# BW OFFSHORE LIMITED
## ANNUAL REPORT 2008

# BW Offshore **LIMITED**

## ABOUT US

BW Offshore is one of the world's leading FPSO contractors and a market leader within advanced offshore loading and production systems to the oil and gas industry. BW Offshore has more than 25 years' experience and has successfully delivered 13 FPSO projects and 50 turrets and offshore terminals. BW Offshore's technology division APL has delivered solutions for production vessels, storage vessels and tankers in a wide range of field developments.

Adapting through competence, in-house technology, solid project execution and operational excellence, BW Offshore ensures that customer needs are met through versatile solutions for offshore oil and gas projects.

BW Offshore is represented through a global network of offices in Europe, Asia Pacific, West Africa and the Americas, and has more than 1,100 employees. BW Offshore is owned 67% by the BW Group, one of the world's largest maritime groups, and is listed on the Oslo Stock Exchange.

For more information please visit:
www.bwoffshore.com and www.apl.no

## KEY EVENTS 2008

- **Awarded 15 years contract from Petrobras for BW Cidade de São Vicente**
  - the first FPSO on the giant Brazilian Tupi field.
- **Strong order intake for Technology & Installation**
  - major orders includes systems for Total, Maersk, SUEZ Energy and Samsung.
- **Conversions of FPSOs BW Cidade de São Vicente and FPSO BW Pioneer in line with expectations**
  - BW Cidade de São Vicente left yard in February 2009 after a successful fast track conversion.
  - Award of several major variations orders.
- **FPSO Yùum K'ak' Náab returns to profitable operations.**
- **FPSO BW Carmen performed environmental friendly well testing for StatoilHydro.**
- **Successful integration of APL**
  - powering BW Offshore's FPSO business and upholding the positions as a preferred supplier to external clients.
- **New CEO and changes to management group**
  - Carl K. Arnet took over the position as CEO in September.
- **Profitable sale of 26.5% stake in Prosafe SE.**
- **Annual results negatively affected by non-cash impairments and financial items.**
- **New unsecured credit facility of USD 1,500 million at favourable terms.**

## FLOATING PRODUCTION

- First FPSO in 1982
- 7 FPSOs, 1 Arctic FSO, 2 conversion hulls
- 23.9% stake in Prosafe Production
- 49.7% stake in Nexus

## TECHNOLOGY & INSTALLATION

- Established in 1993
- Turret mooring and production technology for FPSO/FSOs
- Offshore LNG terminals and ship-sets
- Installation of FPSOs, buoys and terminals

## KEY FIGURES

| USD million, unless stated otherwise | 2008 | 2007 |
|---|---|---|
| Operating revenue | 474.3 | 662.6 |
| EBITDA | -44.2 | 122.6 |
| Operating profit (EBIT) | -429.5 | 77.1 |
| Net profit | -532.6 | 52.1 |
| Total assets | 2,301.4 | 3,009.6 |
| Net interest bearing debt (NIBD) | 585.2 | 934.4 |
| Equity ratio | 40.1% | 50.1% |
| Return on average capital employed (ROACE) | -35.2% | 7.4% |
| Number of shares - fully diluted | 456.2 | 456.2 |
| Market cap - million USD | 281 | 1,935 |

## ORDERBOOK TECHNOLOGY & INSTALLATION

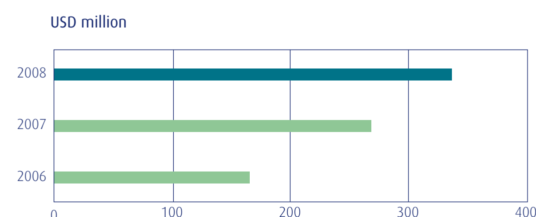
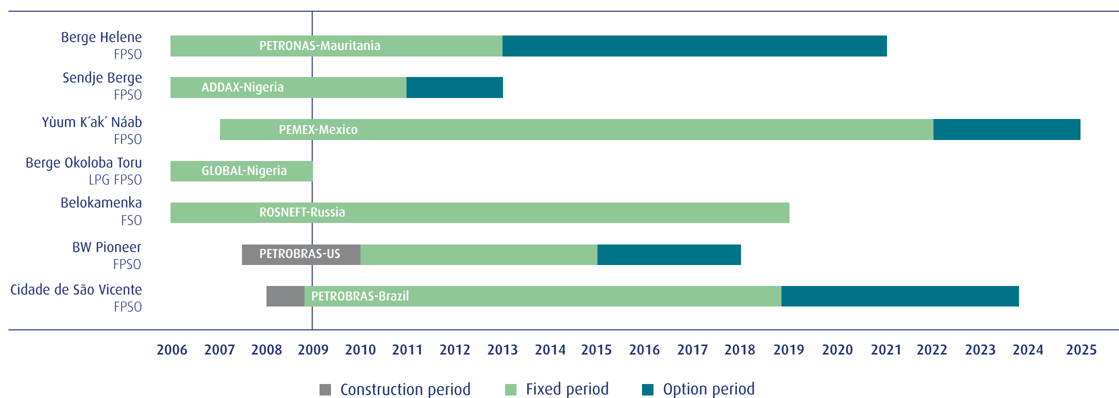


TABLE OF CONTENTS

CEO 4
MARKET AND BUSINESS 6
FPSO PROJECTS 10
FPSO OPERATION 12
APL DIVISION 14
HSSEQ 16
CORPORATE GOVERNANCE 18
SHAREHOLDER INFORMATION 20
DIRECTOR'S REPORT 24

FPSO CONTRACTS



# COMPETENCE, TECHNOLOGY and PRESENCE are BW Offshore's building blocks for the future

In a challenging market BW Offshore has managed to strengthen its position, retain and develop its leading competence, and thus created a strong foundation for further and more profitable growth from 2009 and onwards.

Throughout 2008 BW Offshore consolidated the organization after the successful merger with APL, and continued the process of establishing itself as one of the top tier companies in the offshore energy production and technology arena. The scope of our technology and services has been further developed, and there have been notable successes in attracting work from major energy producers worldwide.

The year has been marked by the most hectic market activity and the most challenging economic environment in the company's history. During the first half of 2008, business activity was higher than ever, while towards the end of the year, the financial crisis and the low oil price resulted in an unprecedented number of project cancellations and delays. The cancellation of the Basker-Manta-Gummy development in Australia was a direct result of this turmoil. Although the cancellation represented a setback, it came at a time of high activity and will not significantly alter the company's target for future growth.

The achievements for 2008 include several large technology projects with leading energy majors like CNOOC, Petrobras, StatoilHydro, SUEZ Energy and Total, as well as with the contractors Aker Floating Production, Maersk, Samsung, and Tanker Pacific Offshore Terminals. This gives BW Offshore a solid foundation for the activities ahead.

BW Offshore's strategy of expansion in the Americas has been successful, and is represented by the FPSO BW Cidade de São Vicente, which sailed from Singapore in February 2009 and is set to commence operation during the 2nd quarter 2009. BW Cidade de São Vicente is the first unit producing oil from the giant Brazilian Tupi field. BW Offshore's current conversion project, the FPSO BW Pioneer, will start operations at the end of the 1st quarter 2010 and will be the first FPSO operating in US waters.

Today BW Offshore is at the forefront of turret and mooring technology as well as in offshore LNG terminals. Through its technology division APL, BW Offshore has delivered systems and technology to all of the world's offshore markets. This market penetration is testament to the adaptability of our technology to the very diverse environmental conditions. It also clearly demonstrates the efficiency of the solutions BW Offshore offers.

Operations have improved significantly over the year. Initial start-up problems on Yùum K'ak' Náab have been solved and its operation during the last quarter of 2008 was in accordance with expectations, and without oil and gas shutdowns. BW Offshore maintains a strong and targeted focus on the safety of offshore and project personnel. One important milestone achieved during last year was FPSO Sendje Berge's celebration of 1,000 days of operation without any loss time injury. Uptime on oil production for all vessels remains high and stable, with an average uptime of 99,9% for 2008.

BW Offshore is in the process of building a significant fleet of FPSOs and establishing partnerships with national oil companies (NOCs). The new FPSOs about to be added to our fleet of operating vessels, make the fleet grow from five to seven FPSOs: Berge Helene, Sendje Berge, Yùum K'ak' Náab, Berge Okoloba Toru, BW Cidade de São Vicente, BW Pioneer, BW Carmen, in addition to the FSOs Belokamenka and BW Nisa. These projects will generate a healthy cash flow over the next few years and provide a sound basis for further development of the company.

The high activity level experienced over the last few years in this business along with the rapid fragmentation of the competitive arena, have driven up costs for personnel, equipment and resources in all markets. This has resulted in fierce competition with ensuing erosion of contractual conditions as well as rate levels. The knock on effect of this has been an industry wide shortfall in profitability compared to expectations. A number of factors, including overruns, start-up issues, higher conversion costs than expected and unbalanced contractual

obligations are some reasons why several FPSO projects did not meet expected returns. Despite this, BW Offshore is confident that the company is well positioned to be an active player in the development of the industry, and a preferred choice for investors interested in long term returns and stable growth. A certain easing of cost levels is expected as overall world economic activity deteriorates during 2009. We expect the market will contract as project finance continues to be tight. A very likely scenario is that we will see a reduction in the number of competitors, as companies will exit or merge. BW Offshore believes industry consolidation is inevitable and intends to play a proactive role in it.

Prospects for the offshore oil industry are considered to be good in the medium to long term. The world still needs oil and natural decline of present production must be offset by increasing offshore production. Solid projects are undoubtedly on the horizon and these projects will require the competencies and expertise which define BW Offshore. Under present conditions steering a steady course will be essential and matching capacity to demand on reasonable terms, is important to ensure stable and healthy returns for our owners.

Carl K. Arnet
CEO

ACHIEVEMENTS IN 2008 GIVE BW OFFSHORE A SOUND FOUNDATION FOR THE ACTIVITIES AHEAD.

# In position to meet NEW CHALLENGES

## Economic global slowdown will give rise to new challenges for the oil service sector.

The oil service sector has been very strong over recent years and has experienced record high demands. These demands have been driven primarily by a 30 year period of underinvestment and growth in the world economy. Although the oil service sector has benefitted from this recent growth, it has also given rise to a number of challenges. The cost of materials, equipment and services have risen sharply and made it more difficult to control the cost and schedule for ongoing projects.

The last quarter of 2008 marked a dramatic shift in the short term market outlook. The increase in demand and major expansion that have been witnessed recently suddenly buckled following the well documented global financial crisis. Without a functioning financial market, project financing became difficult, resulting in a sharp drop in oil sector activity.

The global situation is likely to create many new challenges for the oil service sector over the next 18-24 months. BW Offshore believes these challenges will separate sustainable companies with a long term view from the more opportunistic ones with a short term outlook. One positive that can be taken from this situation is that the market will normalize and provide more predictable costs and schedules for offshore projects due to increased bargaining power of the remaining market participants.

Even though the short term market outlook holds fewer opportunities, this is balanced by less competition, so the underlying market factors remain robust. Easy oil is a thing of the past and new discoveries will to a larger extent be marginal fields, due to their extended production profiles with low production or low Oil in Place (OiP). We will continue to see more deep water developments. This will provide opportunities, as they will require assistance from oil service companies.

The national oil companies will continue to dominate. As the cost for field developments decreases we believe that new fields will be developed faster than we have experienced over recent times.

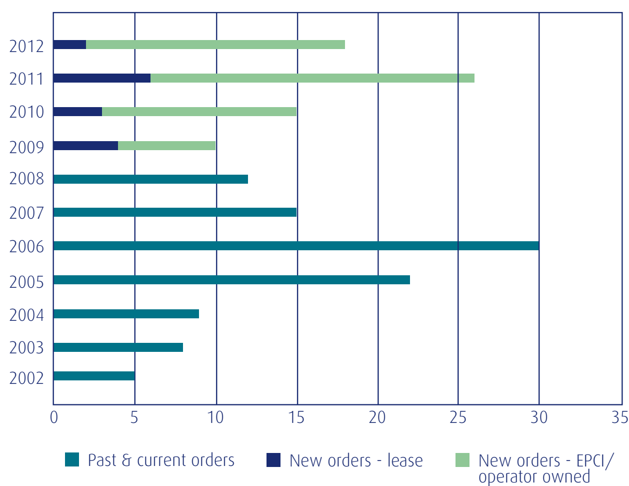
BW Offshore is well positioned to meet the challenges in the coming years. Our FPSO business has developed a strong market position through several high profile projects. We delivered the first FPSO in the Gulf of Mexico (GoM), the Yùum K'ak' Náab for PEMEX, and are currently executing the first FPSO project in US waters, the Cascade & Chinook development for Petrobras. In addition, BW Offshore will deliver the first FPSO to be installed on the giant Tupi field in Brazil. Through BW Offshore's technology division, APL, we have a long history and track record delivering turret and terminal systems to the oil industry.

BW Offshore's business development activities are organized geographically as follows: Africa, Americas, Asia-Pacific and Europe. The company focuses on two main areas of activity: FPSOs and Offshore Turret and Loading Technology (APL), including Installation.

MARKET & BUSINESS

EVEN THOUGH THE SHORT TERM MARKET OUTLOOK IS CHALLENGING, THE UNDERLYING MARKET FACTORS REMAIN ROBUST.

FPSO CONTRACTS




Source: Fearnley Offshore

TOM ARNE KRISTIANSEN,
EVP TECHNOLOGY

# FPSO PROJECTS

BW OFFSHORE EXPECTS TO POSITION ITSELF FOR FUTURE GROWTH IN THE US GULF OF MEXICO.

# ON TRACK with ongoing projects

BW Offshore experiences high levels of activity on a number of different projects.

BW Offshore's FPSO business continued to experience high levels of activity and involvement in a number of high profile projects in 2008. During the year BW Offshore had two major FPSO conversions under execution. Both have progressed in line with expectations.

The conversion of BW Pioneer for Petrobras Americas Inc., which started in October 2007, is scheduled to be in place in the US Gulf of Mexico (GoM) in December 2009, and ready to commence operation on the Cascade & Chinook fields in January 2010. This is a high profile project as a result of it being the first FPSO in the US GoM. Situated in 2,600 m of water depths this constitutes the deepest moored FPSO ever. It will operate in a hurricane prone area, hence the design is based on a dis-connectable turret system.

The vessel went through a ship repair and steel renewal program at the Nantong Shipyard in China, and this was the first time BW Offshore worked with a Chinese shipyard. Our engineers gained valuable experience which will be put to good use in future FPSO conversion projects. The installation and integration of the topside systems take place at the Keppel Shipyard in Singapore.

The development, design and fabrication of the turret and mooring systems are technologically challenging processes which should give BW Offshore a competitive edge and open doors for future FPSO projects in the GoM.

Through this project BW Offshore expects to position itself for future growth in the US GoM – especially in deep water fields in the area. A key success factor in the execution of the project has been the close cooperation with the US Coast Guard and Minerals Management Service (MMS), the approval authorities for the vessel and the topside process systems.

In the 2nd quarter of 2008, BW Offshore was awarded its first contract for Petrobras in Brazil. The Tupi TLD project enables Petrobras to perform long term test production from the Tupi field in the Santos Basin. This project is to be defined as being high profile, and having a very tight timeline.

For the Tupi TLD project, BW Offshore offered Petrobras the converted FPSO BW Peace, renamed BW Cidade De São Vincente. This is a fast track project where the FPSO will be in operation less than 1 year after the receipt of the Letter of Intent. Once in operation the production will provide Petrobras with vital information from the pre-salt reservoirs, enabling it to continue with the overall plans for developing the pre-salt discoveries Tupi, Carioca and Guara.

The FPSO was reconverted at Keppel Shipyard in Singapore and commences operation early 2nd quarter 2009. The reconversion included a total upgrade of the turret and mooring system as well as a complete new swivel and fluid transfer system. The FPSO has two independent mooring systems, enabling Petrobras to relocate the vessel up to 20 times within the 10 years primary term of the contract with minimum downtime in between operations.

In the 3rd quarter of 2008, BW Carmen commenced a short term well test job for StatoilHydro in the North Sea, on the Bressay field in the UK sector. As a result of the successful test, followed closely by several North Sea operators, BW Offshore hopes to secure new contracts for BW Carmen in the well service market.

DAVID SVERRE,
EVP PROJECT

# FPSO OPERATION

BW OFFSHORE HAS OVER THE YEARS BUILT UP A COMPETENT POOL OF OPERATION AND MAINTENANCE PERSONNEL ON BOARD ITS FPSOS.

# ON COURSE and ON TRACK

Efficiency and productivity were the cornerstones of operations in 2008.
BW Offshore continues upskilling all staff through professional development initiatives.

BW Offshore operated five FPSOs and two FSOs in 2008. In 2008 the BW Offshore fleet processed, stored and offloaded 57 million barrels of oil, as well as receiving a total of 150 million barrels of stabilized oil for storage and offloading. The FPSOs had an average uptime of 99.9%.

The FPSO Yùum K'ak' Náab saw in 2009 with three notable landmarks under its belt: 500 days passed without any Lost Time Injuries (LTI), the 200 millionth barrel of crude oil was exported and the 50 millionth barrel was produced. Yùum K'ak' Náab operates for Pemex in Mexico, and performed a record high 255 offloadings during the year.

In Nigeria, BW Offshore was awarded a two year extension to the contract for the FPSO Sendje Berge, coming into effect in March 2009. Sendje Berge operates in the Okwori field for Addax. The FPSO was upgraded in 2007 and 2008 with the installation of four new mini-manifolds. Another three new mini-manifolds were fabricated in Nigeria during the year. These modifications are expected to increase the field's output.

With regard to BW Offshore's operations in Mauritania (Berge Helene), in Malaysia (BW Nisa) and in Russia (Belokamenka), all of them are proceeding according to plans and expectations.

Finally the FPSO Berge Okoloba Toru operates for Global Gas and Refining in the Bonny River, Nigeria. The vessel has been evacuated since July 2008 due to the security situation in the area.

BW Offshore has over the years built up a competent pool of operation and maintenance personnel on board its FPSOs. To ensure that this competence is maintained, a practical E-learning system was introduced in 2008. The use of computerized tools to structure and increase the efficiency of the formal training for the offshore personnel has proven to be cost reducing. BW Offshore also runs a Cultural Awareness Program for offshore personnel emphasizing the importance of cultural awareness and tolerance among all offshore personnel irrespective of nationality.

Within the aim to "Go global - grow local" the number of local personnel has grown steadily the last few years. BW Offshore keeps a strategic eye and a continued focus on local content and increase of local offshore personnel.

BW OFFSHORE OWNS AND OPERATES THE FOLLOWING FLEET:

| Name of unit | Country of operation | Contract period |
|---|---|---|
| **FPSOs** | | |
| Yùum K'ak' Náab | Mexico | 2007-2022 |
| BW Cidade De São Vicente | Brazil | 2009-2018 + options |
| BW Pioneer* | Ongoing conversion | 2010-2015 + options |
| Berge Helene | Mauritania | 2006-2013 + options |
| Sendje Berge | Nigeria | 2005-2011 |
| Berge Okoloba Toru | Nigeria | 2005-2009 |
| BW Carmen | - | Uncommitted |
| **FSOs** | | |
| Belokamenka | Russia | 2004-2019 |
| **Conversion candidates** | | |
| BW Nisa | Malaysia | 2006-2010 |
| BW Ara | - | Uncommitted |

* BW Pioneer is undergoing conversion before it commences operation under the Cascade & Chinook contract in the US Gulf of Mexico in 2010.

JON MYRAN,
EVP OPERATIONS

# New opportunities and continued GROWTH

The APL division will create exciting business opportunities and contribute to future growth. BW Offshore is committed to remain at the cutting edge of further developments.

**Technology**
Ongoing developments will create new business opportunities and contribute to the future growth of the technology division.

BW Offshore's technology division APL, experienced high activity levels in 2008 and achieved a record intake of new orders. This positive development applied to all its main products and systems.

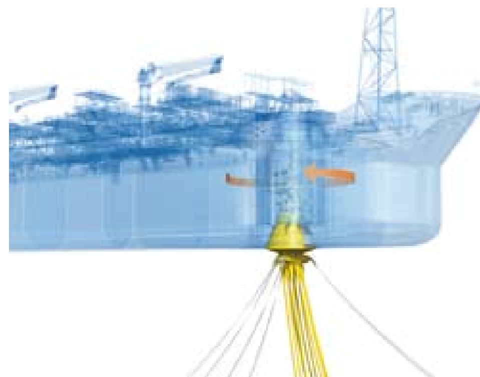
APL was awarded important contracts in 2008 within the segments of terminals and production. Projects such as Peregrino in Brazil for Maersk and the field operator StatoilHydro, as well as the Cascade & Chinook project in the US Gulf of Mexico (GoM) for Petrobras Americas, represent a breakthrough in the sale of the large Submerged Turret Production buoy (STP) in these markets. BW Pioneer, which will be the first FPSO in the US GOM, will be installed with a STP system. This STP buoy delivery also represents a new record in terms of water depth as the buoy will be moored in 2,600 meters.

APL, together with the FPSO division were awarded a fast track project by Petrobras for the Brazilian Tupi field. The technology part of the work is related to the delivery of the mooring system and an upgrade and modification of the existing swivel and turret onboard the FPSO BW Cidade De São Vicente. This project underpins the increased presence of our products and solutions in this growing market area.

APL was also awarded a contract with Total in 2008, for the design, engineering, fabrication and delivery of a Buoy Turret Loading System (BTL). The buoy will be installed on the Pazflor field, and this contract represents the second delivery of a BTL system to Angola. The BTL system is designed for benign and ultra deep waters.

Other important projects in 2008 were:
- Vincent – STP system for Maersk Contractors in Australia
- The MAD-6 project – STP system for Aker Floating Production in India
- Two STL buoys for Suez to be used at the Neptune offshore LNG terminal outside Boston
- A SAL system for Petrofac in the North Sea
- The production commenced for the Alvheim FPSO in the North Sea for Marathon Oil Company, and for the Reliance FPSO offshore India.

Within product development, APL is focusing on advancing the in-house production of swivel design and Liquid Natural Gas ship (LNG) offloading and transfer technology. It is expected that these ongoing developments will create new business opportunities and contribute to the future growth of the technology division.



# APL DIVISION

A BW Offshore division

2008 PROJECTS REPRESENT A BREAKTHROUGH IN THE SALE OF THE LARGE SUBMERGED TURRET PRODUCTION BUOY (STP) IN NEW MARKETS.

BW OFFSHORE EXPECTS A CONTINUED HIGH LEVEL OF ACTIVITY ON OFFSHORE INSTALLATION.

**Installation**
APL's installation activity was established as a profit center in 2007. It has since carried out important installation projects inclusive of all facets of design, construction and installation.

Two important projects were concluded in 2008. Firstly the Reliance MAD-6 installation project for Aker in India was completed during the 2nd quarter of 2008. All suction anchors, mooring lines and a large "subsea manifold" were installed in water depths of 1,100 meters off the east coast of India. This operation involved a number of offshore vessels and was a complex marine operation. In addition the Statfjord OLS contract – a refurbishment project - was completed during the 3rd quarter.

The Neptune contract was awarded by Suez Energy in the 3rd quarter of 2008. This will involve the installation of two Submerged Turret Loading (STL) buoys for Suez Energy outside of Boston and is expected to take place in the 3rd quarter 2009.

Competence and presence are important factors in competing in today's market. The competence pool in offshore installation has been strengthened both at BW Offshore's Houston office and at the Singapore office. This means that BW Offshore is developing resource hubs in Asia and the Americas to complement the existing team in Norway. The aim is to continue developing both the competence pool and relationships with important subcontractors and vessel owners.

By combining the delivery of technology and installations services of APL with the FPSO business, BW Offshore is now offering a totality of engineering, procurement, installation and construction services. This will reduce the clients interface risk, ensure timely delivery, and will constitute a strong competitive edge for the company. BW Offshore expects a continued high level of activity with installation campaigns already secured for 2009.

ERIK SVENDSEN,
EVP APL

- THE FIRST FPSO TO BE INSTALLED IN THE US GULF OF MEXICO
- DEEPEST MOORED FPSO EVER – WATER DEPTH OF 2,600 METERS
- DISCONNECTABLE DURING NAMED STORMS

BW Pioneer will have a storage capacity of 600,000 barrels of oil, a process capacity of 80,000 bopd and gas export facilities of 16 mmscfd.

BW Offshore was selected by Petrobras America Inc. for the conversion, installation and operation of an FPSO at the Cascade & Chinook fields in the US Gulf of Mexico. The contract is for a total of up to 8 years including optional periods of up to 3 years after the end of the first 5 fixed years. The project also includes the delivery and installation of an APL disconnectable Submerged Turret Production Buoy (STP) and the appurtenant mooring system. The mooring system is designed to maintain an offset within six percent of the water depth, and consists of 11 legs with polyester lines in a 3+4+4 asymmetric configuration, as well as mooring line buoyancy elements and suction anchors.

The FPSO BW Pioneer will be installed upon production on the Cascade & Chinook fields in the beginning of 2010, and production will commence in the 1st quarter of 2010. The BW Pioneer will be the first FPSO to obtain approval from United States Coast Guard and US Minerals Management Service. BW Pioneer is due for sail away from Singapore in the second half of 2009.

# A long term and targeted commitment to HEALTH, SAFETY and ENVIRONMENT

BW Offshore understands that effective health, safety and environment practices are essential to its success.

**Quality management**
BW Offshore recognises the importance of proper quality management and as a result has over the years built up and implemented effective management systems and routines. This has ensured a high standard of quality throughout the whole organisation and business. The BW Offshore Management system is compliant with and certified in accordance with ISO 9001 Quality Management.

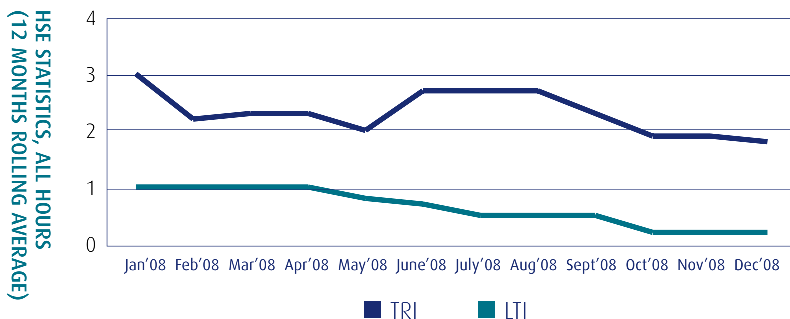
**Health, Safety and Environment**
Health, safety and environment (HSE) is regarded as one of the key subject areas in the company and is thus given careful consideration throughout the organisation. The BW Offshore Management system is certified in line with several international standards within HSE: ISO 14001 Environment management, OHSAS 18001 Occupational Health and Safety Management as well as the International Safety Management code (ISM).

The statistics below are based on the following terms:

- Lost Time Incidents (LTI): injury at work leading to the injured person being unable to resume his/her normal duties in the next shift or subsequent shifts
- Total Recordable Incidents (TRI): the sum of all work-related lost time due to injuries, restricted work cases and medical treatment cases
- Rates: no. of incidents x 1,000,000/total exposure hours (for all personnel)

Only one LTI was reported in 2008 for the entire organisation. This achievement confirms the importance of long term and targeted HSE work.

Two incidents in 2008 resulted in minor spills. The incidents were investigated, and no harmful environmental effects were anticipated.




**EMPLOYEES**

| | |
|---|---|
| Total staff | 1,120 |
| Onshore | 699 |
| Offshore | 421 |

# HSSEQ

« THE BW OFFSHORE MANAGEMENT SYSTEM IS CERTIFIED IN LINE WITH SEVERAL INTERNATIONAL HSE STANDARDS.

# Corporate GOVERNANCE

**1. Implementation and reporting on Corporate governance**
BW Offshore Limited is a Bermuda limited liability company (hereinafter the 'Company') listed on Oslo Børs (the Oslo Stock Exchange).

The Company and its activities are primarily governed by the Bermuda Companies Act, its Memorandum of Association and its Bye-Laws. Since the Company is listed on the Oslo Stock Exchange, 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 'Norwegian Code of Practice for Corporate Governance' dated 4 December 2007, prepared by the Norwegian Corporate Governance Board (hereinafter the 'Code'). Adherence to the Code is according to a 'comply or explain' principle. Deviations to the Code are outlined and explained below.

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

**3. 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(s) to the shareholders. To date, the board has not exercised this authority. The board will draw up a clear and predictable dividend policy as a basis for its declarations of dividends; such a policy will be published upon its adoption.

Pursuant to the Company's Bye-Laws, the board is authorised to (1) alter the share capital in a manner permitted by the Bermuda Companies Act, and (2) purchase its own shares in accordance with the Bermuda Companies Act. These authorities are wider than recommended by the Code.

**4. Ensure equitable treatment of shareholders and transactions with 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 case of material transactions between the company and a shareholder, director, officer, other leading personell, or persons closely related to any of these, the board will obtain a valuation from an independent third party.

During 2008, one material transaction took place between the Company and a shareholder, in that the Company entered into a corporate loan facility with its main shareholder of the company. The two board members directly associated with the main shareholder were declared to have an interest, and did not partake in the board's deliberations and subsequent decision to enter into the loan facility agreement. Press releases giving further details on this transaction can be found on **www.bwoffshore.com**

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.

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.

**5. 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 the VPS, where such transfer would, in the opinion of the board, be likely to 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.

**6. General meetings**

The annual general meeting will normally take place within 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. 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.

**7. Nomination committee**

Considering the shareholder structure as of end 2008, with one dominant shareholder holding more than 60% of the shares in the Company, the Company does not have a nomination committee as recommended in the Code.

**8. 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 of the Company's main shareholders, i.e. shareholders holding more than 10% of the shares.
Currently, the Company has 6 directors, all independent from the manager and 4 are independent from the shareholder. The composition of the board meets the Company's need for expertise, capacity and diversity. The directors are presented on the Company's website (www.bwoffshore.com).

**9. 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 compensation committee in order to ensure enhanced attention to financial reporting and remuneration.

The board carries out an annual evaluation of its work.

**10. Risk management and internal control**
The board ensures that the Company has satisfactory internal control procedures to manage it´s 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 of 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 Group's other relevant senior staff and representatives of the external auditor attend these meetings of the audit committee.

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

**11. 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 to whom, or companies to which, they are related, shall not normally undertake special tasks for the Company in addition to the directorship. However, if they nevertheless 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.

**12. Remuneration of the executive management**
Remuneration of the executive management is reviewed annually. The work is carried out by the Compensation Committee, which considers the executive managements' performance and also gathers information from comparable companies before making its recommendation to the board for approval.

The company´s stock owning programs for employees are also reviewed and recommended by the Compensation Committee and approved by the board.

Detailed information of remuneration, loans, shareholding of the management and employee stock owning programme can be found in note 9, which is included as an integral part of the consolidated financial statements.

**13. Information and communications**
The Company is committed to provide information in a manner that contributes

THE COMPANY IS COMMITTED TO PROVIDE INFORMATION IN A MANNER THAT CONTRIBUTES TO ESTABLISHING AND MAINTAINING CONFIDENCE WITH IMPORTANT INTEREST GROUPS.

to establishing and maintaining confidence with important interest groups. The information shall be based upon 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 finance 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.

### 14. Take-overs

There are no defence mechanisms stated in the Bye-Laws against acquisition of shares other than referred to in section 5 above, and no measures are taken to limit the opportunity of buying 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 management 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 an independent valuation in any case. The same applies if the bidder is a major shareholder.

Any transaction that is in effect a disposal of the Company's activities shall be decided by the general meeting.

### 15. Auditor

The auditor is elected 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 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 manager.

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.

ELISABETH BARSTAD DEHLIE, EVP CORPORATE

# SHAREHOLDER information

BW Offshore's shareholder policy aims to maximise return to shareholders. The Company's dividend policy will depend on future capital requirements and financial flexibility.

A main focus for BW Offshore's shareholder policy and investor relation policy is to ensure equal treatment of its shareholders and an efficient pricing of the Company's equity in the stock market. The Company will ensure the market is correctly informed through its quarterly financial reports, annual reports, stock exchange notices and press releases. All relevant information is also available on BW Offshore's investor relations website (www.bwoffshore.com).

The total number of shares in BW Offshore is 456.2 million. By the end of 2008 shares were priced at NOK 4.30, corresponding to a market cap of USD 281 million. The Company's shares are listed on the main board of the Oslo Stock Exchange, with ticker code BWO. Company share liquidity is of high importance to BW Offshore, and the Company shall continue to work towards improving the volume in the stock.

BW Offshore has experienced a growing interest in the Company from investors and analysts, and by the end of 2008, 13 stock brokers had coverage of BW Offshore. A list of these analysts can be found on BW Offshore's website.

SHAREHOLDERS AS OF 31 DECEMBER 2008

| | Name | | Country | No of shares | Percentage |
|---|---|---|---|---|---|
| 1 | BW GROUP LIMITED | | BERMUDA | 305,436,227 | 67.0% |
| 2 | BANK OF NEW YORK, BRUSSELS BRANCH | | BELGIUM | 18,666,535 | 4.1% |
| 3 | CREDIT SUISSE SECURITIES (USA) LLC | NOM | US | 12,996,922 | 2.8% |
| 4 | VERDIPAPIRFOND ODIN NORDEN | | NORWAY | 11,621,975 | 2.5% |
| 5 | VERDIPAPIRFOND ODIN NORGE | | NORWAY | 10,419,101 | 2.3% |
| 6 | ODIN OFFSHORE | | NORWAY | 8,584,000 | 1.9% |
| 7 | KLP LK AKSJER | | NORWAY | 5,853,200 | 1.3% |
| 8 | KOLBJØRN INVEST AS | | NORWAY | 5,620,000 | 1.2% |
| 9 | J.P.MORGAN CHASE BANK | NOM | UK | 4,306,000 | 0.9% |
| 10 | MORGAN STANLEY NORWAY EQUITY DEPOT | | UK | 3,858,172 | 0.8% |
| 11 | BANK OF NEW YORK, BRUSSELS BRANCH | | BELGIUM | 3,825,934 | 0.8% |
| 12 | HOLBERG NORDEN | | NORWAY | 3,098,525 | 0.7% |
| 13 | UBS AG, LONDON BRANCH | NOM | UK | 2,955,300 | 0.6% |
| 14 | FOLKETRYGDFONDET | | UK | 2,934,500 | 0.6% |
| 15 | VERDIPAPIRFONDET KLP AKSJENORGE | | NORWAY | 2,845,800 | 0.6% |
| 16 | BANK OF NEW YORK, BRUSSELS BRANCH | | BELGIUM | 2,813,120 | 0.6% |
| 17 | BW OFFSHORE LTD | | NORWAY | 2,760,793 | 0.6% |
| 18 | ODIN EUROPA | | NORWAY | 2,479,883 | 0.5% |
| 19 | SKANDINAVISKA ENSKILDA BANKEN | NOM | SWEDEN | 2,437,100 | 0.5% |
| 20 | RBC DEXIA INVESTOR SERVICES BANK | NOM | LUXEMBOURG | 1,795,000 | 0.4% |
| **Total 20 largest** | | | | **415,308,087** | **91.0%** |
| **Total number of shares** | | | | **456,213,515** | |

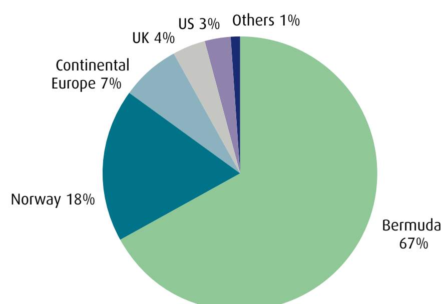
## FINANCIAL INFORMATION

**Figures in USD million, unless stated otervise**

| | 2008 | 2007 |
|---|---|---|
| **P&L** | | |
| Operating revenue | 474.3 | 662.6 |
| Operating expenses | -433.8 | -557.7 |
| Transactions related to associates | -84.7 | 17.7 |
| **EBITDA** | **-44.2** | **122.6** |
| Depreciation | -29.8 | -23.5 |
| **Amortization, gains/loss and write downs** | **-355.5** | **-22.0** |
| **Operating profit (EBIT)** | **-429.5** | **77.1** |
| **Net financial items** | **-87.9** | **-11.3** |
| **Profit before tax** | **-517.4** | **65.8** |
| **Income tax expense** | **-15.2** | **-13.7** |
| **Net profit** | **-532.6** | **52.1** |
| **Balance sheet** | | |
| Total assets | 2,301.4 | 3,009.6 |
| Interest bearing debt | 936.4 | 1,257.9 |
| Cash and cash equivalents | 67.7 | 36.5 |
| Non-current deposits | 283.5 | 320.3 |
| Net interest bearing debt (NIBD) | 585.2 | 934.4 |
| Total equity | 923.4 | 1,508.2 |
| **Cash flow** | | |
| Net cash flow from operating activities | 64.5 | 179.3 |
| Net cash flow from investing activities | 222.3 | -815.6 |
| Net cash flow from financing activities | -255.6 | 634.8 |
| Net change in cash and cash equivalents | 31.2 | -1.5 |
| Cash and cash equivalents at end of period | 67.7 | 36.5 |

| | 2008 | 2007 |
|---|---|---|
| **Key figures** | | |
| Equity ratio | 40.1% | 50.1% |
| Debt-to-equity ratio | 63.4% | 62.0% |
| EBITDA margin | -9.3% | 18.5% |
| Return on average capital employed (ROACE) | -35.2% | 7.4% |
| Return on equity (ROE) | -24.1% | 4.9% |
| Number of shares | 456.2 | 456.2 |
| Number of shares - fully diluted | 456.2 | 456.2 |
| Shareprice - NOK | 4.30 | 22.90 |
| Shareprice - USD | 0.62 | 4.24 |
| Market cap - million NOK | 1,962 | 10,447 |
| Market cap - million USD | 281 | 1,935 |
| Enterprise value (EV) - million USD | 866 | 2,869 |

## GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS AS OF 31 DECEMBER 2008



KNUT R. SÆTHRE, CFO

# DIRECTORS' report

BW Offshore Limited is one of the world's leading contractors of floating production systems and related technologies. Throughout 2008 BW Offshore continued the process of integrating APL (Advanced Production & Loading) to establish itself as one of the top tier companies in the offshore energy production and technology arena.

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 in order to capitalize on the promising demand for offshore floating production and storage facilities.

The Company is a provider of Floating Production, Storage and Offloading vessels (FPSOs) and Floating Storage and Offloading vessels (FSOs) through operational lease arrangements as well as an EPCI (Engineering Procurement Commissioning Installation) contractor of turret mooring systems and offshore terminals. The floating production division has assets operating in offshore waters in Brazil, Nigeria, Mauritania, Malaysia, Russia and Mexico and will commence operations in the USA in 2010. The technology division has delivered solutions for production vessels, storage vessels and tankers in a wide range of field developments.

The Company's core strengths are:

- Competent personnel in project execution and FPSO operations.
- Focus on mid to large scale oil and gas FPSOs.
- Broad service with in-house technology and installation services.
- Broad geographical presence.

The Company will focus on maximising shareholder value and will strive to obtain a favourable return on invested capital. The Company will actively consider consolidation opportunities if these are considered to be value enhancing for the Company's shareholders.

At 31 December 2008 the Company held 23.9% of the shares in Prosafe Production Public Limited. The company is headquartered in Limassol, Cyprus and is listed on the Oslo Stock Exchange with ticker code PROD. Prosafe Production is a leading owner and operator of FPSOs. Prosafe Production has more than three decades of operational experience from the world's largest oil and gas provinces.

In addition, the Company holds 49.7% of the shares in Nexus Floating Production Pte Ltd., a Singapore-based company that is currently constructing a FPSO at Samsung yard in South Korea. Nexus Floating Production Pte Ltd. is listed on the Oslo Stock Exchange with ticker code Nexus.

**Operations**

BW Offshore owns and operates five FPSO and two FSO vessels. The FPSO Yùum K`ak` Nàab is now operating at full capacity and obtained 100% uptime in the fourth quarter 2008. Operating expenses were reduced during the year and the Company expects further reduction in operating expenses for the unit in 2009. The FPSO operates for Pemex on a long term contract.

The FPSO BW Carmen was in operation on a short term contract in the UK sector of the North Sea for StatoilHydro during the second half of 2008. The FPSO is now uncommitted and being marketed for new contracts.

In July 2008, Berge Okoloba Toru was exposed to a hostage situation that was resolved in a satisfactory manner. However, due to the continuing instability in the Niger Delta, the vessel has since been evacuated.

The FPSO Sendje Berge operates in the Okwori field offshore Nigeria for Addax Petroleum. The contract was in September 2008 extended by another two years.

The FPSO Berge Helene is operating in the Chinguetti field offshore Mauritania for Petronas.

The Arctic FSO Belokamenka operates as an oil terminal in Kola Bay, Russia for Sovkomflot. She has a storage capacity of 2.4 million barrels.

The ULCC BW Nisa (323,000 dwt) built in 1983 is a conversion candidate for future FPSO opportunities. The vessel is currently operating as a FSO on a temporary storage contract for Vitol in Malaysia. She has a storage capacity of 2.2 million barrels.

BW Ara is a conversion candidate. She is a VLCC vessel type with a storage capacity of 2.0 million barrels.

The ongoing conversions of the FPSOs BW Pioneer and BW Cidade de São Vicente have continued in line with our expectations. In early February 2009, BW Cidade de São Vicente set sail from Singapore for Brazilian waters to commence production for Petrobras in the Tupi field. BW Pioneer will leave the yard in Singapore in the fourth quarter 2009 and will be the first FPSO to start operation in the US Gulf of Mexico in the first quarter of 2010. These operations will add considerably to the Company's cash flow and financial strength.

The order backlog for both segments now represents a total value of nearly USD 3.5 billion.

**Financial result**
The Group's 2008 operating profit before depreciation, interest and taxes (EBITDA) was USD -44.2 million compared to USD 122.6 million in 2007. Operating profit decreased by USD 506.6 million to USD -429.5 million in 2008, compared to USD 77.1 million in 2007. Net profit decreased by USD 584.7 million to USD -532.6 million in 2008, compared to a profit of USD 52.1 million in 2007. The results have been negatively affected by impairments of our investments in associated companies, goodwill and the uncommitted fleet, costs related to a cancelled Letter of Intent and negative share of profit from associated companies (Prosafe Production and Nexus).

The Group's revenue derived from charter hire increased from USD 134.7 million to USD 168.0 million in 2008. The increase was primarily attributable to increased activity as Yùum K`ak` Nàab operated a full year in 2008 compared to a half year in 2007.

Revenue derived from lease interests increased by USD 8.2 million to USD 22.9 million in 2008, compared to USD 14.7 million in 2007. The increase in lease interests is mainly related to the full year operation of Yùum K`ak` Nàab. Lease revenue is also derived from the lease of the FSO Belokamenka, the lease of a gas splitter module installed onboard Berge Okoloba Toru and the lease of equipment onboard Sendje Berge.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs, including charges for doubtful debts. Total operating expenses were USD 143.3 million in 2008 compared to USD 97.0 million in 2007. The increase in operating expenses was mainly attributable to higher than expected operating cost on Yùum K`ak` Nàab together with the effect of a full year operation on that unit.

Administrative expenses include expenses that are not attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo, Arendal and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD 58.0 million in 2008 compared to USD 44.7 million in 2007. The increase is attributable to an increased headcount.

Depreciation and amortisation amounted to USD 51.3 million in 2008, compared to USD 41.1 million in 2007.

Currency exchange losses were USD 2.5 million in 2008, compared to losses of USD 1.6 million in 2007.

THE COMPANY WILL FOCUS ON MAXIMISING SHAREHOLDER VALUE AND WILL STRIVE TO OBTAIN A FAVOURABLE RETURN ON INVESTED CAPITAL.

Net loss on changes in fair value of financial instruments amounted to USD 44.1 million in 2008, compared to a gain of USD 23.7 million in 2007. The loss is mainly due to unfavourable fair value movement on interest rate swaps.

Net interest expense (interest income less interest expense) in 2008 was USD 33.6 million compared to USD 33.4 million in 2007.

Tax expense increased by USD 1.5 million to USD 15.2 million in 2008 compared to USD 13.7 million in 2007. The Group is not subject to taxation in Bermuda, however the Group is subject to taxation in the various countries in which it operates. The increase is due to the full year inclusion of the Technology and Installation segment in 2008.

Total assets decreased from USD 3,009.6 million at 31 December 2007 to USD 2,301.4 million at 31 December 2008. The decrease is mainly attributable to the impairment charges and negative share of profit of our investments in associated companies and the sale of the shares in Prosafe SE.

At 31 December 2008, the Group had a net equity of USD 923.4 million compared to USD 1,508.2 million on 31 December 2007. The decrease in equity is mainly due to the impairment charges and negative share of profit of our investments in associated companies.

At 31 December 2008, the Group has long term interest-bearing debt of USD 936.0 million and short-term interest bearing debt of USD 0.4 million, compared to USD 844.6 million and USD 413.3 million, respectively, on 31 December 2007. A favourable export financing scheme (CIRR financing) of total USD 223.0 million has been drawn down on two loan facilities with Eksportfinans ASA at 31 December 2008. The proceeds of the CIRR financing have been placed as long term bank deposits. Net interest-bearing debt at 31 December 2008 was USD 585.2 million.

Net cash inflow from investment activities in 2008 amounted to USD 222.3 million compared to net cash outflow of USD 851.6 million in 2007. Net cash inflow from investment activities in 2008 relates to the sale of shares in Prosafe SE offset by the investment in fixed assets.

**Environmental issues**

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 possible, 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 laws 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 environmental 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 laws 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 harmful environmental spills during 2008.

The Company takes out insurance cover for injuries to crew, damage to vessels, loss of income and third-party liabilities. This insurance 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.

**Health, safety, security, quality, working environment**

Health, safety, security, working environment and quality ('HSSEQ') are given a high priority

**Helmut Sohmen**
Chairman

**Christophe Pettenati-Auzière**
Vice Chairman

**David Gairns**

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 working environment, 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 is recognised as one of the key activities in order to achieve a HSSEQ culture of the highest standard and minimise risks.

BW Offshore's management systems address HSSEQ in detail and are compliant with and certified in accordance with 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 in the International Ship and Port Facility Security Code. In addition, BW Offshore is certified by the following international HSEQ standards:

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

There was only one Lost Time Incident (LTI) reported in 2008 for the entire organisation. Total LTI-rate and total TRC-rate (total recordable casualties) for the Company's employees, consultants and others involved in conversion projects in 2008 were 0.2 and 1.8, respectively.

The working environment within the Company is good. Absence due to sickness amounted to 1.3% of total hours worked by employees in 2008. During the year, several initiatives were taken to further improve the working environment and thereby prevent absence due to sickness. Training and safety inspections are examples of these initiatives.

BW Offshore currently has 937 own employees. The Company wants to be seen as an attractive workplace and attaches 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 within remuneration, promotion or recruitments.

### Corporate governance

Good corporate governance plays a key role in creating shareholder value and building investor confidence, and therefore helps to ensure an optimal cost of capital. Bermuda does not have a corporate governance code that is 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 4 December 2007, prepared by the Norwegian Corporate Governance Board, given the listing in Norway. 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. As of 31 December 2008, BW Group Limited owns 67.6 percent of BW Offshore Limited.

### Going concern

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

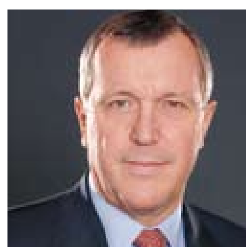
### Significant events after the balance sheet date

The Company has been involved in one transaction subsequent to 31 December 2008. On 2 February 2009, the vessel BW Endeavour was sold for recycling at a price equalling its book value.

### Risk

The Company's risk exposure is analysed 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

Kathie Child-Villiers



René Huck

Andreas Sohmen-Pao

projects. The financial risks mainly comprise of currency, credit and interest rate risks, as well as the performance of the Company's investments 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 difficult in the current market to obtain financing for new projects at acceptable terms, which could limit new opportunities.

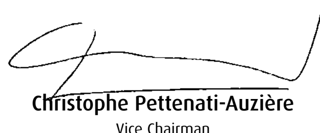
**Outlook**

The turmoil in the financial markets and the lower oil prices could impact negatively on our business in the short term with cancellations or postponements of new field developments. To the extent that information is available, the Company has reflected this in its updated impairment assessments. However, we currently see a robust level of bidding activity similar to previous years. In this period of uncertainty, the Company is fully financed at attractive terms and future cash flow is secured by long-term contracts with reputable clients. Beyond this immediate horizon, the board of directors of BW Offshore is of the view that the long-term fundamentals of our business remain sound. Underlying growth in energy demand combined with accelerating depletion of existing fields, will fuel increased demand for new oil and gas fields. Investments in new facilities by international and national oil companies will further support demand for the services provided by BW Offshore.

The financial results of 2008 have been significantly influenced by several provisions, write-offs and impairment charges. The board believes that some of these charges may be recovered.

BW Offshore's newly converted FPSOs, BW Cidade de São Vicente and BW Pioneer, will commence operation in 2009 and 2010 respectively. These vessels, in addition to the expected improved performance from Yùum K'ak' Nàab, are expected to contribute to a strong EBITDA growth for the Floating Production segment in 2009 and onwards. BW Offshore also expects continued sound EBITDA from the Technology and Installation segment, benefiting from the segment's healthy order backlog.

Bermuda, 26 March 2009


**Christophe Pettenati-Auzière**
Vice Chairman

**Helmut Sohmen**
Chairman

**Andreas Sohmen-Pao**

**David Gairns**

**René Huck**

**Kathie Child-Villiers**

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Houston, USA
Aberdeen, UK
Paris, France
Rio de Janeiro, Brazil
Kuala Lumpur, Malaysia
Shanghai, PRC
Singapore
Nouakchott, Mauritania
Campeche, Mexico
Lagos, Nigeria

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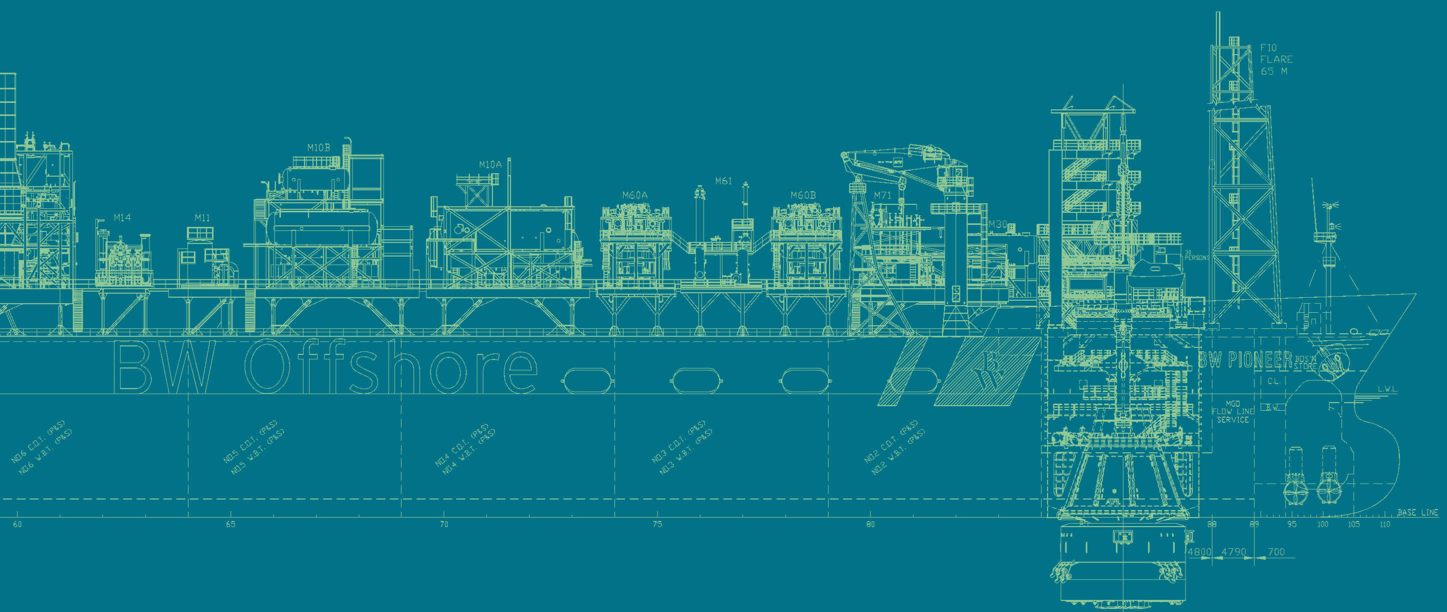
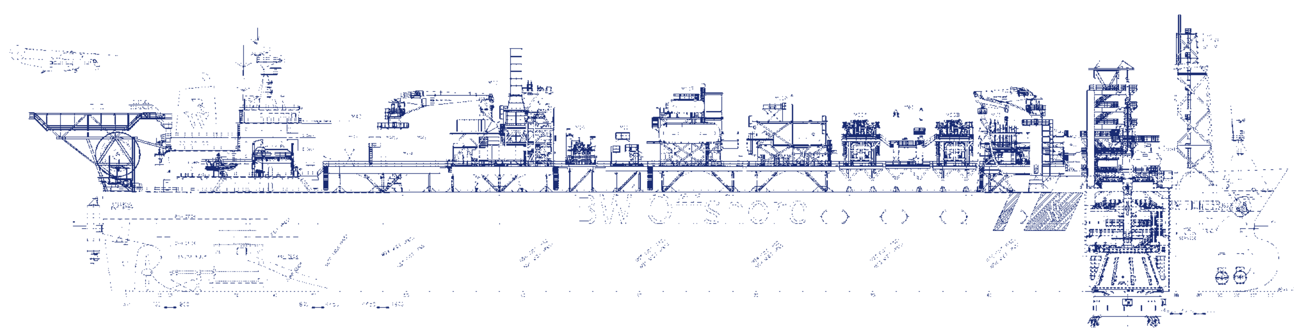



# BW OFFSHORE LIMITED

CONSOLIDATED FINANCIAL STATEMENT 2008

## TABLE OF CONTENTS


| | page |
|---|---|
| DIRECTORS' REPORT 2008 | 3 |
| Operations | |
| Financial result | |
| Environmental issues | |
| Health, safety, security, quality, working environment | |
| Corporate governance | |
| Going concern | |
| Significant event after the balance sheet date | |
| Risks | |
| Outlook | |
| | |
| RESPONSIBILITY STATEMENT | 6 |
| INDEPENDENT AUDITOR'S REPORT | 7 |
| CONSOLIDATED INCOME STATEMENT | 8 |
| CONSOLIDATED BALANCE SHEET | 9 |
| CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY | 10 |
| CONSOLIDATED CASH FLOW STATEMENT | 11 |
| | |
| NOTES | 12 |
| 1 General | 12 |
| 2 Significant accounting policies | 12 |
| 3 Critical accounting estimates and assessment | 18 |
| 4 List of subsidiaries | 19 |
| 5 Segment information | 20 |
| 6 Leases | 20 |
| 7 Construction contracts | 21 |
| 8 Specification of operating expenses vessels and administrative expenses | 22 |
| 9 Employee benefit expenses, remuneration to Directors and auditors etc. | 22 |
| 10 Income tax expense | 23 |
| 11 FPSOs, FSOs and vessels under construction | 24 |
| 12 Property and other equipment | 25 |
| 13 Intangible assets | 26 |
| 14 Investments in associated companies | 26 |
| 15 Cash and cash deposit | 28 |
| 16 Share capital of the Company, largest shareholders, par value etc. | 28 |
| 17 Trade receivables | 29 |
| 18 Financial risk management | 30 |
| 19 Retirement benefit obligations | 33 |
| 20 Loan facilities | 34 |
| 21 Investment in joint venture | 35 |
| 22 Business combinations | 35 |
| 23 Impairment testing of goodwill and intangibles | 36 |
| 24 Earnings per share | 36 |
| 25 Related parties transactions | 37 |
| 26 Commitments | 37 |
| 27 Provisions and contigent assets and liabilities | 38 |
| 28 Trade and other payables | 38 |
| 29 Significant events after the balance sheet date | 39 |

BW Offshore Limited is one of the world's leading contractors of floating production systems and related technologies. Throughout 2008 BW Offshore continued the process of integrating APL (Advanced Production & Loading) to establish itself as one of the top tier companies in the offshore energy production and technology arena.

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 in order to capitalize on the promising demand for offshore floating production and storage facilities.

The Company is a provider of Floating Production, Storage and Offloading vessels (FPSOs) and Floating Storage and Offloading vessels (FSOs) through operational lease arrangements as well as an EPCI (Engineering Procurement Commissioning Installation) contractor of turret mooring systems and offshore terminals. The floating production division has assets operating in offshore waters in Brazil, Nigeria, Mauritania, Malaysia, Russia and Mexico and will commence operations in the USA in 2010. The technology division has delivered solutions for production vessels, storage vessels and tankers in a wide range of field developments.

The Company's core strengths are:
- Competent personnel in project execution and FPSO operations.
- Focus on mid to large scale oil and gas FPSOs.
- Broad service with in-house technology and installation services.
- Broad geographical presence.

The Company will focus on maximising shareholder value and will strive to obtain a favourable return on invested capital. The Company will actively consider consolidation opportunities if these are considered to be value enhancing for the Company's shareholders.

At 31 December 2008 the Company held 23.9% of the shares in Prosafe Production Public Limited. The company is headquartered in Limassol, Cyprus and is listed on the Oslo Stock Exchange with ticker code PROD. Prosafe Production is a leading owner and operator of FPSOs. Prosafe Production has more than three decades of operational experience from the world's largest oil and gas provinces.

In addition, the Company holds 49.7% of the shares in Nexus Floating Production Pte Ltd., a Singapore-based company that is currently constructing a FPSO at Samsung yard in South Korea. Nexus Floating Production Pte Ltd. is listed on the Oslo Stock Exchange with ticker code Nexus.

## Operations

BW Offshore owns and operates five FPSO and two FSO vessels. The FPSO Yùum K`ak` Nàab is now operating at full capacity and obtained 100% uptime in the fourth quarter 2008. Operating expenses were reduced during the year and the Company expects further reduction in operating expenses for the unit in 2009. The FPSO operates for Pemex on a long term contract.

The FPSO BW Carmen was in operation on a short term contract in the UK sector of the North Sea for StatoilHydro during the second half of 2008. The FPSO is now uncommitted and being marketed for new contracts.

In July 2008, Berge Okoloba Toru was exposed to a hostage situation that was resolved in a satisfactory manner. However, due to the continuing instability in the Niger Delta, the vessel has since been evacuated.

The FPSO Sendje Berge operates in the Okwori field offshore Nigeria for Addax Petroleum. The contract was in September 2008 extended by another two years.

The FPSO Berge Helene is operating in the Chinguetti field offshore Mauritania for Petronas.

The Arctic FSO Belokamenka operates as an oil terminal in Kola Bay, Russia for Sovkomflot. She has a storage capacity of 2.4 million barrels.

The ULCC BW Nisa (323,000 dwt) built in 1983 is a conversion candidate for future FPSO opportunities. The vessel is currently operating as a FSO on a temporary storage contract for Vitol in Malaysia. She has a storage capacity of 2.2 million barrels.

BW Ara is a conversion candidate. She is a VLCC vessel type with a storage capacity of 2.0 million barrels.

The ongoing conversions of the FPSOs BW Pioneer and BW Cidade de São Vicente have continued in line with our expectations. In early February 2009, BW Cidade de São Vicente set sail from Singapore for Brazilian waters to commence production for Petrobras in the Tupi field. BW Pioneer will leave the yard in Singapore in the fourth quarter 2009 and will be the first FPSO to start operation in the US Gulf of Mexico in the first quarter of 2010. These operations will add considerably to the Company's cash flow and financial strength.

The order backlog for both segments now represents a total value of nearly USD 3.5 billion.

## Financial result

The Group's 2008 operating profit before depreciation, interest and taxes (EBITDA) was USD -44.2 million compared to USD 122.6 million in 2007. Operating profit decreased by USD 506.6 million to USD -429.5 million in 2008, compared to USD 77.1 million in 2007. Net profit decreased by USD 584.7 million to USD -532.6 million in 2008, compared to a profit of USD 52.1 million in 2007. The results have been negatively affected by impairments of our investments in associated companies, goodwill and the uncommitted fleet, costs related to a cancelled Letter of Intent and negative share of profit from associated companies (Prosafe Production and Nexus).

The Group's revenue derived from charter hire increased from USD 134.7 million to USD 168.0 million in 2008. The increase was primarily attributable to increased activity as Yùum K'ak` Nàab operated a full year in 2008 compared to a half year in 2007.

Revenue derived from lease interests increased by USD 8.2 million to USD 22.9 million in 2008, compared to USD 14.7 million in 2007. The increase in lease interests is mainly related to the full year operation of Yùum K`ak` Nàab. Lease revenue is also derived from the lease of the FSO Belokamenka, the lease of a gas splitter module installed onboard Berge Okoloba Toru and the lease of equipment onboard Sendje Berge.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs, including charges for doubtful debts. Total operating expenses were USD 143.3 million in 2008 compared to USD 97.0 million in 2007. The increase in operating expenses was mainly

attributable to higher than expected operating cost on Yùum K`ak` Nàab together with the effect of a full year operation on that unit.

Administrative expenses include expenses that are not attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo, Arendal and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD 58.0 million in 2008 compared to USD 44.7 million in 2007. The increase is attributable to an increased headcount.

Depreciation and amortisation amounted to USD 51.3 million in 2008, compared to USD 41.1 million in 2007.

Currency exchange losses were USD 2.5 million in 2008, compared to losses of USD 1.6 million in 2007.

Net loss on changes in fair value of financial instruments amounted to USD 44.1 million in 2008, compared to a gain of USD 23.7 million in 2007. The loss is mainly due to unfavourable fair value movement on interest rate swaps.

Net interest expense (interest income less interest expense) in 2008 was USD 33.6 million compared to USD 33.4 million in 2007.

Tax expense increased by USD 1.5 million to USD 15.2 million in 2008 compared to USD 13.7 million in 2007. The Group is not subject to taxation in Bermuda, however the Group is subject to taxation in the various countries in which it operates. The increase is due to the full year inclusion of the Technology and Installation segment in 2008.

Total assets decreased from USD 3,009.6 million at 31 December 2007 to USD 2,301.4 million at 31 December 2008. The decrease is mainly attributable to the impairment charges and negative share of profit of our investments in associated companies and the sale of the shares in Prosafe SE.

At 31 December 2008, the Group had a net equity of USD 923.4 million compared to USD 1,508.2 million on 31 December 2007. The decrease in equity is mainly due to the impairment charges and negative share of profit of our investments in associated companies.

At 31 December 2008, the Group has long term interest-bearing debt of USD 936.0 million and short-term interest bearing debt of USD 0.4 million, compared to USD 844.6 million and USD 413.3 million, respectively, on 31 December 2007. A favourable export financing scheme (CIRR financing) of total USD 223.0 million has been drawn down on two loan facilities with Eksportfinans ASA at 31 December 2008. The proceeds of the CIRR financing have been placed as long term bank deposits. Net interest-bearing debt at 31 December 2008 was USD 585.2 million.

Net cash inflow from investment activities in 2008 amounted to USD 222.3 million compared to net cash outflow of USD 851.6 million in 2007. Net cash inflow from investment activities in 2008 relates to the sale of shares in Prosafe SE offset by the investment in fixed assets.

## Environmental issues

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 possible, 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 laws 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 environmental 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 laws 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 harmful environmental spills during 2008.

The Company takes out insurance cover for injuries to crew, damage to vessels, loss of income and third-party liabilities. This insurance 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.

## Health, safety, security, quality, working environment

Health, safety, security, working environment and quality ('HSSEQ') are given a high 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 working environment, 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 is recognised as one of the key activities in order to achieve a HSSEQ culture of the highest standard and minimise risks.

BW Offshore's management systems address HSSEQ in detail and are compliant with and certified in accordance with 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 in the International Ship and Port Facility Security Code. In addition, BW Offshore is certified by the following international HSEQ standards:

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

There was only one Lost Time Incident (LTI) reported in 2008 for the entire organisation. Total LTI-rate and total TRC-rate (total recordable casualties) for the Company's employees, consultants and others involved in conversion projects in 2008 were 0.2 and 1.8, respectively.

The working environment within the Company is good. Absence due to sickness amounted to 1.3% of total hours worked by employees in 2008. During the year, several initiatives were taken to further improve the working environment and thereby prevent absence

due to sickness. Training and safety inspections are examples of these initiatives.

BW Offshore currently has 937 own employees. The Company wants to be seen as an attractive workplace and attaches 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 within remuneration, promotion or recruitments.

### Corporate governance

Good corporate governance plays a key role in creating shareholder value and building investor confidence, and therefore helps to ensure an optimal cost of capital. Bermuda does not have a corporate governance code that is 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 4 December 2007, prepared by the Norwegian Corporate Governance Board, given the listing in Norway. 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. As of 31 December 2008, BW Group Limited owns 67.6 percent of BW Offshore Limited.

### Going concern

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

### Significant events after the balance sheet date

The Company has been involved in one transaction subsequent to 31 December 2008. On 2 February 2009, the vessel BW Endeavour was sold for recycling at a price equalling its book value.

### Risk

The Company's risk exposure is analysed 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 investments 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 difficult in the current market to obtain financing for new projects at acceptable terms, which could limit new opportunities.

### Outlook

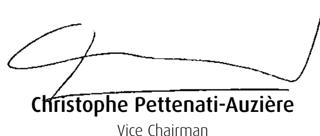
The turmoil in the financial markets and the lower oil prices could impact negatively on our business in the short term with cancellations or postponements of new field developments. To the extent that information is available, the Company has reflected this in its updated impairment assessments.

However, we currently see a robust level of bidding activity similar to previous years. In this period of uncertainty, the Company is fully financed at attractive terms and future cash flow is secured by long-term contracts with reputable clients. Beyond this immediate horizon, the board of directors of BW Offshore is of the view that the long-term fundamentals of our business remain sound. Underlying growth in energy demand combined with accelerating depletion of existing fields, will fuel increased demand for new oil and gas fields. Investments in new facilities by international and national oil companies will further support demand for the services provided by BW Offshore.

The financial results of 2008 have been significantly influenced by several provisions, write-offs and impairment charges. The board believes that some of these charges may be recovered.

BW Offshore's newly converted FPSOs, BW Cidade de São Vicente and BW Pioneer, will commence operation in 2009 and 2010 respectively. These vessels, in addition to the expected improved performance from Yùum K'ak' Nàab, are expected to contribute to a strong EBITDA growth for the Floating Production segment in 2009 and onwards. BW Offshore also expects continued sound EBITDA from the Technology and Installation segment, benefiting from the segment's healthy order backlog.

Bermuda, 26 March 2009



**Christophe Pettenati-Auzière**
Vice Chairman

**Helmut Sohmen**
Chairman

**Andreas Sohmen-Pao**

**David Gairns**

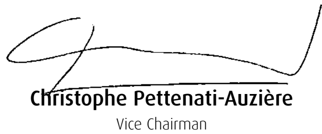
**René Huck**

**Kathie Child-Villiers**

# RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the accompanying consolidated financial statements for the period 1 January to 31 December 2008 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and loss of the Group taken as a whole. We also confirm that the Directors' Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties facing the Group.

Bermuda, 26 March 2009



**Christophe Pettenati-Auzière**
Vice Chairman

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**David Gairns**

**René Huck**

**Kathie Child-Villiers**

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**Independent auditor's report**

To the Shareholders of BW Offshore Limited

We have audited the accompanying consolidated financial statements of BW Offshore Limited and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

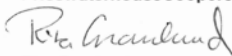
*Auditor's Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Oslo, March 30, 2009
**PricewaterhouseCoopers AS**



Rita Granlund
State Authorized Public Accountant (Norway)

Kontorer: Arendal Bergen Drammen Fredrikstad Førde Hamar Kristiansand Mo i Rana Molde Måløy Narvik Oslo Stavanger Stryn Tromsø Trondheim Tønsberg Ålesund
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# CONSOLIDATED INCOME STATEMENT

| USD million (Year ended 31 December) | Note | 2008 | 2007 |
|---|---|---|---|
| **OPERATING REVENUE** | | | |
| Charter hire | 5,6 | 168.0 | 134.7 |
| Construction contract revenue | 7 | 283.4 | 488.4 |
| Lease interest | 6 | 22.9 | 14.7 |
| Other Income | 6 | 0.0 | 24.8 |
| **Total revenues** | | **474.3** | **662.6** |
| | | | |
| **OPERATING EXPENSES** | | | |
| Operating expenses vessels | 8,9 | (143.3) | (97.0) |
| Construction contract expenses | 7 | (232.5) | (417.7) |
| Administrative expenses | 8,9,19 | (58.0) | (43.0) |
| **Total expenses** | | **(433.8)** | **(557.7)** |
| | | | |
| Share of profit (loss) of associated companies | 14 | (45.7) | 17.7 |
| Impairment charge of associates | 14 | (166.0) | 0.0 |
| Gain on sale of shares | 14 | 127.0 | 0.0 |
| | | | |
| Operating profit (loss) before depreciation, amortization & net gain | | (44.2) | 122.6 |
| | | | |
| Depreciation and amortization* | 11,12,13 | (51.3) | (41.1) |
| Impairment charges and write offs | 11,23,27 | (334.1) | 0.0 |
| Net gain (loss) on sale of tangible fixed assets | 11,12 | 0.1 | (4.4) |
| **Operating profit (loss)** | | **(429.5)** | **77.1** |
| | | | |
| **FINANCIAL INCOME AND FINANCIAL COSTS** | | | |
| Net currency exchange gain (loss) | | (2.5) | (1.6) |
| Interest income | | 18.8 | 12.8 |
| Fair value gain (loss) on financial instruments | | (44.1) | 23.7 |
| Interest expense | | (52.4) | (46.2) |
| Other financial items | | (7.7) | 0.0 |
| **Net financial items** | | **(87.9)** | **(11.3)** |
| | | | |
| **Profit (loss) before tax** | | **(517.4)** | **65.8** |
| Income tax expense* | 10 | (15.2) | (13.7) |
| | | | |
| **Net profit (loss) for the year** | | **(532.6)** | **52.1** |
| Profit (loss) attributable to equity shareholders | | (532.6) | 50.5 |
| Minority interest | | 0.0 | 1.6 |
| | | | |
| Basic earnings/per share (figures in USD) | 24 | (1.17) | 0.12 |
| Diluted earnings/per share (figures in USD) | 24 | (1.17) | 0.12 |

* Restated 2007, see note 22 for additional information.

The notes in pages 12-39 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

| USD million (Year ended 31 December) | Note | 2008 | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Vessels and vessels under construction | 11 | 851.8 | 610.7 |
| Property and other equipment | 12 | 18.3 | 17.9 |
| Goodwill* | 13 | 270.6 | 437.8 |
| Other intangible assets* | 13 | 83.7 | 99.9 |
| Finance lease receivable | 6 | 225.1 | 244.0 |
| Investments in associates | 14 | 225.6 | 978.9 |
| Non-current deposits | 15 | 283.5 | 320.3 |
| Other non-current assets | | 4.1 | 12.1 |
| **Total non-current assets** | | **1,962.7** | **2,721.6** |
| Inventory | | 11.6 | 7.0 |
| Trade and other receivables | 17 | 183.4 | 146.8 |
| Trade receivables not invoiced | 7 | 76.0 | 97.7 |
| Cash and deposits | 15 | 67.7 | 36.5 |
| **Total current assets** | | **338.7** | **288.0** |
| | | | |
| **TOTAL ASSETS** | | **2,301.4** | **3,009.6** |
| | | | |
| **EQUITY** | | | |
| Share capital | 16 | 4.6 | 4.6 |
| Share premium | | 1,444.6 | 1,444.6 |
| Other equity* | | (525.8) | 59.0 |
| **Total shareholder's equity** | | **923.4** | **1,508.2** |
| | | | |
| Long-term loan facility | 18,20 | 936.0 | 844.6 |
| Retirement benefit obligations | 19 | 9.6 | 8.7 |
| Other non-current liabilities* | 10 | 33.5 | 38.5 |
| **Total non-current liabilities** | | **979.1** | **891.8** |
| Trade and other payables | 28 | 378.7 | 180.6 |
| Interest-bearing short term debt | 18,20 | 0.4 | 413.3 |
| Income tax liabilities | 10 | 19.8 | 15.7 |
| **Total current liabilities** | | **398.9** | **609.6** |
| | | | |
| **Total liabilities** | | **1,378.0** | **1,501.4** |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **2,301.4** | **3,009.6** |

* Restated 2007, see note 22 for additional information.

The notes in pages 12-39 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| USD million (Year ended 31 December) | Note | Share capital | Share premium | Other equity | Minority interests | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2007** | | **2.1** | **462.3** | **(81.0)** | **-** | **383.4** |
| | | | | | | |
| Employee Stock Owning Programme | | 0.0 | 4.9 | - | - | 4.9 |
| Net private placements | | 2.5 | 1058.4 | - | - | 1060.9 |
| Transfer of share premium to other equity | | - | (81.0) | 81.0 | - | - |
| Changes in minority interest | | - | - | - | (1.6) | (1.6) |
| Treasury shares purchased | | - | - | (0.2) | - | (0.2) |
| Changes in equity | | 2.5 | 982.3 | 80.8 | (1.6) | 1,064.0 |
| Currency translation adjustments | | - | - | 8.3 | - | 8.3 |
| Other* | | - | - | 0.4 | - | 0.4 |
| Profit (loss) for the period* | | - | - | 50.5 | 1.6 | 52.1 |
| Recognised income and expense | | - | - | 59.2 | 1.6 | 60.8 |
| | | | | | | |
| **At 31 December 2007** | | **4.6** | **1,444.6** | **59.0** | **-** | **1,508.2** |
| | | | | | | |
| Treasury shares purchased | | - | - | (9.3) | - | (9.3) |
| Changes in equity | | - | - | (9.3) | - | (9.3) |
| | | | | | | |
| Currency translation adjustments | | - | - | (24.4) | - | (24.4) |
| Equity adjustments in associates | | - | - | (18.5) | - | (18.5) |
| Profit (loss) for the period | | - | - | (532.6) | - | (532.6) |
| Recognised income and expense | | - | - | (575.5) | | (575.5) |
| | | | | | | |
| **At 31 December 2008** | | **4.6** | **1,444.6** | **(525.8)** | **-** | **923.4** |

* Restated 2007, see note 22 for additional information.

The notes in pages 12-39 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| USD million (Year ended 31 December) | Note | 2008 | 2007 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before tax | | (517.4) | 69.8 |
| Income tax paid | 10 | (15.9) | (9.8) |
| Loss/(gain) on disposal of fixed assets | 11,12 | (127.0) | 4.4 |
| Fair value change on financial instruments | 18 | 69.2 | (24.1) |
| Share of profit of associated companies | 14 | 45.7 | (17.7) |
| Currency exchange differences | | (29.8) | 9.3 |
| Depreciation and amortisation | 11,12,13 | 51.3 | 37.1 |
| Impairment charges | | 500.1 | 0.0 |
| Net cash flow from FPSO construction contract | | 0.0 | 127.6 |
| Installments under financial lease contracts | | 0.0 | 10.2 |
| Difference between pension costs and pension payments | 19 | 0.0 | (0.2) |
| Changes in inventories, receivables and accounts payable | | 88.3 | (27.3) |
| **Net cash flow from operating activities** | | **64.5** | **179.3** |
| | | | |
| **Cash flow from investing activities** | | | |
| Investments in operating fixed assets and other assets | 11,12,13,15 | (404.8) | (266.4) |
| Investments in non-current bank deposit | | (25.0) | (35.0) |
| Proceeds from disposal of investment in associates | 14 | 651.9 | 8.4 |
| Investments in subsidiaries | 22 | 0.0 | (382.7) |
| Investments in associates | 14 | 0.0 | (184.6) |
| Dividend received from associates | 14 | 0.0 | 52.2 |
| Net investment in other non-current assets | 6 | (0.2) | (7.5) |
| **Net cash flow from investing activities** | | **222.3** | **(815.6)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Received payments from raising new long-term debt | 20 | 800.0 | 352.1 |
| Repayment of long-term debt | 20 | (682.3) | (312.0) |
| Received payments from raising new short-term debt | 20 | 48.8 | 623.2 |
| Repayment of short-term debt | 20 | (412.8) | (210.5) |
| Investments in own shares | | (9.3) | 0.0 |
| Paid-in/(distributed) equity | | | 182.0 |
| **Net cash flow from financing activities** | | **(255.6)** | **634.8** |
| | | | |
| Net change in cash and cash equivalents | | 31.2 | (1.5) |
| Cash and cash equivalents at 1 January | | 36.5 | 38.0 |
| **Cash and cash equivalents at 31 December** | | **67.7** | **36.5** |

The notes in pages 12-39 are an integral part of these consolidated financial statements.

## NOTE 1 I GENERAL

BW Offshore Limited ('BW Offshore' or 'the Company', formerly Bergesen Worldwide Offshore Limited) 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).

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 Units) and FSOs (Floating, Storage and Offloading Units). In addition, the Group develops and sells mooring and turret systems as well as specialized equipment for vessels, through the wholly-owned subsidiary APL PLC and its subsidiaries (APL).

All figures are in USD million if not otherwise stated.

The financial statements were approved by the Board of Directors on 26 March 2009.

## NOTE 2 I SIGNIFICANT ACCOUNTING POLICIES

### BASIS FOR PREPARATION

The consolidated financial statements of BW Offshore have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The consolidated financial statements have been prepared pursuant to the historical cost convention, as modified by the revaluation of certain financial assets and financial 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 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 the receivable for chartering and rendering of operational services related to FPSOs and FSOs. In addition the Group has revenues consisting of the development and sales of mooring and turrets systems.

**Operational services**
Income from the rendering of services from FPSO and FSO operating contracts is recognised as revenue as the related services are provided based on contractual daily rates.

**Chartering of vessels**
Chartering of FPSO and FSO 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 ownership 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 financial 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 deriving from fixed price construction contracts. Revenue from fixed-price contracts is recognised under 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 which 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 as a liability.

**Interest income**
Interest income, including interest income arising from 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.

**Other revenues**
Sales are recognised after transfer of significant risks and rewards that are 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.

### SEGMENT REPORTING

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.

The Group has two business segments, Floating production (the ownership and operations of FPSOs and FSOs), and Technology and installation services. These divisions comprise the basis for primary segment reporting.

The operating business segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Secondary information is reported geographically. The Group's geographical segments are based on the location of its customers.

Internal transactions between the various segments are eliminated.

### CONSOLIDATION

#### Subsidiaries

The Subsidiaries are all entities (including special purpose entities) that 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 from the date on which 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 on 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 as shown beneath the income statement and within 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 have been 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 no 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 on 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 in investment in the balance sheet and regarded as repayment of capital. By this, the balance sheet value of associates represents the original cost price (which equals 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 as strategic to the Group. See 'impairment of non-financial assets' for impairment assessment.

#### Joint ventures

Joint ventures are entities that the Group has 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 using 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 are incurred.

#### 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. The value of vessels are assessed together with contracts when doing impairment tests. Each vessel is special to the contract. An impairment loss is recognised for the amount which 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 excess of 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 that are 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 in which the goodwill arose. BW Offshore allocates goodwill to each business segment.

**Computer software**
Acquired computer software licenses are capitalised on the basis of the cost incurred in relation to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. Costs to external suppliers that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding 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 as incurred.

**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 amortization 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 tested for impairment annually.

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. The fair values identified are amortised over their estimated useful economic lives.

Intangible assets that are 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 are expensed as occurred.

**Research and development**
Expenses relating to research activities are recognised in the income statement as they incur. Expenses relating to development activities are capitalised to the extent that the product or process is technically and commercially viable and the Group 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.

**Impairment of non-financial assets**
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**CONTINGENT ASSET AND LIABILITY**
**A contingent liability is:**
a. a possible obligation 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; or
b. a present obligation that arises 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.

A contingent liability is disclosed, as required by IAS 37 paragraph 86, 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 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.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

### BORROWING COSTS
Borrowing costs directly attributable to the 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.

### INVENTORIES
Inventories comprise mainly fuel oil remaining on board vessels and other consumables. Inventories are measured at the lower of cost or net realizable value. Cost is determined by the "first-in first-out" (FIFO) method. The cost of purchase of inventories comprise 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 that are 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. (note 15)

### 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 that are 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
The Group applies derivative financial instruments such as forward currency contracts and foreign currency swaps to hedge its risks associated with foreign currency fluctuations in relation to construction contracts with contract price in foreign currency. Hedging derivatives are initially and thereafter recognised in the balance sheet at fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of a forecasted transaction (cash flow hedge) or a firm commitment (fair value hedge).

For the purpose of hedging, all hedges of construction contracts are classified as fair value hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively, are recorded in the income statement along with any changes in the fair value of the hedged asset or liability that is attributable to hedged risk.

Those of the Group's derivatives that do not qualify as hedging instruments are classified as financial assets at fair value through the income statement and measured at fair value in accordance with IAS 39. Changes in the fair value of such derivatives are recognised as financial income or expenses in the income statement.

All purchases and sales of financial instruments are recognised on the transaction date.

### PROVISIONS FOR OTHER LIABILITIES AND CHARGES
Provisions are recognised when the Group 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 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 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 is 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 using 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 that are denominated in the currency in which the benefits will be paid and that have 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 the pension plan 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 payments 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.

**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 taxation. However, 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 and deferred tax asset 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 that will apply 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 tax is calculated at the tax rates that have been enacted or substantially enacted at the balance sheet date. 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 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. The Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax is provided on temporary differences arising on 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 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 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 consolidated financial statements of BW Offshore Ltd have been prepared in accordance with International Financial Reporting Standards. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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 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.

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

**(a) Interpretations effective in 2008**
None

**(b) Interpretations effective in 2008 but not relevant**

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

IFRIC 12, 'Service concession arrangements'; and IFRIC 13, 'Customer loyalty programmes'.

**(c) Standards and amendments early adopted by the group**

None

**d) 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 2009 or later periods, but the group has not early adopted them. The amendment are part of the IASB's annual improvements project published in May 2008.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).

The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IFRS 8, 'Operating segments',(effective from 1 January 2009).

The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This had not resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the decision-makers.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).

The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

The group will apply the IAS 19 (Amendment) from 1 January 2009. It is not expected to have a significant impact on the group's income statement

IAS 39(Amendment), 'Financial instruments: Recognition and measurement'(effective from 1 January 2009).

The group will apply the IAS 39 (Amendment) from 1 January 2009.It is not expected to have a significant impact on the group's income statement.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).

The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's financial statements.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting'. These amendments are unlikely to have a significant impact on the group's accounts and have therefore not been analysed in detail.

**(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations**

The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations:

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

The amendment will not have an impact on the group's operations because it is the group's policy for an investment in an associate to be accounted for using the equity method.

IAS 38 (Amendment), 'Intangible assets', (effective from 1 January 2009).

The amendment will not currently have an impact on the group's operations as all intangible assets are amortised using the straight line method.

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment might have an impact on the group's operations if additional CIRR loan agreements are entered into by the Group.

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11,'Construction contracts' should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is likely to be relevant to the group's operations and they are currently assessing the impact of the standard.

IFRIC 18 'Transfers of Assets from Customers' (apply this Interpretation prospectively to transfers of assets from customers received on or after 1 July 2009).

Is not expect to be relevant to the Company.

## NOTE 3 I 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 knowledge of scrap values which in turn depend on steel prices in the world market and demobilization costs.

**Impairment**

The Group reviews periodically whether tangible assets, including vessel related contracts, vessels under construction and conversion candidates have 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 scrap values discounted by an estimated discount rate.

The Group reviews periodically whether cash-generating units containing goodwill, order backlog, tender portfolio or technology 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 discussed in note 23.

The Group reviews periodically whether the investment in associates has suffered any impairment in accordance with the accounting policy stated in note 2. The impairment testing for investment in associates requires a number of estimates and judgement in order to calculate the recoverable amount. Recoverable amount is the highest of fair value less cost to sell and value in use. Value in use calculations is based on discounted cash flow models. The value in use calculations are based on estimated cash flows discounted by an estimated discount rate.

All impairment calculations demand a high degree of estimation. Management must make complex assessment around the expected cashflows arising from such assets and the selection of discount rates. In the current economic situation, estimating future cashflows and selection of discount rates that accurately reflect the risks is made all the more challenging. Changes to these estimates would have significant impact on the impairments recognised and future changes may lead to reversals of currently recognised.

**CONTINGENT ASSETS**

The Group assesses continually its contingent assets to ensure that developments in facts and circumstance are appropriately reflected in the financial statements. Where it becomes virtually certain that an inflow of economic benefit will arise, the asset is recognised in the period in which the change occurs with a related credit to the Income Statement. However, virtually certain is not easily measured and requires careful objective assessment of the conflicting factors around any contingent assets. Such assessment is performed by Management with assistance from the Company's legal and other external advisors. Changes in the likely outcome of events can often be affected by both new facts arising in connection with contingent assets, developing legal precedents or changes to applicable laws. Accordingly, there is significant judgment involved in assessing contingent assets, which can have a significant impact on amounts recognised and the timing of recognition of assets in the financial statements.

**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. Due to the complex nature of the Company's projects it is very difficult to predict exactly the total cost and requires significant management judgement.

**LEASE CONTRACTS**

Classification of lease contracts as operating leases or finance leases depends on the following assumptions:

As at the date of inception of the lease, a lease contract is classified as either an operating or a finance lease. The lease term is the 'non-cancellable period' for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. The lessee's purchase option is taken into consideration in the classification of the lease contract. If it is not reasonably certain that the option will be exercised, the option will not be a part of the basis for classification. If the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable, the exercise of the option is regarded reasonably certain. The evaluation of the term reasonably certain involves estimation and judgement. The estimated useful life of the vessels is also relevant in relation to evaluating lease contracts.

When a charter contract is classified as a finance lease, the fixed price is effectively the net investment in the lease, which again requires an estimation of the implicit rate in the lease. Contracts for leasing and operation of vessels are usually negotiated together. Leasing of vessels is accounted for under IAS 17 and operation of vessels is accounted for under IAS 18, as explained in the accounting policy note. As the consideration for the leasing component and operation component of vessels are contracted together they may not represent fair value of each component. Under IFRS, the total consideration paid should be allocated between each component based on fair value of each component. This requires estimation based on market rates, comparable transactions and other market related information.

**ASSOCIATES**

Nexus Floating Production Ltd is a public company listed on the Oslo Stock Exchange list in Norway. The Group does not have power over more than half of the voting rights in Nexus Floating Production. 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. The investment in Nexus Floating Production is therefore accounted for as an associated Company.

The Group holds 9,474,800 shares in Nexus at 31 December 2008, corresponding to 49.7% of the outstanding shares. In addition, several employees of the Group hold shares in Nexus. If these shares are taken into consideration when to conclude whether the Group has de facto control of Nexus, the Group controls marginally above 50% of the outstanding shares in Nexus. However, Nexus has issued a convertible bond loan of which the Group only holds USD 5.3 million out of USD 75.0 million, corresponding to 7.1%. The conversion rights were not in the money at 31 December 2008 but these rights are currently convertible and have been taken into consideration when deciding on whether the Group had, or could have had, de facto control in Nexus at 31 December 2008 according to IAS 27.14. If all the holders of the convertible bond loan decide to convert the bond loan into shares, then the Group would decrease its shareholding in Nexus to 40.64%. If the Group's total ownership in Nexus at some point exceeds 50.0%, the other holders of the bond loan can either a) require early redemption of its bonds, or b) convert its bonds to shares at a discounted value.

## NOTE 4 | LIST OF SUBSIDIARIES

| Name of companies | Country of incorporation | Ownership 2008 | Ownership 2007 |
|---|---|---|---|
| Belokamenka Limited | Bermuda | 100% | 100% |
| BW KMZ Limited | Bermuda | 100% | 100% |
| Berge Carmen Singapore Private Limited | Singapore | 100% | 100% |
| BW Offshore Nigeria Limited | Nigeria | 99% | 99% |
| Berge Helene Limited | Bermuda | 100% | 100% |
| Berge Okoloba Toru Limited | Bermuda | 100% | 100% |
| Berge Troll Limited | Bermuda | 100% | 100% |
| BW Belokamenka (Cyprus) Limited | Cyprus | 100% | 100% |
| BW Offshore (M) Sdn Bhd | Malaysia | 100% | 100% |
| Bergesen Worldwide Mexico, S.A. de C.V. | Mexico | 100% | 100% |
| Bergesen Worldwide Offshore Mexico S. de RL de CV | Mexico | 100% | 100% |
| BW Offshore AS | Norway | 100% | 100% |
| BW LPG FPSO I Limited | Bermuda | 100% | 100% |
| BW Endeavour Limited | Bermuda | 100% | 100% |
| BW Pioneer Limited | Bermuda | 100% | 100% |
| BW Offshore Singapore Private Limited | Singapore | 100% | 100% |
| BW Offshore Norwegian Manning AS | Norway | 100% | 100% |
| Sendje Berge Limited | Bermuda | 100% | 100% |
| Bergesen Worldwide Limited | Bermuda | 100% | 100% |
| BW Offshore Cyprus Limited | Cyprus | 100% | 100% |
| BW Brazil Limited | Bermuda | 100% | 100% |
| BW Carmen Limited | Bermuda | 100% | 100% |
| BW Cidade de São Vicente Limited | Bermuda | 100% | 100% |
| BW Ara Limited | Bermuda | 100% | 100% |
| BW Offshore USA Inc | USA | 100% | 100% |
| APL (Advanced Production & Loading) Plc | Cyprus | 100% | 100% |
| APL (Advanced Production & Loading) AS | Norway | 100% | 100% |
| APL Offshore Singapore Private Limited | Singapore | 100% | 100% |
| APL Technology AS | Norway | 100% | 100% |
| Advanced Production and Loading AS (APL AS) | Norway | 100% | 100% |
| APL Property AS | Norway | 100% | 100% |
| APL Process Systems AS | Norway | 100% | 100% |
| Advanced Production and Loading Inc Houston | USA | 100% | 100% |
| APL do. Brasil Ltda | Brazil | 100% | 100% |
| APL UK Limited | United Kingdom | 100% | 100% |
| APL Management Services AS | Norway | 100% | 100% |
| APL Subsea Installation Services AS | Norway | 100% | 100% |
| BW Offshore Asia Sdn. Bhd (ex. APL Asia Sdn Bhd) | Malaysia | 100% | 100% |
| Advanced Production and Loading Private Limited | Singapore | 100% | 100% |
| Advanced Production and Loading (M) Sdn Bhd | Malaysia | 49% | 49% |
| BW Offshore Global Manning Pte Ltd | Singapore | 100% | 0% |
| BW Offshore do Brazil Ltda | Brazil | 100% | 0% |
| BW Offshore Netherlands B.V. | Netherlands | 100% | 0% |
| APL China Ltd | China | 100% | 0% |

## NOTE 5 | SEGMENT INFORMATION

**Primary reporting format – business segments**
The activities of the Group are within two business segments, the floating production segment in which recognised revenue and expenses derives from ownership and operations of FPSOs and FSOs, and the technology and installation services segment.

The performance of the segment is measured on operating revenues and operating profit, as presented in the table below.

| 2008 | Floating Production | Technology/ Installation services* | Elimi-nation | Total Group |
|---|---|---|---|---|
| Operating revenues | 190.9 | 395.9 | (112.5) | 474.3 |
| Operating expenses | (188.0) | (354.6) | 108.8 | (433.8) |
| Share of profit of associates | (45.3) | (0.4) | - | (45.7) |
| Impairment charge of associates | (84.7) | (81.3) | - | (166.0) |
| Gain on sale of shares | 127.0 | - | - | 127.0 |
| Operating profit before depreciation (EBITDA) | (0.1) | (40.4) | (3.7) | (44.2) |
| Depreciation, amortization and write-down | (196.2) | (189.1) | - | (385.3) |
| Operating profit | (196.3) | (229.6) | 3.7 | (429.5) |
| Capital expenditures | 425.1 | 4.7 | - | 429.8 |
| Segment assets | 1,695.7 | 605.7 | - | 2,301.4 |
| Segment liabilities * | 413.9 | 272.8 | - | 686.7 |

* Total segment liabilities deviates from Total libiliaties in the balance sheet due to unallocated corporate debt of USD 691.3 million.

| 2007 | Floating Production | Technology/ Installation services* | Total Group |
|---|---|---|---|
| Operating revenues | 442.3 | 220.3 | 662.6 |
| Operating expenses | (373.4) | (184.3) | (557.7) |
| Share of profit of associates | 18.1 | (0.4) | 17.7 |
| Operating profit before depreciation (EBITDA) | 87.0 | 35.6 | 122.6 |
| Depreciation, amortization and write-down | (26.6) | (18.9) | (45.5) |
| Operating profit | 60.4 | 16.7 | 77.1 |
| Capital expenditures | 257.9 | 2.0 | 259.9 |
| Segment assets | 2,167.2 | 842.4 | 3,009.6 |
| Segment liabilities | 1,267.4 | 234.0 | 1,501.4 |

* In the period 8 May until 31 December 2007

**Secondary reporting format – geographical segments**
The Group has operations in the following continents; America, Africa, Europe and Asia. Segment information about the Group's operations is presented below:

| 2008 | America | Africa | Europe | Asia | Other | Total |
|---|---|---|---|---|---|---|
| Operating revenues | 93.7 | 123.1 | 147.7 | 106.6 | 3.2 | 474.3 |
| Operating expenses | (92.5) | (78.8) | (139.2) | (88.7) | (34.6) | (433.8) |
| Share of profit of associates | - | - | - | - | (45.7) | (45.7) |
| Impairment charge of associates | | | | (166.0) | (166.0) | |
| Gain on sale of shares | - | - | - | - | 127.0 | 127.0 |
| Operating profit before depreciation and sales gains/losses | 1.2 | 44.3 | 8.6 | 17.8 | (116.1) | (44.2) |
| Depreciation, amortization and write-down | - | (19.6) | (5.8) | (1.8) | (358.1) | (385.3) |
| Operating profit | 1.2 | 24.7 | 2.8 | 16.0 | (474.2) | (429.5) |
| Segment assets | 204.5 | 249.2 | 83.8 | 48.5 | 1,715.4 | 2,301.4 |

| 2007 | America | Africa | Europe | Asia | Other | Total |
|---|---|---|---|---|---|---|
| Operating revenues | 337.9 | 137.8 | 40.9 | 108.0 | 38.0 | 662.6 |
| Share of profit of associates | - | - | - | - | 17.7 | 17.7 |
| Operating expenses | 312.7 | 46.9 | 35.6 | 71.0 | 91.5 | 557.7 |
| Operating profit before depreciation and sales gains/losses | 25.2 | 90.9 | 5.3 | 37.0 | (35.8) | 122.6 |
| Depreciation, amortization and write-down | - | (19.6) | - | (0.3) | (25.6) | (45.5) |
| Operating profit | 25.2 | 71.3 | 5.3 | 36.7 | (61.4) | 77.1 |
| Segment assets | 222.9 | 439.6 | - | 43.0 | 2,304.1 | 3,009.6 |

Group financing and investments are managed on a Group basis and are not allocated to a geographical segment.

## 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, amount to substantially all of 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 the vessel over the 15 year period. Revenues and expenses arising from this operation are recognised as Charter hire and Operating expenses vessels.

In 2006 and 2007 there have been changes in Mexican law affecting the prices stated in the contracts for the construction and operation of the FPSO Yùum K'ak' Náab. Further details are presented in note 27.

The construction of the FPSO Yùum K'ak' Náab was accounted for as a fixed price construction contract (note 7). Net profit from the conversion, recorded in the income statement in 2007, amounted to USD 15.7 million.

With effect from February 2004, the FSO Belokamenka in the Arctic commenced a 15 year transhipment agreement with the customer. The vessel is leased from the Group on a bare boat agreement to the joint venture company OOO Oil Terminal. Belokamenka, which in turn has sub-leased the FSO to a customer at 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.

With effect from 15 August 2006, a splitter installed onboard Berge Okoloba Toru was leased from the Group to Vitol S.A. The lease period is 4 years. Vitol will take ownership of the splitter after paying the last monthly amount under this agreement. The contract is classified as a finance lease.

With effect from 10 October 2007, equipment installed onboard Sendje Berge was leased to the client. The lease period is 1.5 years and the client will take ownership of the equipment after paying the last monthly amount under this agreement. The contract is classified as finance lease.

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

| | 2008 | 2007 |
|---|---|---|
| Not later than one year | 33.7 | 48.9 |
| Later than one year and not later than five years | 121.7 | 128.6 |
| Later than five years | 240.5 | 272.9 |
| **Gross receivables from finance leases** | **395.9** | **450.4** |
| Unearned future finance income on finance leases | (157.4) | (182.7) |
| **Net investment in finance leases** | **238.5** | **267.7** |
| Included in non-current assets (Financial lease receivables) | 225.1 | 244.0 |
| Included in current assets (Trade and other receivables) | 13.4 | 23.7 |

### Operating leases

The FPSO Sendje Berge has been committed for a 4 year firm lease at the Okwori field in Nigeria. The operation commenced in April 2005 and the client has during 2008 used its option to extend the charter for 2 years, after which the client has an option to extend the charter for an additional 2 years.

The FPSO Berge Okoloba Toru is on a 4 year firm lease contract in Nigeria. The operation started in February 2005, and the client has during 2008 not used its option to extend the contract period for 4 years.

The FPSO Berge Helene commenced operations in Mauritania in February 2006 on a 7 year lease contract with up to an additional eight 1 year options. The client has a purchase option that can be exercised throughout the contract until 6 months prior to expiration of the prevailing terms. The purchase option value is based on declining purchase prices.

BW Nisa is operating as FSO on temporary contract in Malaysia. The temporary contract can be cancelled by the Group by providing a 180 days notice if the vessel is required to be converted for a FPSO project.

BW Cidade de Sao Vicente has been committed for a 10 year firm lease contract at the Tupi field offshore Brazil. The FPSO is currently under modification and is expected to commence operation in the second quarter of 2009. The client has 5 options to extend the contract with one year and in addition has a purchase option to buy the vessel after 5, 10 and 15 years.

BW Pioneer has been committed for a 5 year firm lease contract at the Chinook Cascade field in the US Gulf of Mexico. Petrobras has the option to extend the contract with 3 years.

The future minimum lease payments receivable under non-cancellable operating leases (ref. above) contracted for at the reporting date but not recognised as receivables, are set out in the table below:

| | 2008 | 2007 |
|---|---|---|
| Not later than one year | 121.1 | 74.9 |
| Later than one year and not later than five years | 700.7 | 145.5 |
| Later than five years | 329.0 | 5.6 |
| **Total nominal amount** | **1,150.8** | **226.0** |

Operating revenue in 2007 included an amount of USD 20.0 million, classified as other income, collected under a bank guarantee for the termination of the FPSO BW Peace contract due to the client's non performance.

## NOTE 7 I CONSTRUCTION CONTRACTS

The Groups construction contracts during 2008 consisted only of construction of oil field related equipment.

The development and delivery of mooring and turret systems are also deriving from fixed price construction contracts. Revenue from fixed-price contracts is recognised in accordance with the 'percentage-of-completion' (POC) method.

Under the POC method, contract revenue is matched with the contract costs incurred in 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 cost 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.

| | 2008 | 2007 |
|---|---|---|
| Contract revenue | 283.4 | 488.4 |
| Contract costs | (232.5) | (417.7) |
| **Net profit recorded in the income statement** | **50.9** | **70.7** |
| | | |
| Contract revenue ongoing projects | 76.0 | 97.7 |
| Advance payments | (45.9) | (8.1) |
| **Net receivable at 31 December** | **30.1** | **89.6** |

At 31 December 2008, retentions held by customers for contract work amounted to USD 0.0 million (USD 1.7 million).

At 31 December 2008, 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 I SPECIFICATION OF OPERATING EXPENSES VESSELS AND ADMINISTRATIVE EXPENSES

| Operating expenses vessels | 2008 | 2007 |
|---|---|---|
| Employee benefit expenses crew (note 9) | 34.8 | 29.1 |
| Insurance | 10.1 | 6.9 |
| Operation, maintenance, spare parts and repairs | 82.0 | 35.4 |
| Charges for bad debt and other provisions | 16.4 | 25.6 |
| **Total** | **143.3** | **97.0** |

| Administrative expenses | 2008 | 2007 |
|---|---|---|
| Employee benefit expenses (note 9) | 27.2 | 18.7 |
| Auditors | 1.4 | 1.0 |
| IT & communication | 8.8 | 3.6 |
| Offices (rent etc) | 3.9 | 2.7 |
| Travel expenses | 9.8 | 4.7 |
| Other expenses | 6.9 | 12.3 |
| **Total** | **58.0** | **43.0** |

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

| Employee benefit expenses | 2008 | 2007 |
|---|---|---|
| Wages, crew | 35.0 | 28.1 |
| Wages, construction contract personnel | 22.3 | 21.0 |
| Wages, administrative personnel | 20.6 | 14.5 |
| Social security tax | 4.2 | 2.2 |
| Pension costs defined benefit plans (Note 19) | 6.3 | 3.0 |
| **Total employee benefit expenses** | **88.4** | **68.8** |
| | | |
| **Total employee benefit expenses are included in the following accounts:** | | |
| Operating expenses | 34.8 | 29.1 |
| Construction contract expenses | 26.4 | 21.0 |
| Administrative expenses | 27.2 | 18.7 |
| **Total employee benefit expenses** | **88.4** | **68.8** |
| | | |
| Number of man years employed | 850 | 746 |

| Remuneration paid to key management* and board of directors (USD '000) | 2008 |
|---|---|
| **Chief Executive Officer** | |
| Remuneration | 796 |
| Pension | 221 |
| Variable payment | - |
| Loan | - |
| **Key Management** | |
| Wages | 1,293 |
| Pension | 592 |
| **Total compensation paid to CEO and key management personnel** | **2,902** |
| The board of directors** | 194 |
| **Total remuneration** | **3,096** |
| Loans to Key Management | 267 |
| Loans to other employees | 5,227 |
| **Total** | **5,494** |

* The Key Management comprises the Chief Executive Officer, the Chief Financial Officer and the Executive Vice Presidents. The Key Management have agreements which 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 2008 to May 2009 will be decided at the annual general meeting in May 2009.

**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 | 2008 | 2007 |
|---|---|---|
| Statutory audit | 822.7 | 302.0 |
| Other attestation services | 404.8 | 150.1 |
| Tax related services | 200.8 | 222.7 |
| **Total fees** | **1,428.3** | **674.8** |

## NOTE 10 I INCOME TAX EXPENSE

The Company is incorporated and domiciled in Bermuda. There is no income, withholding, capital gains or capital transfer taxes payable in Bermuda.

However, several of the Group's subsidiaries are subject to taxation in the countries in which they operate. 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** | **2008** | **2007** |
|---|---|---|
| **Changes in temporary differences** | **(7.8)** | **(7.8)** |
| **Tax payable ex withholding tax** | **16.5** | **15.7** |
| Withholding tax | 6.6 | 5.8 |
| **Total*** | **15.2** | **13.7** |

| **Effective income tax rate** | **2008** | **2007** |
|---|---|---|
| Accounting profit (loss) before income tax | (517.4) | 65.8 |
| Income tax at BWOs statutory income tax rate of 0% | 0.0 | 0.0 |
| Withholding taxes | 6.6 | 5.8 |
| Non-deductible expenses | 0.4 | 1.4 |
| Effect of higher tax rates outside Bermuda | 8.2 | 6.5 |
| **Income tax at the effective income tax rate** | **15.2** | **13.7** |
| Effective tax rate | -2.9% | 21% |

| **Tax liabilities at 31 December** | **2008** | **2007** |
|---|---|---|
| Tax payable | 19.8 | 15.7 |
| Withholding taxes payable | 0.0 | 0.0 |
| **Tax payable** | **19.8** | **15.7** |

* Restated 2007, see note 22 for additional information.

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** | **2008** | **2007** |
|---|---|---|
| Pensions | (3.1) | (2.8) |
| **Deferred tax assets - gross** | **(3.1)** | **(2.8)** |
| | | |
| **Deferred tax liabilities** | | |
| Fixed assets | 0.1 | (0.3) |
| Projects in progress | 2.5 | 5.9 |
| Other | 0.1 | (0.2) |
| Intangible assets | 22.5 | 27.3 |
| **Deferred tax liabilities - gross** | **25.2** | **32.7** |
| | | |
| Net recognised deferred tax liabilities/deferred tax assets (-) | 22.1 | 29.9 |

The Group has a tax loss carried forward on Cyprus equalling a tax asset of USD 16.3 million. This deferred tax asset is not recognised as it is not possible to predict with reasonable certainty whether adequate taxable profit will be available in future against which losses can be utilised.
Net recognised deferred tax asset is expected to be utilised against future net taxable profits.

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

## NOTE 11 I FPSOS, FSOS AND VESSELS UNDER CONSTRUCTION

The fleet at 31 December 2008 included the following vessels: Sendje Berge, Berge Helene, Berge Okoloba Toru, Belokamenka, Yùum K'ak' Náab, BW Nisa, BW Endeavour, BW Cidade de São Vicente, BW Carmen, BW Pioneer 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.

| 2008 | Uncommitted | Vessels under construction* | FPSO | FSO | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2008 | 20.3 | 69.2 | 559.2 | 20.4 | 669.1 |
| Additions | 2.2 | 351.4 | 4.7 | 0.3 | 358.6 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassification | 41.0 | 88.6 | (129.6) | 0.0 | 0.0 |
| **Cost at 31 December 2008** | **63.5** | **509.2** | **434.3** | **20.7** | **1,027.7** |
| | | | | | |
| Accumulated depreciation at 1 January 2008 | 0.0 | 0.0 | (57.8) | (0.7) | (58.5) |
| Current year depreciation | (1.4) | 0.0 | (25.4) | (0.4) | (27.2) |
| Write down** | (46.2) | 0.0 | (36.4) | (7.5) | (90.2) |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassification | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Accumulated depreciation at 31 December 2008** | **(47.6)** | **0.0** | **(119.7)** | **(8.6)** | **(175.9)** |
| | | | | | |
| Book value at 31 December 2008 | 15.9 | 509.2 | 314.6 | 12.1 | 851.8 |
| | | | | | |
| Useful life | N/A | N/A | N/A | 15-25 years | |
| | | | | | |
| Capitalised interest cost vessels under construction | | | 12.3 | | 12.3 |

Vessels under construction are not subject to depreciation.

*BW Cidade de Sao Vicente (formerly BW Peace) was reclassified from FPSO to Construction.

**In 2008, the USD 90.2 million impairment loss represent the write down of certain vessels to the recoverable amount. This has been recognised in the income statement in the line item '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 one 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 scrap values discounted by an estimated discount rate. The cash flows were discounted at a rate of 8.0% on a pre-tax basis. If the estimated pre-tax discount rate applied to the discounted cash flows for the uncommitted fleet had been 1% higher than management's estimates (for example, 9.0% instead of 8.0%), the group would have recognised a further impairment against the uncommitted fleet of USD 1.5 million.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is LIBOR + 1.5% margin.

| 2007 | Uncommitted | Vessels under construction* | FPSO | FSO | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2007 | 11.3 | 67.3 | 340.7 | 19.3 | 438.6 |
| Additions | 23.9 | 233.8 | (1.7) | 1.1 | 257.1 |
| Disposals | (14.9) | (11.6) | 0.0 | 0.0 | (26.5) |
| Reclassification | 0.0 | (220.3) | 220.3 | 0.0 | (0.0) |
| **Cost at 31 December 2007** | **20.3** | **69.2** | **559.3** | **20.4** | **669.2** |
| | | | | | |
| Accumulated depreciation at 1 January 2007 | 0.0 | (0.1) | (37.8) | (0.3) | (38.2) |
| Current year depreciation | 0.0 | 0.0 | (20.0) | (0.4) | (20.4) |
| Disposals | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| Reclassification | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Accumulated depreciation at 31 December 2007** | **0.0** | **0.0** | **(57.8)** | **(0.7)** | **(58.5)** |
| | | | | | |
| Book value at 31 December 2007 | 20.3 | 69.2 | 501.5 | 19.7 | 610.7 |
| | | | | | |
| Useful life | N/A | N/A | 15-25 years | Lifetime | |
| | | | | | |
| Capitalised interest cost for vessels under construction | | | 11.8 | | 11.8 |

* Vessels under construction are not subject to depreciation. The figures in the respective lines relate to depreciation of vessels incurred prior to being transfered to vessels under construction.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is LIBOR + 1.0% margin.

On 30 October 2007, the vessel BW LPG FPSO I was sold.

## NOTE 12 I PROPERTY AND OTHER EQUIPMENT

| 2008<br>USD million | Vehicles and equipment | Computer hardware | Land | Building | Machinery | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2008 | 4.7 | 1.3 | 0.9 | 9.3 | 8.9 | 25.1 |
| Additions | 0.8 | 1.3 | 0.0 | 2.5 | 0.9 | 5.5 |
| Disposals | (0.5) | 0.0 | 0.0 | 0.0 | (0.2) | (0.7) |
| Exchange difference | 0.0 | 0.0 | 0.0 | (2.0) | 0.0 | (2.0) |
| **Cost at 31 December 2008** | **5.0** | **2.6** | **0.9** | **9.8** | **9.6** | **27.9** |
| Accumulated depreciation at 1 January 2008 | (0.8) | (0.5) | 0.0 | (0.7) | (5.2) | (7.2) |
| Current year depreciation | (0.5) | (0.6) | 0.0 | (0.2) | (1.5) | (2.8) |
| Disposals | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 |
| Exchange difference | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accumulated depreciation at 31 December 2008 | (1.1) | (1.1) | 0.0 | (0.9) | (6.5) | (9.6) |
| **Balance at 31 December 2008** | **3.9** | **1.5** | **0.9** | **8.9** | **3.1** | **18.3** |
| Useful life | 5-11 years | 3 years | Indefinite | 50 years | 3-5 years | |

| 2007<br>USD million | Vehicles and equipment | Computer hardware | Land | Building | Machinery | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2007 | 3.5 | 1.5 | 0.0 | 0.0 | 0.0 | 5.0 |
| Changes due to business combinations | 0.0 | 0.0 | 0.8 | 8.5 | 6.4 | 15.7 |
| Additions | 1.4 | 1.2 | 0.0 | 0.0 | 1.9 | 4.5 |
| Disposals | (0.2) | (1.5) | 0.0 | 0.0 | 0.0 | (1.7) |
| Exchange difference | 0.0 | 0.1 | 0.1 | 0.8 | 0.6 | 1.6 |
| **Cost at 31 December 2007** | **4.7** | **1.3** | **0.9** | **9.3** | **8.9** | **25.1** |
| Accumulated depreciation at 1 January 2007 | (0.3) | (0.5) | 0.0 | 0.0 | 0.0 | (0.8) |
| Changes due to business combinations | 0.0 | 0.0 | 0.0 | (0.5) | (4.2) | (4.7) |
| Current year depreciation | (0.5) | (0.3) | 0.0 | (0.1) | (0.9) | (1.8) |
| Disposals | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.3 |
| Exchange difference | 0.0 | (0.0) | 0.0 | (0.1) | (0.1) | (0.2) |
| Accumulated depreciation at 31 December 2007 | (0.8) | (0.5) | 0.0 | (0.7) | (5.2) | (7.2) |
| **Balance at 31 December 2007** | **3.9** | **0.8** | **0.9** | **8.7** | **3.7** | **17.9** |
| 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 |
|---|---|---|---|---|---|---|---|---|
| **Internally developed intangible assets:** | **Goodwill** | **Internal development** | **Soft-ware** | **Techno-logy** | **Order Backlog** | **Tender portifolio** | **Customer rel intangibles** | **Total** |
| Cost: | | | | | | | | |
| At 1 January 2008 | 0.0 | 0.0 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 |
| Additions | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 2.6 |
| Additions – internal development | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.3 |
| Additions – business combination* | 437.8 | 0.0 | 0.0 | 15.8 | 31.1 | 5.3 | 60.9 | 550.9 |
| **Carrying amount, 31 December 2008** | **437.8** | **2.3** | **4.1** | **15.8** | **31.5** | **5.3** | **60.9** | **557.7** |
| Additions | 0.0 | 0.0 | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 | 3.3 |
| Additions - internal development | 0.0 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.5 |
| Effect of foreign exchange | 0.0 | (0.1) | (0.1) | (0.4) | 0.0 | 0.0 | 0.0 | (0.6) |
| **At 31 December 2008** | **437.8** | **4.7** | **7.3** | **15.4** | **31.1** | **5.3** | **60.9** | **562.5** |
| | | | | | | | | |
| Amortisation and impairment: | | | | | | | | |
| | | | | | | | | |
| At 1 January 2008 | 0.0 | 0.0 | (0.7) | 0.0 | 0.0 | (0.0) | 0.0 | (0.7) |
| Amortisation and impairment | 0.0 | 0.0 | (1.0) | (1.1) | (11.9) | (0.9) | (4.0) | (18.9) |
| **At 31 December 2008** | **0.0** | **0.0** | **(1.7)** | **(1.1)** | **(11.9)** | **(0.9)** | **(4.0)** | **(19.6)** |
| Amortisation and impairment** | (167.2) | (1.0) | (2.5) | (1.5) | (9.5) | (0.8) | (6.1) | (188.6) |
| **At 31 December 2008** | **(167.2)** | **(1.0)** | **(4.2)** | **(2.6)** | **(21.4)** | **(1.7)** | **(10.1)** | **(208.2)** |
| | | | | | | | | |
| **Net book value** | | | | | | | | |
| **At 31 December 2008** | **270.6** | **3.7** | **3.1** | **12.8** | **9.7** | **3.6** | **50.8** | **354.3** |
| **At 31 December 2007** | **437.8** | **2.3** | **2.4** | **14.7** | **19.2** | **4.4** | **56.9** | **537.7** |
| | | | | | | | | |
| Economic life | indefinite | | 3 years | 10 years | 3 years | 4 years | 10 years | |
| Amortisation method | | | linear | linear | | | linear | |

Development costs of USD 0,0 million, have been expensed in 2008 (USD 0,0 million in 2007)
* Restated 2007, see note 22 for additional information.

## NOTE 14 | INVESTMENTS IN ASSOCIATED COMPANIES

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

| **2008**<br>**Entity**<br>**Country**<br>**Industry** | **Nexus Floating Production Limited (Nexus)**<br>**Norway**<br>**Floating production** | **Prosafe SE (PRS)**<br>**Cyprus**<br>**Floating production** | **Prosafe Production Ltd (PROD)**<br>**Cyprus** | | **Share of net profit for the year** |
|---|---|---|---|---|---|
| **Ownership interest** | **49.7%** | **26.5%** | **23.9%** | **Total** | **Total** |
| Carrying value 01 Jan 2008 | 121.1 | 857.8 | | 978.9 | |
| Share of net profit* | | 13.9 | | 13.9 | 13.9 |
| Share of currency translation | | | | | |
| against equity | | (0.1) | | (0.1) | |
| Carrying value 15 May 2008 | | 871.6 | | | |
| Dividend PROD 15 May 2008 | | (346.9) | 346.9 | | |
| Disposal of PRS shares | | 524.7 | | (524.7) | |
| Share of net profit* | (0.4) | | (59.2) | (59.6) | (59.6) |
| Unrealised gain/loss directly | (0.7) | | | (0.7) | |
| against equity | | | (16.1) | (16.1) | |
| Impairment charge | (81.3) | | (84.7) | (166.0) | |
| **Carrying amount 31 Dec 2008** | **38.7** | | **186.9** | **225.6** | **(45.7)** |
| Fair value | 25.7 | | 95.8 | 121.5 | |

Note 14 cont.

| 2007<br>Entity | Nexus Floating Production Limited (Nexus) | Prosafe SE (Prosafe) | |
|---|---|---|---|
| Country | Norway | Cyprus | |
| Industry | Floating production | Floating production | |
| Ownership interest | 49.7% | 26.5% | **Total** |
| Investment at cost | 121.5 | 891.9 | 1,013.4 |
| Share of net profit* | -0.4 | 18.1 | 17.7 |
| Dividend | 0.0 | -52.2 | -52.2 |
| Carrying amount 31 Dec 2007 | 121.1 | 857.8 | 978.9 |
| Fair value | 118.2 | 1,064.4 | 1,182.6 |

* Share of net profit in 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 | 586.2 | 391.2 | 195.1 | 0.4 | (0.8) |
| PROD | 1,981.3 | 1,175.6 | 805.7 | 264.7 | (203.6) |
| **Total** | **2,567.5** | **1,566.8** | **1,000.8** | **265.1** | **(204.4)** |

**PROSAFE/PROSAFE PRODUCTION**

As of 1 January 2008, BW Offshore held a 26.5% interest in Prosafe. The Group had a significant influence but did not control the entity. BW Offshore was not represented in the board of Prosafe SE. Prosafe owned and operated seven FPSOs/FSOs and twelve accommodation rigs (flotels). Prosafe was considered an associate since 18 January 2007. Total excess value of USD 480.0 million has been identified in a purchase price allocation, resulting in annual amortisation charges of USD 19.0 million. The acquisition of shares in Prosafe has been settled through cash (USD 136.0 million) and shares (USD 755.9 million).

On 14 May 2008, the Annual General Meeting of Prosafe decided to split the company into an accommodation rig company (PRS) and a floating production company (PROD). The split was carried out by a distribution of 90.1% of the shares in PROD to the shareholders of PRS as a dividend, in which the shareholders in PRS received one share in PROD for each share owned in PRS. Subsequent to the split, the Company held 60.9 million shares in PRS and 60.9 million shares in PROD. At the same time, based on the Company`s estimate of the relative fair values, which incorporated a third party appraisal, the accounting balances of Prosafe SE were allocated to either PRS or PROD. The closing price of the shares in PRS at the last day of trading before the share was traded ex dividend (that is before the distribution of shares in PROD), was NOK 91.40 per share. The opening price of the share in PRS was NOK 55 on the first day of trading ex dividend. As such, the implicit value of the dividend was NOK 36.40 per share. Accordingly, the implicit value of PRS was allocated by 60.2% to the accommodation segment (PRS) and 39.8% to the Floating Production segment (PROD). Trading of the shares in PRS and PROD the following two weeks after the split was done at more or less the same levels as at the split.

Subsequent to the split, the investment in Prosafe SE was classified as held for sale since the carrying amount would be recovered through a sales transaction instead of through continued use. On 23 May 2008, the Company decided to sell the shares in PRS at NOK 55 per share. Net proceeds from the transaction amounted to USD 651.5 million, with a net gain from the transaction of USD 127.0 million.

Subsequent to the split described above, BW Offshore has a 23.9% interest in PROD. The Group has a significant influence but does not control the entity. BW Group is not represented in the board of PROD. PROD owns and operates seven FPSOs/FSOs. PROD has been considered an associate since 2 June 2008, when Prosafe was split in two. Total excess value of USD 192.1 million, has been identified in a preliminary purchase price allocation, resulting in annual amortisation charges of USD 15.4 million on a 100% basis.

During 2008, due to the sharp drop in the share prices and the financial turmoil, the Company after appropriate impairment assessments realised that the value of its investment in PROD had deteriorated and that the estimated recoverable amount of the investments were below book value. Accordingly, following an assessment and incorporating the best available estimates and assumptions, the value in use, which was determined based on discounted cash flow model of estimated future earnings, showed that an impairment charge of USD 84.7 million was required to reduce the carrying value to recoverable value. The discount rate used to estimate the value in use was 8.0% on the fixed period of the contracts and 10% on the option period of the contract. The DCF valuation has only put value on the existing fleet and ongoing conversions. If the estimated pre-tax discount rate applied to the discounted cash flows for the fixed and option periods had been 1% higher or lower than management's estimates, the group would have recognised a further / reversal of impairment against the investment in PROD of approximately USD 19.0 million.

**NEXUS**

BW Offshore has a 49.7% interest in Nexus, which is involved in building FPSO's. Nexus was founded in Singapore in 2006, where APL, a subsidiary of BW Offshore at 31 December 2007, subscribed for 40.33% of the shares. Nexus has entered into a building contract for two FPSOs with shipyard Samsung Heavy Industries in South Korea. During 2008, Nexus signed a Letter of Intent with Burgundy Global Exploration Corporation, however the Letter of Intent did not materialise into a firm contract. The FPSO is now being marketed for new contracts. The building contract for the second FPSO has during 2008 been deferred with an option for Nexus to terminate it without further costs. Nexus is a public company listed on Oslo Stock Exchange in Norway. 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.

The group participates in a convertible bond loan in Nexus. The total loan in Nexus is USD 75.0 million and the group's share is USD 5.3 million. In Nexus, the convertible bond loan has been accounted for in separate components. The value of the conversion right has been recognised as equity and the remaining part as liability. The corresponding equity part of the group's receivable (USD 0.8 million) has been reclassified from receivable to investment in associate.

During 2008, due to the sharp drop in the share prices and the financial turmoil, the Company after appropriate impairment assessments realised that the value of its investment in Nexus had deteriorated and that the estimated recoverable amount of the investments were below book value. Accordingly, following an assessment and incorporating the best available estimates and assumptions, the value in use, which was determined based on discounted cash flow model of estimated future earnings, showed that an impairment charge of USD 81.3 million was required to reduce the carrying value to recoverable value. In addition USD 3.5 million of the convertible bond asset was impaired during 2008. 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 approximately USD 18.0 million.

## NOTE 15 I CASH AND CASH DEPOSITS

Cash and cash equivalents are denominated primarily in USD and NOK. Restricted bank deposits at 31 December 2008 and 31 December 2007 amounted to USD 2.8 million and USD 1.2 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 223.0 million (USD 284.9) related to CIRR financing schemes for Yùum K'ak' Náab and Berge Helene (note 20). The interest rates on these deposits are 4.8% and 3.6% respectively. In addition, a bank deposit of USD 60.4 million has been placed as security for performance guarantees.

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

| | Share capital USD '000 |
|---|---|
| **Authorised share capital** | |
| At 31 December 2007: 500,000,000 ordinary shares at par value USD 0.01 each | |
| Increase during 2008: 0 ordinary shares at par value USD 0.01 each | |
| **At 31 December 2008: 500,000,000 ordinary shares at par value USD 0.01 each** | |
| | |
| **Issued and fully paid** | |
| At 1 January 2007 | 2,051.0 |
| Employee Stock Owning Programme | 13.0 |
| Private placement 15 January | 436.0 |
| Private placement 5 February | 106.0 |
| Private placement 22 February | 44.0 |
| Private placement 23 March | 1,729.0 |
| Private placement 8 May | 183.0 |
| **At 31 December 2007** | **4,562.0** |
| | |
| **At 31 December 2008** | **4,562.0** |

The Company acquired a total of 3,000,000 own shares during 2008 (39,505). Of this, 241.774 shares were transferred to employees as part of the Employee Stock Ownership Program (ESOP). The Company held a total of 2,797,731 own shares at 31 December 2008. These shares are held as 'treasury shares' and will be used for the Company`s ESOP. The total amount paid to acquire the shares was USD 10.0 million less USD 0.8 million paid by employees relating to the ESOP and has been deducted from other equity within shareholders' equity.

The 20 largest shareholders at 31 December 2008 were:

| Shareholder | No of shares | Holding% |
|---|---|---|
| BW GROUP LIMITED * | 305,436,227 | 67.0% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 18,666,535 | 4.1% |
| CREDIT SUISSE SECURITIES (USA) LLC | 12,996,922 | 2.8% |
| VERDIPAPIRFOND ODIN NORDEN | 11,621,975 | 2.5% |
| VERDIPAPIRFOND ODIN NORGE | 10,419,101 | 2.3% |
| ODIN OFFSHORE | 8,584,000 | 1.9% |
| KLP LK AKSJER | 5,853,200 | 1.3% |
| KOLBJØRN INVEST AS | 5,620,000 | 1.2% |
| JPMORGAN CHASE BANK | 4,306,000 | 0.9% |
| MORGAN STANLEY NORWAY EQUITY DEPOT | 3,858,172 | 0.8% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 3,825,934 | 0.8% |
| HOLBERG NORDEN | 3,098,525 | 0.7% |
| UBS AG, LONDON BRANCH | 2,955,300 | 0.6% |
| FOLKETRYGDFONDET | 2,934,500 | 0.6% |
| VERDIPAPIRFONDET KLP AKSJENORGE | 2,845,800 | 0.6% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 2,813,120 | 0.6% |
| BW OFFSHORE LTD | 2,760,793 | 0.6% |
| ODIN EUROPA | 2,479,883 | 0.5% |
| SKANDINAVISKA ENSKILDA BANKEN | 2,437,100 | 0.5% |
| RBC DEXIA INVESTOR SERVICES BANK | 1,795,000 | 0.4% |
| Total 20 largest | 415,308,087 | 91.0% |
| Total number of shares | 456,213,515 | |

* BW Group Limited is approximately 93% owned by companies controlled by corporate interests associated with the Sohmen family.
Chief Executive Officer and Key Management owned a total of 5,622,139 (316,733 in 2007) and 334,800 (5,881,627 in 2007) shares, respectively, in the Company at 31 December.

Note 16 cont.

The 20 largest shareholders at 31 December 2007 were:

| Shareholder | No of shares | Holding% |
|---|---|---|
| BW GROUP LIMITED | 282,336,227 | 61.9% |
| MORGAN STANLEY & CO. INC. | 18,754,068 | 4.1% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 18,666,535 | 4.1% |
| VERDIPAPIRFOND ODIN NORDEN | 11,256,075 | 2.5% |
| GOLDMAN SACHS INT. - EQUITY - | 9,357,918 | 2.1% |
| ODIN OFFSHORE | 7,000,000 | 1.5% |
| CITIBANK, N.A. | 5,855,953 | 1.3% |
| VERDIPAPIRFONDET KLP AKSJENORGE | 5,734,000 | 1.3% |
| UBS AG, LONDON BRANCH | 5,688,132 | 1.2% |
| KOLBJØRN INVEST AS | 5,600,000 | 1.2% |
| VERDIPAPIRFOND ODIN NORGE | 4,661,097 | 1.0% |
| J.P. MORGAN BANK LUXEMBOURG S.A. | 4,147,788 | 0.9% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 3,825,934 | 0.8% |
| MORGAN STANLEY & CO INTL PLC | 3,805,531 | 0.8% |
| BANK OF NEW YORK, BRUSSELS BRANCH | 2,813,120 | 0.6% |
| JPMORGAN CHASE BANK | 2,717,500 | 0.6% |
| UBS AG, LONDON BRANCH | 2,703,247 | 0.6% |
| JPMORGAN CHASE BANK | 1,964,500 | 0.4% |
| VITAL FORSIKRING ASA | 1,936,343 | 0.4% |
| JPMORGAN CHASE BANK | 1,874,959 | 0.4% |
| | 400,698,927 | 87.7% |

## NOTE 17 I TRADE RECEIVABLES

| Total | 2008 | 2007 |
|---|---|---|
| Trade and other receivables - gross | 223.7 | 151.7 |
| Finance lease receivable – current | 13.4 | 23.7 |
| Provision for doubtful debt | (53.7) | (28.6) |
| Trade and other receivables - net | 183.4 | 146.8 |
| Current portion | 183.4 | 146.8 |

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:

| | 2008 | 2007 |
|---|---|---|
| Trade and other receivables | 183.4 | 146.8 |

As of 31 December 2008, trade receivables of USD 30.8 million (USD 11.4 million) were past due 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:

| | 2008 | 2007 |
|---|---|---|
| Up to 3 months | 20.7 | 12.6 |
| 3 – 6 months | 10.1 | 18.1 |
| **Total** | **30.8** | **30.7** |

As of 31 December 2008, trade receivables of USD 53.7 million (USD 28.6 million) has been impaired and provided for. The individual impaired receivables mainly relate to Global (Berge Okoloba Toru) in Nigeria. The aging of these receivables is as follows:

| | 2008 | 2007 |
|---|---|---|
| Up to 3 months | 0.0 | 0.0 |
| Over 3 months | 53.7 | 28.6 |
| **Total** | **53.7** | **28.6** |

Note 17 cont.

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

| | 2008 | 2007 |
|---|---|---|
| NOK | 37.3 | 20.0 |
| USD | 141.0 | 126.8 |
| Other currencies | 5.1 | 0.0 |
| **Total** | **183.4** | **146.8** |

Trade receivables not invoiced relating to construction contracts (note 7).
Charges for doubtful debt are classified as other operating expenses in the income statement.

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

| | 2008 | 2007 |
|---|---|---|
| Provision at 1 January | 28.6 | 3.0 |
| Charge for doubtful debt during the period | 16.4 | 16.7 |
| Deductibles and other charges relates to insurance claims | 8.7 | 8.7 |
| Realized losses for the year | - | - |
| Unused amounts reversed | - | - |
| Changes due to business combinations | - | 0.2 |
| **Provision at 31 December** | **53.7** | **28.6** |

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

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

## NOTE 18 I FINANCIAL RISK MANAGEMENT

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

**FINANCIAL RISK FACTORS**

The Group's activities expose it 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 2008 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. Generally all operating revenue, interest bearing debt and contractual obligations for vessels under construction 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') 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. Therefore, 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 and option agreements 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 very probable purchases and sales in the currency in question.

A 10% weakening of the USD against other currencies at 31 December 2008 would have decreased the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

| | Increase/decrease in USD rate +/- 10% | Effect on profit before tax |
|---|---|---|
| 2008 | Transaction gain or loss on monetary assets and liabilities of monetary assets and liabilities | +/- 10.8 |
| 2007 | Transaction gain or loss on monetary assets and liabilities of monetary assets and liabilities | +/- 14.5 |

The Group held interests in associated companies accounted for under the equity method (Nexus and Prosafe), traded on the Oslo Stock Exchange in NOK, with a fair value of NOK 850.3 million equivalent to USD 121.5 million at 31 December 2008. An increase/decrease in USD rate +/- 10% will have a stand alone effect on the Groups fair value of these shares amounting to +/- USD 12.2 million. Further details regarding associated companies are given in note 14.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2008 | 2007 |
|---|---|---|
| **Currency** | | |
| NOK | 21.6 | 110.7 |
| USD | 914.8 | 1,147.2 |
| Other currency | - | - |
| **Total** | **936.4** | **1,257.9** |

**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 its exposure to changes in foreign currencies against USD, the Group has entered into foreign currency exchange contracts. These hedging arrangements do not qualify for hedge accounting under IAS 39, thus these contracts are accounted for at fair value through the income statement. The market value of these contracts is estimated to USD `-3.2 million at 31 December 2008 (USD 0.1 million). Estimation of fair values of forward exchange contracts are at marked to market using listed market prices.

**Hedging of construction contracts regarding oil field related equipment**
Construction contracts regarding oil field related equipment give rise to revenues and cost of sales in other currencies than USD. In order to reduce the extent of foreign exchange risk, the Group uses forward exchange contracts to hedge the risks related to fixed prices in foreign currency. Use of foreign exchange contracts in these circumstances qualify for hedge accounting as fair value hedges in accordance with IAS 39.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise the hedging effectiveness. The effects of the forward/ future contracts as efficient hedging instruments are recognised with the transaction they are to hedge, while a possible inefficiency in the hedging is recognised as a finance cost. The Group applies financial instruments in the currency involved in order to reduce foreign exchange rate exposure for net investments.

Fair values of foreign exchange contracts at 31 December 2008 amounted to USD 18.1 million (USD 5.2 million) and USD -3.0 million (USD -5.5 million) and are presented gross in the balance sheet. Net positive effect of forward exchange contracts recognised in the income statement in 2008 is USD 15.4 million (USD 4.1 million), equalling the amount of the change recognised in the underlying hedged item.

**CREDIT RISK**
Several of the Group's contracts are long-term. There can be 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 they represent of 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 96% of the Group`s portfolio are with National Oil Companies, and only 4% is with independent 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 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 deposit 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 below sets out the maturity profile of the Groups financial liabilities based on contractual undiscounted payments. When a counterparty has a choice of when an amount is to be paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. Financial liabilities that can be required to be repaid on demand are included in the 'within 1 month' column.

| | Period left | | | | | |
|---|---|---|---|---|---|---|
| Year ended 2008 | Within 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years | Total |
| USD 1,500 million facility | - | - | - | 691.3 | - | 691.3 |
| CIRR financing schemes* | - | 8.2 | 31.0 | 183.8 | - | 223.0 |
| Mortgage loan | 0.1 | - | 0.3 | 2.0 | 1.9 | 4.3 |
| Bond loan | - | - | - | 17.3 | - | 17.3 |
| Other short term loan and borrowings | - | 0.4 | - | - | - | 0.4 |
| Other liabilities non-current | - | - | - | 33.5 | 9.6 | 43.1 |
| Interest rate swaps | - | 1.7 | 12.4 | 41.0 | - | 55.1 |
| Interest payments | 10.3 | 0.4 | 15.7 | 91.5 | 1.0 | 118.9 |
| Trade and other payables current | - | - | 378.7 | - | - | 378.7 |
| **Total** | **10.4** | **10.7** | **438.1** | **1,060.4** | **12.5** | **1,532.1** |

* A total amount of USD 223.0 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 cont.

| Year ended 2007 | Period left<br>Within 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| USD 600 million facility | - | - | - | 462.2 | - | 462.2 |
| CIRR financing schemes** | - | 8.2 | 53.7 | 223.0 | - | 284.9 |
| Mortage loan | 0.1 | - | 0.4 | 2.0 | 4.1 | 6.6 |
| Bond loan | - | - | - | 91.4 | - | 91.4 |
| USD 400 million facility* | - | - | 400.0 | - | - | 400.0 |
| Other short term loan and borrowings | - | - | 18.8 | - | - | 12.8 |
| Other liabilities non-current | - | - | - | 22.6 | 8.7 | 31.3 |
| Interest rate swaps | - | 0.2 | 1.0 | 19.8 | - | 21.0 |
| Interest payments | 1.3 | 10.8 | 35.1 | 151.8 | 0.0 | 198.9 |
| Trade and other payables current | - | - | 159.6 | - | - | 159.6 |
| **Total** | **1.4** | **19.2** | **662.6** | **972.8** | **12.8** | **1,668.7** |

* The maturity of the loan is extended until May 2009 (note 20).
** A total amount of USD 284.9 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:

| | 2008 | 2007 |
|---|---|---|
| Floating rate | | |
| Expire within one year | - | 56.4 |
| Expire beyond one year | 800.0 | 158.9 |
| Fixed rate | | |
| Expire within one year | - | - |

The loan facility with BW Group amounts to USD 1,500 million. Undrawn amount is USD 800.0 million which can be utilised as long as the Group are in compliance with its loan covenants.

The Group had no loans advanced to associates at 31 December 2008.

**INTEREST RATE RISK**

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

| | 2008 | 2007 |
|---|---|---|
| 6 months or less | 713.0 | 560.2 |
| 6-12 months | - | 0.0 |
| 1-5 years | 223.0 | 284.9 |
| Over 5 years | - | 0.0 |
| | 936.0 | 845.1 |

Average interest rate on cash deposits were 5.5% in 2008 (5.0%).

Financial assets and liabilities are short term with floating rate, and therefore there is no material difference between carrying value and fair value.

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| CIRR | 223.0 | 284.9 | 223.0 | 284.9 |
| BW Group facility | 700.0 | 0.0 | 700.0 | 0.0 |
| Mortage loan APL | 4.3 | 6.6 | 4.3 | 6.6 |
| Bond loan | 17.3 | 91.4 | 14.7 | 91.4 |
| | 935.9 | 382.9 | 942.0 | 321.0 |

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 700 million in total. A collar of USD 200 million was entered into in September 2007 (LIBOR floor rate of 4,23% and LIBOR cap rate of 5,5%, maturity 3Q2012). In April 2008 the Group entered into a interest swap of USD 300 million (LIBOR 3,425%, maturity 2Q2013) and a interest swap of USD 200 million (LIBOR 3,740%, maturity 2Q2013). The swaps were entered into while the Group was still holding the USD 600 million facility with DnB, but continued to reduce the interest rate risk to the new facility USD 1,500 million with BW Group Limited. The market value of the interests derivatives amounted to USD -48.9 million at 31 December 2008 and is recognized 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 |
|---|---|---|
| 2008 | +/- 50 | +/- 1.9 |
| 2007 | +/- 50 | +/- 1.1 |

The average interest rate on financial instruments were as follows:

| | 2008 | 2007 |
|---|---|---|
| Loans secured by collateral | 4.7% | 5.9% |
| Bank loans - unsecured | 5.4% | 7.1% |

**CAPITAL STRUCTURE AND EQUITY**

Capital structure is monitored by the BW 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 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 2007 and 31 December 2006.

## NOTE 19 I RETIREMENT BENEFIT OBLIGATIONS

All office employees in Norway, Norwegian seafaring personnel and parts of office employees in other countries than Norway are covered by five defined benefit 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 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 Act on Mandatory Company pensions in Norway.

The above mentioned plans had 368 members at 31 December 2008 and 243 members at 31 December 2007. No other post-retirement benefits are provided.

The most recent actuarial valuations of plan assets and the defined benefit obligation were carried out at 31 December 2008 by Storebrand Actuarial Services, a member of the Norwegian Institute of Actuaries.

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 pension liabilities or pension funds, whichever is the larger 'corridor'. The discount rate is 10 a year Norwegian government bond with addition of a risk element.

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

| | 2008 | 2007 |
|---|---|---|
| Discount rate | 3.8% | 4.90% |
| Expected return on plan assets | 5.8% | 5.90% |
| Future salary increases | 4.0% | 4.50% |
| Future pension increases | 1.5% | 2.00% |
| Increase in social security base amount related to Norwegian state pension | 3.75% | 4.25% |
| 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:

| | 2008 | 2007 |
|---|---|---|
| Male | 15.8 | 15.9 |
| Female | 19.0 | 19.0 |

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

| USD million | 2008 | 2007 |
|---|---|---|
| Present value of funded obligations | 29.1 | 26.5 |
| Fair value of plan assets | (19.2) | (20.1) |
| Present value of unfunded obligations | 2.0 | 1.4 |
| Unrecognised actuarial gains/(losses) | (2.3) | 0.9 |
| **Liability in the balance sheet** | **9.6** | **8.7** |

The amounts recognised in the income statement are as follows:

| USD million | 2008 | 2007* |
|---|---|---|
| Current service cost | 5.2 | 5.7 |
| Interest cost | 1.4 | 1.0 |
| Expected return on plan assets | (1.3) | (0.8) |
| Change in contracts | 0.0 | (2.8) |
| Administrative cost | 0.7 | 0.0 |
| Net actuarial gain recognised during the financial period | 0.3 | 0.1 |
| **Net periodic pension cost (Note 9)** | **6.3** | **3.0** |

* At 8 May 2007 the Group acquired employees from related companies. The net periodic pension cost in 2007 covers the period 8 May to 31 December.

Best estimate of net pension cost for 2009 amounts to USD 6.2 million (USD 4.0 million). Best estimate of premium payments in 2008 amounts to USD 2.8 million (USD 2.0 million).

The movement in the liability recognised in the balance sheet is as follows:

| USD million | 2008 | 2007 |
|---|---|---|
| At 1 January | (8.7) | (4.0) |
| Acquisitions of subsidiaries | - | (5.1) |
| Contributions paid | 2.8 | 3.7 |
| Termination of contracts | 0.3 | 0.0 |
| Exchange differences | 2.3 | (0.3) |
| Charged to income statement* | (6.3) | (3.0) |
| **At 31 December** | **(9.6)** | **(8.7)** |

* Expenses related to defined contribution plans amounted to USD 0.4 million in 2008 (USD 0.3 million)

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

| | 2008 | 2007 |
|---|---|---|
| Shares and equity instruments | 6.7% | 24.5% |
| Bonds - fixed yield | 18.5% | 17.4% |
| Bonds held to maturity | 31.3% | 25.8% |
| Properties and real estate | 16.7% | 13.7% |
| Loans | 3.2% | 1.3% |
| Money market funds | 13.3% | 8.6% |
| Other | 10.3% | 8.7% |
| **Total** | **100%** | **100.0%** |

The actual return on plan assets amounted to - 2.0% (6.4%) at 30 September 2008.

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 that 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 2008 | 2007 |
|---|---|---|---|---|
| **Secured** | | | | |
| CIRR Y'uum K'ak' Naab | 4.77% | 9 July 2012 | 182.0 | 227.5 |
| CIRR Berge Helene | 3.57% | 17 February 2011 | 41.0 | 57.4 |
| Mortage loan | 3 month NIBOR + 0.60% | 15 March 2022 | 4.3 | 6.6 |
| **Total secured long-term debt** | | | **227.4** | **291.5** |
| | | | | |
| **Unsecured** | | | | |
| BW Group Limited USD 1,500 million facility | LIBOR + 1.25% | 30 May 2013 | 691.3 | 0.0 |
| Bank loan USD 600 million facility | | | 0.0 | 462.2 |
| Bond loan APL (NOK 500 million) | 3 month NIBOR + 2.75% | 28 March 2012 | 17.3 | 91.4 |
| **Total unsecured long-term debt** | | | **708.6** | **553.6** |
| | | | | |
| Total long-term debt | | | 936.0 | 845.1 |
| 1st year's principal repayments on long-term debt (note 18) | | | (0.4) | (0.5) |
| **Total long-term debt excluding the 1st year's principal repayments** | | | **935.6** | **844.6** |
| | | | | |
| **Short term loan** | | | | |
| Secured | | | | |
| Bank loan USD 400 million facility | | | 0.0 | 400.0 |
| Bank loan SEK 429 million facility | | | 0.0 | 13.3 |
| Other | | | 0.4 | 0.0 |
| | | | **0.4** | **413.3** |

**USD 1,500 million facility BW Group**
At 31 December 2008, a total of USD 691.3 million has been drawn down on the loan facility.

An arrangement fee of USD 8.7 million on the credit facility has been capitalised and will be expensed over the five year term of the loan. There is a commitment fee of 0.5% of available, undrawn amount under this facility.

The facility agreement is subject to loan covenants, 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 2.5 during 2009 and then a maximum debt to borrowing ratio of 1.0 going forward. 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 2008.

**NOK 500 million bond loan**
In 2006, APL, a subsidiary of BW Offshore, entered into a loan agreement with Norsk Tillitsmann ASA regarding a bond loan of NOK 500 million at a floating interest rate of NIBOR plus 2.75%.

The Company bought back nominal value of NOK 378.5 million during 2008. Capitalized costs totalling USD 1.3 million relating to the repurchased bonds have been expensed. In addition a gain of USD 1.4 million arose on the repurchase of those repurchased bonds.

The loan will run without instalments and mature in whole on the maturity date being 28 March 2012.

The loan is listed on Oslo Børs ASAs Alternative Bond Market. The obligations of the Company under the loan agreement are not secured by any mortgage, pledge or other security.

APL has a call option to redeem the loan or any portion from 28 March 2010 subject to specific requirements.

The bond loan is subject to loan covenants, including an equity ratio of at least 25% of total assets among other covenants. At balance sheet date the Company is in compliance with all loan covenants.

**CIRR financing**
A total of USD 223.0 million has been drawn down on two loan facilities (CIRR) entered into with Eksportfinans ASA related to the conversions of Berge Helene and 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.

**Mortgage loan**
In 2006, APL Property AS, a subsidiary of BW Offshore, entered into a loan agreement with Handelsbanken regarding a mortgage loan of NOK 40.0 million at a floating interest rate of NIBOR plus 0.6%.

The loan is a serial loan with quarterly instalments over 15 years.

## NOTE 21 I INVESTMENT IN JOINT VENTURE

The Group has the following investment in a joint venture:

| Company | Registered office | Holding in% 2008 | Holding in% 2007 |
|---|---|---|---|
| LLC Oil Terminal Belokamenka | Russia | 50% | 50% |

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

| | 2008 LLC Oil Terminal Belokamenka | 2007 LLC Oil Terminal Belokamenka |
|---|---|---|
| Revenue | 7.7 | 6.1 |
| Expenses | (6.4) | (5.8) |
| Net financial Items | - | (0.2) |
| Profit before tax | 1.3 | 0.1 |
| Income tax expense | (0.2) | 0.1 |
| **Profit after tax** | **1.1** | **0.2** |
| | | |
| Non-current assets | 0.4 | 0.4 |
| Current assets | 2.3 | 1.6 |
| **Total assets** | **2.7** | **2.0** |
| | | |
| Equity | 2.0 | 0.9 |
| Non-current liabilities | 0.0 | 0.0 |
| Current liabilities | 0.7 | 1.1 |
| **Total Equity and liabilities** | **2.7** | **2.0** |

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.
- Management services, USD 84,000 per month.

## NOTE 22 I BUSINESS COMBINATIONS

BW Offshore acquired APL during the first nine months of 2007, in which the Company obtained control on 8 May 2007. The acquisition of the APL shares was financed by cash, shares and by loan with a total consideration of USD 590.0 million, including transaction costs. BW Offshore issued 28,861,024 new shares at NOK 28.1, which was market value at the time of the acquisition.

APL is an international Company located in Cyprus. APL specialises in the manufacture of mechanical products for the oil industry. The management believes the acquisition provides the Company with an even better position in the oil industry and that it has a positive effect on future earnings, in excess of the fair value of acquired net assets and based on synergies with the existing business. Ownership interest equals the share of voting rights.

The Group has during 2008 finalised the purchase price allocation and the allocation of goodwill to cash generating units.

According to the final purchase price allocation, the net assets acquired in the acquisition of APL are:

| | Carrying amount 8 May 2007 | Fair value in excess of carrying amount | Final allocation 8 May | Preliminary allocation 2007 |
|---|---|---|---|---|
| Technology | 0.0 | 15.8 | 15.8 | 15.8 |
| Order backlog | 0.0 | 31.1 | 31.1 | 31.1 |
| Tender portfolio | 0.0 | 5.3 | 5.3 | 5.3 |
| Intangible asset | 35.7 | (35.7) | 0.0 | 0.0 |
| Investment in associated company | 68.6 | 11.4 | 80.0 | 80.0 |
| Customer related intangibles | 0.0 | 60.9 | 60.9 | 0.0 |
| Other identifiable assets, less liabilities | (8.9) | 0.0 | (8.9) | (8.9) |
| Deferred tax liabilities | 0.0 | (32.0) | (32.0) | (14.9) |
| **Total** | **95.4** | **56.8** | **152.2** | 108.4 |
| | | | | |
| Consideration paid for 100.0% | | | 590.0 | 589.6 |
| Goodwill from the acquisition | | | 437.8 | 481.2 |

The effect of adding value to customer related intangibles is an increase in amortisation of USD 6.0 million before tax per year, decreasing the tax expense by approximately USD 1.7 million per year. The isolated restatement effects on the 2007 figures were as follows: Amortisation increased with USD 4.0 million and the tax expense decreased with USD 1.2 million.

| | Shareholding acquired 100% |
|---|---|
| Cash | 452.5 |
| Shares issued at fair value | 133.3 |
| Cost associated with acquisition | 4.2 |
| **Total consideration paid** | **590.0** |

| | |
|---|---|
| Total cash paid | 456.3 |
| Cash in APL at 8 May 2008 | (73.6) |
| **Net decrease in cash** | **382.7** |

Included in goodwill is also the value of employees with special skills, track record and expected synergies with the existing business of APL and BW Offshore. These intangible assets do not fulfil the recognition criteria under IAS 38 and are therefore not recognised separately.

## NOTE 23 | IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES

In 2007, when BW Offshore acquired 100% of the shares in APL (Advanced Production & Loading) Plc (APL) became a wholly owned subsidiary of BW Offshore.

Recognised preliminary goodwill, in the Group at 31 December 2007, derived from the acquisition of APL, was USD 481.2 million. APL was defined as a separate cash-generating unit (CGU) within the Group. All goodwill from this acquisition was temporarily allocated to this CGU.

The Company finalised the fair value of the net identifiable assets acquired in the second quarter 2008, resulting in identifying customer related intangibles of USD 60.9 million, bringing the carrying value of Goodwill to USD 437.8 million.

Due to the drop in oil prices and the global credit crunch the Company, in October, performed an impairment assessment of goodwill resulting in an impairment charge of USD 167.2 million. The recoverable amount of the APL cash generating unit (CGU) was determined based on 'value-in-use' calculations.

Projected cash flows of the APL CGU have been determined based on the forecasts approved by the Group Management, covering a five-year period. The projected cash flows are based on historical cash flows for the CGU, updated to reflect estimated development in the total market, our market share and the prices of our products. The management expect the market situation to be challenging the coming years and have anticipated a negative growth in the coming three years.

Growth rate beyond the five year period are extrapolated using an estimated growth rate of 1.0%, reduced from 2.0% last year. Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pretax and reflect specific risks relating to the relevant operating segments. No other class of asset than goodwill was impaired.

The discount rate, based on Weighted Average Cost of Capital (WACC), used for calculating the net present value of the cash flow is 9.3%, reduced from 9.8% in 2007. The risk premium is based on empirical data of similar companies listed on Oslo Stock Exchange. The main changes in the discount rate compared to last year are applying a higher risk premium, offset by reduced interest rates. In addition the beta of similar companies is significantly higher compared to last year again reducing the discount rate.

Following the impairment charge of goodwill amounting to USD 167.2 million, the carrying value of goodwill at 31 December 2008 was USD 270.6 million.

| | Purchase price allocation 2007 | Carrying value before impairment | Impairment charge | Carrying value 2008 |
|---|---|---|---|---|
| Goodwill | 437.8 | 437.8 | (167.2) | 270.6 |

**Sensitivity in key assumptions used**
APL was acquired in 2007 and the value of the entity is based on several key assumptions.

- If the terminal growth rate beyond the five year forecast had been 0.0% instead of 1.0% the group would have recognised a further impairment of goodwill by USD 23.0 million.
- If the estimated pre-tax discount rate applied to the discounted cash flows for the APL CGU had been 1% higher than management's estimates (for example, 10.3% instead of 9.3%), the group would have recognised a further impairment against goodwill by USD 36.0 million.

Management updated the goodwill impairment assessment at year end, according to IAS 36, and have concluded no further impairment was necessary.

The following table highlight the impairments and write offs.

| | Note | 2008 | 2007 |
|---|---|---|---|
| Impairment charge uncommitted fleet | 11 | 90.2 | 0.0 |
| Impairment charge goodwill | 23 | 167.2 | 0.0 |
| Other provision | 27 | 76.7 | 0.0 |
| **Total** | | **334.1** | **0.0** |

## NOTE 24 | 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.

| | 2008 | 2007 |
|---|---|---|
| Profit attributable to equity holders of the Group (USD million) | (532.6) | 50.5 |
| Weighted average number of ordinary shares in issue (thousands) | 456,214 | 407,049 |
| Basic and dilluted earnings per share | (1.17) | 0.12 |

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

## NOTE 25 | RELATED PARTIES TRANSACTIONS

The ultimate holding corporation is BW Group Limited, 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 a part of the ordinary operations and at arm's length prices.

Remuneration to the Board of Directors, auditors and key 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:

| | 2008 | 2007 |
|---|---|---|
| Interest expenses to Group companies* | 21.8 | 0.0 |
| Management, administration and rental services from BW Gas | 1.6 | 4.7 |
| Year-end balances | | |
| Receivables from Group companies | 0.3 | 0.0 |
| Payables to Group companies | 0.1 | 1.8 |
| Loans | 700.0 | 0.0 |

* Interest expenses were related to loans from BW Group Limited for 2008. The terms of the agreement are LIBOR + 1.25%.

The non-trade amount due to the ultimate holding corporation at 31 December 2008 was USD 700.0 million (USD 0.0 million in 2007).

The Group has had transactions with the associated company Nexus. The transactions relate to management services regarding building of FPSOs.
In addition, Nexus has entered into agreements with the Group regarding delivery of complete STP-systems for the vessels.

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** | 2008 | 2007 |
|---|---|---|
| Trade receivable at 31 December | 0.0 | 0.7 |
| Convertible bond at 31 December | 1.0 | 5.3 |
| Total sales | 36.6 | 14.7 |

In 2007 the Group entered into an option agreement with BW Euroholdings Limited, a wholly owned subsidiary of BW Group Limited, to purchase 39.4 million shares in Prosafe at NOK 86 per share. Fair value of the option, recorded in the income statement as a financial item at the date when the option was granted 18 January 2007, amounted to USD 60.4 million. Fair value of the option was reduced to USD 30.1 million at the date when the option was exercised 23 March 2007. Net effect recognised in financial income from financial instruments in 2007, amounted to USD 30.1 million.

## NOTE 26 | COMMITMENTS

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

| | 2008 | 2007 |
|---|---|---|
| Nominal amount | 146.7 | 100.7 |
| Net present value | 137.8 | 94.6 |
| Interest rate | 6.5% | 6.5% |

The Group has entered into lease agreements (classified as operating leases) for offices in various countries with durations varying from 3 to 15 years. Total annual rent for the head office amounts to USD 2.5 million.

The Group has issued performance guarantees in favour of various customers totalling USD 171.6 million (USD 195.0 million).

## NOTE 27 I PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

On 19 December 2008, Anzon Australia Limited, on behalf of the participants in the Basker Manta Gummy (BMG) project, gave notice to BW Offshore of a termination of the Letter of Intent ('LoI') signed in July 2008 for the supply of a FPSO for the proposed BMG project. BW Offshore will act according to the conditions under the LoI related to a termination with the purpose of seeking recovery of the costs already occurred on the project in full from Anzon. BW Offshore has provided for the estimated project costs related to the BMG project, which amounts to USD 88.8 million. These costs have been included as 'Impairment charges and write downs' in the income statement for 2008. Whilst the Company is confident of its claim against Anzon under the LoI, for accounting purpose it is not able to recognize the claimed reimbursement from the BMG partners as the outcome of this claim is not deemed 'virtually certain' according to IAS 37.

On 1 October 2008, BW Offshore initiated a legal claim against a subcontractors in connection with losses due to compressor failures onboard one of its vessels. Whilst the Company is confident of its claim, it does not meet the recognition criteria of 'virtually certain' and accordingly has not been recognised in the accounts.

On 21 December 2007 the Group received a writ of summons from a subcontractor for approximately USD 50 million. The claim was subsequently reduced to USD 17 million in 2008. Significant parts of the claim are still being contested by the Group and preparations made for a potential legal process. The outcome of the legal process is not certain, but the expected outcome of the settlement of this claim is reflected in the financial statements.

In 2006 and 2007 there have been changes in laws in Mexico 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 yet not agreed on how to calculate and allocate the financial effects of these changes. The original amount disputed was USD 83.8 million but this amount is in 2008 reduced to USD 66.7 million. The Group has made a provision of USD 34.4 million in this respect (included in the 2007 income statement).

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

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

| | 2008 | 2007 |
|---|---|---|
| Provisions at beginning of period | 7.7 | 0.0 |
| Additions | 76.7 | 50.8 |
| Reversals/payments | (30.0) | (34.4) |
| Offset against receivables | (8.7) | (8.7) |
| **Provisions at end of period** | **45.7** | **7.7** |

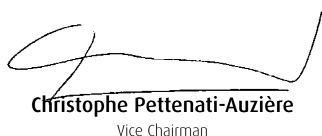
## NOTE 28 I TRADE AND OTHER PAYABLES

| | 2008 | 2007 |
|---|---|---|
| Trade payables | 45.7 | 47.2 |
| Amounts due to related parties | 9.1 | 6.1 |
| Accrued vessel expenses | 26.5 | 14.8 |
| Derivatives at fair value (note 18) | 55.5 | 9.8 |
| Accrued construction contract expenses | 128.4 | 80.6 |
| Advance payments (note 7) | 45.9 | 8.1 |
| Accrued other expenses | 5.7 | 0.0 |
| VAT etc | 7.0 | 6.3 |
| Provisions | 45.7 | 7.7 |
| Other accruals | 9.9 | 0.0 |
| **Total** | **378.7** | **180.6** |

## NOTE 29 | SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 2 February 2009, the vessel BW Endeavour was sold at a price equalling its book value. The vessels was delivered to its buyer on 25 February 2009.

Bermuda, 26 March 2009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