# Annual Report 2009

Fred.Olsen Energy ASA

# Contents

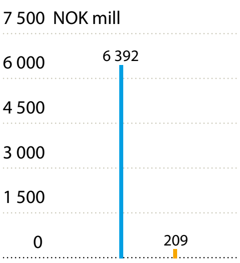
# A Brief Presentation

Fred. Olsen Energy ASA (The Company) is listed on the Oslo Stock Exchange and is a leading provider of exploration and development services to the oil and gas industry. The Company is based on more than 150 years experience within shipping and close to 40 years in offshore drilling, and provides competitive solutions to the benefit of its customers, employees and shareholders.

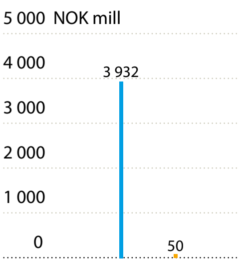
- Offices
- Semi submersibles
- Deepwater Drillship

The Company is headquartered in Oslo with offices in Norway, the UK, Singapore, Bermuda, Brazil, Mozambique, India, Hungary and the US.

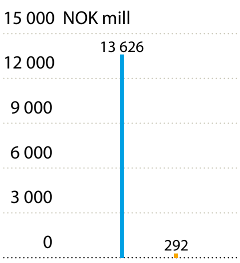
Revenues 2009



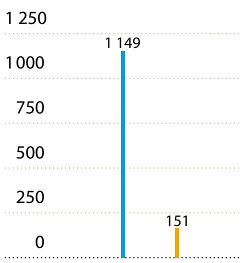

EBITDA 2009




Assets per 31.12.2009



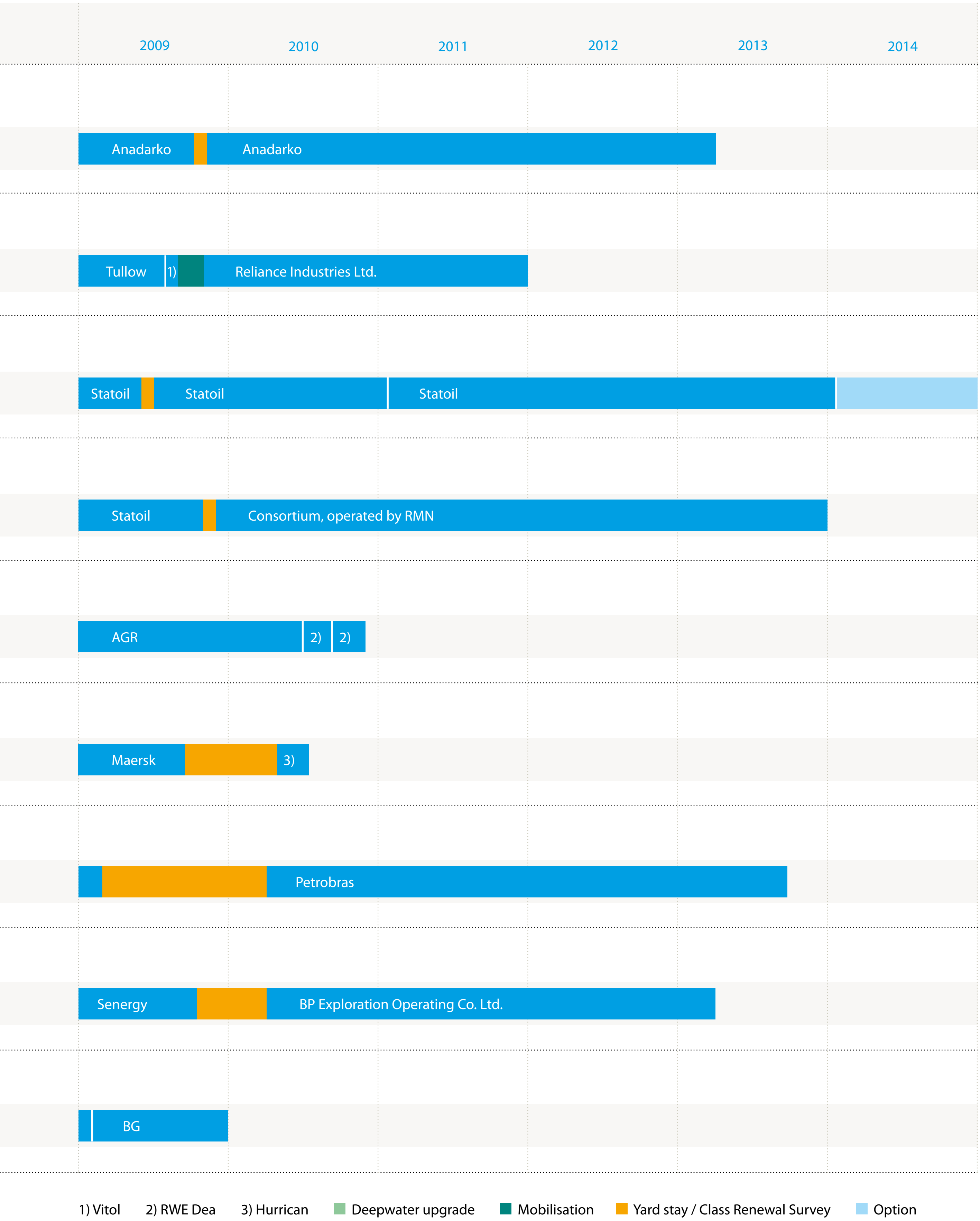

Employees per 31.12.2009




- Offshore drilling
- Engineering and fabrication (including eliminations)

# Contract Overview

| | Name/ Ownership | Type | Location | Built year/ upgrade | Water depth | Features |
|---|---|---|---|---|---|---|
|  | Belford Dolphin (100%) | Drill ship | Mozambique | 2000 | 10 000 ft | 80 000 barrels storage<br>15 000 psi |
|  | Blackford Dolphin (100%) | Aker H-3 Enhanced | India | 1974/-08 | 7 000 ft | 2*85 t deck cranes<br>15 000 psi |
|  | Bideford Dolphin (100%) | Aker H-3 Enhanced | Norway, North Sea | 1975/-99 | 1 500 ft | 1*45 t + 1*50 t deck cranes<br>10 000 psi |
|  | Borgland Dolphin (100%) | Aker H-3 Enhanced | Norway, North Sea | 1976/-99 | 1 500 ft | 1*45 t + 1*60 t deck cranes<br>15 000 psi |
|  | Bredford Dolphin (100%) | Aker H-3 | Norway, North Sea | 1976 /-81/-97/-01/-07 | 1 500 ft | 2*50 t deck cranes<br>10 000 psi |
|  | Borgsten Dolphin (100%) | Aker H-3 | UK, North Sea | 1975 /-85/-95/-00 | 1 500 ft | 1*50 t +1*40 t deck cranes<br>10 000 psi |
|  | Borgny Dolphin (100%) | Aker H-3 | Brazil | 1977 /-85/-91/-92/-97/-02 /-10 | 2 300 ft | 2*50 t deck cranes<br>10 000 psi |
|  | Byford Dolphin (100%) | Aker H-3 | UK, North Sea | 1973 /-85/-90/-96/-98 /-10 | 1 500 ft | 1*40 t + 1*60 t deck cranes<br>15 000 psi |
|  | Borgholm Dolphin (100%) | Aker H-3 Accommodation | UK, North Sea | 1975/-02 | | 2*49 t deck cranes<br>600 beds |


2009
2010
2011
2012
2013
2014
Anadarko
Anadarko
Tullow
1)
Reliance Industries Ltd.
Statoil
Statoil
Statoil
Statoil
Consortium, operated by RMN
AGR
2)
2)
Maersk
3)
Petrobras
Senergy
BP Exploration Operating Co. Ltd.
BG
1) Vitol
2) RWE Dea
3) Hurrican
Deepwater upgrade
Mobilisation
Yard stay / Class Renewal Survey
Option

Fred. Olsen Energy – Group

# Financial Summary 2005-2009

| Income Statement Data | All amounts in NOK mill | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Revenues | | 6 600.0 | 5 786.8 | 4 277.0 | 4048.2 | 2882.9 |
| Operating profit before depreciation (EBITDA) | | 3 981.2 | 3 336.7 | 1 954.9 | 1709.0 | 920.6 |
| Net result after tax (hereof majority interests) | | 2 749.0 | 2 092.6 | 1 391.9 | 973.8 | -15.7 |
| Minority interests | | 5.1 | 4.0 | 0 | 0 | 0 |

| Assets | | | | | |
|---|---|---|---|---|---|
| Current assets | 3 736.0 | 6 129.5 | 1 930.8 | 1 932.9 | 1 700.2 |
| Long term assets | 10 133.5 | 10 556.0 | 7 266.4 | 6 301.7 | 5 539.6 |
| Total assets | 13 869.5 | 16 685.5 | 9 197.2 | 8 234.6 | 7 239.8 |

| Liabilities and equity | | | | | |
|---|---|---|---|---|---|
| Interest bearing debt | 6 721.7 | 9 963.0 | 4 157.0 | 3 376.1 | 3 295.3 |
| Total liabilities | 8 189.9 | 11 152.8 | 5 109.0 | 4 297.3 | 4 289.2 |
| Equity of majority | 5 671.0 | 5 528.7 | 4 088.2 | 3 937.3 | 2 950.6 |
| Minority interests | 8.7 | 4.0 | 0 | 0 | 0 |
| Total liabilities and equity | 13 869.5 | 16 685.5 | 9 197.2 | 8 234.6 | 7 239.8 |

| Key Figures | Definitions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Market capitalization | 1 | 14 806.1 | 12 271.7 | 19 841.4 | 19 225.9 | 14 864.1 |
| Net interest bearing debt | 2 | 4 707.6 | 6 289.2 | 3 443.4 | 2 463.6 | 2 578.2 |
| Enterprise value | 3 | 19 513.7 | 18 560.9 | 23 284.8 | 21 689.5 | 17 442.3 |
| Debt/Book equity ratio | | 1.19 | 1.80 | 1.02 | 0.86 | 1.12 |
| Debt/Market capital ratio | | 0.45 | 0.81 | 0.21 | 0.18 | 0.22 |
| Current ratio | 4 | 1.52 | 2.33 | 0.95 | 2.02 | 1.30 |
| EBITDA margin | 5 | 60.3 % | 57.7 % | 45.7 % | 42.2 % | 31.9 % |
| Average number of shares outstanding | | 66.7 mill | 66.7 mill | 66.2 mill | 62.9 mill | 60.5 mill |
| Share price at year end | 6 | 222.0 | 184.0 | 297.5 | 292.0 | 243.0 |
| Basic earnings per share (EPS) | 7 | 41.5 | 31.4 | 21.0 | 15.5 | -0.3 |
| Diluted earnings per share | | 41.5 | 31.4 | 20.9 | 15.1 | -0.3 |
| Capital expenditures per share | | -34.1 | -30.9 | -34.1 | -26.4 | -8.5 |
| Price/Earnings | 8 | 5.4 | 5.9 | 14.1 | 18.9 | neg. |
| Price/Book | 9 | 2.6 | 2.2 | 4.9 | 4.9 | 5.0 |
| EV/EBITDA | | 4.9 | 5.6 | 11.9 | 12.7 | 18.9 |

1 Closing price * number of shares at year-end
2 Short-term debt + Long-term debt - Cash and cash equivalents
3 Market capitalisation + Net interest bearing debt
4 Current assets / Current liabilities
5 EBITDA / Revenues
6 Last trade on last trading day of the year
7 Net profit / average number of shares outstanding
8 Closing price / EPS
9 Closing price / Book value per share

Fred. Olsen Energy Group and Fred. Olsen Energy ASA

# Board of Director's Report 2009

The operating activities of Fred. Olsen Energy ASA and its subsidiaries ("Group") consist of offshore drilling as well as engineering and fabrication services. The parent company of the Group is Fred. Olsen Energy ASA the ("Company"), with its corporate headquarter located in Oslo, Norway. The Group manages its activities from offices in Norway, the UK, Singapore, the US (Houston), India, Mozambique, Hungary, Bermuda and Brazil. Operation of the Group's offshore units is managed through Dolphin AS (100% owned) in Stavanger and Dolphin Drilling Ltd. (100% owned) in Aberdeen. The Harland & Wolff (H&W) shipyard, located in Belfast, Northern Ireland, and related activities form the Group's engineering and fabrication division (92,2% owned).

Gross revenues in 2009 were NOK 6 600 million, an increase of NOK 813 million from the previous year. The Group achieved earnings before interest, taxes, depreciation and amortization (EBITDA) of NOK 3 981 million compared to EBITDA of NOK 3 337 million in 2008. The cash flow from operations amounted to NOK 4 225 million compared to NOK 2 150 million for 2008. Net interest bearing debt at 31 December 2009 for the Group was NOK 4 708 million.

## Markets and prospects

The number of tenders and fixtures within the offshore drilling market has been limited in 2009, compared to a high level in 2007 and 2008 with increasing lead-times, due to a low oil price in the beginning of 2009 and a challenging funding situation, especially for small independent oil companies. However, during 2009 the oil price has increased from around USD 40 per barrel in the beginning of the year to become relatively stable in the second half of 2009 and into 2010 at levels between USD 60 and 80 per barrel. Towards the end of 2009 there has been an increase in the number of enquiries and pre-tendering activity, which globally has materialized in new contracts.

During the period 2009 to 2012 a total of 97 new build offshore floating drilling units are scheduled to enter the market of which a total of 19 units were delivered in 2009. Only three of these new units are specifically designed for the mid-water segment. Despite the relatively high number of newbuilds, the majority of these will commence operation on long-term contracts at attractive dayrates. At year-end 2009 73% of the newbuilds have secured contracts.

The Group operates two deepwater units Belford Dolphin and Blackford Dolphin, six mid-water semi-submersible drilling rigs and one semi-submersible accommodation unit, of which three drilling rigs comply for operations in Norwegian waters. Geographically, the Group currently operates in Norway, the UK, Mozambique, India and Brazil.

New contracts at higher dayrates and a full operational year for the semi-submersible Blackford Dolphin represents an increased contribution to the Group, which was partly offset by several class renewal surveys in 2009. Increased revenues reflect the Group's strong order book and currently the Group has seven out of nine units in operation. At year-end, the Group's offshore units had an average contract length of 23 months (33 months in 2008). The secured contract value for the fleet as per 31 December 2009 was approximately USD 2.6 billion (USD 3.6 billion in 2008).

## Offshore Drilling

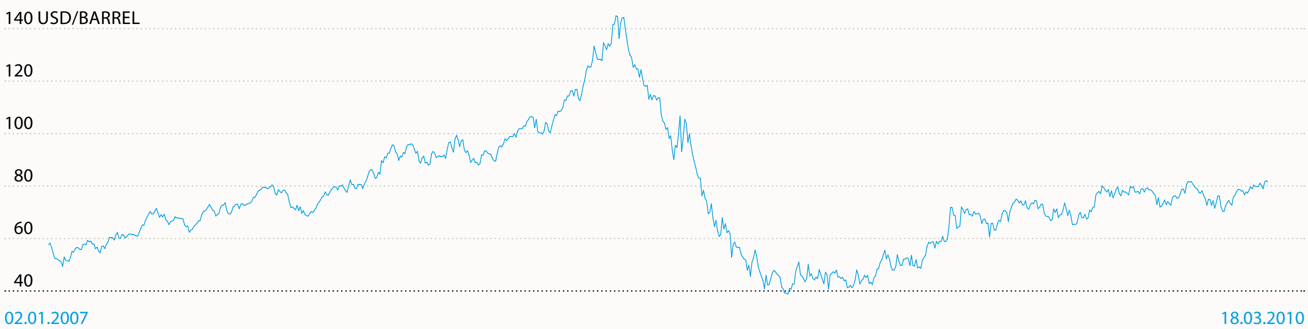
The drilling activities generated revenues of NOK 6 392 million compared to NOK 5 593 million in 2008. Within this segment, the Group achieved EBITDA of NOK 3 932 million. In 2008, the corresponding result was NOK 3 286 million.

Bideford Dolphin continued operations under the three-year drilling program offshore Norway for Statoil ASA. The contract will expire in January 2011. In March 2010, a new three-year drilling contract for the unit was entered into with Statoil in direct continuation with the existing contract. This contract will expire in January 2014. Statoil has an option to extend the contract with one year within 1st November 2010. The rig completed its five year class renewal survey in July 2009.

Borgland Dolphin completed a three-year drilling contract with Statoil ASA in January 2010 and commenced a new four year drilling contract for a consortium consisting of 8 oil companies, managed by Rig Management Norway AS. The rig completed its five year class renewal survey in December 2009.

Bredford Dolphin continued operations under a three-year drilling contract with AGR Group and a consortium of licensees on the Norwegian Continental Shelf. The contract will expire in June 2010. In June 2009, a new one well drilling contract with an estimated duration of 90 days was entered into for the unit with RWE Dea Norge AS for operation on the Norwegian Continental Shelf. In January 2010

Oil Price



Fred. Olsen Energy Group and Fred. Olsen Energy ASA

# Board of Director's Report 2009

a new one well drilling contract with an estimated duration of 60 days was entered into with RWE Dea Norge AS in direct continuation with the unit's forthcoming contract with RWE Dea Norge AS. The contract is estimated to expire in December 2010.

The ultra deepwater drillship Belford Dolphin continued operations under a three years drilling contract with Anadarko Petroleum Corporation, which expires in April 2010. In November 2007, a three-year drilling contract for the unit was entered into with Anadarko in direct continuation with the existing contract. This contract will expire in April 2013. The rig completed its five year class renewal survey in November 2009.

Blackford Dolphin continued operations under a three years drilling contract for Reliance Industries Ltd. which will expire in December 2011. The unit is currently operating offshore Eastern India.

Borgny Dolphin commenced a five years drilling contract with Petrobras in September 2008. The contract is estimated to expire in September 2013. The unit commenced its five year class renewal survey and upgrade in the beginning of April 2009. After entering the yard the unit required more steel replacement than originally anticipated which increased the cost and time for the yard stay. The unit is estimated to commence operation in April 2010.

Byford Dolphin arrived at Westcon in Ølen, Norway, on the 17th of October to carry out its five year class Renewal Survey and several upgrades. The class renewal survey with additional upgrades was completed and the unit is estimated to commence its renegotiated contract with BP Exploration Operating Co. Ltd. in April 2010.

Borgsten Dolphin completed its nine months drilling contract with Maersk Oil North Sea Limited mid August 2009. Borgsten Dolphin is currently in Invergordon to carry out its five year class renewal survey which is scheduled to be completed in April 2010. A contract for drilling of two wells, estimated to 75 days, was entered into with Hurricane Exploration PLC in January 2010, commencing early May. The unit is available for new contracts from July 2010.

Borgholm Dolphin, the accommodation rig, completed a contract with BG Group mid December 2009. The unit is currently in lay-up in Invergordon and is available for new assignments.

In order to meet the high demand for qualified personnel, the Group is actively expanding its recruitment base. The Group is continuing to develop its recruitment company in Hungary.

## Engineering and Fabrication

Total revenues within the engineering and fabrication division amounted to NOK 209 million and EBITDA was NOK 50 million. In 2008, total revenues were NOK 231 million and EBITDA was NOK 58 million. The H&W yard continued its operations in engineering, ship repair and shipbuilding. The yard has also been utilized as a logistics and assembly base for windfarms. The core workforce increased by 8 persons in 2009; to 151 employees.

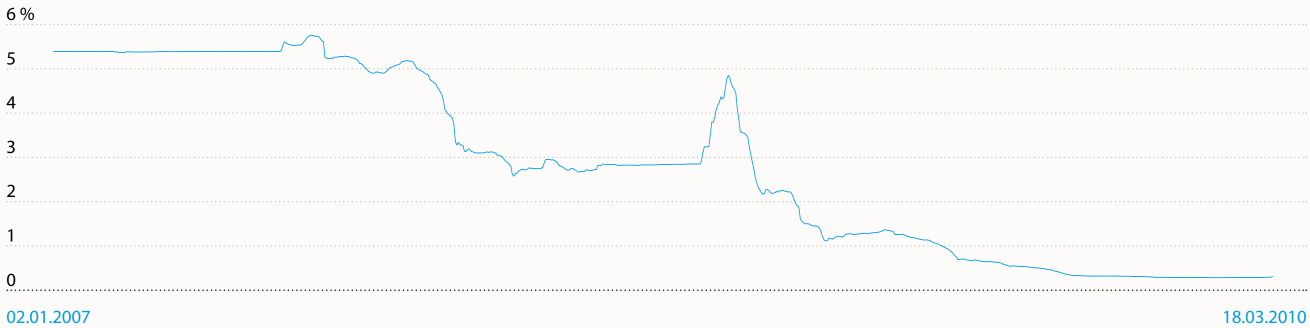
The company will continue to seek to secure contracts for additional windfarms and windfarm related projects, in addition to shipbuilding, ship repair and engineering in the years to come.

## Financial result and balance sheet at year end

Consolidated revenues of NOK 6 600 million represent an increase of 14% compared to 2008, primarily reflecting increased revenues from offshore drilling services. EBITDA for the Group was NOK 3 981 million, an increase of NOK 664 million, or 19%, compared to 2008. After depreciation and amortization of NOK 973 million, the operating profit was NOK 3 008 million, compared to an operating profit of NOK 2 609 million in 2008. Net financial expenses were NOK 180 million, a decrease of 311 million from the previous year. Profit before taxes was NOK 2 828 million compared to NOK 2 118 million in 2008. The net profit for the year was NOK 2 754 million against NOK 2 097 million in 2008. At year-end, the Group had consolidated assets of NOK 13 870 million. The ratio of net interest bearing debt to total assets was 34 % compared to 38 % at the beginning of the year. The book value of the equity was NOK 5 680 million. Cash flow generated from operations was NOK 3 933 million against NOK 1 857 million in 2008. Cash and cash equivalents decreased by NOK 1 660 million during the year, from NOK 3 674 million to NOK 2 014 million at the end of the year.

Fred. Olsen Energy ASA is a holding company and provides management services for the subsidiaries within the Group. The Company had revenues of NOK 3 million in 2009 compared to no revenues in 2008. EBITDA for the year was negative NOK 43 million compared with negative NOK 40 million in 2008. Net profit was NOK 1 070 million compared to NOK

USD Interest Rate, 3 Month Libor



2 291 million in 2008. The decrease is mainly due to a group contribution of NOK 1 000 million compared to a group contribution of NOK 2 500 million in 2008. The annual accounts of The Company and the consolidated accounts are based on the assumption of continued operation.

### International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by EU and interpretations adopted by the International Accounting Standards Board (IASB). The accounts for the parent company have been prepared in accordance with the Norwegian Accounting Act.

### Investment and capital resources

Capital expenditures amounted to NOK 2 277 million in the year compared to NOK 2 058 million in 2008. The capital expenditures were mainly related to the Group's class renewal surveys and upgrades of six units during 2009. The Group's debt consists of one credit facility. The facility is a combined term loan and revolving credit facility of initially USD 1 500 million, established in May 2008, with final maturity in 2014. The purpose of the facility was to refinance all of the Company's bank loans at that time. The outstanding amount under the credit facility at year-end was USD 1 170 million. As per year-end and the date of this report, the Group is in compliance with all covenants in its loan agreements.

### Research and development activities

The Group's research and development activities are an integrated part of the ongoing operations and are being carried out through cooperation with various engineering- and equipment supply vendors. The Group constantly monitors and evaluates new drilling rig related technology, including those materializing through the operations and project developments. The implementation of a new "Riser Handling system" for the deepwater conversion of the Blackford Dolphin is a result of a project specific research and development activity within the Group. The development of the new "Riser Handling system" for Blackford Dolphin has materialized in patents being applied for and granted in several countries. Expenditures on research activities, undertaken with the prospect of gaining technical knowhow and understanding, are recognised in the income statement as incurred expenses.

### Financial risks

The Group is exposed to certain financial risks related to its activities. These are mainly foreign exchange risks, interest rate risks and credit risks. The Group continuously monitors and manages its financial risks by hedging its exposure. See also note 13.

*Liquidity risk*

In May 2008, a new term loan and revolving credit facility with an original frame amount of USD 1 500 million, the outstanding which represent maximum borrowing capacity under the facility year end was USD 1 170 million, was established to refinance all of the Company's bank debt; by year end the credit facility was fully drawn. The Company is in compliance with covenants in its loan agreement. See also note 14 for further details.

*Foreign exchange*

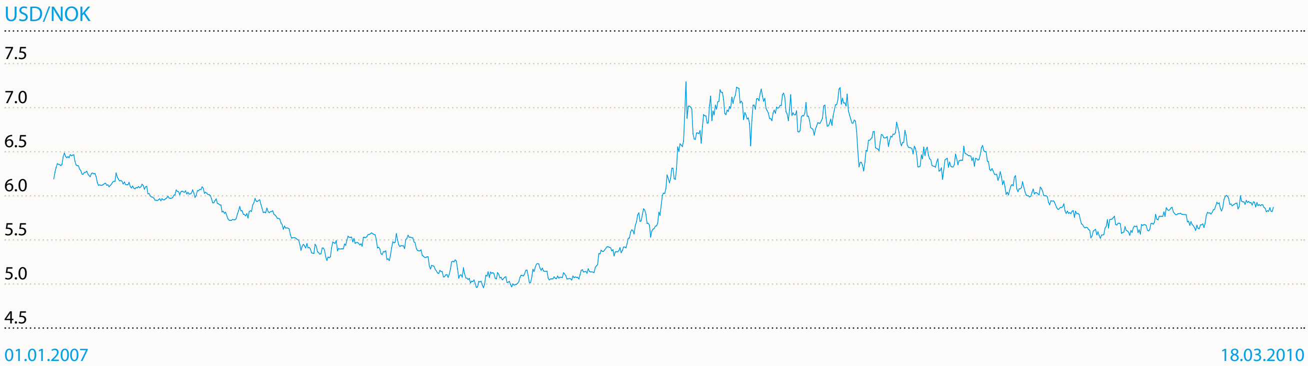
The Group's financial statements are presented in NOK. The Group's revenues consist primarily of USD, NOK and GBP with USD as the most dominant currency. The Group's expenses are primarily in NOK, GBP and USD. As such, the Group's earnings are exposed to fluctuations in the currency market. The Group's future foreign exchange exposure is dependent upon the currency denomination of revenues and expenses, however, in the longer term, parts of the USD/NOK exposure are neutralized due to a significant portion of the Group's debt being denominated in USD.

*Interest rate*

The Group is exposed to fluctuations in interest rates for USD. At 31 December 2009 approximately 38 % of the Group's interest expense was based on interest rate swap agreements. The remaining portion of the debt was based on floating interest rates (USD LIBOR) plus a margin.

*Credit risk*

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base, including national oil companies, super majors, majors and independent oil companies. The Group continuously evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees. The Group's short-term investments are limited to cash deposits in the Group's relationship banks and derivative financial instruments are normally entered



into with the Group's main relationship banks. As such, the Group considers its exposure to credit risk to generally be moderate.

### Corporate Governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Code of Practice for Corporate Governance. A description of the Company's compliance with the above recommended corporate governance principles is presented on pages 56 to 58.

The Board of Directors consists of five board members who are elected for a two-year period. All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholders Ganger Rolf ASA and Bonheur ASA. 40% of the Board of Directors are women. During 2009 the Board of Directors had 7 meetings. The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main shareholders of the Company. The charter of the audit committee is to assist the Board of Directors in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process and the Group's process for monitoring compliance with applicable laws and regulations. The Board of Directors has appointed a Compensation Committee comprising four Directors, including the Chairman of the Board. The Compensation Committee discusses and recommends to the Board of Directors salary and benefits for the Chief Executive Officer and senior management as well as the management incentive schemes for the Group. The compensation to the Chief Executive Officer comprises salary, pension scheme, company car and performance bonus.

In 2007 the Company distributed dividends for the first time since the listing in 1997. The Company paid a dividend of NOK 10, - per share for 2006 and stated that the Company will pursue a yearly strategy to pay a dividend of NOK 10, - per share. The Board has decided to propose to the Annual General Meeting in May 2010 a dividend payment of NOK 10, - per share for the year 2009. Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy and approval by the shareholders. In addition, the Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting.

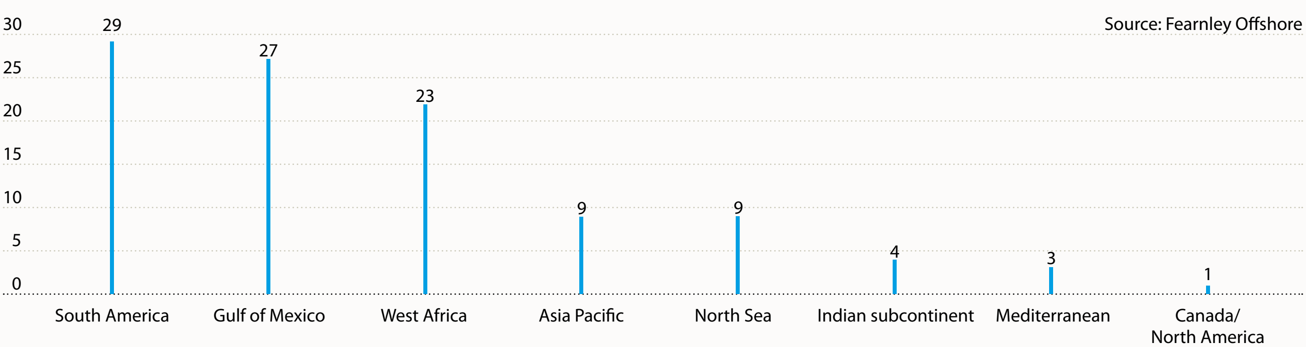
### Share Capital Issues

The Annual General Meeting in May 2009 authorized the Board of Directors to issue up to 6 700 000 new shares in the Company through an equity issue and to issue up to 6 700 000 new shares by raising loans with the right to subscribe for new shares for a period of up to one year. At 1 January 2009, the Company owned 430 100 of its own shares. At 31 December 2009 the Company's share capital amounted to NOK 1 334 million, corresponding to 66 694 229 shares at par value NOK 20, - each. At year-end the Company owned 430 100 own shares.

### Safety, work environment, organization and equal opportunities

The Group has a strong focus on health, safety and working environment (HSE) for its employees, subcontractors and its customers. Continuous efforts involve planning, training of personnel and careful selection of subcontractors. The Group maintains a "zero accident" objective and is closely monitoring its established procedures for operations, projects and worksites both onshore and offshore. The lost time accident frequency (LTA) for offshore drilling and related services in 2009 was 2.5 per one million working hours, compared to 2.0 per one million working hours in 2008. The Group has performed several HSE activities in 2009 in order to continuously improve the HSE culture. Special focus in 2009 has been on training of rig management on- and offshore. Key elements in the training programme have been effective supervision, HSE competence training, planning and risk evaluations of each job performed. Further, the rig management and the crew have been trained and motivated to observe, intervene and report in the planning and executing phase in order to prevent and reduce risks for accidents in the early phase of jobs performed. HSE Trend Analyses and Working Environment Mapping have been performed in order to compare results with the HSE goals. In 2009 even further technical measures were taken on the rigs to prevent spills to the external environment and also to reduce noise in machinery spaces. Chemical exposure has also had a strong systematic focus in 2009. Internal audits have been carried out in order to verify knowledge and implementation of the Management System and the result from these audits confirm that the Management System is well known and accessible, however, the implementation process needs continuous focus. It is the Group's policy to conduct business in accordance with the letter and spirit of the law and with the overriding ethical standards of good

Deepwater Units Supply > 3000 feet by area (25.03.2010)



business conduct. The HSE both offshore and onshore is considered to be good which is documented in regular mappings.

Absence due to illness was 3.7% (2008: 3.9%), for the Group and 1.2% (2008: 3.9%) for the parent company. The Group continues to focus on reducing such absence. The Group aims to be a workplace with equal opportunities, offering challenging and motivating jobs to all personnel, regardless of nationality, culture, religion and gender. The composition of genders within the Group reflects the available recruitment base for offshore work, which traditionally is dominated by men, being the nature of the offshore industry worldwide. However, the Group's policy is to offer equal opportunities for males and females and efforts are made to attract female employees. Two out of five members of the Board of Directors are women, including the Chairman of the Board. At year-end 2009 the Group had 1 300 employees, including 10 in the parent company. 104 of the employees were women and 15 percent of leading onshore personnel within the Group are female.

### Significant legal matters

During 2009 the Group had five disputes with business counterparts. See also note 18.

### External Environment

The Group's operations may involve activities that entail potential risks to the external environment. The discharge produced from processes and operations in the offshore oil-and gas drilling industry, directly and indirectly through chemical interaction can derange the balance of the environment. The Group is careful in its approach to the environment and continuously strives to reduce the use of hazardous chemicals and materials to minimize negative effects and continually seeks alternative products to safeguard the environment. The parent company acts as a holding company to the Group and has no activities that entail potential significant risks to the external environment.

### Appointment of new Chief Executive Officer (CEO)

Helge Haakonsen, the company's CEO since its formation in 1997, retired with effect from 1st November 2009. Helge Haakonsen was succeeded by Ivar Brandvold. The Board would like to express its appreciation to Helge Haakonsen for his effort and contribution in managing and developing the Company since the formation of Fred. Olsen Energy ASA in 1997.

### Allocation of profit

The Board proposes an ordinary dividend of NOK 10, - per share for 2009. Net profit after tax for the parent company was NOK 1 070 million, which is proposed to be allocated as follows:

| | |
|---|---|
| For dividend | 663 million |
| Free reserves | 407 million |
| Total allocated | 1 070 million |

### Annual General Meeting

The date of the Annual General Meeting is scheduled for 26 May 2010.

Oslo, 31 December 2009 / 24 March 2010
Fred. Olsen Energy ASA

| | | | | | |
|---|---|---|---|---|---|
| Anette S. Olsen<br>*Chairman* | Jan Peter Valheim | Cecilie B. Heuch | Øivin Fjeldstad | Agnar Gravdal | Ivar Brandvold<br>*Chief Executive Officer* |

Fred. Olsen Energy – Group

# Directors' Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Fred. Olsen Energy ASA, for the year ending and as of 31 December 2009 (annual report 2009).

Fred. Olsen Energy ASA's consolidated financial statements have been prepared in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2009. The separate financial statements for Fred. Olsen Energy ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2009. The Board of Directors' Report for the group and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16, as of 31 December 2009.

To the best of our knowledge:

- the consolidated and separate annual financial statements for 2009 have been prepared in accordance with applicable accounting standards
- the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit (or loss) as a whole as of 31 December 2009 for the group and the parent company
- the board of directors' report for the group and the parent company includes a true and fair review of
  - the development and performance of the business and the position of the group and the parent company.
  - the principal risks and uncertainties the group and the parent company face.

Oslo, 31 December 2009 / 24 March 2010

Fred. Olsen Energy ASA

| | | | | | |
|---|---|---|---|---|---|
| Anette S. Olsen<br>*Chairman* | Jan Peter Valheim | Cecilie B. Heuch | Øivin Fjeldstad | Agnar Gravdal | Ivar Brandvold<br>*Chief Executive Officer* |

Fred. Olsen Energy – Group

# Consolidated Statement of Separate Income

For the years ended 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| Revenues | 2,17,19 | 6 600 042 | 5 786 773 |
| Materials | | -36 204 | -46 789 |
| Salaries and other personnel costs | 3,17 | -1 160 834 | -1 121 591 |
| Other operating expense | 4,17 | -1 421 773 | -1 281 739 |
| Operating profit before depreciation, amortisation and net financial expense | | 3 981 231 | 3 336 654 |
| Impairment | 7 | 0 | -35 029 |
| Depreciation and amortisation | 7 | -973 403 | -692 658 |
| Operating profit before net financial expense | | 3 007 828 | 2 608 967 |
| Financial income | | 355 004 | 92 301 |
| Financial expense | | -534 881 | -583 745 |
| Net financial expense | 5,13,17 | -179 877 | -491 444 |
| Profit before tax | | 2 827 951 | 2 117 523 |
| Income tax expense | 6 | -73 799 | -20 888 |
| Profit for the year | | 2 754 152 | 2 096 635 |

| Attributable to: | | | |
|---|---|---|---|
| Equity holders of the parent | | 2 749 004 | 2 092 595 |
| Minority interest | | 5 148 | 4 040 |
| Profit for the year | 11 | 2 754 152 | 2 096 635 |
| Basic earnings per share | 21 | 41.49 | 31.39 |
| Diluted earnings per share | 21 | 41.49 | 31.39 |

*The notes represent an integral part of the financial statements.*

Fred. Olsen Energy – Group

# Group Consolidated Statement of Comprehensive Income

For the years ended 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| Profit for the year | | 2 754 152 | 2 096 635 |
| Exchange differences on translation of foreign operations | | -950 644 | 1 095 294 |
| Total comprehensive income for the year | | 1 803 508 | 3 191 929 |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent | | 1 798 898 | 3 187 889 |
| Minority interests | | 4 610 | 4 040 |
| Total comprehensive income for the year | 11 | 1 803 508 | 3 191 929 |

*The notes represent an integral part of the financial statements.*

Fred. Olsen Energy – Group

# Consolidated Statement of Financial Position

As at 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 7 | 9 981 300 | 10 415 371 |
| Intangible assets | 8 | 98 577 | 98 577 |
| Other non-current assets | 15,17 | 5 228 | 6 721 |
| Deferred tax assets | 9 | 48 431 | 35 285 |
| Total non-current assets | | 10 133 536 | 10 555 954 |
| | | | |
| Consumable spare parts | | 345 238 | 373 478 |
| Prepayments and tax refunds | | 387 002 | 504 294 |
| Trade and other receivables | 13,17 | 989 595 | 1 577 904 |
| Cash and cash equivalents | 10 | 2 014 127 | 3 673 834 |
| Total current assets | | 3 735 962 | 6 129 510 |
| | | | |
| Total assets | | 13 869 498 | 16 685 464 |
| **Equity** | | | |
| Share capital | | 1 333 884 | 1 333 884 |
| Share premium | | 548 125 | 548 125 |
| Capital reserves | | 0 | 622 |
| Translation reserves | | -624 525 | 326 119 |
| Reserve for own shares | | -8 602 | -8 602 |
| Retained earnings | | 4 422 076 | 3 328 515 |
| Share of equity attributable to shareholders of the parent | 11 | 5 670 958 | 5 528 663 |
| Minority interests | | 8 650 | 4 040 |
| Total equity | | 5 679 608 | 5 532 703 |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 12,13,17 | 5 450 815 | 8 123 448 |
| Employee benefits | 15 | 197 077 | 196 422 |
| Financial instruments | 13 | 90 642 | 200 875 |
| Total non-current liabilities | | 5 738 534 | 8 520 745 |
| | | | |
| Interest-bearing loans and borrowings | 12,13,17 | 1 270 874 | 1 839 581 |
| Trade and other payables | 17 | 215 505 | 272 761 |
| Financial instruments | 13 | 12 424 | 66 216 |
| Tax payable | | 27 079 | 19 464 |
| Other accrued expenses and deferred revenue | | 925 474 | 433 994 |
| Total current liabilities | | 2 451 356 | 2 632 016 |
| | | | |
| Total liabilities | | 8 189 890 | 11 152 761 |
| | | | |
| Total equity and liabilities | | 13 869 498 | 16 685 464 |

*The notes represent an integral part of the financial statements.*

Oslo, 31 December 2009 / 24 March 2010
Fred. Olsen Energy ASA

| Anette S. Olsen | Jan Peter Valheim | Cecilie B. Heuch | Øivin Fjeldstad | Agnar Gravdal | Ivar Brandvold |
|---|---|---|---|---|---|
| *Chairman* | | | | | *Chief Executive Officer* |

Fred. Olsen Energy – Group

# Consolidated Statement of Changes in Equity

| Amounts in NOK 000's | Share capital | Share premium | Capital reserves | Translation reserves | Reserve for own shares | Retained earnings | Total | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | 1 333 877 | 548 107 | 3 144 | -769 175 | -80 | 2 972 290 | 4 088 163 | 0 | 4 088 163 |
| Total comprehensive income for the period | 0 | 0 | -2 522 | 1 095 294 | 0 | 2 095 117 | 3 187 889 | 4 040 | 3 191 929 |
| Dividends | 0 | 0 | 0 | 0 | 0 | -1 667 256 | -1 667 256 | 0 | -1 667 256 |
| Acquisitions of own shares | 0 | 0 | 0 | 0 | -8 522 | -71 636 | -80 158 | 0 | -80 158 |
| Conversion of convertible bonds and derecogniton of equity component, net of tax | 7 | 18 | 0 | 0 | 0 | 0 | 25 | 0 | 25 |
| Balance at 31 December 2008 | 1 333 884 | 548 125 | 622 | 326 119 | -8 602 | 3 328 515 | 5 528 663 | 4 040 | 5 532 703 |
| | | | | | | | | | |
| Balance at 1 January 2009 | 1 333 884 | 548 125 | 622 | 326 119 | -8 602 | 3 328 515 | 5 528 663 | 4 040 | 5 532 703 |
| Total comprehensive income for the period | 0 | 0 | -622 | -950 644 | 0 | 2 750 164 | 1 798 898 | 4 610 | 1 803 508 |
| Dividends | 0 | 0 | 0 | 0 | 0 | -1 656 603 | -1 656 603 | 0 | -1 656 603 |
| Balance at 31 December 2009 | 1 333 884 | 548 125 | 0 | -624 525 | -8 602 | 4 422 076 | 5 670 958 | 8 650 | 5 679 608 |

Fred. Olsen Energy – Group

# Consolidated Statement of Cash Flows

For the year ended 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 2 827 951 | 2 117 523 |
| *Adjustment for:* | | | |
| Depreciation, amortisation and impairment | 7 | 973 403 | 727 687 |
| Interest expense | 5 | 167 125 | 179 106 |
| Loss/(gain) on sale of property, plant and equipment | | -1 777 | 737 |
| Unrealised (gain)/loss on financial instruments | | -123 270 | 265 140 |
| Changes in trade and other receivables | | 390 362 | -593 585 |
| Changes in trade and other payables | | -48 726 | -118 023 |
| Changes in other balance sheet items | | 39 753 | -428 340 |
| Cash generated from operations | | 4 224 821 | 2 150 245 |
| Interest paid | | -218 130 | -244 099 |
| Income taxes paid | | -73 295 | -49 200 |
| Net cash from operating activities | | 3 933 396 | 1 856 946 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | -1 879 847 | -1 680 532 |
| Proceeds from sale of equipment | | 4 068 | 788 |
| Net cash used in investing activities | | -1 875 779 | -1 679 744 |
| **Cash flows from financing activities** | | | |
| Proceeds from interest bearing loans | | 0 | 7 581 375 |
| Repayments of interest bearing loans | | -1 716 561 | -3 689 209 |
| Purchase of treasury shares | 11 | 0 | -80 158 |
| Dividends paid | 11 | -1 656 603 | -1 667 256 |
| Net cash from financing activities | | -3 373 164 | 2 144 752 |
| Net increase/(decrease) in cash and cash equivalents | | -1 315 547 | 2 321 954 |
| Cash and cash equivalents at 1 January | | 3 673 834 | 713 605 |
| Effect of exchange rate fluctuations on cash held | | -344 160 | 638 275 |
| Cash and cash equivalents at 31 December | 10 | 2 014 127 | 3 673 834 |

*The notes represent an integral part of the financial statements.*

Fred. Olsen Energy – Group

# Notes to the Consolidated Financial Statements

## Note 1 - Significant accounting policies

Fred.Olsen Energy ASA the ("Company") is a company domiciled in Norway.

The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the directors on 24 March 2010.

### Statement of compliance

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by the European Union.

### Basis of preparation

The financial statements are presented in Norwegian Kroner (NOK), rounded to the nearest thousand. They are prepared on the historical cost basis except that derivative financial instruments are measured at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed regularly. Actual results may differ from these estimates.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

### Basis of consolidation

*Subsidiaries*

The consolidated financial statements include the Company and its subsidiaries (the Group of companies). The Company normally consolidates subsidiaries when it has the ability to exercise control through ownership, directly or indirectly, of more than 50% of the voting power, for instance, as set out in the Norwegian Public Limited Liability Companies Act 1-3. In addition, the Company must also consider other arrangements that provide the Company the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities as determined under IFRS.

*Transactions eliminated in consolidation*

All material intra-group transactions, any unrealised income and expenses arising from intra-group transactions and intra-group balances have been eliminated in preparing the consolidated financial statements.

### Foreign currency

*Foreign currency transactions*

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are presented in NOK, which is the functional currency of the Company, and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rates ruling at the dates the fair value was determined.

*Financial statements of foreign operations*

The assets and liabilities of foreign subsidiaries are translated into NOK at the foreign exchange rate at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated using average monthly foreign exchange rate, which approximates that foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are recognised directly as a separate component of equity.

### Financial Instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments.

*Derivative financial instruments*

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are classified as at fair value through profit or loss.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in profit or loss. There are no derivatives to which hedge accounting is applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date. The fair value of forward exchange contracts is their market price at the balance sheet date, being the present value of the quoted forward price as provided by financial institutions.

*Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses.

*Cash and cash equivalents*

Cash and cash equivalents includes cash, bank deposits and other short-term highly liquid assets that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below as applicable.

*Interest-bearing borrowings*
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

*Convertible bonds*
Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments consisting of a liability component and an equity component. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement then reflects the market rate for notes without conversion. Converted options during the year are split between liability and equity accordingly.

The interest expense on the liability component is calculated by applying the prevailing market interest rate at the time of transaction for similar non-convertible debt to the liability component of the instrument at the time of transaction. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note until the maturity date.

*Trade and other payables*
Trade and other payables are stated at cost.

*Equity instruments*
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

## Property, plant and equipment

*Owned assets*
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets and modifications includes the cost of material, direct labour and other direct attributable cost to bring the asset to a working condition for its intended use.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for separately.

Subsequent expenditures are capitalised when it is probable that they will give rise to future economic benefits. Other costs are recognised in the income statement as incurred.

Borrowing costs are capitalised as part of the cost on certain qualifying assets in accordance to the revised IAS 23. A qualifying asset is one which necessarily takes a substantial period of time to be made ready for its intended use, which are generally assets that are subject to major development or construction projects.

*Depreciation*
Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each component of property, plant and equipment. The estimated useful lives, residual values and decommissioning costs are reviewed at each financial year end. No decommissioning costs have been recorded to date, and the presence of any obligations is reviewed at each financial year end. Any changes are accounted for prospectively as a change in accounting estimate.

The estimated useful lives are as follows:

| | |
|---|---|
| Rigs | 15 to 25 years |
| Deepwater Drillship | 25 years |
| Major component | 5 to 15 years |
| Plant and Buildings | 5 to 50 years |
| Machinery and Equipment | 3 to 10 years |

*Repairs and maintenance*
Costs for special periodic surveys/renewal surveys (SPS/RS) on offshore units required by classification societies, are capitalised and depreciated over the anticipated period between surveys, generally five years. Other repair and maintenance costs are expensed as incurred.

## Intangible assets

*Goodwill*
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, and is the difference between the cost of the acquisition and the fair value of the not identifiable asset acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment.

*Research and development*
Expenditures on research activities, undertaken with the prospect of gaining technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

## Consumable spare parts

The Group categorizes spare parts into two groups, spare parts and spare assets. A spare part is a consumable that is not depreciated, but expensed when used against repair and maintenance cost. A spare asset is larger spare item that is recorded as a rig component and depreciated. Consumables are recorded at cost less a reserve for overstocked items.

## Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analyzed by reviewing dayrates and broker valuations. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The value in use is calculated as the present value of the expected future cash flows for the individual units.

The value in use is used for the annual impairment test for goodwill, which is the present value of the future cash flows from continuing use and ultimate disposal expected to be derived from the cash generating unit that includes goodwill, which is Dolphin AS, representing the Group's North Sea activities on the Norwegian continental shelf. The discount rate used in the calculations is based on a risk-free rate and a market risk premium.

An impairment loss is recognised if the carrying amount of an asset exceeds the recoverable amount.

### Employee benefits

*Pensions*

The Company and certain of its subsidiaries have pension plans for employees which provide for a defined pension benefit upon retirement. The benefit to be received by employees generally depends on many factors including length of service, retirement date and future salary increases. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date reflecting the maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary.

In respect of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

In addition, employees of other subsidiaries are covered by multi-employer pension plans administered by trade unions and by plans administered by related companies. Costs related to these plans are expenses as incurred.

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable than an outflow of economic benefits will be required to settle the obligation.

### Revenue

*Charter rate contracts*

Revenue derived from charter-hire contracts or other service contracts is recognised in the period that services are rendered at rates established in the relevant contracts. Certain contracts include mobilisation fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognised as revenue over the contract period whereas the investment is depreciated over the remaining lifetime of the asset. In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fee is recognised as revenue over the estimated contract period. The related investment is depreciated over the estimated contract period. In cases where the fee covers specific operating expenses at the start up of the contract the fees are recognised in the same period as the expenses.

*Long-term engineering and fabrication contracts*

Revenues on long-term contracts are recognised using the percentage of completion method throughout the performance period of the contract when the outcome can be measured reliably. The percentage of completion is typically calculated based on the ratio of contract costs incurred to date to total estimated contract costs after providing for all known or anticipated costs. On certain contracts the Group may use the ratio of incurred to total estimated direct labour hours to determine the percentage of completion. Costs include material, direct labour and engineering. Selling, general and administrative expenses are charged to operations as incurred. The effect of changes in estimates of contract costs is recorded currently. An expected loss on a contract is recognised immediately in the income statement.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues earned under the percentage of completion method but not yet billable under the terms of the contract. Amounts billed in advance of satisfying revenue recognition criteria on long term contracts are classified as billings in excess of costs and estimated earnings on uncompleted contracts.

Generally, contract revenues become billable upon the Group attaining certain contract milestones. The Group typically does not require collateral from customers except in situations where warranted due to assessments of risk factors.

### Expenses

*Operating lease expenses*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

### Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable, foreign exchange gains or losses, and gains and losses on financial instruments.

### Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Segment reporting

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the other of the Group's component. The Group provides services and operates within the two operating segments; offshore drilling and engineering and fabrication. The operating segments' results are reviewed regularly by the Group's management to make decisions and assess its performance, and for which discrete financial information is available.

### Earnings per share

*Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

*Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had one category of dilutive potential ordinary shares; convertible notes. The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. Potential ordinary shares that are anti-dilutive are excluded from the calculation.

### New accounting pronouncements applied

The following standards and interpretations were applicable to the Group and were effective during 2009:

*IFRS 8, Operating Segments*
*(effective from 1 January 2009)*

The information required to be presented for segment information is based on the information that internally is provided to the Group's management. The Group has applied this interpretation from 1 January 2009, with no impact on the financial statements.

*IAS 1, Presentation of financial statements – a revised presentation*
*(effective from 1 January 2009)*

The Group applies revised IAS 1. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. These standards, amendments and interpretations are not expected to have any effect on the consolidated financial statements of the Group although they could effect prospective transactions..

### Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

For accounting purposes the Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from the eventual outcome, but are regarded as the best estimate at balance sheet date. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### I) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on best estimate of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

### II) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the calculated pension obligations. The Group determines the appropriate discount rate at the end of each year. This is rate that used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The rate used for Norwegian subsidiaries is based on 10 year government bonds. Beyond 10 years the rate has been based on an extrapolation of the government bond rate and long-term swap rates for the relevant period. Other key assumptions for pension obligation are based on current market conditions.

### III) Estimates for rigs and drill ship

At each balance sheet date judgement is used to determine whether there is any indication of impairment of the Group fleet of rigs and the drill ship. If any such indication exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analyzed by reviewing dayrates and broker valuations. If an indicator of impairment is noted, further management estimate is required to determine the amount, if any, of impairment. In order to measure for potential impairment, the carrying amount of the rigs and drill ship would be compared to the recoverable amount, which is the value in use. The value in use is calculated as the present value of the expected future cash flows for the individual units, requiring significant management estimates of the proper discount rates as well as the length and amounts of cash flows. An impairment loss would then be recognised to the extent the carrying amount exceeds the recoverable amount.

### IV) Estimated fair value of cash generating unit for impairment testing of goodwill

In accordance with the accounting policy the Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating unit have been determined based on a value-in-use calculation. This calculation requires the use of estimates and is based on assumptions that are consistent with the market valuation of the Group.

## Note 2 - Segment reporting

Segment information is presented in respect of the Group's operating segments and is based on the Group's management and internal reporting structure. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis.

Inter-segment pricing is determined on an arm's length basis.

### Business segments

The Group comprises the following main business segments:

- Offshore drilling provides services to the offshore oil and gas industry. Fred.Olsen Energy ASA is included within the offshore drilling segment.
- Engineering and fabrication provides engineering, fabrication, ship building and repair services for various offshore, onshore and transportation industries. In addition, the yard holds a waste management license and has been used as logistics and assembly base for offshore windfarms.

### Geographical information

The offshore drilling segment provides services on a worldwide basis while engineering and fabrication segment primarily provides services in the UK. The revenue is based on the geographical location of the customers. The capital expenditures are based on the location of the company that is actually doing the investment.

### Business segments

| Amounts in NOK 000's | Offshore drilling | | Engineering and fabrication | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | 6 391 520 | 5 592 665 | 208 522 | 194 108 | 0 | 0 | 6 600 042 | 5 786 773 |
| Inter-segment revenues | 0 | 0 | 365 | 36 656 | -365 | -36 656 | 0 | 0 |
| Total revenues | 6 391 520 | 5 592 665 | 208 887 | 230 764 | -365 | -36 656 | 6 600 042 | 5 786 773 |
| | | | | | | | 0 | 0 |
| Operating expenses | -2 459 976 | -2 307 143 | -159 200 | -173 039 | 365 | 30 063 | -2 618 811 | -2 450 119 |
| Segment result before depreciation, amortisation and impairment | 3 931 544 | 3 285 522 | 49 687 | 57 725 | 0 | -6 593 | 3 981 231 | 3 336 654 |
| Depreciation and amortisation | -966 569 | -687 093 | -6 834 | -5 565 | 0 | 0 | -973 403 | -692 658 |
| Impairment | 0 | -35 029 | 0 | 0 | 0 | 0 | 0 | -35 029 |
| Segment result | 2 964 975 | 2 563 400 | 42 853 | 52 160 | 0 | -6 593 | 3 007 828 | 2 608 967 |
| | | | | | | | | |
| Net financing cost | -183 099 | -495 796 | 3 222 | 4 352 | 0 | 0 | -179 877 | -491 444 |
| Income tax expense | -90 764 | -40 814 | 16 965 | 19 926 | 0 | 0 | -73 799 | -20 888 |
| Profit/(loss) for the period | 2 691 112 | 2 026 790 | 63 040 | 76 438 | 0 | -6 593 | 2 754 152 | 2 096 635 |
| | | | | | | | | |
| Segments assets | 13 625 999 | 16 482 119 | 292 316 | 261 196 | -48 817 | -57 851 | 13 869 498 | 16 685 464 |
| Segments liabilities | 8 008 449 | 10 945 309 | 230 258 | 265 303 | -48 817 | -57 851 | 8 189 890 | 11 152 761 |
| | | | | | | | | |
| Capital expenditures | 2 259 686 | 2 040 569 | 17 059 | 17 681 | 0 | 0 | 2 276 745 | 2 058 250 |
| | | | | | | | | |
| Net cash from operating activities | 3 877 747 | 1 794 907 | 55 649 | 62 039 | 0 | 0 | 3 933 396 | 1 856 946 |
| Net cash used in investing activities | -1 858 720 | -1 662 063 | -17 059 | -17 681 | 0 | 0 | -1 875 779 | -1 679 744 |
| Net cash from /(used) in financing activities | -3 373 164 | 2 146 270 | 0 | -1 518 | 0 | 0 | -3 373 164 | 2 144 752 |

### Geographical information

| | Europe | | Asia | | Americas | | Africa | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | 4 531 052 | 4 514 294 | 270 193 | 3 424 | 684 960 | 1 019 200 | 1 113 837 | 249 855 | 6 600 042 | 5 786 773 |
| Capital expenditure | 45 114 | 26 250 | 2 231 631 | 2 032 000 | 0 | 0 | 0 | 0 | 2 276 745 | 2 058 250 |

Of the total revenue in 2009, Norway and UK contributed 40% and 29% respectively (2008: 46% and 32%). Revenue from Statoil in 2009 constituted 25% of the total revenue (2008: 31%), revenues from Anadarko and Senergy constituted 16% and 10% respectively of the total revenue.

## Note 3 - Salaries and other personnel costs

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Salary | 910 385 | 813 947 |
| Social security costs and employee taxes | 124 914 | 117 833 |
| Pension costs | 89 524 | 60 127 |
| Training | 35 953 | 32 499 |
| Temporary staff | 39 597 | 45 649 |
| Other | 52 477 | 51 536 |
| Capitalised personnel expenses | -92 016 | 0 |
| Total | 1 160 834 | 1 121 591 |
| Average number of employees | 1 293 | 1 203 |
| Number of employees at year end | 1 300 | 1 250 |
| Average man-labour year | 1 362 | 1 310 |

Other includes insurance expenses for offshore and onshore personnel, health plan and other personnel expenses.

The costs of employee benefits that are incurred for employees working directly on the construction of assets have been capitalised and are included as part of the rig costs. See note 7.

## Note 4 - Other operating expenses

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Repairs and maintenance on offshore units | 489 079 | 386 573 |
| Integrated services/recharged expenses | 240 061 | 275 617 |
| Rig overheads | 186 823 | 241 912 |
| Travel | 107 699 | 85 621 |
| General operating expenses | 52 660 | 40 599 |
| Insurance | 102 802 | 77 578 |
| Provision for bad debt | 72 893 | 31 435 |
| Professional and operational fees | 88 735 | 57 486 |
| Catering costs | 68 038 | 73 621 |
| Property rental expenses | 12 597 | 10 560 |
| Loss on sale of assets | 386 | 737 |
| Total | 1 421 773 | 1 281 739 |

Fees for audit and other services provided by the Group's auditor are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Audit | 4 037 | 4 652 |
| Tax advisory services | 974 | 1 083 |
| Other non-audit services | 199 | 301 |
| Total | 5 210 | 6 036 |

## Note 5 - Net financial expense

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Financial income | | |
| Interest income | 24 029 | 38 365 |
| Gain on financial instruments | 209 708 | 3 892 |
| Foreign exchange gain | 121 267 | 50 044 |
| Total | 355 004 | 92 301 |
| Financial expense | | |
| Interest expense | 167 125 | 179 106 |
| Amortised borrowing cost | 20 285 | 19 229 |
| Loss on financial instruments | 71 108 | 306 163 |
| Other financial expense | 3 945 | 6 086 |
| Foreign exchange loss | 272 418 | 73 161 |
| Total | 534 881 | 583 745 |
| Net financial expense | -179 877 | -491 444 |

Net financial expense include non-cash interest on borrowings calculated using the effective interest rate method.

Gain on financial instruments in 2009 include unrealised gain of NOK 83 mill (2008: loss of NOK 198 mill) related to interest rate contracts and unrealised gain of NOK 40 mill (reversal of accruals from 2008) related to currency contracts (2008: loss of NOK 68 mill).

The interest cost for 2008 above is net of capitalised interest. See note 7.

## Note 6 - Income tax expense

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Current tax expense | 91 233 | 39 247 |
| Deferred tax benefit | -17 434 | -18 359 |
| Total income tax expense in income statement | 73 799 | 20 888 |
| Deferred tax recognised directly in equity | 0 | -2 |

| Reconciliation of effective tax rate | 2009 | |
|---|---|---|
| Profit before tax | | 2 827 951 |
| Income tax using the domestic corporation tax rate | 28.0 % | 791 826 |
| Permanent differences | 0.3 % | 7 731 |
| Effect of foreign subsidiaries | -25.0 % | -707 837 |
| Change in limitation of deferred tax assets related to tax loss carryforward | -0.6 % | -17 921 |
| Effective tax rate | 2.6 % | 73 799 |

| Reconciliation of effective tax rate | 2008 | |
|---|---|---|
| Profit before tax | | 2 117 523 |
| Income tax using the domestic corporation tax rate | 28.0 % | 592 906 |
| Permanent differences | 0.1 % | 2 236 |
| Effect of foreign subsidiaries | -33.9 % | -717 633 |
| Change in limitation of deferred tax assets related to tax loss carryforward | 6.8 % | 143 379 |
| Effective tax rate | 1.0 % | 20 888 |

## Note 7 - Property, plant and equipment

| Amounts in NOK 000's | Rigs and drillship | Machinery and equipment | Plant, building and land | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 1 January 2008 | 8 771 670 | 500 807 | 103 380 | 9 375 857 |
| Acquisitions | 2 028 770 | 22 881 | 6 599 | 2 058 250 |
| Disposals | -39 628 | -18 166 | -617 | -58 411 |
| Effect of movements in foreign exchange | 2 574 129 | 11 768 | 4 777 | 2 590 674 |
| Balance at 31 December 2008 | 13 334 941 | 517 290 | 114 139 | 13 966 370 |
| | | | | |
| Balance at 1 January 2009 | 13 334 941 | 517 290 | 114 139 | 13 966 370 |
| Acquisitions | 2 231 401 | 37 937 | 7 407 | 2 276 745 |
| Disposals | -181 984 | -16 463 | -3 225 | -201 672 |
| Effect of movements in foreign exchange | -2 328 646 | -51 130 | -9 449 | -2 389 225 |
| Balance at 31 December 2009 | 13 055 712 | 487 634 | 108 872 | 13 652 218 |
| | | | | |
| Accumulated depreciation | | | | |
| Balance at 1 January 2008 | 1 756 091 | 406 921 | 64 964 | 2 227 976 |
| Depreciation charge for the year | 679 830 | 11 288 | 1 540 | 692 658 |
| Impairment | 0 | 35 029 | 0 | 35 029 |
| Disposals | -39 488 | -17 336 | -51 | -56 875 |
| Effect of movements in foreign exchange | 656 898 | -6 975 | 2 288 | 652 211 |
| Balance at 31 December 2008 | 3 053 331 | 428 927 | 68 741 | 3 550 999 |
| | | | | |
| Balance at 1 January 2009 | 3 053 331 | 428 927 | 68 741 | 3 550 999 |
| Depreciation charge for the year | 950 655 | 21 339 | 1 409 | 973 403 |
| Disposals | -181 775 | -14 850 | -2 882 | -199 507 |
| Effect of movements in foreign exchange | -607 934 | -40 082 | -5 961 | -653 977 |
| Balance at 31 December 2009 | 3 214 277 | 395 334 | 61 307 | 3 670 918 |
| | | | | |
| Carrying amounts | | | | |
| At 1 January 2008 | 7 015 579 | 93 886 | 38 416 | 7 147 881 |
| At 31 December 2008 | 10 281 610 | 88 363 | 45 398 | 10 415 371 |
| | | | | |
| At 1 January 2009 | 10 281 610 | 88 363 | 45 398 | 10 415 371 |
| At 31 December 2009 | 9 841 435 | 92 300 | 47 565 | 9 981 300 |

Capitalised costs on the rigs in 2009 included NOK 0.3 million (2008: NOK 30 million) related to services and materials provided by the Group's engineering and fabrication segment.

Interest cost of NOK 77 million was capitalised to the Blackford rig under construction in 2008. The weighted average expenditures during the construction period until August 2008 were used in calculating the amount on which interest is capitalised. The interest rates used were the actual interest rate for the loan financing the project.

### Decommissioning costs

There is no decommissioning liability on the drillship or the drilling rigs as there is no legal or constructive obligation to dismantle or restore the assets. In practice, assets of this nature are rebuilt when no longer useful, laid up or scrapped. For a standard vessel special demobilising yards pay for a vessel to be scrapped per light displacement tonne (LDWT) of the vessel.

### Residual values

The residual value is reviewed at each year end, with any change in estimate it is accounted for prospectively.

*..the note continues on the next page*

The most common method to estimate residual values for ships is to use scrap price which is publicly noted by brokers in USD per LDWT of a complete vessel with all normal machinery and equipment on board. This method is used to determine the residual value for the drillship Belford Dolphin. The estimated residual value for Belford Dolphin as at 31 December 2009 is USD 10.2 million (2008: USD 7.7 million).

Drilling rigs are much more complicated to scrap than ships and have much less metal and scrapable/recoverable material due to their construction, design and nature. The price that could be recovered from the sale for scrap is estimated to approximate the cost of extracting this scrap metal. Therefore, no residual value is recorded since if the assets were disposed of in their expected ages and conditions at the end of their useful lives, at current prices no material net amount is estimated to be recovered.

### Useful lives

The useful lives of the assets are reviewed at each year end. Management has reviewed each of the rigs by expected usage and considered the scheduled 5 years class renewal surveys (RS) going forward. Borgland and Bideford completed their RS in 2009 while Borgny, Byford and Borgsten are currently undertaken their RS and will be finalised early 2010. Estimates of the lifetimes for 2nd generations rigs are based on the assumption that they will carry out their next forthcoming class RS and continue to operate five years thereafter. Belford, Blackford, Bideford, Borgland and Bredford are either new or substantially upgraded, and have longer expected useful lifetimes than the 2nd generation rigs. Two more scheduled class renewal surveys have been assumed followed by five years operation for Bideford, Borgland and Bredford. Three more scheduled class renewal surveys are assumed for Belford. Blackford Dolphin completed its upgrade in August 2008 with an estimated lifetime of 25 years.

| In million of NOK | Estimates<br>Remaining lifetime as at 31 December 2009 | Net book value as at 31 December | |
|---|---|---|---|
| | | 2009 | 2008 |
| Belford | 20 | 1 317 | 1 678 |
| Bideford | 15 | 821 | 814 |
| Borgland | 15 | 1 075 | 917 |
| Byford | 10 | 587 | 194 |
| Borgny | 10 | 1 020 | 317 |
| Borgsten | 10 | 260 | 277 |
| Bredford | 13 | 852 | 1 104 |
| Borgholm | 8 | 203 | 285 |
| Blackford | 24 | 3 706 | 4 696 |
| Total rigs and drillship | | 9 841 | 10 282 |

### Impairment

The Group has recognised an impairment loss of NOK 35 million in 2008 on specialised equipment included in Machinery and Equipment. The impairment loss was the difference between the carrying amount and the estimated recoverable amount, which is determined based on the fair value less costs to sell. No impairment loss was recorded in 2009.

### Commitments

Commitments related to ongoing projects are approximately USD 40 million as at 31 December 2009.

## Note 8 - Intangible assets

### Goodwill

The intangible asset balance of NOK 98 577 consists entirely of goodwill relating to Dolphin AS, included in the offshore drilling segment.

*Impairment*

The Group performs an impairment test of the goodwill in December of each year. Value in use calculation is used for the impairment test, which is the present value of the future cash flows from continuing use and ultimate disposal expected to be derived from the cash generating unit which is Dolphin AS. Fair value is not readily determinable.

The value in use calculation was based on the following key assumptions.

- Cash flows were projected based on operating cash flows from firm contract day rates and expected day rates less budgeted operating expenses for the rigs being operated by Dolphin AS which was extrapolated over 12 years representing the remaining assets lives of the rigs. A zero growth rate was applied.
- A pre tax discount rate of 8 percent was applied in determining the recoverable amount of the unit.

The impairment test showed no need for recording any impairment loss.

*Sensitivity*

Cash flows could vary significantly for Dolphin AS, however an impairment would still not be expected to be incurred.

## Note 9 - Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| Amounts in NOK 000's | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Property, plant and equipment | -4 966 | -3 017 | 63 212 | 76 661 | 58 246 | 73 644 |
| Interest bearing loans and borrowings | 0 | 0 | 0 | 246 | 0 | 246 |
| Provisions | -2 351 | -38 035 | 0 | 0 | -2 351 | -38 035 |
| Other items | -61 055 | -38 967 | 2 499 | 2 957 | -58 556 | -36 010 |
| Tax value of loss carry-forward recognised | -45 770 | -35 130 | 0 | 0 | -45 770 | -35 130 |
| Tax (assets)/liabilities | -114 142 | -115 149 | 65 711 | 79 864 | -48 431 | -35 285 |
| Set off 1) | 65 711 | 60 167 | -65 711 | -60 167 | 0 | 0 |
| Net tax (assets)/liabilities | -48 431 | -54 982 | 0 | 19 697 | -48 431 | -35 285 |

1) Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income tax levied to the same taxable entity.

### Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Deductible temporary differences | 57 215 | 80 389 |
| Tax losses | 676 975 | 988 830 |
| Other | 12 401 | 19 372 |
| Total unrecognised deferred tax assets | 746 591 | 1 088 591 |

As at 31 December 2009, the tax losses carried forward totaling NOK 2.6 billion are primarily from the UK and Norway. Approximately NOK 1.2 billion of these tax losses carried forward are available to offset the taxable income for subsidiaries in UK and NOK 1.4 billion for subsidiaries in Norway. The major part of these losses is not recorded as a deferred tax asset due to uncertainty of the level of the future suitable taxable profits.

The Norwegian tax authorities have filed a decision against the Group. The Group has appealed the decision but included the effect above in 2008 and 2009.

The tax losses carried forward have no expiry date.

## Note 10 - Cash and cash equivalents

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Cash related to payroll tax withholdings | 29 364 | 26 812 |
| Other restricted cash | 20 723 | 25 105 |
| Total restricted cash | 50 087 | 51 917 |
| Unrestricted cash | 1 964 040 | 3 621 917 |
| Total cash and cash equivalents | 2 014 127 | 3 673 834 |

Other restricted cash relates primarily to cash restricted for certain drilling contract obligations.

## Note 11 - Capital and reserves

### Share capital and share premium

| | | |
|---|---|---|
| Par value per share | NOK 20 | |
| Number of shares authorized | 80 094 229 | |
| Number of shares issued | 66 694 229 | |

| Outstanding shares | 2009 | 2008 |
|---|---|---|
| As at 1 January | 66 264 129 | 66 689 862 |
| Own shares acquired | 0 | -426 100 |
| Conversion of convertible bonds | 0 | 367 |
| As at 31 December | 66 264 129 | 66 264 129 |

In 2008 bondholders converted convertible bonds of TNOK 25 giving an increase in the number of shares by 367.

### Capital reserves

This reserve represents the equity component of convertible debt instruments and fair value reserve of the bond loan.

| | 2009 | 2008 |
|---|---|---|
| Component of convertible debt instruments net of tax | 0 | 1 |
| Fair value reserve of bond loan | 0 | 621 |
| Total | 0 | 622 |

The recognition in income and expense of NOK 622 (2008: NOK 2 522) represents the difference between the nominal interest rate for the convertible notes (4.5%) and the market rate for notes without conversion (8.75%) and effective interest of bond loan (nominal 4.5%, market rate 5.8%), net of tax.

Interest expense for the new bond was accounted for using the effective interest rate method.

### Translation reserves

This reserve represents exchange differences resulting from the consolidation of subsidiaries having different functional currencies.

### Reserve for own shares

The Company held 430 100 shares as at 31 December 2009 (unchanged from 2008).

### Dividend

The Board has decided to propose to the Annual General Meeting in May 2010 an ordinary dividend payment of NOK 10,- per share for the year 2009. This will amount to NOK 663 million based on outstanding shares as at 31 December 2009.

The Annual General Meeting in May 2009 approved the Board's proposal of an ordinary dividend payment of NOK 10,- per share and an extraordinary dividend payment of NOK 15,- per share for the year 2008. The payment was made in June 2009 and amounted to NOK 1 656.6 million (2008: 1 667.3 million).

## Note 12 - Interest-bearing loans and borrowings

| Amounts in NOK 000's | Nominal Value 31.12.09 | Contractual cash flows | Due in 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter |
|---|---|---|---|---|---|---|---|---|
| Fleet loans (USD) | 6 758 739 | 6 960 541 | 1 341 252 | 1 326 637 | 1 312 022 | 735 811 | 2 244 819 | 0 |
| Total Interest bearing loans and borrowings | 6 758 739 | 6 960 541 | 1 341 252 | 1 326 637 | 1 312 022 | 735 811 | 2 244 819 | 0 |

| Amounts in NOK 000's | Nominal Value 31.12.08 | Contractual cash flows | Due in 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and thereafter |
|---|---|---|---|---|---|---|---|---|
| FOE Bonds (NOK) | 300 500 | 314 023 | 314 023 | 0 | 0 | 0 | 0 | 0 |
| FOE Convertible Bonds (NOK) | 190 | 199 | 199 | 0 | 0 | 0 | 0 | 0 |
| Fleet loans (USD) | 9 728 471 | 10 484 798 | 1 756 902 | 1 719 562 | 1 682 223 | 1 644 884 | 929 323 | 2 751 904 |
| Total Interest bearing loans and borrowings | 10 029 161 | 10 799 020 | 2 071 124 | 1 719 562 | 1 682 223 | 1 644 884 | 929 323 | 2 751 904 |

| Amounts in NOK 000's | Currency | Interest rate | Maturity | 31.12.09 Nominal value | 31.12.09 Balance | 31.12.08 Nominal value | 31.12.08 Balance |
|---|---|---|---|---|---|---|---|
| FOE Bonds | NOK | 4,5% (Fixed) | | 0 | 0 | 300 500 | 299 585 |
| FOE Convertible Bonds | NOK | 4,5% (Fixed) | | 0 | 0 | 190 | 189 |
| Fleet loan USD 1 500 million facility | USD | Libor + margin 1) | 2014 | 6 758 739 | 6 721 689 | 9 728 471 | 9 663 255 |
| Total Interest bearing loans and borrowings | | | | 6 758 739 | 6 721 689 | 10 029 161 | 9 963 029 |
| Current interest bearing loans and borrowings | | | | | 1 270 874 | | 1 839 581 |
| Non-current interest bearing loans and borrowings | | | | | 5 450 815 | | 8 123 448 |
| Total interest bearing loans and borrowings | | | | | 6 721 689 | | 9 963 029 |

1) The fleet loan is based on USD Libor (1,3 or 6 months) plus a margin. The margin is grid based according to defined leverage intervals.

All of the interest bearing debt of the Group at 31 December 2009, NOK 6 759 million or USD 1 170 million is denominated in US dollars (2008: NOK 9 728 million or USD 1 390 million).

Dolphin International AS, a subsidiary of Fred. Olsen Energy ASA, signed a six years bank term loan and credit facility of originally USD 1 500 million in May 2008. There are semi-annual installments of USD 110 million. The facility refinanced all existing bank loans and is used for general corporate purposes. The facility is provided by 11 international banks and was arranged by Danske Bank, Deutsche Bank, ING Bank and Nordea Bank Norge ASA.

Bondholders converted convertible bonds of TNOK 25 during 2008.

## Note 13 - Financial risk management

### Capital management

The Board's objective is to have a healthy financial position in order to maintain market confidence and sustain future development of the business. The Board monitors the capital structure and return on capital on a continuous basis, with the aim to maintain a strong capital base while maximizing the return on capital. The Board has during the last years proposed a dividend on a yearly basis and may propose extraordinary dividends from time to time.

The Company may from time to time purchase its own shares in the market within the authorization given by the Annual General Meeting. The Company does not have a formal defined share buy-back program however this will be evaluated on a continuous basis.

The Group has general corporate covenants in its loan agreements and is in compliance with all covenants in these agreements.

### Market risk

The Group is exposed to credit-, interest rate- and foreign currency risks in its operations. Derivative financial instruments are from time to time entered into to hedge against fluctuations in foreign currency rates and interest rate levels. The Group does not enter into commodity contracts.

### Credit risk

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base of international oil and gas companies. The Group continually evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees, either in the form of parent company guarantees, bank guarantees or cash collateral. The Group's short-term investments are limited to cash deposits in the Group's relationship banks and derivative financial instruments are normally entered into with the Group's main relationship banks. As such, the Group considers its exposure to credit risk to generally be moderate.

At 31 December 2009 there was no significant concentration of credit risk. Maximum exposure to credit risk is reflected in the carrying value of each financial asset, including derivative financial instruments, in the balance sheet.

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Loans and receivables | 990 598 | 1 578 848 |
| Cash and cash equivalents | 2 014 127 | 3 673 834 |
| Total | 3 004 725 | 5 252 682 |

Receivables are to be collected from the following type of customers:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Loans to employees | 1 003 | 944 |
| Trade receivables due from related parties | - | 1 260 |
| Customers | 989 595 | 1 576 644 |
| Total | 990 598 | 1 578 848 |

The ageing of trade receivables at the reporting date was:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Nominal value | Provision | Balance | Nominal value | Provision | Balance |
| Not due | 771 534 | -3 981 | 767 553 | 1 113 705 | 0 | 1 113 705 |
| Overdue 0-30 days | 30 584 | -3 808 | 26 776 | 191 918 | 0 | 191 918 |
| Overdue 30-90 days | 25 475 | -6 520 | 18 955 | 137 945 | -34 967 | 102 978 |
| Overdue 90-180 days | 0 | 0 | 0 | 132 | 0 | 132 |
| Overdue 180-360 days | 128 671 | -60 032 | 68 639 | 101 | 0 | 101 |
| Overdue > 360 days 1) | 167 298 | -59 626 | 107 672 | 247 400 | -78 330 | 169 070 |
| Total | 1 123 562 | -133 967 | 989 595 | 1 691 201 | -113 297 | 1 577 904 |

1) see note 18

### Liquidity risk

The following are the contractual maturities of financial liabilities including interest payments. In May 2008, a new combined term loan and revolving credit facility with an original amount of USD 1 500 million was established to refinance the entire Group's bank debt. The new facility has final maturity in 2014. The Group is in compliance with covenants in all loan agreements. The Group continuously evaluates the refinancing need and will carry out refinancing transactions from time to time. The overview of the Group's loans and adjacent repayment schedule is further detailed in note 12.

Amounts in NOK 000's

| 31 December 2009 | Carrying value | Contractual cash flows | Due in 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter |
|---|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | 6 758 739 | 6 960 541 | 1 341 252 | 1 326 637 | 1 312 022 | 735 811 | 2 244 819 | 0 |
| Derivative financial commitments | 103 066 | 333 810 | 98 385 | 75 600 | 67 362 | 46 235 | 8 405 | 37 823 |

| 31 December 2008 | Carrying value | Contractual cash flows | Due in 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and thereafter |
|---|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | 10 029 161 | 10 799 020 | 2 071 124 | 1 719 562 | 1 682 223 | 1 644 884 | 929 323 | 2 751 904 |
| Derivative financial commitments | 265 512 | 291 122 | 121 259 | 56 621 | 49 543 | 42 466 | 21 233 | 0 |

### Interest rate risk

The Group is exposed to fluctuations in interest rates for USD and NOK. The Group has historically used interest rate derivatives to achieve a mix of exposure to fixed and floating interest rate on its debt instruments. During the recent years, the Group has had between 7% and 70% of its interest expenses based on fixed rates, either as fixed rate loans or through interest rate derivatives. As per 31 December 2009 approximately 38% of outstanding debt was at fixed rate. At 31 December 2009 the Group's USD denominated debt amounted to USD 1,170 million, of which USD 720 million is based on floating interest rates (USD LIBOR) plus a margin. USD 450 million is based on fixed rates plus a margin, whereof USD 50 million is fixed for 10 years, USD 300 million is fixed for 5 years and USD 100 million for 3 years. The average interest rate for the fixed rate agreements is 3.56%.

The following table summarizes the interest rate swaps entered into in connection with the refinancing of the bank loan in May 2008:

| Currency | Amount | Fixed rate % | Expiry date |
|---|---|---|---|
| USD | 100 000 000 | 3.68 | 2011 |
| USD | 300 000 000 | 3.58 | 2013 |
| USD | 50 000 000 | 3.16 | 2019 |

Unrealized gain of NOK 83 million (2008: loss of NOK 198 million) and realized loss of NOK 68 million (2008: NOK 8 million) was recorded as financial expense in 2009 related to fixed rate agreements.

### Foreign currency risk

The Group is exposed to foreign currency risks related to its operations and debt instruments. The Group's financial statements are denominated in Norwegian kroner (NOK) and most of the subsidiaries use US dollar (USD) as their functional currency. Some subsidiaries also use the British Pound (GBP) as their functional currency. The Group's revenues consist primarily of NOK, GBP and USD with USD as the main currency. The Group's expenses are primarily in NOK, GBP and USD. As such, the Group's earnings are exposed to fluctuations in the foreign currency market. The Group's future foreign currency exposure is dependent upon the currency denomination of future operating contracts and denomination of operating expenses. In 2009, approximately 72% of revenues and 18% of operating expenses are in USD. In the longer term, parts of the USD/NOK exposure is neutralised due to all of the Group's debt being denominated in USD.

At 31 December 2009, the Group had outstanding currency derivative contracts for forward sale of USD 25 million against GBP.

*..the note continues on the next page*

The GBP hedging of 25 million are structured as convertible forwards as follows:

| | Value | Forward rate | Knock in rate | Expiry date |
|---|---|---|---|---|
| GBP/USD | 5 000 000 | 1.640 | 1.455 | 07.01.2010 |
| GBP/USD | 5 000 000 | 1.660 | 1.425 | 17.06.2010 |
| GBP/USD | 5 000 000 | 1.625 | 1.418 | 27.09.2010 |
| GBP/USD | 5 000 000 | 1.640 | 1.453 | 30.03.2010 |
| GBP/USD | 5 000 000 | 1.670 | 1.406 | 29.11.2010 |

USD at spot rate as long as the spot rate does not fall below the knock in rate, in which cases the forward rate will be used.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2009 was NOK 2.3 million recorded as current liabilities (2008: NOK 66.2 million). A gain of NOK 126 million related to foreign exchange contracts was recorded as financial income in 2009 (2008: loss of NOK 96 million).

### Sensitivity analysis

In managing interest- and currency risks the Group aims to reduce the impact on its earnings from short-term fluctuations in interest rates and currency exchange rates. Over the longer term changes in currency exchange rates and interest rate levels will have an impact on the Group's earnings.

*Interest rate sensitivity*

At 31 December 2009 it is estimated that 1 – one percent incremental change in USD LIBOR will have an effect on the net result of approximately NOK 21,5 million (2008: NOK 32.5 million), taken into account the fixed rate portion of the loans.

The Group is exposed to fluctuations in the interest rates. Managing the exposure could reduce the short-term fluctuations in the Group's earnings. At the reporting date the following table shows the amounts of financial instruments with fixed and variable interest:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Fixed rate instruments | | |
| Financial liabilities | -2 599 515 | -3 400 250 |
| Variable rate instruments | | |
| Bank deposits | 2 014 127 | 3 673 834 |
| Financial liabilities | -4 159 224 | -6 928 911 |
| Total variable rate instruments | -2 145 097 | -3 255 077 |

*Exchange rate sensitivity from operations*

For the year 2009 a 10% increase in USD/NOK would increase the Group's profit by approximately NOK 307 million while a 10% increase in GBP/NOK would decrease the profit by approximately NOK 78 million.

*Exchange rate sensitivity on balance sheet items and derivatives as at reporting date*

At December 2009, an incremental change in the GBP/USD and the USD/NOK exchange rate will have the following impact on profit before tax due to the currency derivatives of USD 25 million which is sold against GBP (please see section on foreign currency risk), accounts payable denominated in GBP, accounts receivables in USD and currency deposits where currencies differ from the various functional currencies:

| Impact on profit in NOK | GBP/USD | | | | USD/NOK | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| % Change in exchange rates | 10 % | -10 % | 10 % | -10 % | 10 % | -10 % | 10 % | -10 % |
| Through outstanding currency derivatives | 21.1 | -3.1 | 5.0 | -58.7 | - | - | -19.3 | 39.6 |
| Through accounts payable | -4.6 | 4.6 | -2.0 | 2.0 | - | - | - | - |
| Through accounts receivable | - | - | - | - | 12.0 | -12.0 | 31.0 | -31.0 |
| Through currency deposit accounts | -1.1 | 1.1 | -1.7 | 1.7 | 14.8 | -14.8 | 9.4 | -9.4 |
| Total impact in NOK million | 15.4 | 2.6 | 1.3 | -55.0 | 26.9 | -26.9 | 21.1 | -0.8 |

Furthermore, the Group has received a guarantee from Keppel Verolme of EUR 33 million related to the payment made by the Group to the yard, please refer to note 18 for further information. The guarantee of EUR 33 million may therefore be impacted on changes in the EUR/NOK exchange rate.

### Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| Amounts in NOK 000's | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Assets carried at amortised cost** | | | | |
| Loans and receivables | 990 598 | 990 598 | 1 578 848 | 1 578 848 |
| Cash and cash equivalents | 2 014 127 | 2 014 127 | 3 673 834 | 3 673 834 |
| Total | 3 004 725 | 3 004 725 | 5 252 682 | 5 252 682 |
| **Liabilities carried at fair value** | | | | |
| Non-current liabilities | | | | |
| Interest rate swaps | 90 642 | 90 642 | 200 875 | 200 875 |
| Current liabilities | | | | |
| Interest rate swaps | 10 109 | 10 109 | - | - |
| Currency contracts | 2 315 | 2 315 | 66 216 | 66 216 |
| Total | 103 066 | 103 066 | 267 091 | 267 091 |
| **Liabilities carried at amortised cost** | | | | |
| Secured bank loans | 6 721 689 | 6 758 739 | 9 963 029 | 10 029 161 |
| Trade and other payables | 215 505 | 215 505 | 272 761 | 272 761 |
| Total | 6 937 194 | 6 974 244 | 10 235 790 | 10 301 922 |

The Group is required to disclose the hierarchy of how fair value is determined for financial instruments recorded at fair value in the consolidated financial statements. The hierarchy gives highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 includes assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly. The Groups's derivative financial instruments including foreign currency contracts and interest swap agreements are valued using Level 2 inputs.

## Note 14 - Mortgages and guarantees

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Interest bearing debt | 6 758 739 | 9 728 471 |
| Other guarantees and liabilities | 295 118 | 350 650 |
| Total | 7 053 857 | 10 079 121 |
| The net book value of assets pledged as security: | | |
| Rigs and drillship | 9 841 435 | 10 281 610 |
| Others | 50 762 | 70 598 |
| Total | 9 892 197 | 10 352 208 |

As a normal part of it operations, the Group has provided performance guarantees in relation to certain of its drilling contracts. In addition, the Group has provided a bank guarantee for the remaining EUR 33 million of the total claim from a supplier. See note 18 for further information.

## Note 15 - Employee benefits

### Pension plans

Fred. Olsen Energy ASA including its subsidiaries Dolphin AS and Harland & Wolff Group Ltd/Harland & Wolff Heavy Industries Ltd have independent pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement. The total number of employees involved in the pension plans as of 31 December 2009 was 645 and the number of pensioners was 2 185, of which the majority is related to Harland & Wolff. Each of these pension plans are operated independently of each other and have no recourse in case of underfunding to either other pension plans or other companies within the Group.

Employees not eligible for coverage under the defined benefit plans in the UK are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans. The Company's contributions to the UK defined contribution plans for year ended December 31, 2009 and 2008 were NOK 3.3 million and NOK 3.5 million respectively. The Company's contribution to Norwegian seamen pension was NOK 10.5 million.

The pension plan for the Norwegian Group companies is in accordance with the Norwegian law concerning mandatory occupational pension (OTP).

Fred. Olsen Energy ASA has pension agreement for senior management, in which the beneficiaries will receive 70% of their final year salary with early retirement at the age of 65. This is unfunded pension obligations.

The status of the defined benefit obligations is as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Present value of unfunded obligations | 9 727 | 6 375 |
| Present value of funded obligations | 1 528 796 | 1 460 568 |
| Total present value of obligations | 1 538 523 | 1 466 943 |
| Plan assets at market value | 1 248 595 | 1 217 955 |
| Present value of net obligations | -289 928 | -248 988 |
| Unrecognised net experience loss | 97 074 | 57 346 |
| Net liability for defined benefit obligations | -192 854 | -191 642 |
| | | |
| Hereof unfunded pension plans (net liability) | -10 414 | -7 498 |
| Hereof funded pension plans | -182 440 | -184 144 |
| Net liability for defined benefit obligations | -192 854 | -191 642 |
| | | |
| Other investments | 4 223 | 4 780 |
| Employee benefits | -197 077 | -196 422 |
| Net liability at 31 December | -192 854 | -191 642 |

Movements in the net liability for defined benefit obligations recognised in the balance sheet

| Funded | 2009 | 2008 |
|---|---|---|
| Net liability at 1 January | -184 144 | -189 492 |
| Pension contribution (incl. Social security) | 60 932 | 36 575 |
| Expenses recognised in the income statement | -70 280 | -41 504 |
| Foreign currency translation | 11 052 | 10 277 |
| Net liability at 31 December | -182 440 | -184 144 |

| Unfunded | 2009 | 2008 |
|---|---|---|
| Net liability at 1 January | -7 498 | -5 528 |
| Payments during the year to pensioners (incl. Social security) | 0 | 122 |
| Expenses recognised in the income statement | -2 916 | -2 092 |
| Net liability at 31 December | -10 414 | -7 498 |

Movements in plan assets

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Fair value of plan assets at 1 January | 1 217 955 | 1 479 494 |
| Contributions paid into the plan | 55 248 | 33 983 |
| Benefits paid by the plan | -71 437 | -80 364 |
| Expected return of plan assets | 80 843 | 89 071 |
| Actuarial gain/(losses) | 49 255 | -219 464 |
| Foreign currency translation | -83 269 | -84 765 |
| Fair value of plan assets at 31 December | 1 248 595 | 1 217 955 |

Major categories of plan assets

| | 2009 | 2008 |
|---|---|---|
| Equity instruments | 30 % | 27 % |
| Bonds | 50 % | 52 % |
| Annuities | 16 % | 16 % |
| Other assets | 4 % | 5 % |
| Plan assets | 100 % | 100 % |

Movements in liabilities for defined benefit obligations recognised in the balance sheet

| Funded | 2009 | 2008 |
|---|---|---|
| Gross liability for defined benefit obligations at 1 January | 1 460 568 | 1 577 321 |
| Benefits paid by the plan | -71 437 | -80 364 |
| Current service costs | 61 344 | 47 588 |
| Interest on pension liability | 84 150 | 82 471 |
| Actuarial losses/(gains) | 89 782 | -79 458 |
| Paid social security | -6 764 | -3 725 |
| Foreign currency translation | -88 847 | -83 265 |
| Gross liability at 31 December | 1 528 796 | 1 460 568 |

| Unfunded | 2009 | 2008 |
|---|---|---|
| Gross liability for defined benefit obligations at 1 January | 6 375 | 2 289 |
| Benefits paid by the plan | 0 | -122 |
| Current service costs | 2 791 | 2 336 |
| Interest on pension liability | 274 | 108 |
| Actuarial losses | 287 | 1 764 |
| Gross liability at 31 December | 9 727 | 6 375 |

Expense recognised in the income statement for defined benefit plans

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Current service costs | 64 135 | 49 925 |
| Interest on obligations | 84 424 | 82 579 |
| Expected return of plan assets | -80 843 | -89 071 |
| Amortisation expense | 5 481 | 163 |
| Net pension cost for defined benefit plans | 73 197 | 43 596 |

*..the note continues on the next page*

Assumptions used in the calculation of pension obligations are as follows:

| | 2009 | 2008 |
|---|---|---|
| Assumed salary increases | 2.8-5.0% | 2.8-5.5% |
| Discount rates | 4.3-5.7% | 4.3-6.7% |
| Interest rates | 2.8-5.7% | 4.3-6.7% |
| Expected rates of return on pension plan assets | 5.3-7.2% | 5.3-6.8% |

*Sensitivity analysis:*
Funded Pension Plans: 0.25% change in future salary increase and the official pension index (G), gives a 3% change in Service cost and 1% change in the projected benefit obligations. A 0.25% change in the discount rate gives a change in Service Cost of 5% and 4% change in the projected benefit obligations.

Unfunded Pension Plans: 0.25% change in future salary increase and the official pension index (G), gives a 2% change in Service cost and 2% change in projected benefit obligations. A 0.25% change in the discount rate gives a change in Service Cost and projected benefit obligation of 5%.

Expected contributions to funded defined benefit plans in 2010 are NOK 58 million. Expected payments of benefits for the unfunded plans are in 2010 estimated at NOK 0.1 million.

| Amounts in NOK 000's | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation - funded | -1 528 796 | -1 460 568 | -1 577 321 | -1 739 799 | -1 668 204 |
| Present value of the defined benefit obligation - unfunded | -9 727 | -6 375 | -2 289 | -253 | 0 |
| Fair value of plan assets | 1 248 595 | 1 217 955 | 1 479 494 | 1 670 693 | 1 576 762 |
| Deficit in the plan (-) | -289 928 | -248 988 | -100 116 | -69 359 | -91 442 |
| | | | | | |
| Experience adjustments arising on plan liabilities - funded | 89 782 | -79 458 | -1 835 | 56 746 | -37 830 |
| Experience adjustments arising on plan liabilities - unfunded | 287 | 1 764 | -747 | 294 | 0 |
| Experience adjustments arising on plan assets | 49 255 | -219 464 | -52 037 | 61 491 | 122 106 |

## Note 16 - Rental & Leases

### Leases
The Group has certain long-term operating leases expiring on various dates, some which contain renewal options.

Nominal accumulated non-cancellable operating lease rentals are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Less than one year | 5 370 | 5 440 |
| Between one and five years | 12 598 | 9 796 |
| More than five years | 201 545 | 232 805 |
| Total | 219 513 | 248 041 |

The Group does not have any financial leases. The Group subsidiary Compact Properties in Belfast has a property lease contract that expires in 2114 and is the major part of the above.

## Note 17 - Related parties

In the ordinary course of business, the Group recognises revenues and expenses with related companies, which may have a significant impact on the Group's consolidated financial statements. The Group receives certain administrative, financial, and legal advisory services from Fred. Olsen & Co. The agreements are on arms-length terms and are subject to ordinary termination provisions. Other related parties relate entirely to Ganger Rolf ASA and Bonheur ASA which are the owners of a combined 53.4 % of the Group, and their subsidiaries and Fred. Olsen & Co. Revenues, purchases, interest income and expenses from such companies were as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Revenues | | |
| Bulford Dolphin Pte Ltd | 1 542 | 1 854 |
| Others | 1 434 | 2 017 |
| Total | 2 976 | 3 871 |
| Operating expenses | | |
| Fred. Olsen & Co. | 6 373 | 6 303 |
| Total | 6 373 | 6 303 |
| Interest expenses | | |
| Bonheur ASA/Ganger Rolf ASA | 4 246 | 13 523 |
| Total | 4 246 | 13 523 |

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Accounts receivable | | |
| Bulford Dolphin Pte Ltd | 0 | 791 |
| Others | 0 | 469 |
| Total | 0 | 1 260 |
| Accounts payable | | |
| Fred. Olsen & Co. | 191 | 127 |
| Bulford Dolphin Pte Ltd | 0 | 128 955 |
| Bonheur ASA/Ganger Rolf ASA | 446 | 0 |
| Total | 637 | 129 082 |
| Long-term debt | | |
| Bonheur ASA/Ganger Rolf ASA | 0 | 300 500 |
| Total | 0 | 300 500 |
| Loan to employees | | |
| Chief Executive Officer | 0 | 0 |
| Loan to employees | 1 003 | 944 |
| Total | 1 003 | 944 |

*..the note continues on the next page*

The remunerations of Board of Directors and senior management were as follows:

| | Board of Directors | |
|---|---|---|
| Amounts in NOK 000's | 2009 | 2008 |
| Remuneration | 1 080 | 1 080 |
| Total | 1 080 | 1 080 |

| | Senior Management | |
|---|---|---|
| Amounts in NOK 000's | 2009 | 2008 |
| Salary | 13 078 | 11 764 |
| Bonus | 1 642 | 1 976 |
| Pension costs | 4 130 | 2 387 |
| Other | 2 446 | 2 277 |
| Total | 21 296 | 18 404 |

2009

| Amounts in NOK 000's | Board remuneration | Salary | Bonus | Other | Pension | Total |
|---|---|---|---|---|---|---|
| Senior management | | | | | | |
| Ivar Brandvold, Chief Executive Officer (from 21 Sep) | | 969 | 454 | 73 | - | 1 496 |
| Helge Haakonsen, Chief Executive Officer (until 31 Oct) | 147 | 3 224 | 300 | 187 | 824 | 4 682 |
| Hjalmar Krogseth Moe, Chief Financial Officer | 78 | 1 338 | 94 | 138 | 499 | 2 147 |
| Total parent company | 225 | 5 531 | 848 | 398 | 1 323 | 8 325 |
| Per Johansson, Managing Director | | 2 194 | 180 | 1 004 | 1 151 | 4 529 |
| Joakim Kleppe, Managing Director | | 1 710 | 144 | 55 | 736 | 2 645 |
| Robert Cooper, Managing Director | | 1 765 | 314 | 216 | 196 | 2 491 |
| Johan Finnestad, Managing Director | | 1 878 | 156 | 548 | 724 | 3 306 |
| Total | 225 | 13 078 | 1 642 | 2 221 | 4 130 | 21 296 |
| Board of Directors | | | | | | |
| Anette S. Olsen | 250 | | | | | 250 |
| Øivin Fjeldstad | 200 | | | | | 200 |
| Jan Peter Valheim | 200 | | | | | 200 |
| Agnar Gravdahl | 200 | | | | | 200 |
| Cecilie B. Heuch | 200 | | | | | 200 |
| Stephen Knutzon | 30 | | | | | 30 |
| Total | 1 080 | 0 | 0 | 0 | 0 | 1 080 |

2008

| Amounts in NOK 000's | Board remuneration | Salary | Bonus | Other | Pension | Total |
|---|---|---|---|---|---|---|
| **Senior management** | | | | | | |
| Helge Haakonsen, Chief Executive Officer | 155 | 3 909 | 825 | 190 | 338 | 5 417 |
| Hjalmar Krogseth Moe, Chief Financial Officer | 83 | 1 102 | 264 | 131 | 284 | 1 864 |
| Total parent company | 238 | 5 011 | 1 089 | 321 | 622 | 7 281 |
| Per Johansson, Managing Director | | 2 046 | 499 | 1 381 | 658 | 4 584 |
| Joakim Kleppe, Managing Director | | 1 606 | 125 | 55 | 648 | 2 434 |
| Robert Cooper, Managing Director | | 1 673 | 155 | 268 | 207 | 2 303 |
| Iain Mitchell, Managing Director | | 1 428 | 108 | 14 | 252 | 1 802 |
| Total | 238 | 11 764 | 1 976 | 2 039 | 2 387 | 18 404 |
| **Board of Directors** | | | | | | |
| Anette S. Olsen | 250 | | | | | 250 |
| Øivin Fjeldstad | 200 | | | | | 200 |
| Jan Peter Valheim | 200 | | | | | 200 |
| Agnar Gravdahl | 200 | | | | | 200 |
| Cecilie B. Heuch | 200 | | | | | 200 |
| Stephen Knutzon | 30 | | | | | 30 |
| Total | 1 080 | 0 | 0 | 0 | 0 | 1 080 |

Senior Management consists of Group management (Chief Executive Officer and Chief Financial Officer) and the Managing Directors in the subsidiaries, for a total of 6 employees.

The management has a management cash bonus scheme. The beneficiaries of the scheme are senior management and certain key personnel. Annual payments under the scheme, maximised to one year's salary, are subject to the Group achieving certain pre-defined financial criteria, including achieved budget goals and development of the Company's share price.

### Guidelines for 2010

The Board of Directors of Fred.Olsen Energy ASA has a Compensation Committee comprising four Directors including the Chairman of the Board and two Directors independent of the main shareholders. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer and senior management as well as management incentive schemes for the Group.

The policy of Fred.Olsen Energy ASA is to offer competitive payments and benefits to senior management to attract qualified management within the company's business segments. The company seeks to apply competitive and motivating remuneration principles to attract, develop and retain highly qualified employees.

The salaries paid to the senior management are determined on the basis of the responsibility and complexity of the appointment in question. A part of the remuneration to the senior management is based on the company's financial performance and related to achieved budget goals and the increase in market value of the shares for the company.

The remuneration for 2009 has been in accordance with the statement presented at the Annual General Meeting in May 2009.

## Note 18 - Contingencies

### Outstanding receivables from customers

As per 31 December 2009 the Group was involved in legal disputes with one specific customer with the claims in dispute amounted to USD 18.3 million.

In addition to the above the Group was as per 31 December 2009 involved in discussions with three specific customers regarding contractual issues amounting to in total USD 18.9 million.

The Group has made provisions of USD 12 millions based on evaluations of the status of the outstanding receivables.

### Outstanding issues from suppliers

As at 31 December 2009 the Group is involved in legal dispute with a specific supplier. The total claim from the supplier is capped at EUR 66 million and the total counter claim from the Group is capped at USD 43 million. The Group has prepaid a deposit of EUR 33 million against a bank guarantee in order to get the asset released from the supplier.

Based on evaluation of the contractual status of the outstanding claim, the Group made no provision for the dispute. The final outcome will affect the carrying amount of the rig.

## Note 19 - Uncompleted contracts

At 31 December 2008 the Group's engineering and fabrication division had long term uncompleted activities on various ship repair, ship building, manufacturing and engineering activities at Harland & Wolff. There were no long term uncompleted contracts as at 31 December 2009.

Profit recognised of estimated earnings and net outstanding receivables on long term uncompleted contracts (with unconsolidated entities) are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Contract Revenue during the period, external | 208 522 | 194 108 |
| Contract Revenue during the period, internal | 365 | 36 656 |
| Contract cost incurred plus recognised profit on uncompleted contracts | 0 | 77 658 |
| Estimated profit | 0 | 22 550 |
| Less progress billings to date | 0 | -107 526 |
| Accrued and (deferred) revenue, net | 0 | -7 318 |

The accrued and (deferred revenue) is included in the accompanying balance sheet under the following captions:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Accounts receivable | 0 | 455 |
| Other accrued expenses and deferred revenue | 0 | 7 773 |
| Accrued and (deferred) revenue, net | 0 | -7 318 |

## Note 20 - Shareholder information

The shareholder, who hold more than 1% of the shares at 31 December 2009 are as follows:

| Shareholder | Percent of shares | Number of shares |
|---|---|---|
| Bonheur ASA | 26.71 % | 17 814 382 |
| Ganger Rolf ASA | 26.71 % | 17 814 382 |
| Folketrygdfondet | 3.55 % | 2 370 050 |
| Clearstream banking S.A | 2.26 % | 1 507 479 |
| JP Morgan Chase bank | 1.96 % | 1 305 641 |
| DZ Bank International S.A. | 1.39 % | 924 820 |
| Bank of New York Mellon | 1.24 % | 829 775 |
| State Street Bank and Trust Co. | 1.19 % | 793 503 |
| Others | 34.99 % | 23 334 197 |
| Total | 100.00 % | 66 694 229 |

Shares owned directly by the Company's directors and senior corporate management at 31 December 2009:

| Name | Title | Shares |
|---|---|---|
| Anette S. Olsen | Chairman | 100 *) |
| Øivin Fjeldstad | Director | 3 220 |

*) Private Fred. Olsen related interests directly/indirectly hold a majority shareholding interest with the Company.

## Note 21 - Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

| Earnings<br>Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Earnings for the purpose of basic earnings per share | 2 749 004 | 2 092 595 |
| *Effect of dilutive potential ordinary shares:* | | |
| Interest on convertible bonds | 0 | 12 |
| Earnings for the purpose of diluted earnings per share | 2 749 004 | 2 092 607 |

| Number of shares<br>In thousands of shares | 2009 | 2008 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 66 264 | 66 658 |
| *Effect of dilutive potential ordinary shares:* | | |
| Convertible bonds | 0 | 2 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 66 264 | 66 660 |

| Earnings per share | 2009 | 2008 |
|---|---|---|
| Basic | 41.49 | 31.39 |
| Diluted | 41.49 | 31.39 |

## Note 22 - Subsidiaries

The ownership percentage in subsidiaries companies as of 31 December 2009 was as follows:

| Company | Jurisdiction | Shareholding and voting shares |
|---|---|---|
| Dolphin AS | Norway | 100.0 % |
| Dolphin International AS | Norway | 100.0 % |
| Blackford Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Bideford Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Borgland Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Borgsten Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Byford Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Borgny Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Dolphin Drilling Pte. Ltd. | Singapore | 100.0 % |
| Borgholm Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Bredford Dolphin Pte. Ltd. | Singapore | 100.0 % |
| Dolphin Drilling Personnel Pte. Ltd. | Singapore | 100.0 % |
| Dolphin Drilling Ltd | Scottland | 100.0 % |
| Dolphin Mexicana AS | Norway | 100.0 % |
| Dolphin Drilling South Africa (Proprietary) Ltd. | South Africa | 100.0 % |
| Perforadora Dolphin Mexicana | Mexico | 100.0 % |
| Navis Drilling Ltda | Brazil | 100.0 % |
| Dolphin Drilling do Ltda | Brazil | 100.0 % |
| Atlan Shipping Co. Ltd. | Bermuda | 100.0 % |
| Harland and Wolff Group PLC | Northern Ireland | 92.2 % |
| Harland and Wolff Heavy Industries Ltd. | Northern Ireland | 92.2 % |
| Harland and Wolff Ro Ro Ltd. | Northern Ireland | 92.2 % |
| Compact Holdings (NI) Ltd | Northern Ireland | 100.0 % |
| Compact Properties (NI) Ltd | Northern Ireland | 100.0 % |

Fred. Olsen Energy ASA

# Income Statement

For the years ended 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| Revenues | | 2 631 | 0 |
| Salaries and other personnel costs | 3 | -28 370 | -22 403 |
| Other operating expenses | 4 | -16 780 | -16 887 |
| Operating loss before depreciation and financial income / expense | | -42 519 | -39 290 |
| Depreciation and amortisation | 7 | -505 | -276 |
| Operating loss before financial expense | | -43 024 | -39 566 |
| Financial income | | 1 146 910 | 2 808 037 |
| Financial expense | | -34 157 | -477 022 |
| Net financial income | 5 | 1 112 753 | 2 331 015 |
| Profit before tax | | 1 069 729 | 2 291 449 |
| Income tax expense | 6 | 0 | 0 |
| Profit for the year | | 1 069 729 | 2 291 449 |
| Proposed allocations: | | | |
| Dividends | | 662 641 | 1 656 603 |
| To free reserves | | 407 088 | 634 846 |
| Total allocations | | 1 069 729 | 2 291 449 |

*The notes represent an integral part of the financial statements.*

Fred. Olsen Energy ASA

# Balance Sheet

As at 31 December

| Amounts in NOK 000's | Note | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 7 | 23 191 | 3 284 |
| Investments in subsidiary companies | 16 | 3 154 533 | 3 154 533 |
| Other non-current assets | 8, 15 | 190 594 | 227 603 |
| Deferred tax assets | 6 | 0 | 0 |
| Total non-current assets | | 3 368 318 | 3 385 420 |
| | | | |
| Other current assets | | 3 142 | 1 946 |
| Trade and other receivables | 9, 15 | 1 004 459 | 2 506 982 |
| Cash and cash equivalents | 10 | 64 725 | 65 559 |
| Total current assets | | 1 072 326 | 2 574 487 |
| | | | |
| Total assets | | 4 440 644 | 5 959 907 |
| **Equity** | | | |
| Share capital | | 1 333 884 | 1 333 884 |
| Treasury shares | | -8 602 | -8 602 |
| Share premium | | 548 125 | 548 125 |
| Other equity | | 1 586 722 | 1 179 635 |
| Total equity | 11 | 3 460 129 | 3 053 042 |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 12, 15 | 296 085 | 0 |
| Other non-current liabilities | 3 | 10 459 | 7 590 |
| Total non-current liabilities | | 306 544 | 7 590 |
| | | | |
| Interest-bearing loans and borrowings | 12, 15 | 0 | 420 690 |
| Trade and other payables | 13, 15 | 2 068 | 744 592 |
| Dividend | 11 | 662 641 | 1 656 603 |
| Currency derivatives | 17 | 2 315 | 64 637 |
| Other accrued expenses | 14 | 6 946 | 12 753 |
| Total current liabilities | | 673 970 | 2 899 275 |
| | | | |
| Total liabilities | | 980 514 | 2 906 865 |
| | | | |
| Total equity and liabilities | | 4 440 644 | 5 959 907 |

*The notes represent an integral part of the financial statements.*

Oslo, 31 December 2009 / 24 March 2010

Fred. Olsen Energy ASA

| | | | | | |
|---|---|---|---|---|---|
| Anette S. Olsen | Jan Peter Valheim | Cecilie B. Heuch | Øivin Fjeldstad | Agnar Gravdal | Ivar Brandvold |
| *Chairman* | | | | | *Chief Executive Officer* |

Fred. Olsen Energy ASA

# Statement of Cash Flows

For the years ended 31 December

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income taxes | 1 069 729 | 2 291 449 |
| *Adjustment for:* | | |
| Group contribution | 1 500 000 | -2 500 000 |
| Reversal of impairment loss investment in subsidiaries | 0 | -140 000 |
| Depreciation and amortization | 505 | 276 |
| Interest expense | 3 381 | 47 879 |
| Gain on sale of property, plant and equipment | -48 | 0 |
| Unrealised currency gain | -36 047 | 11 158 |
| Changes in trade and other receivables | -1 675 | 67 608 |
| Changes in trade and other payables | -11 865 | 736 016 |
| Changes in other balance sheet items | -58 839 | 2 199 |
| Cash generated from operations | 2 465 141 | 516 585 |
| Interest paid | -13 531 | -35 129 |
| Net cash from operating activities | 2 451 610 | 481 456 |
| **Cash flows from investing activities** | | |
| Proceeds from sales of property, plant and equipment | 196 | 0 |
| Purchase of property, plant and equipment | -20 560 | -2 430 |
| Net investment in subsidiary | 0 | -100 000 |
| Net cash used in investing activities | -20 364 | -102 430 |
| **Cash flows from financing activites** | | |
| Repayments of interest-bearing loans | -300 690 | -902 440 |
| Intercompany loans | -474 787 | 2 203 317 |
| Dividend paid | -1 656 603 | -1 667 256 |
| Purchase of treasury shares | 0 | -80 158 |
| Net cash used in financing activites | -2 432 080 | -446 537 |
| Net decrease in cash and cash equivalents | -834 | -67 511 |
| Cash and cash equivalents at 1 January | 65 559 | 133 070 |
| Cash and cash equivalents at 31 December | 64 725 | 65 559 |

*The notes represent an integral part of the financial statements.*

Fred. Olsen Energy ASA

# Notes to the Financial Statements

## Note 1 - Basis of presentation

Fred. Olsen Energy ASA (the Company) is domiciled in Norway. The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Norway.

The financial statements which have been prepared by the Company's Board of Directors and management should be read in conjunction with the report of the board of directors and the auditors report. The financial statements have been prepared in accordance with the requirements of the Norwegian Accounting Act.

The notes and accounting policies refer to the Company's financial statements unless specified otherwise.

## Note 2 - Summary of significant accounting policies

### Foreign currency

Gains and losses on transactions denominated in foreign currencies are included in financial income/(expense). Assets and liabilities are translated at the exchange rate on the balance sheet date.

### Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated on a straigt-line basis over 3-5 years.

### Investments in subsidiaries

Investments in subsidiaries are accounted for using the cost method in the Company's accounts. The investments are valued at cost less any impairment losses. Write downs to fair value are recognised when the impairment is considered not to be temporary. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

### Classification and valuation of other balance-sheet items

Current assets and current liabilities include items due within one year. Other assets and liabilities due after one year are classified as non-current assets or non-current liabilities. Current assets are valued at the lowest of cost and fair value. Current liabilities are valued at nominal value at the time of recognition.

### Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits that are readily convertible to cash.

### Non-current assets

The carrying amount of the Company's non-current assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, each asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined by the higher of fair value or estimated future discounted cash flows. In estimating future discounted cash flows, certain assumptions are made concerning discount rates which vary depending on the asset, terms of relevent contracts, foreign currencies, useful life of the assets and market growth. Impairment losses are recognised in the income statement.

### Financial instruments

*Interest rate derivatives*

The Company uses derivative financial instruments to manage the Group's exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Unrealised gains and losses on interest rate derivatives are recognised on a current basis.

*Forward exchange contracts*

The Company enters into forward currency contracts throughout the year to reduce the currency exposure on income, expenses, investments and debt in Great British pounds (GBP), United States dollars (USD) and Norwegian kroner (NOK). Unrealised gains/losses on foreign exchange contracts used to offset the effect of anticipated transactions are marked to market and recognised as financial income or expense.

### Income taxes

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates as they apply to taxable income in the years in which the differences are expected to be recovered or settled. Deferred tax assets are recognised in the balance sheet to the extent that is more likely than not that benefits will be recognised.

### Use of estimates

In the preparation of the financial statements, management is required to make estimates and assumptions affecting 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Pensions

The Company's pension plans for employees provide for a defined pension benefit upon retirement. The benefit to be received by employees generally depends on many factors including length of service, retirement date and future salary increases. The Company accounts for defined benefit pension plans in accordance with NRS 6A, which means that the company can elect to present pension liabilities in NGAAP accounts in accordance with IAS 19. Costs related to these plans are expensed as incurred.

## Note 3 - Salaries and other personnel costs

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Salaries | 16 604 | 12 099 |
| Social security expenses | 2 211 | 2 154 |
| Pension costs | 4 965 | 3 365 |
| Pension paid during the year | 824 | 0 |
| Travel expenses | 2 740 | 2 184 |
| Other | 1 026 | 2 601 |
| Total | 28 370 | 22 403 |
| Average number of employees | 11 | 11 |

Salaries, remuneration and other personnel expenses to the Chief Executive Officer, Senior Management and Board of Directors, see note 17 for the Group.

### Pension plans

Fred. Olsen Energy ASA has pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement. The total number of employees involved in the pension plans as of 31 December 2009 was 11. The pension plan assets consist primarily of bank deposits, investments in fixed income and equity securities. The pension plan for the Company is in accordance with the Norwegian law concerning mandatory occupational pension (OTP).

The Company has an extended pension plan agreement for CEO and Senior Management, in which the beneficiaries will receive 70% of their final year salary at early retirement at the age of 65. This was until 31 December 2006 a funded pension plan. From 1 January 2007 this was changed to unfunded pension obligations.

The funded status of the defined pension plans is as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Projected benefit obligation | 21 068 | 16 163 |
| Plan assets at market value | 14 011 | 10 541 |
| Funded status | -7 057 | -5 622 |
| Unrecognised net experience loss | 821 | 2 812 |
| Net pension liability | -6 236 | -2 810 |

At 31 December 2009 the net pension assets are presented in the balance sheet with NOK 4.2 million as pension asset and NOK 10.4 million as pension liability.

Assumptions used in the calculation of pension obligations are as follows:

| | 2009 | 2008 |
|---|---|---|
| Assumed salary increases | 4.0% | 4.0% |
| Discount rates | 4.3% | 4.3% |
| Interest rates | 4.3% | 4.3% |
| Expected rates of return on pension plan assets | 5.3% | 5.3% |

Net periodic pension costs for defined benefit plans are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| This period's earned pensions | 4 816 | 3 895 |
| Interest expense on pension liabilities | 695 | 469 |
| Earnings on pension funds | -599 | -668 |
| Amortisation expense | 53 | -331 |
| Net pension cost for defined benefit plans | 4 965 | 3 365 |

*..the note continues on the next page*

The following loans were outstanding to employees of the Company:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Loan to employees | 148 | 154 |
| Total | 148 | 154 |

Loans comply with company law requirements and are adequately secured, when required.

## Note 4 - Other operating expenses

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| General operating overheads | 15 444 | 15 621 |
| Insurance | 11 | 15 |
| Property rental expenses | 1 325 | 1 251 |
| Total | 16 780 | 16 887 |

Fees for audit and other services provided by the Company's auditor are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Audit fees | 1 530 | 1 541 |
| Tax advisory services | 338 | 118 |
| Other non-audit services | 12 | 160 |
| Total | 1 880 | 1 819 |

## Note 5 - Financial income and expense

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Financial income | | |
| Interest income | 8 141 | 50 441 |
| Group contribution | 1 000 000 | 2 500 000 |
| Reversal of impairment loss shares in subsidiaries | 0 | 140 000 |
| Gain on foreign currency contracts | 94 767 | 4 500 |
| Foreign exchange gains | 44 002 | 113 096 |
| Total | 1 146 910 | 2 808 037 |
| Financial expense | | |
| Interest expense | 13 947 | 47 879 |
| Loss on foreign currency contracts | 2 717 | 98 882 |
| Other financial expense | 1 039 | 1 298 |
| Foreign exchange losses | 16 454 | 328 962 |
| Total | 34 157 | 477 022 |
| Net financial income/(expense) | 1 112 753 | 2 331 015 |

The board of the subsidiary Dolphin International AS has proposed a Group contribution to Fred. Olsen Energy ASA of NOK 1 000 million.

Interest income is related to return on cash and cash equivalents and loans to other companies in the Group.

Other financial expenses relate primarily to realised and unrealised loss on various derivatives and amortisation of capitalised borrowing costs.

Information regarding interest income and expenses from group companies and other related parties is provided at note 15.

## Note 6 - Taxes

Temporary differences between the book and tax basis of assets and liabilities, and related deferred taxes, are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Temporary difference | -1 827 | -67 769 |
| Losses carried forward | -758 712 | -762 571 |
| Limitation of deferred tax assets | 760 539 | 830 340 |
| Net basis for deferred tax (assets)/liabilities | 0 | 0 |

Deferred tax assets have not been recognised in respect of these items, because it is not probable that future taxable profits will be available against which the Company can utilize the benefits.

The provisions for income taxes are as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Profit before income tax | 1 069 729 | 2 291 449 |
| Change in temporary differences | -65 293 | 67 767 |
| Permanent differences | -999 929 | -2 499 998 |
| Basis taxes payable | 4 507 | -140 782 |
| Tax rate | 28 % | 28 % |

Effective tax rate:

| Amounts in NOK 000's | 2009 | | 2008 | |
|---|---|---|---|---|
| Expected income tax expense according to statutory tax rate (28%) | 299 524 | 28 % | 641 606 | 28 % |
| Permanent differences | -279 980 | | -699 999 | |
| Tax losses not recognised | -19 544 | | 58 394 | |
| Income tax | 0 | 0 % | 0 | 0 % |

## Note 7 - Property, plant and equipment

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Cost | | |
| Balance at 1 January | 6 832 | 4 402 |
| Additions during the period | 20 656 | 2 430 |
| Disposals during the period | -886 | 0 |
| Balance at 31 December | 26 602 | 6 832 |
| Accumulated depreciation | | |
| Balance at 1 January | 3 548 | 3 272 |
| Depreciation during the period | 505 | 276 |
| Disposals during the period | -642 | 0 |
| Balance at 31 December | 3 411 | 3 548 |
| Net book value at 31 December | 23 191 | 3 284 |

## Note 8 - Other non-current assets

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Pension assets (see note 3) | 4 223 | 4 780 |
| Long-term receivables (see note 15) | 186 371 | 222 772 |
| Capitalised borrowing costs | 0 | 51 |
| Total | 190 594 | 227 603 |

Capitalised borrowing costs relate to expenses incurred in connection with establishing the Company's interest-bearing loans and borrowings.

## Note 9 - Trade and other receivables

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Related parties (note 15) | 1 004 459 | 2 506 982 |
| Total | 1 004 459 | 2 506 982 |

## Note 10 - Cash and cash equivalents

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Payroll taxes | 685 | 713 |
| Total restricted cash | 685 | 713 |
| Unrestricted cash | 64 040 | 64 846 |
| Total cash and cash equivalents | 64 725 | 65 559 |

## Note 11 - Capital and reserves

| Amounts in NOK 000's | Share capital | Treasury shares | Share premium | Paid in other equity | Other equity | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | 1 333 877 | -80 | 548 107 | 154 801 | 461 624 | 2 498 329 |
| Net profit for the year | 0 | 0 | 0 | 0 | 2 291 449 | 2 291 449 |
| Conversion of convertible notes | 7 | 0 | 18 | 0 | 0 | 25 |
| Treasury shares | 0 | -8 522 | 0 | 0 | -71 636 | -80 158 |
| Dividend | 0 | 0 | 0 | 0 | -1 656 603 | -1 656 603 |
| Balance at 31 December 2008 | 1 333 884 | -8 602 | 548 125 | 154 801 | 1 024 834 | 3 053 042 |
| | | | | | | |
| Balance at 1 January 2009 | 1 333 884 | -8 602 | 548 125 | 154 801 | 1 024 834 | 3 053 042 |
| Net profit for the year | 0 | 0 | 0 | 0 | 1 069 729 | 1 069 729 |
| Proposed dividend | 0 | 0 | 0 | 0 | -662 641 | -662 641 |
| Balance at 31 December 2009 | 1 333 884 | -8 602 | 548 125 | 154 801 | 1 431 921 | 3 460 129 |

### Treasury shares

The Company has not purchased any own shares in 2009 and at 31 December 2009 the Company holds 430 100 of its own shares.

### Par value

The par value per share in the Company is NOK 20.

### Dividend

The Annual General Meeting in May 2009 approved the Board's proposal of an ordinary dividend payment of NOK 10,- per share and an extraordinary dividend of NOK 15,- per share for the year 2008. The payment was made in June 2009 and amounted to NOK 1 656.6 million.

The Board has decided to propose to the Annual General Meeting in May 2010 and ordinary dividend payment of NOK 10,- per share for the year 2009. This will amount to NOK 662.6 million based on outstanding shares as at 31 December 2009.

### Unrestricted equity

The unrestricted equity of the parent Company is as follows:

| Amounts in NOK 000's | |
|---|---|
| Other equity | 1 431 921 |
| Paid in other equity | 154 801 |
| Treasury Shares | -8 602 |
| Total | 1 578 120 |

## Note 12 - Interest-bearing loans and borrowings

In March 2009 the Company redeemed all outstanding loans as per 31 December 2008.

## Note 13 - Trade and other payables

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Trade | 185 | 858 |
| Related parties (note 15) | 1 883 | 743 734 |
| Total | 2 068 | 744 592 |

See note 15 for additional information on balances with group companies and other related parties.

## Note 14 - Other accrued expenses

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Accrued interest expense | 0 | 10 150 |
| Accrued wages | 6 129 | 2 448 |
| Other | 817 | 155 |
| Total | 6 946 | 12 753 |

## Note 15 - Related parties

In the ordinary course of business, the Company recognises revenues and expenses with related companies, which may have a significant impact on the Company's financial statements. The Company receives certain administrative, financial, and legal advisory services from Fred. Olsen & Co. The agreements are on arms-length terms and are subject to ordinary termination provisions. Other related parties relate entirely to Ganger Rolf ASA and Bonheur ASA which are the owners of a combined 53.4 % of the shares in the Company, and their subsidiaries and Fred. Olsen & Co.

Revenues, purchases, interest income and interest expenses from such companies were as follows:

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Revenues | | |
| Subsidiaries | 2 626 | 0 |
| Other related parties | 5 | 0 |
| Total | 2 631 | 0 |
| Operating expenses | | |
| Other related parties | 6 373 | 6 303 |
| Total | 6 373 | 6 303 |
| Interest income | | |
| Subsidiaries | 5 840 | 46 983 |
| Total | 5 840 | 46 983 |
| Interest expenses | | |
| Subsidiaries | 10 563 | 17 035 |
| Other related parties | 3 381 | 13 523 |
| Total | 13 944 | 30 558 |

Revenues from subsidiaries are recharge of personnel expenses.

| Amounts in NOK 000's | 2009 | 2008 |
|---|---|---|
| Other non-current assets | | |
| Subsidiaries | 186 223 | 222 618 |
| Other related parties | 148 | 154 |
| Total | 186 371 | 222 772 |
| Trade and other receivables | | |
| Subsidiaries | 1 004 459 | 2 506 982 |
| Total | 1 004 459 | 2 506 982 |

The subsidiaries will repay the loans based on the "pay-as-you earn" principle. The interest rate is based on market rate plus a margin.

| | | |
|---|---|---|
| Other non-current liabilities | | |
| Subsidiaries | 296 085 | 0 |
| Total | 296 085 | 0 |
| Other current liabilities | | |
| Subsidiaries | 0 | 120 000 |
| Other related parties | 0 | 300 500 |
| Total | 0 | 420 500 |
| Trade and other payables | | |
| Subsidiaries | 1 246 | 743 734 |
| Other related parties | 637 | 0 |
| Total | 1 883 | 743 734 |

See note 5, 9, and 13 for further information on transactions with related parties.

## Note 16 - Shares in subsidiaries and other equity investments

| Subsidiaries | Business Offices | % of holding & voting shares | Equity | Net profit/ (loss) | Historical cost | Accumulated impairment | Reversal of impairment | Book value |
|---|---|---|---|---|---|---|---|---|
| | | | Amounts in NOK 000's | | | | | |
| Dolphin AS | Tananger, Norway | 100 % | 291 878 | 8 614 | 850 611 | -555 693 | 140 000 | 434 918 |
| Dolphin International AS | Oslo, Norway | 100 % | 4 064 225 | 2 296 568 | 2 717 264 | 0 | 0 | 2 717 264 |
| Atlan Shipping Co. Ltd. | Hamilton, Bermuda | 100 % | -48 842 | -1 779 | 855 491 | -853 212 | 0 | 2 279 |
| Navis Drilling Ltda. | Brazil | 2 % | -2 080 | -6 001 | 72 | 0 | 0 | 72 |
| Total | | | | | 4 423 438 | -1 408 905 | 140 000 | 3 154 533 |

## Note 17 - Financial instruments

The Company is exposed to interest rate- and foreign currency risks in its operations. Derivative financial instruments are from time to time entered into hedge against fluctuations in foreign currency rates and interest rate levels.

### Interest rate risk

The Company may be exposed to interest rate risk and may use interest rate derivatives or fixed rate loans to achieve a satisfactory mix of exposure to fixed and floating interest rate on it's debt instruments.

The Company's USD debt as of 31 December 2009 is a loan from one of the company's subsidiaries. The interest rate is based on floating interest rates (USD Libor) plus a margin. The Company had no interest rate derivatives at 31 December 2009 or 2008.

### Foreign currency risk

At 31 December 2009, the Company had outstanding currency derivative contracts for forward sale of USD 25 million (2008: USD 35 million) against GBP.

The GBP hedging of 25 million are structured as convertible forwards as follows:

| | Value | Forward rate | Knock in rate | Expiry date |
|---|---|---|---|---|
| GBP/USD | 5 000 | 1.640 | 1.455 | 07.01.2010 |
| GBP/USD | 5 000 | 1.660 | 1.425 | 17.06.2010 |
| GBP/USD | 5 000 | 1.625 | 1.418 | 27.09.2010 |
| GBP/USD | 5 000 | 1.640 | 1.453 | 30.03.2010 |
| GBP/USD | 5 000 | 1.670 | 1.406 | 29.11.2010 |

USD at spot rate as long as the spot rate does not falls below the knock in rate, in which cases the forward rate will be used.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2009 was NOK 2.3 million recorded as current liabilities (2008: NOK 64.6 million). A net gain of NOK 92 million related to foreign exchange contracts was recorded as financial income in 2009 (2008: loss of NOK 94.4 million).

## Note 18 - Contingency

The Company has provided a bank guarantee of EUR 33 mill relating to a legal dispute with a supplier.

For further information see note 18 for the Group.

# Auditor's Report

**KPMG AS**
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual Shareholders' Meeting of Fred. Olsen Energy ASA

## AUDITOR'S REPORT FOR 2009

**Respective Responsibilities of Directors and Auditors**
We have audited the annual financial statements of the Fred Olsen Energy ASA as of 31 December 2009, showing a profit of NOK 1 069 729 000 for the parent company and a total comprehensive income of NOK 1 803 508 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the consolidated statement of financial position, the consolidated statement of separate income and the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the parent company's financial statement. The rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

**Basis of Opinion**
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**
In our opinion,

- the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the parent Company as of 31 December 2009, and of the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the group accounts are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2009, and of the total comprehensive income, its cash flows and the changes in equity for the year then ended, in accordance with the rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Oslo, 14 April 2010
KPMG AS

Asbjørn Næss
*State Authorized Public Accountant*
Note: This translation from Norwegian has been prepared for information purposes only

# Corporate Governance

## Implementation and reporting on corporate governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Code of Practice for Corporate Governance.

## Business

According to the Articles of Association, the Company's purpose is to carry on shipping business, including the ownership and leasing of floating platforms and everything related thereto, including owning shares and interests in companies with similar or related business. In carrying out their duties, assignments or appointments for the Company, all employees are expected to follow high standards of ethical and non-discrimination behavior.

## Equity and dividends

To the extent it is considered desirable; the Company may raise new equity in the capital market. In this connection the Board of Directors received an authorization from the Annual General Meeting in 2009 to increase the share capital by 6 700 000 shares through an equity issue and to increase the share capital by another 6 700 000 shares by raising loans with the right to subscribe for new shares. The proxy expires on next Annual General Meeting. At 31 December 2009 the Company held 430 100 shares of its own shares. In 2007 the Company distributed dividends for the first time since the listing in 1997. The Company paid dividends of NOK 10,- per share and stated that the Company will pursue a yearly strategy to pay a dividend of NOK 10,- per share subject to earnings, investment plans and financial strategy. The Board of Directors has decided to propose to the Annual General Meeting in May 2010 a dividend payment of NOK 10,- per share for the year 2009. Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy and approval by the shareholders. The Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting.

## Treatment of shareholders, transactions with close associates

The Company's shares are listed on Oslo Stock Exchange. Shares have been issued in only one share class. All shares in the Company have equal rights and all shareholders have the right to participate in General Meetings. A competent Board of Directors consisting of Board members independent of the Company's main shareholders, Bonheur ASA and Ganger Rolf ASA, deals with possible conflict-of-interest matters.

## Freely negotiable shares

The Company has no restrictions on ownership and voting rights.

## General Meetings

The annual general meeting is normally held in May each year. Invitations are sent to shareholders. Shareholders registered in VPS (the Norwegian Registry of Securities) can vote in person or by proxy. The Annual General Meeting of shareholders elects the Board of Directors, nominates the external auditor, determines the auditor's remuneration, approves the annual result and dividend proposed by the Board of Directors and determines the remuneration to the Board of Directors.

## Nomination committee

In view of the main shareholders of the Company controlling a majority of the shares, it is the current view of the Board of Directors not to appoint a nomination committee.

## Corporate Assembly and Board of Directors, composition and independence

In accordance with Norwegian law, the Board of Directors is responsible for managing the Company and for ensuring that the Company's operations are organized in a satisfactory manner. The Company's Articles of Association provides that the Board of Directors shall have no less than three and no more than seven members. In accordance with Norwegian law, the CEO and at least half of the members of the Board of Directors must either be resident in Norway, or be citizens of and resident in an EU/EEA country. The General Meeting of the shareholders elects the members of the Board of Directors. The Board of Directors consists of five Board members who are elected for a two-year period. All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholders, Ganger Rolf ASA and Bonheur ASA. 40% of the Members of the Board are women. In 2009 the Board of Directors had 7 meetings. Three Directors attended all Board meetings, while two directors were excused from one meeting each. The Company has no Corporate Assembly.

*The Board of Directors consists of:*

Anette S. Olsen (b. 1956), Chairman. Ms. Olsen has been the Chairman of the Board since the inception of the Company in 1997. Since 1994 Ms. Olsen has been the sole proprietor of Fred. Olsen & Co. - which i.a. provides administrative services to the stock listed companies Bonheur ASA and Ganger Rolf ASA. Ms. Olsen holds chairman and ordinary board positions with a number of companies, hereunder with First Olsen Ltd., Fred. Olsen Renewables Ltd., Fred. Olsen Cruise Lines Ltd., Timex Corporation and NHST Media Group AS. Ms. Olsen holds a BA in Business Organization and an MBA. Ms. Olsen is a Norwegian citizen, resident in Oslo, Norway.

Øivin Fjeldstad (b. 1936), Director. Mr Fjeldstad served as a deputy to the Board for several years and has been a Director since 2002. He is now active as an independent consultant and board member. He was for 4 years senior adviser to HSH Nordbank, Hamburg/Kiel. In the period 1993 – 98 he was Managing Director of DnB Luxembourg SA. He has previous experience as deputy managing director of Bergen Bank/Den norske Bank, and served 4 years as group finance director in Akergruppen. At present he holds chairman and board positions with a number of companies including The Anders Jahre Humanitarian Foundation and EWS foundation, and he has previous experience from several boards both in Norwegian and foreign companies. Mr. Fjeldstad has political experience as a former member of the Norwegian parliament. He is a graduate of the Norwegian School of Business and Economics. Mr. Fjeldstad is a Norwegian citizen, resident in Ringerike, Norway.

Agnar Gravdal (b. 1941), Director. Mr. Gravdal became a Director of the Board in May 2007. He is currently working as independent consultant after being CEO at the Rosenberg Yard from 2003-2007. In addition, he has many years experience from CEO positions within various companies in the Kværner group, Aker group and Umoe group as well as from development and design of advanced LNG ships. He was the chairman of the board in TBL Offshore, board member in Fred. Olsen Production, SWAY AS, Scanfuel AS and Inwind AS. He holds a Master Degree in Naval Architecture and Marine Engineering from NTNU 1968. Mr. Gravdal is a Norwegian citizen, resident in Stavanger, Norway.

# Corporate Governance

Cecilie B. Heuch (b. 1965), Director. Ms. Heuch became a Director of the Board in 2007. She is presently Director of Corporate HR and Safety, Health and Environment in Det Norske Veritas. Ms Heuch has previously worked for Norsk Hydro in the fertilizer division (now Yara), in Hydro Aluminium and in Corporate staff. She has had several positions within economic and market analysis, strategy and business development. Ms. Heuch graduated from Institut d'Etudes Politiques de Paris. She has a MSc from London School of Economics and a Business diploma from Henley Management College. Ms. Heuch is a Norwegian citizen, resident in Bærum, Norway.

Jan Peter Valheim (b. 1951), Director. Mr. Valheim joined the Board in May 2007 after he resigned from the position as Chief Financial Officer (CFO) of the Company and joined Fred. Olsen & Co. as CFO. Prior to joining FOE in 2002, Mr. Valheim had previously held positions in Scribona AB, PC Lan ASA, Saga Petroleum ASA and Fearnley Finans AS. Mr. Valheim is a graduate from BI Norwegian School of Management. He is a Norwegian citizen and resides in Bærum, Norway.

## The work of the Board of Directors

The Company has implemented guidelines for the work of the Board of Directors. The purpose of these guidelines is to establish a practical tool for the Board in its exercise of good corporate governance. The current composition of Directors reflects adequate competence relative to the main business areas of the Group. The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main shareholders of the Company. The charter of the audit Committee is to assist the Board in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process, and the Company's process for monitoring compliance with applicable laws and regulations. The Audit Committee has regular meetings with the management and the external auditor. Parts of the meetings with the external auditor are without participation of the management.

The Board of Directors has appointed a Compensation Committee comprising four Directors including the Chairman of the Board and two of the independent Directors. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer and senior management as well as the management incentive schemes for the Group.

## Risk management and internal control

The Company's risk management- and internal control procedures are reviewed by the Audit Committee in accordance with its charter. The operational risk management and internal control is carried out within each business segment in accordance with the nature of the operations and the government legislation in the relevant jurisdiction. In addition, the Company from time-to-time carries out internal audits related to specific projects. Risk management related to foreign exchange, interest rate management and short-term investments is handled by the parent company on behalf of the subsidiaries, in accordance with established authorizations, policies and procedures. The Company receives reports on the financial development of each business segment and subsidiary on a monthly basis.

## Remuneration of the Board of Directors

An annual fee remunerates each Director. See also note 17 on page 38.

## Executive Management

The Chief Executive Officer (CEO) is appointed by and serves at the discretion of the Board of Directors. He is responsible for the daily management and the operations of the Company. The CEO is not a member of the Board of Directors.

*The executive management consists of:*

Ivar Brandvold, Chief Executive Officer. Mr. Brandvold joined the company in September 2009, and was appointed President and Chief Executive Officer as of November 2009. He succeeded Mr. Helge Haakonsen who had reached his retirement age after having been the company's CEO since its formation in 1997. Before joining the company, Mr. Brandvold held the position as Chief Operating Officer of DNO International ASA. He also has previously 23 years of experience from Norsk Hydro ASA, of which he has held a number of positions within the company's oil and gas activities, including the overall responsibility for Norsk Hydro's global drilling operations from 2002 to 2007. Mr. Brandvold has a Master of Science degree from The Norwegian Institute of Science and Technology (NTNU) in Trondheim, Norway. Mr. Brandvold is a Norwegian citizen, and resides in Bergen, Norway.

Hjalmar Krogseth Moe, Chief Financial Officer. Mr. Moe has been Chief Financial Officer since June 2007. Mr. Moe joined Fred. Olsen Energy ASA in January 2005 as Financial Manager, and has previously held positions in Aros Securities and A. Sundvall ASA/Kaupthing ASA. Mr. Moe is a graduate from BI Norwegian School of Management. He is a Norwegian citizen and resides in Bærum, Norway.

Joakim Kleppe, Chief Executive Officer of Dolphin AS since June 2002. Mr. Kleppe was previously Senior Vice President HR/QHS&E & ICT at Dolphin AS and had been working within similar responsibilities and professions for 16 years for Kværner/Kværner Oil & Gas. Mr. Kleppe is a graduate from University of Bergen and Rogaland Distriktshøyskole, Stavanger. Mr. Kleppe is a Norwegian citizen and resides in Stavanger, Norway.

Johan Finnestad, Managing Director Dolphin Drilling Ltd. since January 2009. Johan Finnestad was previously Senior Vice President operation for Dolphin AS since 2001. Mr. Finnestad has worked in the oil industry since 1984. He joined Dolphin AS in 1984 and was a member of the management in Dolphin AS since 1996. Mr. Finnestad is a graduate from Technical School in Stavanger and holds all drilling related certificates. Mr. Finnestad is a Norwegian citizen, and resides in Scotland.

Per Johansson, Managing Director Dolphin Drilling Pte. Ltd. since May 2007. Per Johansson has been Managing Director for Dolphin Drilling Ltd since 2003. Mr. Johansson has worked in the oil industry since 1977. He joined Dolphin Drilling Ltd. in 1990 and has been a member of the management in Dolphin Drilling Ltd. since 1995. Mr. Johansson is a graduate from Technical School and holds all drilling related certificates. Mr. Johansson is a Norwegian citizen, and resides in Singapore.

Robert J Cooper, Chief Executive Officer, Harland and Wolff Group Plc. Mr. Cooper was appointed CEO of Harland and Wolff Group PLC in February 2003. Prior to that he held the position as financial director in the Harland and Wolff Group from 1993. Mr. Cooper joined the Company in 1983 as a trainee accountant, and after completing his ICMA professional exami-

# Corporate Governance

nations he held a number of positions within the finance department. Mr. Cooper is a UK citizen residing in Northern Ireland.

## Remuneration of the executive management

Management has had a cash bonus scheme since 2005. The beneficiaries of the scheme are the executive management and certain key personnel. Annual payments under the scheme, maximized to one year's salary, are subject to the Group achieving certain pre-defined financial criteria, including achieved budget goals and development of the Company's share price. See also note 17 on page 38.

## Information and communications

The Company provides information to the market through quarterly and annual reports; investor- and analyst presentations open to the media and by making operational and financial information available on the Company's website. Events of importance are made available to the stock market through notification to the Oslo Stock Exchange in accordance with the Stock Exchange regulations. Information is provided in Norwegian and English.

## Takeovers

In light of the Company's shareholder structure, with the controlling shareholders holding a majority of the shares, the Board of Directors has not found it appropriate to establish separate guidelines to prepare for a take-over situation.

## Auditor

The auditor is appointed by the Annual General Meeting which also determines the auditor's fees. The same firm of auditors should as a main rule be appointed for all subsidiaries. The auditor should not perform any work for the Company which could lead to conflicts of integrity, and the Audit Committee is responsible for ensuring that the auditor's independent role is maintained. In accordance with the requirement of the auditor being independent, the Company is cautious when using the elected external auditor for tasks other than the financial audit required by law. Nevertheless, the auditor may be used for tasks that are naturally related to the audit, such as technical assistance with tax returns, annual accounts, understanding of accounting and tax rules and confirmation of financial information in various contexts. Information about fees paid by the Company to the auditor is provided in the annual report. The Audit Committee is kept informed, on a regular basis, of all work undertaken by the auditor. The auditor provides the Board with an annual written confirmation that a number of requirements, including independence and objectivity are met. The auditor attends meetings of the Audit Committee that deal with the financial statements and that review the report on the auditor's view of the Company's accounting principles, risk areas and internal controls routines.


Dolphin

**Fred. Olsen Energy ASA**
Enterprise number: 977 388 287
Fred. Olsens gate 2
N-0152 Oslo, Norway
Telephone: +47 22 34 10 00
Fax: +47 22 41 18 40
E-mail: adm@fredolsen-energy.no
www.fredolsen-energy.no

Ivar Brandvold,
Chief Executive Officer

Hjalmar Krogseth Moe,
Chief Financial Officer

**Dolphin as**
Enterprise number: 920 473 210
Platformveien 5
N-4056 Tananger, Norway
Telephone: + 47 51 69 43 00
Fax: + 47 51 69 61 56
contact@dolphin-doc.no
www.dolphin.as

Joakim Kleppe,
Managing Director

**Dolphin Drilling Ltd.**
UK Registration number: 1017560
Howe Moss Dr., Kirkhill Industr. Est.
Dyce, Aberdeen AB21 OGL, Scotland
Telephone: +44 1224 411 411
Fax: +44 1224 723 267
E-mail: marketing@dolphin-doc.no
www.dolphin.net.uk

Johan Finnestad,
Managing Director

**Dolphin Drilling Pte. Ltd.**
Enterprise number: 200303833E
One Temasek Avenue
#36-02 Millenia Tower
Singapore 039192
Telephone: +65 6305 4710
Fax: +65 6305 4711
E-mail:
reception.singapore@dolphindrilling.com.sg

Per Johansson,
Managing Director

**Harland and Wolff Group Plc.**
UK Registration number: NI 38422
Queen's Island, Belfast BT3 9DU
Northern Ireland
Telephone: +44 2890 458 456
Fax: +44 2890 458 515
E-mail: sales@harland-wolff.com
www.harland-wolff.com

Robert Cooper,
Managing Director

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