whichever is the larger 'corridor'. The discount rate is a 10 year Norwegian government bond with the addition of a risk element.

The principal actuarial assumptions considered when calculating the pension obligations and expenses were as follows:

	2010	2009
Discount rate	4.00%	4.40%
Expected return on plan assets	5.40%	5.60%
Future salary increases	4.00%	4.25%
Future pension increases	1.30%	1.30%
Increase in social security base amount related to Norwegian state pension	3.75%	4.00%
Social security tax	14.10%	14.10%

Actuarial assumptions for demographic factors such as rates for mortality and disability are based on the standard assumptions made by the Norwegian Institutes of Actuaries.

Average life expectancy for a person retiring at 67 years of age:

	2010	2009
Male	16.5	16.5
Female	19.4	19.4

The amounts recognised in the balance sheet are determined as follows:

Figures in USD million	2010	2009
Present value of funded obligations	25.5	29.6
Fair value of plan assets	(19.5)	(25.1)
Present value of unfunded obligations	2.0	1.6
Unrecognised actuarial gains/(losses)	(1.8)	7.9
Liability in the statement of financial position	**6.2**	**14.0**

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NOTE 19 RETIREMENT BENEFIT OBLIGATIONS CONT.

The amounts recognised in the income statement are as follows:

Figures in USD million	2010	2009
Current service cost	2.9	3.1
Interest cost	0.9	0.9
Expected return on plan assets	(1.0)	(0.8)
Administrative cost	0.5	0.5
Net actuarial gain recognised during the financial period	0.2	0.2
Net periodic pension cost (Note 9)	**3.5**	**3.8**

Best estimate of net pension cost for 2010 amounts to USD 4.1 million (USD 6.2 million). Best estimate of premium payments in 2010 amounts to USD 3.2 million (USD 3.6 million).

The movement in the liability recognised in the statement of financial position is as follows:

Figures in USD million	2010	2009
At 1 January	(14.0)	(9.6)
Contributions paid	3.5	4.6
Termination of contracts	7.8	-
Exchange differences	-	(1.8)
Discontinued operations charge	-	(3.4)
Charged to income statement*	(3.5)	(3.8)
At 31 December	**6.2**	**(14.0)**

* Expenses related to defined contribution plans amounted to USD 0.04 million in 2009 (USD 1.0 million)

The pension funds are administered according to certain guidelines set by the authorities. As of 30 September the funds were invested as follows:

	2010	2009
Shares and equity instruments	14.0%	15.0%
Bonds - fixed yield	26.0%	11.0%
Bonds held to maturity	25.0%	38.0%
Properties and real estate	16.0%	16.0%
Money market funds	14.0%	14.0%
Other	5.0%	6.0%
Total	**100.0%**	**100.0%**

The actual return on plan assets amounted to 6.5% at 30 September 2010.

A 1% decrease in the discount rate could imply an increase in present value of funded obligations of approximately 20-25%. This will not imply an immediate increase in the pension cost recognised in the income statement since the actuarial gains/losses are recognised over the expected average remaining working lives of the employees.

NOTE 20 LOAN FACILITIES

	Effective interest rate	Maturity date	Carrying amount 2010	2009
BW Group Limited USD 1,500 million facility (unsecured)	LIBOR + 1.25%	13-May-13	-	893.3
CIRR Y'uum K'ak' Naab (unsecured)	4.77%	9-Jul-12	91.0	136.5
CIRR Berge Helene (unsecured)	3.57%	17-Feb-11	8.2	24.6
Umuroa facility (secured)	3 month LIBOR + 3.25%	3-Nov-15	95.2	-
Petróleo Nautipa facility (secured)	3 month LIBOR + 0.70%	30-Dec-12	5.6	-
Mortgage loan (discontinued) (secured)			-	5.1
Bond loan APL (discontinued) (unsecured)			-	20.8
Total long-term debt			**200.0**	**1,080.3**
Short term debt				
BW Group Limited USD 1,500 million facility (unsecured)	LIBOR + 1.25%	13-May-13	610.0	-
USD 1,200 million facility (secured)	3 month LIBOR +0.65 - 0.95%	5-May-15	900.0	-
Umuroa facility current (secured)	3 month LIBOR + 3.25%	3-Nov-15	16.7	-
Petróleo Nautipa facility (secured)	3 month LIBOR + 0.70%	30-Dec-12	2.2	-
Total short term debt			**1,528.9**	**-**
Total interest bearing debt			**1,728.8**	**1,080.3**

USD 2,400 million facility:
BW Offshore has concluded the syndication process for a USD 2.4 billion seven year senior secured credit facility at a margin of 200 basis points above USD LIBOR. The facility is split into term loans totalling USD 1.7 billion and a USD 0.7 billion revolving credit facility. The facility will be used to refinance BW Offshore and PROD's main credit facilities, as well as finance further growth for the Company. The USD 1.5 billion loan facility (BW Offshore) and the USD 1.2 billion loan facility (PROD), is as a result of the refinancing, presented as current interest bearing debt at 31 December 2010.

The facility agreement is subject to certain covenants, including minimum book equity of at least 30% of total assets, annualised EBITDA to borrowing ratio of maximum 5.5, minimum USD 75 million available liquidity including undrawn amounts under the revolving part of the facility and interest covearage ratio of minimum 3.0.

USD 1,500 million facility BW Group Limited
Due to the refinancing of the facility, the arrangement fee, previously capitalised and expected to be expensed over the five year term of the loan, have been expensed in 2010.

USD CIRR financing
A total of USD 99.2 million has been drawn down on two loan facilities (CIRR) entered into with Eksportfinans ASA related to the conversions of the FPSO Berge Helene and the FPSO Y'uum K'aak N'aab. The proceeds from the draw down have been placed as long term bank deposits to be used to amortise and service the loans. The bank deposits and the loans are according to IFRS presented as non-current assets and liabilities, on a gross basis, in the balance sheet. The corresponding interest income and interest expenses are presented on a gross basis in the income statement. The loans are charged with a fixed interest of 4.8% and 3.6% respectively, over a period of 5 years.

USD 1,200 million facility:
Prosafe Production Public Limited as borrower has a senior secured revolving credit facility with a total availability of USD 1,200 million, where Nordea Norge ASA act as facility agent on behalf of a number of lenders. The loan period is seven years with the final maturity date 5 May 2015.In addition to interests, a commitment fee of 0.38% of available, but undrawn, facility is charged and recognised in the income statement.

Due to the refinancing of the facility, the arrangement fee, previously capitalised and expected to be expensed over the loan term, have been expensed in 2010.

Umuroa facility
The Umuroa facility is a senior secured reducing revolving credit facility agreement entered into on 30 October 2009, with a total initial availability of USD 130 million. The loan period is six years with the final maturity date 3 November 2015. The revolving credit facility has financial covenants as referred to in item one through four above related to liquidity, leverage ratio, equity ratio and working capital, and includes a standard change of control clause that can be triggered if a party exceeds 30% ownership. The availability on the facility is reduced by USD 4.2 million four times a year, followed by a ballon payment of USD 30.0 million in 2015.

An arrangement fee on the credit facility is capitalised and amortised as part of the loan.

Petróleo Nautipa facility
Prosafe Nautipa AS is party to a USD 17.5 million credit facility. The amount was drawn in June 2006. The loan is subject to semi-annual instalments of USD 1.1 million followed by a final payment of USD 3.5 million at maturity in December 2012.

NOTE 21 INVESTMENT IN JOINT VENTURES

The Group has the following investments in joint ventures:
- OOO 'Oil Terminal Belokamenka', operating the the Arctic FSO Belokamenka.
- Tinworth Pte Ltd, which is the owner of FPSO Petróleo Nautipa operating in Gabon.
- Madura Pte Ltd, which was the owner of FSO Madura Jaya operating in Indonesia (the FSO sold in February 2011).

Company	Registered office	Holding in % 2010	Holding in % 2009
OOO 'Oil Terminal Belokamenka'	Russia	50%	50%
Tinworth Pte Ltd	Singapore	50%	0%
Madura FSO Pte Ltd	Singapore	50%	0%

Voting rights equal the ownership share.

The following amounts represent the Group's share of assets, liabilities, income and expenses related to the joint ventures and are proportionately consolidated in the Group's statement of financial position and income statement on a line-by-line basis:

	2010	2009
Revenue	25.5	11.1
Expenses	(16.0)	(7.7)
Net financial Items	(1.1)	0.1
Profit before tax	8.3	3.5
Income tax expense	(0.8)	(0.6)
Profit after tax	7.5	2.9
Non-current assets	6.8	0.6
Current assets	13.7	3.8
Total assets	20.5	4.4
Equity	18.9	2.7
Non-current liabilities	0.8	-
Current liabilities	0.8	1.7
Total Equity and liabilities	20.5	4.4

The following transactions were carried out between the Group and OOO 'Oil Terminal Belokamenka':

- Lease of the FSO Belokamenka (Note 6), USD 14,144 per day (USD 14,144).
- Average management services fee per month were USD 201,600 (USD 148,000).

No transaction was carried out between the Group and Tinworth Pte Ltd and Madura FSO Pte Ltd.

NOTE 22 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES

Goodwill and intangibles acquired through a business combination in 2007 for impairment testing, have been allocated to one cash-generating unit; the APL division. The APL division was sold during 2010 and the related goodwill and intangibles were part of the sales transaction. As of 31 December 2010, there were no APL related goodwill or intangibles in the statement of financial position. Goodwill acquired through the business combination with PROD in 2010 for impairment testing, have been allocated to one cash-generating unit which is the combined company.

Carrying amount of goodwill and intangibles related to the PROD cash generating unit (APL cash generated unit in 2009):

At 31 December	2010	2009
Goodwill	157.6	270.6
Technology	-	11.4
Order Backlog	-	0.3
Tender Portfolio	-	2.8
Customer related intangibles	-	44.7
Total Intangibles	**157.6**	**329.8**

Subsequent to the sale of the APL division in 2010, the intangibles related to APL have been accounted for against the salesprice, reducing the booked gain. As of 31 December 2010, goodwill and intangibles only relate to the acquisition of PROD at 1 October 2010.

The Company has prepared the preliminary fair value of net identifiable assets acquired (purchase price allocation), resulting in a goodwill of USD 157.6 million, a deferred tax asset of USD 36.2 million and vessels of USD 1,505.5 million. The goodwill and unallocated excess value arising from the acquisition is attributable to strategic premium paid to gain diversification, larger market presence and financial scale. These intangible assets do not fulfill the recognition criteria pursuant to IAS 38 and are therefore not recognised separately. Synergies from the acquisition are estimated to amount to approximately USD 20.0 million per year going forward.

The discount rate, based on Weighted Average Cost of Capital (WACC), used for calculating the net present value of the cash flow is 6.7% on the firm period and 7.7% on the option period. The risk premium is based on empirical data of similar companies listed on the Oslo Stock Exchange.

Sensitivity in key assumptions used

PROD was acquired in 2010 and the value of the entity is based on several key assumptions. If these key assumptions are developing unfavourably, it may cause impairment of the carrying goodwill.

At year end 2010, even if applying an increase of 1% of the estimated pre-tax discount rate (from 6.7% to 7.7%) there will be no requirement to impair the goodwill.

As a result of this analysis in accordance with IAS 36, management has concluded that no impairment charge is needed as of 31 December 2010.

NOTE 23 EARNINGS PER SHARE

Basic

Basic earnings per share are calculated by dividing the net result of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted

The Company has had no instruments outstanding during the reporting period with a potentially dilutive effect.

	2010	2009
Profit/(loss) attributable to equity holders of the Group (USD million)	23.4	(8.8)
Weighted average number of ordinary shares in issue (thousands)	507,836	456,214
Basic and diluted earnings per share continuing operations*	(0.20)	0.05
Basic and diluted earnings per share discontinued operations*	0.24	(0.07)
Basic and diluted earnings per share including discontinued operations*	0.05	(0.02)

* Excludes treasury shares of 2,798,159 held by the Company.

Basic and diluted earnings per share are presented in separate lines in the income statement.

NOTE 24 RELATED PARTIES TRANSACTIONS

The largest individual shareholder, BW Group Limited owning 47.1%, is incorporated in Bermuda and is approximately 93% owned by companies controlled by Sohmen family interests.

All transactions with related parties have been carried out as part of the ordinary operations and at arm's length prices.

Remuneration to the Board of Directors, auditors and Top management is detailed in Note 9.

Investments in subsidiaries are described in Note 4. Transactions with joint ventures are disclosed in Note 21.

The following transactions were carried out with related parties:

	2010	2009
Interest expenses and loan related fees to BW Group Limited	21.7	24.1
Management, administration and rental services from BW Gas and BW Maritime	-	0.3
Year-end balances		
Receivables from Group companies	-	0.3
Payables to Group companies	-	1.6
Loans	610.0	900.0

The non-trade amount due to the ultimate holding corporation at 31 December 2010 was USD 610.0 million (USD 900.0 million in 2009).

Sales and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

Transactions with Nexus Floating Production Ltd and subsidiaries

	2010	2009
Trade receivable at 31 December	-	0.2
Total sales	-	14.2

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NOTE 25 COMMITMENTS

Capital expenditure related to conversion projects contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	2010	2009
Nominal amount	289.2	31.8
Net present value	271.0	29.5
Interest rate	6.7%	8.0%

The Group has entered into lease agreements (classified as operating leases) for offices in various countries with durations varying from 3 to 15 years. The total annual rent for the head offices amounts to USD 2.4 million (USD 2.4 million).

The Group has issued performance guarantees in favour of various customers totalling USD 450.3 million (USD 196.3 million).

The bank debt related to the USD 1,200 million facility, as referred to in Note 20, is secured by:

- A subsidiary guarantee from each of Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority share pledge over all the shares issued by Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte
- A first priority perfected security interest in seven FPSO/FSO vessels owned by Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority secured interest in all earnings and proceeds of insurance related to all collateral units.

The bank debt related to the Umuroa facility, as referred to in Note 20, is secured by:

- A parent company guarantee from Prosafe Production Public Limited
- A first priority perfected security interest in the FPSO Umuroa owned by Prosafe Production Services Pte Ltd, New Zealand Branch
- A first priority secured interest in all earnings and proceeds of insurance related to the FPSO Umuroa.

The bank debt related to the Petróleo Nautipa facility, as referred to in Note 20, is secured by mortgages on bank deposit, the shares in Tinworth Pte Ltd and Prosafe Nautipa AS, and on the FPSO owned by the former.

The carrying value of vessels pledged as collateral per 31 December 2010 was USD 1,465.7 million (USD 0.0 million in 2009).

NOTE 26 PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

In 2006 and 2007, there have been changes in Mexican laws with potential effect for the prices stated in the contract for the delivery and operation of the FPSO Yùum K'ak'Náab. The Group and the respective client have not yet agreed on how to calculate and allocate the financial effects of these changes. The original amount disputed was USD 83.8 million but in 2008 this amount was reduced to USD 66.7 million. The Group has in 2010 made a provision of USD 14.0 million in this respect, which in addition to USD 34.4 million included in the 2007 income statement, is considered sufficient.

The Group has made a provision of USD 12.0 million for two claims related to turret system deliveries.

As part of its ordinary business, the Group has ongoing claims against insurance companies. The estimated outcome of these claims are reflected in the financial statements. The Company does not recognise these claims as receivables until receipt of such amounts are deemed virtually certain.

The following short term provisions have been included in the financial statements (USD million) relating to claims and disputes discussed above:

	2010	2009
Provisions at beginning of period	15.3	45.0
Additions	-	-
Provisions for claims	26.0	5.5
Provisions for restructuring costs	18.4	-
Reversals/payments	(7.2)	(35.2)
Offset against receivables	(8.1)	-
Provisions at end of period	44.4	15.3

NOTE 27 TRADE AND OTHER PAYABLES

	2010	2009
Trade payables	30.8	14.6
Amounts due to related parties	-	1.5
Accrued vessel expenses	16.2	22.9
Derivatives at fair value (Note 18)	94.6	36.4
Accrued construction contract expenses	61.8	33.6
Advance payments (Note 7)	43.5	42.3
Advance payments other	38.0	-
VAT etc	14.9	9.3
Deferred revenues	-	38.0
Provisions (Note 26)	44.4	15.3
Other accruals	62.0	5.5
Total	**406.2**	**219.4**

NOTE 28 CHANGES IN THE GROUP`S STRUCTURE – ACQUISITION OF PROSAFE PRODUCTION LTD

On 1 October 2010, BW Offshore obtained control of PROD through a voluntary offer on all issued and outstanding shares in the company. BW Offshore held 23.88% of the shares in the company prior to the voluntary exchange offer.

PROD is a leading owner and operator of Floating Production, Storage and Offloading vessels (FPSOs). PROD has 25 years of operational experience from several of the world's largest oil and gas provinces. PROD operates globally and employs approximately 1,000 employees from more than 40 countries. The company is registered in Limassol, Cyprus.

The acquisition of shares in PROD not already owned was financed by cash, equity and by a loan with a total consideration of USD 520.0 million including transaction costs.

The acquisition of PROD was performed as a stage acquisition as presented in the table below.

Bookvalue at 30 September 2010	163.5
Fair value adjustment	(2.5)
23.88% shares owned	**161.0**
Equity consideration	384.7
Cash consideration	92.5
70.76% of PROD shares	**477.2**
Equity consideration - squeeze out	33.6
Cash consideration squeeze-out	6.4
Cash consideration squeeze-out	2.8
5.37% of PROD shares	**42.8**
Total consideration voluntary exchange offer and squeeze out	**520.0**
Total acquisition price (including already owned)	**681.1**

NOTE 28 CHANGES IN THE GROUP`S STRUCTURE – ACQUISITION OF PROSAFE PRODUCTION LTD CONT.

Any costs related to the acquisition (included in administrative expenses in the consolidated income statement for the year ended 31 December 2010) were USD 34.7 million.

The Company has finalized the preliminary fair value of net identifiable assets acquired (purchase price allocation), resulting in a goodwill of USD 157.6 million, a deferred tax asset of USD 36.2 million and vessels of USD 1,505.5 million. The amount of goodwill deductible for tax purposes is USD 120.7 million.

Recognised amounts of identifiable assets acquired and liabilities assumed:

Vessels (Note 11)	1,505.5
Deferred tax asset (Note 10)	36.2
Other non-current assets	5.9
Cash and cash equivalents	125.5
Other current assets	81.2
Interest free long term liabilities	(67.1)
Other interest free current liabilities	(63.0)
Non-current borrowings	(932.2)
Current borrowings	(168.5)
Total identifiable net assets	**523.5**
Goodwill	157.6
Total	**681.1**

The goodwill and unallocated excess value arising from the acquisition is attributable to strategic premium paid to gain diversification, larger market presence and financial scale. These intangible assets do not fulfill the recognition criteria pursuant to IAS 38 and are therefore not recognised separately.

Net cash consideration paid for the shares in PROD in 2010 was USD 22.8 million less than the cash and cash equivalents in PROD at the date of acquisition.

The Group recognised a loss of USD 2.5 million as a result of measuring at fair value its 23.88% equity interest in PROD held before the business combination. The expense is included in other financial items.

The acquired business contributed revenues of USD 117.0 million and net profit of USD 1.9 million to the Group for the period 1 October 2010 (date of acquisition) to 31 December 2010.

Had PROD been consolidated from 1 January 2010, the consolidated statement of income, excluding discontinued operations, would have shown revenues of USD 866.9 million and a net loss of USD 143.6 million.

NOTE 29 CHANGES IN THE GROUP`S STRUCTURE – DISPOSE OF APL DIVISION

BW Offshore has during 2010 sold all of its shares in APL. The transaction was concluded on 8 December 2010. The sales price is subject to adjustments in the working capital and other adjustments. The net cash inflow from the transaction was USD 426.8 million. The carrying amount of the APL division before the sale amounted to USD 397.0 million (including remaining goodwill and other intangible assets identified in the purchase price allocation performed at acquisition of APL in 2007).

The preliminary gain from the sale of the APL division amounted to USD 143.8 million. In addition, BW Offshore has provided for possible claims that could materialise in relation to the discontinued operation. Furthermore, cumulative exchange differences historically recognised in other comprehensive income and accumulated in equity of USD 12.3 million, are recycled and are included in the calculation of net profit from the discontinued operation. The net result of the APL division in the period 1 January 2010 until 8 December 2010 amounted to USD 12.6 million. Net profit presented as discontinued operation amounts to USD 122.9 million as explained in the following table:

Cash received on 8 December 2010	531.5
Adjustments to sales price	9.3
Book value of APL	(397.0)
Gain on sale before provisions and contributed profit and other adjustments	**143.8**
Provision for possible claims	(21.2)
Recycling the currency exchange expense historically booked against equity	(12.3)
Gain on sale	110.3
Net profit for the discontinued operation for the period 1 January 2010 - 1 December 2010	12.6
Net profit for the discontinued operation in 2010	**122.9**

	2010	2009
Operating revenues	141.1	188.9
Operating expenses	(115.0)	(162.1)
Share of profit of associates	-	(39.5)
Operating profit before depreciation (EBITDA)	26.0	(12.7)
Depreciation and amoritsation	(11.9)	(20.3)
Operating profit	14.1	(33.0)
Net finance	-	3.0
Profit before tax	14.1	(30.0)
Income tax expense	(1.5)	(3.7)
Net profit from discontinued operation	**12.6**	**(33.7)**
Capital expenditures	16.7	12.1
Segment assets	-	492.5
Segment liabilities	-	151.6

At 31 December 2010, the office building in Arendal, owned by BW Offshore, is classified as held for sale. The book value of the asset is USD 7.1 million while the book value of the liabilities of this asset is USD 7.1 million.

NOTE 30 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 14 February 2011, the FSO Madury Jaya was sold for recycling at a price equalling its book value.

On 21 February 2011, BW Offshore received a award from the Arbitration Tribunal in Mexico regarding a dispute with its client in Mexico over import duties. The outcome of this award is that BW Offshore will have to compensate its client with an amount of USD 12.7 million in addition to interest and other expenses. The effects of the award have been reflected in the 2010 figures of BW Offshore.

On 15 March 2011, the USD 2.4 billion facility was completed and the USD 1.5 billion and USD 1.2 billion facilities were cancelled and repaid.

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NOTES

STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2010	2009
OPERATING REVENUE			
Other revenue		-	-
Total revenues		**-**	**-**
OPERATING EXPENSES			
Operating expenses	3	(42.7)	(31.8)
Total operating expenses before amortisation		**(42.7)**	**(31.8)**
Operating loss before amortisation		(42.7)	(31.8)
Amortisation		(1.3)	(1.3)
Operating loss		**(44.1)**	**(33.1)**
FINANCIAL INCOME AND FINANCIAL EXPENSES			
Interest income		63.3	63.3
Interest expense		(70.5)	(34.3)
Net currency exchange gain (loss)		-	(10.3)
Impairment charge intercompany balances		-	-
Other financial expenses		(24.5)	(11.3)
Net financial items		**(31.6)**	**7.4**
Loss before tax		**(75.7)**	**(25.7)**
Income tax expense		-	-
Net loss for the year		**(75.7)**	**(25.7)**
Loss attributable to equity shareholders		(75.7)	(25.7)

The notes in pages 43-46 are an integral part of these financial statements.

BW Offshore Limited parent company financial statements | 2010

STATEMENTS OF COMPREHENSIVE INCOME

USD million (Year ended 31 December)	Note	2010	2009
Loss for the year		(75.7)	(25.7)
Other comprehensive income			
Currency translation differences		-	-
Total other comprehensive income for the year		-	-
Total comprehensive income for the year		**(75.7)**	**(25.7)**
Attributable to			
Equity holders of the parent		(75.7)	(25.7)

The notes in pages 43-46 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

USD million (As at 31 December)	Note	2010	2009
ASSETS			
Other intangible assets		1.3	2.7
Shares in subsidiaries	4	1,154.0	604.1
Intragroup long term receivbles	5,11	677.9	1,228.2
Total non-current assets		**1,833.2**	**1,835.0**
Trade and other receivables		18.9	7.0
Cash and deposits	8	140.1	40.0
Total current assets		**159.0**	**47.0**
TOTAL ASSETS		**1,992.1**	**1,882.0**
EQUITY			
Share capital	7	6.9	4.6
Share premium	7	1,334.9	918.8
Other equity		(52.6)	23.1
Total shareholder's equity		**1,289.2**	**946.5**
Long-term liabilities	8,11	-	893.3
Total non-current liabilities		**-**	**893.3**
Short-term liabilities	8,11	610.0	-
Total short-term liabilities		**610.0**	**-**
Trade and other payables	10,11	92.9	42.2
Total current liabilities		**92.9**	**42.2**
Total liabilities		**702.9**	**935.5**
TOTAL EQUITY AND LIABILITIES		**1,992.1**	**1,882.0**

The notes in pages 43-46 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD million (As at 31 December)	Note	Share Capital	Share Premium	Other Equity	Total
At 1 January 2009		**4.6**	**1,444.6**	**(477.0)**	**972.2**
Reduction share premium against other equity		-	(525.8)	525.8	-
Changes in equity		4.6	918.8	48.8	972.2
Total comprehensive income		-	-	(25.7)	(25.7)
At 31 December 2009		**4.6**	**918.8**	**23.1**	**946.5**
Issue new share capital		2.3	416.0	-	418.3
Total comprehensive income		-	-	(75.7)	(75.7)
At 31 December 2010		**6.9**	**1,334.9**	**(52.6)**	**1,289.2**

The notes in pages 43-46 are an integral part of these financial statements.

STATEMENTS OF CASH FLOW

USD million (Year ended 31 December)	Note	2010	2009
Operating activities			
Loss before tax		(75.7)	(25.7)
Amortisation		1.3	1.3
Other changes		-	(26.6)
Changes in receivables and accounts payable		38.8	10.5
Net cash flow used in operating activities		**(35.6)**	**(40.5)**
Investing activities			
Investments in subsidiaries		(549.9)	(184.6)
Interest received		63.3	63.3
Net cash flow used in investing activities		**(486.6)**	**(121.3)**
Financing activities			
Changes in intercompany receivables/debt		976.1	-
Received payments from raising new long-term debt		(283.3)	200.0
Interest paid		(70.5)	(34.4)
Net cash flow from financing activities		**622.3**	**165.6**
Net change in cash and cash equivalents		100.1	3.8
Cash and cash equivalents at 1 January		40.0	36.2
Cash and cash equivalents at 31 December		**140.1**	**40.0**

The notes in pages 43-46 are an integral part of these financial statements.

NOTES

NOTE 1 GENERAL INFORMATION

BW Offshore Limited ('BW Offshore' or 'the Company') was incorporated in Bermuda in 2005 and is domiciled in Bermuda.
The address of its registered office is
Clarendon House,
2 Church Street,
Hamilton HM11,
Bermuda.

The Company is listed on the Oslo Stock Exchange (OSE).

All figures are in USD million if not otherwise stated.

The financial statements were approved by the Board of Directors on 24 March 2011.

NOTE 2 ACCOUNTING POLICIES

The financial statements of BW Offshore have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union (IFRSs as adopted by the EU) The consolidated financial statements have been prepared pursuant to the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through equity or the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Revenue recognition
Interest income is recognised on a time proportion basis applying the effective interest method.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Other revenues
Sales are recognised after transfer of the significant risks and rewards that are connected with the ownership of goods being sold to the buyer. The Company retains neither a continuing right to dispose of the goods, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are presented net of indirect sales taxes and discounts.

ACCOUNTING FOR SUBSIDIARIES
Subsidiaries
The subsidiaries are all entities (including special purpose entities) over which the Company has power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in sub-sidiaries are stated at cost less any impairment.

INTANGIBLE ASSETS
Research and development
Expenses relating to research activities are recognised in the income statement as they are incurred.

Expenses relating to development activities are capitalised to the extent that the product or process is technically and commercially viable and the Company has sufficient resources to complete the development work. Expenses that are capitalised include the costs of materials and external suppliers, direct wage costs and a share of the directly attributable common expenses. Capitalised development costs are recognised at their cost minus accumulated amortisation and impairment losses.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset.

BORROWINGS
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement during the period of the borrowings applying the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

TRADE AND OTHER RECEIVABLES
Trade and other receivables are initially recognised at originally invoiced amount, where this approximates fair value, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The allowance amount is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

Trade and other receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

TRADE AND OTHER PAYABLES
Trade and other payables are initially measured at fair value and subsequently measured at amortised cost, applying the effective interest method.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash on hand, short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject

NOTE 2 ACCOUNTING POLICIES CONT.

to an insignificant risk of changes in value and short term deposits with an original maturity of three months or less.

CURRENCY TRANSLATION

Functional and presentation currency
The Company's presentation currency is United States Dollars ('USD'). This is also the functional currency of the Company and most of its subsidiaries. For consolidation purposes, the balance sheet figures for subsidiaries with a different functional currency are translated at the rate applicable at the balance sheet date and their income statements are translated at the exchange rate prevailing at the date of transaction. As an approximation, the monthly average exchange rates are applied in translating the income statements. Exchange differences are recognised in equity. When foreign subsidiaries are disposed of, the accumulated exchange differences relating to the subsidiary are recorded as income.

Transactions and balances
Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates prevailing at the date of transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Provisions for other liabilities and charges
Provisions are recognised when the Company has a legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to passage of time is recognised as interest expense.

SHARE CAPITAL
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.

USE OF ESTIMATES
The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year.
Although these estimates are based on management's best know-ledge of current events and actions, results may ultimately differ from those estimates.

EVALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES – MAIN PRINCIPLES
Assets for long-term ownership or use are classified as fixed assets. Other assets are classified as current assets. Liabilities which fall due more than one year after being incurred are classified as long-term liabilities, with the exception of following year's instalments on long-term debt. This is presented as current interest bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

CHANGES IN ACCOUNTING POLICIES
Changes in accounting policies are the same as can be found in the BW Offshore Ltd consolidated Financial Statements.

NOTE 3 OPERATING EXPENSES

	2010	2009
Management fee	18.5	18.6
Lawyer's fee	2.5	1.8
Consultant's fee	10.7	2.5
Auditor's fee	0.5	0.5
Other operating expenses	10.4	8.4
Total operating expenses	**42.7**	**31.8**

NOTE 4 SHARES IN SUBSIDIARIES

Name of companies	Country of incorporation	Ownership 2010	Ownership 2009
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Private Limited	Singapore	100%	100%
Berge Helene Limited	Bermuda	100%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
Bergesen Worldwide Limited	Bermuda	100%	100%
BW Ara Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	100%	100%
BW Carmen Limited	Bermuda	100%	100%
BW Cidade de São Vicente Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW LPG FPSO I Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore do Brazil Ltda	Brazil	99%	99%
BW Offshore Global Manning Private Limited	Singapore	0%	100%
BW Offshore Nigeria Ltd	Nigeria	100%	0%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Shipholding Ltd (former BW Brazil Ltd)	Bermuda	100%	100%
BW Offshore Technology Singapore Private Limited	Singapore	0%	100%
BW Offshore USA Inc	USA	0%	100%
BW Pioneer Limited	Bermuda	100%	100%
Sendje Berge Limited	Bermuda	100%	100%

NOTE 5 INTRA-GROUP LOANS AND RECEIVABLES

	2010	2009
Loan to Group companies	-	-
Intra-group long-term receivables	**-**	**-**
Outstanding from subsidiaries	313.5	1,228.2
Intra-group short-term receivables	**313.5**	**1,228.2**

Intra-group loan agreements with subsidiaries are set up based on regular market rates. Outstanding balances at year-end are unsecured. For the year ended 31 December 2010, the Company has not recorded any impairment related to receivables on amounts owed by group subsidiaries.

NOTE 6 INCOME TAX

BW Offshore Limited is a Bermuda company. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, it will be exempt from taxation until 2016.

NOTE 7 SHARE CAPITAL

	Share capital USD '000
Authorised share capital	
At 31 December 2009:	
500,000,000 ordinary shares at par value USD 0.01 each	
Increase during 2010:	
200,000,000 ordinary shares at par value USD 0.01 each	
At 31 December 2010:	
700,000,000 ordinary shares at par value USD 0.01 each	
Issued and fully paid	
At 1 January 2010	4,562.0
Increased during 2010	2,318.0
At 31 December 2009	6,880.0

The Company held a total of 2,798,159 own shares at 31 December 2010.

NOTE 8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items

Amounts in USD thousand	2010	2009
Cash and cash deposits	504.5	40.0
Short-term interest bearing investment	-	-
Total cash and cash equivalents	**504.5**	**40.0**

NOTE 9 GUARANTEES AND INTEREST-BEARING LOANS AND BORROWINGS

In line with industry practice, BW Offshore Limited has issued bank and parent company guarantees (performance guarantees) to customers on behalf of its subsidiaries in connection with the award and performance of contracts and in connection with debt financing.

Total bank guarantees issued amounted to USD 143.4 million at year-end (USD 125.0 million).

(USD 1,000)	Eff. Interest rate	Maturity date	2010	2009
BW Group Limited USD 1,500 million facility	LIBOR + 1.25%	30 May 13	610.0	893.3
Total interest-bearing debt			**610.0**	**893.3**

USD 1,500 million facility BW Group Limited
At 31 December 2010, a total of USD 610.0 million has been drawn down on the loan facility.

The capitalised arrangement fee of USD 6.7 million on the credit facility was expensed in 2010 and is included in other financial expense. The arrangement fee was expensed in 2010 due to the refinance of the USD 1,500 million BW Group facility.

The facility agreement is subject to loan covenants on the consolidated group level, including equity of at least 35% of total assets, total equity of at least USD 500 million and a debt to borrowing base ratio of maximum 1.0 during 2011. In addition, the loan agreement has a cross default clause against other subsidiaries partly and/or wholly owned by BW Group Limited. The Group is in compliance with these covenants at 31 December 2010.

NOTE 10 OTHER INTEREST FREE CURRENT LIABILITIES

(USD 1,000)	2010	2009
Other accruals	92.9	42.2
Total interest-free current liabilities	**92.9**	**42.2**

NOTE 11 FINANCIAL ASSETS AND LIABILITIES

As of 31 December the Company had financial assets and liabilities in the following categories:

Year ended 31 December 2010 (USD 1,000)	Financial assets liabilities measured at amortised cost	Loans and receivables	Fair value
Cash and deposits	-	504.5	504.5
Interest-bearing long-term debt	610.0	-	610.0
Intra-group short-term payables	313.5	-	313.5
Other current liabilities	92.9	-	92.9
Total	**1,016.4**	**504.5**	**1,520.9**

Year ended 31 December 2009 (USD 1,000)	Financial assets liabilities measured at amortised cost	Loans and receivables	Fair value
Cash and deposits	-	40.0	40.0
Interest-bearing long-term debt	893.3	-	900.0
Intra-group short-term payables	1,228.2	-	1,228.2
Other current liabilities	42.2	-	42.2
Total	**2,203.7**	**40.0**	**2,210.4**

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