



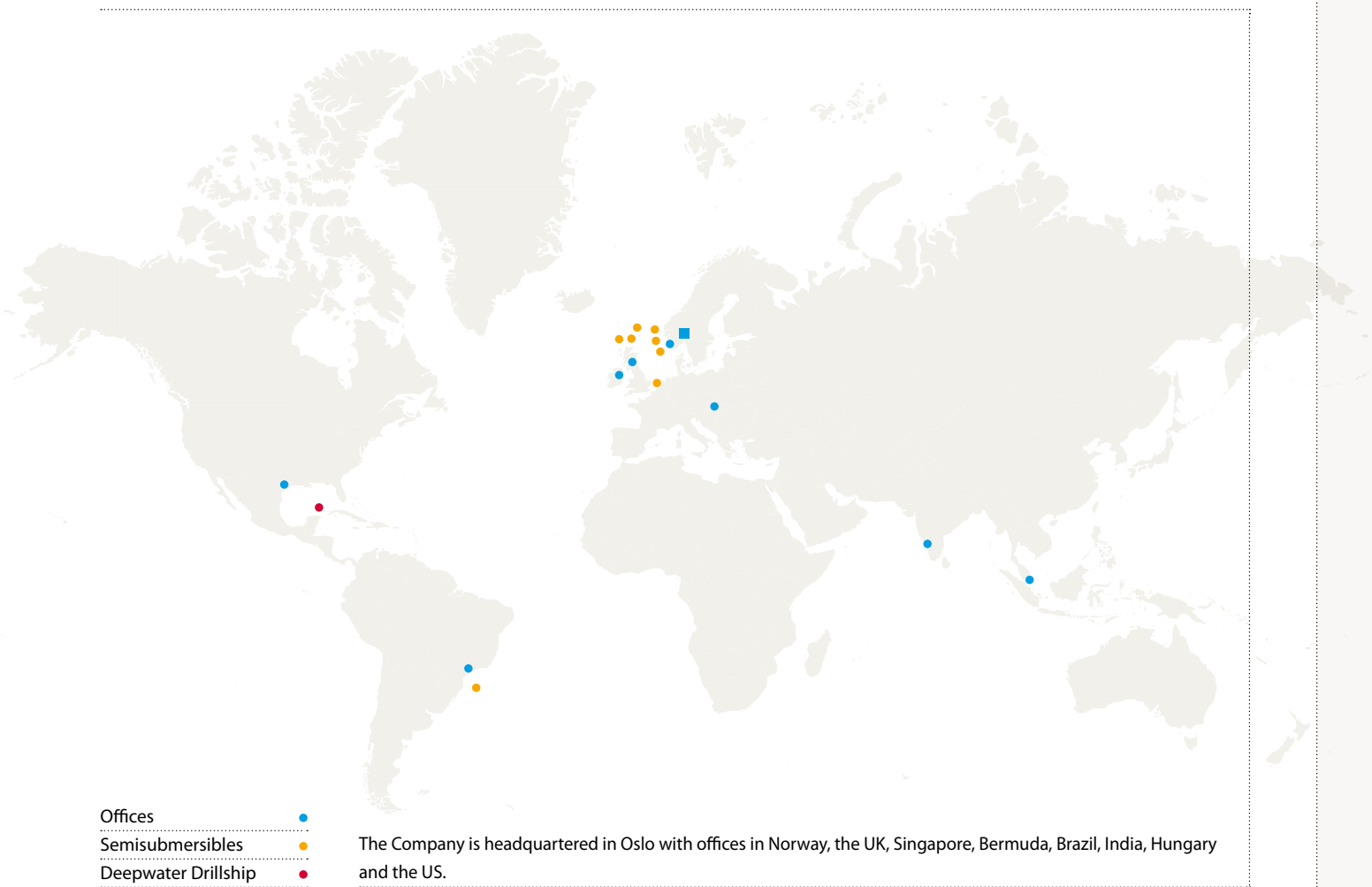
Annual Report 2007

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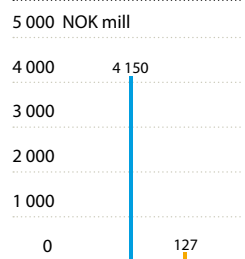
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## A Brief Presentation

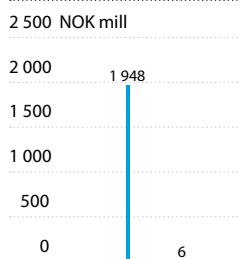
Fred. Olsen Energy ASA (The Company) is listed on the Oslo Stock Exchange and is a leading provider of exploration and development services to the oil and gas industry. The Company is based on more than 150 years experience in shipping and more than 35 years in offshore drilling, and provides competitive solutions to the benefit of its customers, employees and shareholders.



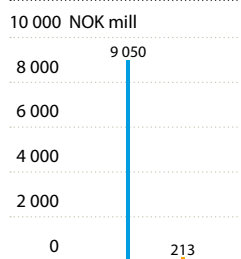
### Revenues 2007



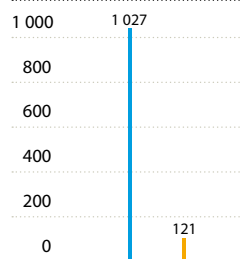
### EBITDA 2007



### Assets per 31.12.2007






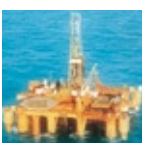





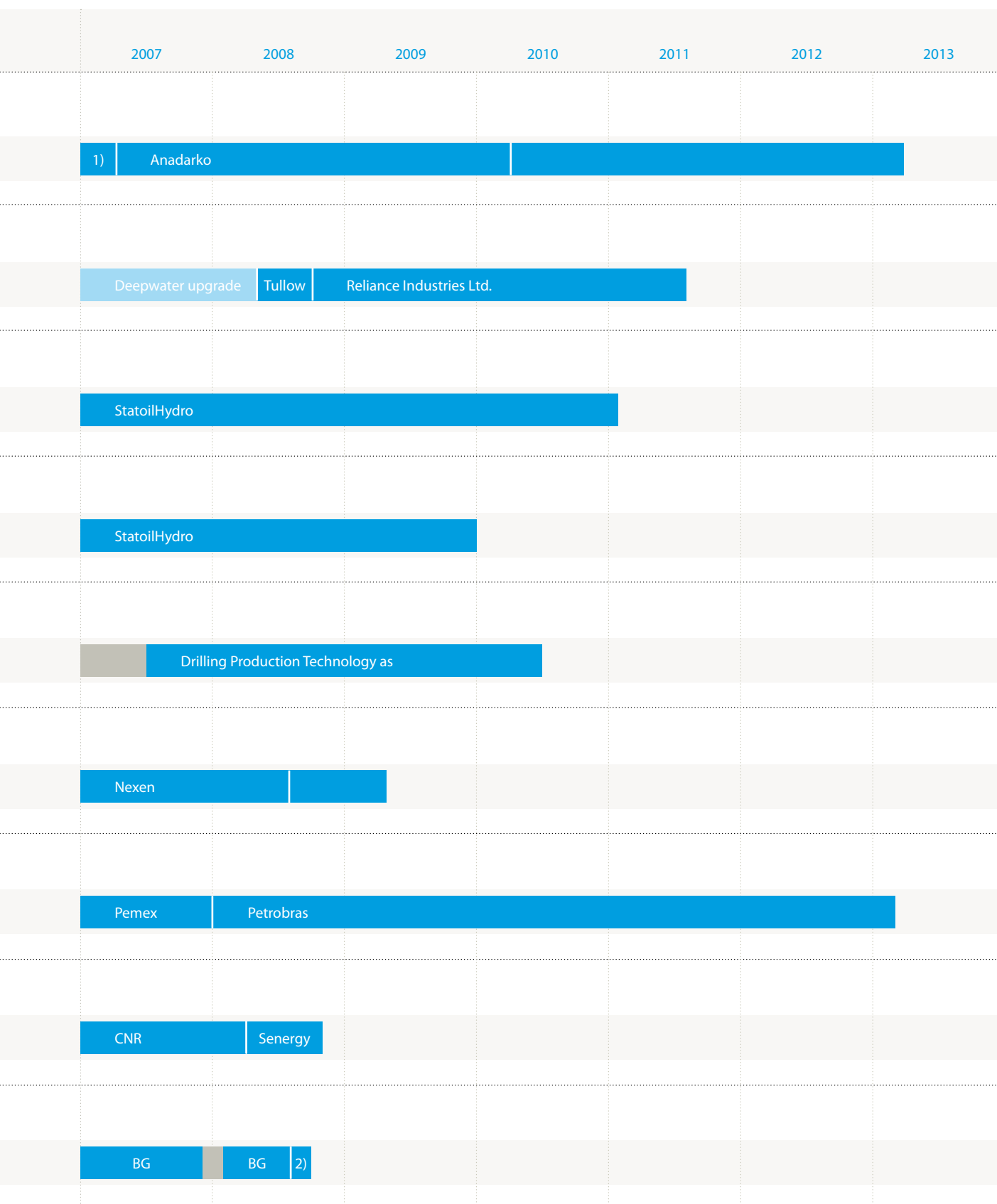
### Employees per 31.12.2007



Offshore drilling ■  
Engineering and fabrication (including eliminations) ■

## Contract Overview

	Name/ Ownership	Type	Location	Built year/ upgrade	Water depth	Features
	<a href="#">Belford Dolphin</a> (100%)	Drill ship	US Gulf	2000	10 000 ft	80 000 barrels storage 15 000 psi
	<a href="#">Blackford Dolphin</a> (100%)	Aker H-3 Enhanced	West Africa/ India	1974/-08	7 000 ft	2*85 t deck cranes 15 000 psi
	<a href="#">Bideford Dolphin</a> (100%)	Aker H-3 Enhanced	Norway, North Sea	1975/-99	1 500 ft	1*40 t + 1*50 t deck cranes 10 000 psi
	<a href="#">Borgland Dolphin</a> (100%)	Aker H-3 Enhanced	Norway, North Sea	1976/-99	1 500 ft	1*40 t + 1*70 t deck cranes 15 000 psi
	<a href="#">Bredford Dolphin</a> (100%)	Aker H-3	Norway, North Sea	1976 /-81/-97/-01/-07	1 500 ft	2*50 t deck cranes 10 000 psi
	<a href="#">Borgsten Dolphin</a> (100%)	Aker H-3	UK, North Sea	1975 /-85/-95/-00	1 500 ft	1*50 t + 1*40 t deck cranes 10 000 psi
	<a href="#">Borgny Dolphin</a> (100%)	Aker H-3	Brazil	1977 /-85/-91/-92/-97/-02	2 300 ft	2*50 t deck cranes 10 000 psi
	<a href="#">Byford Dolphin</a> (100%)	Aker H-3	UK, North Sea	1973 /-85/-90/-96/-98	1 500 ft	2*40 t deck cranes 15 000 psi
	<a href="#">Borgholm Dolphin</a> (100%)	Aker H-3 Accommodation	UK, North Sea	1975/-02		2*49 t deck cranes 600 beds



1) ONGC    2) Shell    ■ class renewal survey

# Financial Summary 2003-2007

Income Statement Data	All amounts in NOK mill	IFRS				NGAAP
		2007	2006	2005	2004	2003
Revenues		4 277.0	4 048.2	2 882.9	2 345.8	1 696.6
Operating profit before depreciation (EBITDA)		1 954.9	1 709.0	920.7	566.4	389.8
Net result after tax (hereof majority interests)		1 391.9	973.8	(15.7)	419.8	(464.3)

## Assets

Current assets	1 930.8	1 932.9	1 700.2	1 257.6	937.2
Long term assets	7 266.4	6 301.7	5 539.6	5 180.6	8 271.2
Net assets discontinued operations	0	0	0	0	51.9
Total assets	9 197.2	8 234.6	7 239.8	6 438.2	9 260.3

## Liabilities and equity

Interest bearing debt	4 157.0	3 376.1	3 295.3	3 164.0	3 498.5
Total liabilities	5 109.0	4 297.3	4 289.2	4 196.4	4 281.4
Equity of majority	4 088.2	3 937.3	2 950.6	2 241.8	4 978.9
Total liabilities and equity	9 197.2	8 234.6	7 239.8	6 438.2	9 260.2

Key Figures	Definitions	2007	2006	2005	2004	2003
Market capitalization	1	19 841.4	19 225.9	14 864.1	5 276.3	1 718.6
Net interest bearing debt	2	3 443.4	2 463.6	2 578.2	2 565.3	3 139.5
Enterprise value	3	23 284.8	21 689.5	17 442.3	7 841.6	4 858.1
Debt/Book equity ratio		1.2	0.86	1.12	1.41	0.70
Debt/Market capital ratio		0.21	0.18	0.22	0.60	2.04
Current ratio	4	0.95	2.02	1.30	1.37	0.73
EBITDA margin	5	45.7 %	42.2 %	31.9 %	24.1 %	23.0 %
Average number of shares outstanding		66.2 mill	62.9 mill	60.5 mill	57.4 mill	57.3 mill
Share price at year end	6	297.5	292.0	243.0	87.5	28.5
Earnings per share (EPS)	7	21.0	15.5	(0.3)	7.3	(8.1)
Net investment per share		(34.1)	(26.4)	(8.5)	(5.9)	9.4
Price/Earnings	8	14.1	18.9	neg.	12.0	neg.
Price/Book	9	4.9	4.9	5.0	2.4	0.3
EV/EBITDA		11.9	12.7	18.9	13.8	12.5

- 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 / Basic EPS
- 9 Closing price / Book value per share

## Board of Director's Report 2007

The operating activities of Fred. Olsen Energy ASA and its subsidiaries ("The Group") consist of offshore drilling as well as engineering and fabrication services. The Group has its corporate headquarters located in Oslo, Norway. The parent company of the Group is Fred. Olsen Energy ASA ("The Company"). The Group manages its activities from offices in Norway, the UK, Singapore, the US (Houston), India, Hungary, Bermuda and Brazil. The Harland & Wolff (H&W) shipyard, located in Belfast, Northern Ireland, and related activities form the Group's engineering and fabrication division.

Gross revenues in 2007 were NOK 4 277 million, an increase of NOK 229 million from the previous year. The Group achieved earnings before interest, taxes, depreciation and amortization (EBITDA) of NOK 1 955 million compared to an EBITDA of NOK 1 709 million in 2006. Net interest bearing debt at 31 December 2007 for the Group was NOK 3 443 million.

### Markets and prospects

The market for offshore services continued to strengthen throughout 2007. Globally, the balance between supply and demand for offshore drilling units was tight in all floater segments during the year. The drilling rates have increased during the year, although not as steeply as previous years, while the duration of the contracts continued to increase in several market segments. The outlook for offshore services remains good and there are few signs of weakening in 2008. The high demand for offshore drilling services is expected to continue during the next few years as a result of continuing focus on reserve replacement supported by high demand for oil and gas and expectations of continued high energy prices. At the

beginning of 2008 approximately 155 offshore drilling units are under construction, of which approximately 76 units within the Group's own business segment, the floating drilling market. The other units under construction are jack-up drilling rigs. At the beginning of 2007 there were approximately 110 newbuilds under construction, of which 45 floating drilling units. The increase in floating drilling units, most of which will be delivered from yard in 2009-2011, adds approximately 39% to the existing fleet of floaters. Despite the relatively high number of newbuilds, the majority of the newbuilds have entered into long-term contracts at attractive day rates with commencement from delivery. Approximately 70% of the newbuilds had secured contract by March 2008 which indicates that the oil industry accepts the dayrate level and expects a high demand for drilling services going forward.

The innovative and high technology deepwater conversion of the Blackford Dolphin, which is estimated to be completed in 2nd quarter 2008, will make a valuable addition to the Group's fleet of drilling units. From 2nd quarter 2008, the Group will operate and own an offshore fleet consisting of two deepwater units and six mid water semi-submersible drilling rigs in addition to one accommodation unit. Since July 2007 the Group has operated three drilling rigs complying with the stringent requirements for operation in Norwegian waters on long-term contracts. Geographically, the Group currently operates in Norway, the UK, US Gulf and Brazil and from delivery of the Blackford Dolphin also in the deepwater region of West Africa and India. At year-end, the Group's offshore units had an average contract length of 26 months. Six out of nine

units are working under long term contracts. The secured contract value for the fleet as per 31 December 2007 was approximately USD 3.0 billion.

### Offshore Drilling

The drilling activities generated revenues of NOK 4 150 million compared to NOK 3 935 million in 2006. Within this segment, the Group achieved an EBITDA of NOK 1 948 million. In 2006, the corresponding result was NOK 1 663 million.

The ultra deepwater drillship Belford Dolphin completed the three-year drilling contract with ONGC in India in April 2007. In direct continuation Belford Dolphin commenced a new three-year contract, which was entered into in 2005, with Anadarko. In November 2007 a contract extension was entered into with Anadarko Petroleum Corporation for an additional three year contract. The new contract will follow in direct continuation from the present contract in April 2010 and expire in April 2013.

Borgland Dolphin commenced a three year contract with StatoilHydro ASA at the beginning of 2007 for operations offshore Norway for operations in the Tampen area on the Norwegian continental shelf. The contract will expire at the end of 2009.

Bideford Dolphin continued operations offshore Norway under a contract with StatoilHydro ASA during 2007. The drilling program under the contract expired in January 2008. The unit commenced a new three-year drilling contract with StatoilHydro ASA in January 2008. The contract will expire in January 2011.

### Oil Price

110 USD/BARREL



## Board of Director's Report 2007

Borgny Dolphin continued operations under a contract with Pemex in Mexico until December 2007. In May 2007 a new five year contract was entered into with Petrobras for operation offshore Brazil. The unit started mobilization for Brazil end 2007 and is estimated to commence the contract in May 2008.

Bulford Dolphin (previously owned by First Olsen Limited and operated in a pool with four of the Group's own units) operated for Equator Exploration Ltd. offshore West Africa until July 2007. The original contract was estimated to expire early 2008, but in order to protect the safety of the crew after having experienced two abductions and an unstable working environment, Dolphin Drilling Ltd., a subsidiary of Fred. Olsen Energy ASA, and Equator Exploration Ltd. agreed that the drilling contract for Bulford Dolphin should be regarded as terminated. Bulford Dolphin was sold in September 2007 and the unit was handed over to the new owner mid November 2007, and subsequently left the pool.

Bredford Dolphin commenced a three year contract in June 2007 for operation offshore Norway with AGR on behalf of itself and a consortium of seven operators after being upgraded at Remontowa shipyard in Gdansk, Poland, for its five-year class renewal survey and conversion to comply with Norwegian shelf requirements. The contract will expire in June 2010.

Byford Dolphin commenced a drilling program under a contract with CNR International (U.K.) Limited in 2005. The contract expires in April 2008. In November 2007 a new six months contract was entered into with Senergy Ltd.

for operation in the UK side of the North Sea. The contract is estimated to expire in October 2008.

Borgsten Dolphin is operating for Nexen Petroleum UK Ltd. under a 21 month drilling program in the UK side of the North Sea, the contract is estimated to expire August 2008. In February 2008 a new nine month contract was entered into for operation in the UK side of the North Sea. The contract is estimated to expire in May 2009.

Borgholm Dolphin commenced an accommodation contract with BG Group in January 2007 and continued to work with BG Group until early December 2007 when the rig went inshore to Invergordon for its five-year class renewal survey. In February 2008 Borgholm Dolphin commenced a new accommodation contract with BG Group which was entered into in February 2007. In November 2007 a new 65 days accommodation contract for Borgholm Dolphin was entered into with Shell in the UK, commencing in July 2008. The contract is expected to expire in September 2008.

In 2005 the Group acquired the Aker H3 semi-submersible drilling rig Blackford Dolphin. The Blackford Dolphin is being significantly rebuilt to a deepwater drilling unit for up to 7000 ft. of water depth with a new high capacity drilling package and an innovative deck layout, including four columns for vertical riser storage. The unit which is upgraded at Keppel Verolme in Rotterdam, the Netherlands, is estimated to be delivered from the yard during 2nd quarter 2008 and the rebuild is estimated to cost USD 580 million. In March 2006 a three year contract was entered into with Reliance Industries for op-

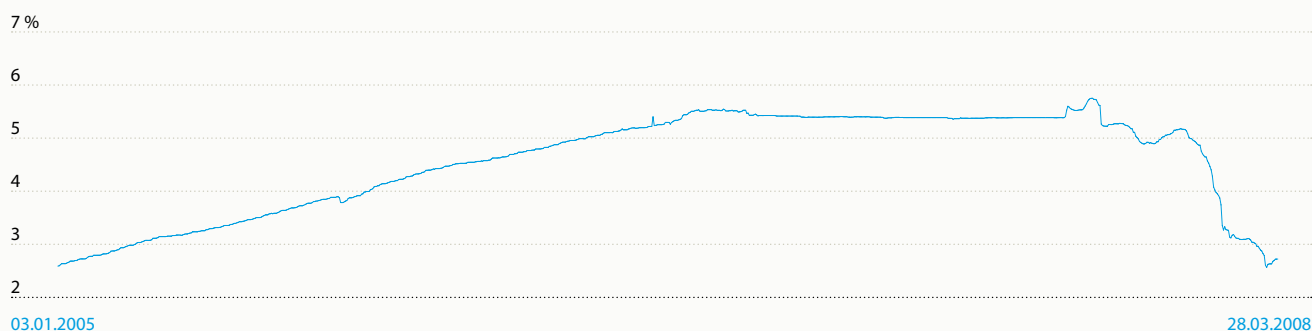
eration offshore India. In February 2008 a new 100 days drilling contract for Blackford Dolphin was entered into with Tullow for work offshore Ghana. The drilling contract with Reliance was reduced by the equivalent number of days.

The steep increase in the number of offshore drilling units over the next few years is resulting in significant challenges in ensuring sufficient supply of equipment and skilled offshore personnel going forward. In order to meet these challenges the Group is actively expanding its recruitment basis as well as enhancing its stay-on bonus schemes to retain long term key employees. As an additional means to attract skilled personnel the Group has established a recruitment company in Hungary.

#### Engineering and Fabrication

Total revenues within the engineering and fabrication division amounted to NOK 277 million, of which NOK 150 million has been eliminated in the consolidated accounts due to intra-group work relating to Blackford Dolphin and Bredford Dolphin. EBITDA was NOK 18 million, of which NOK 11 million has been eliminated in the consolidated accounts. In 2006, total revenues were NOK 499 million and EBITDA were NOK 109 million of which NOK 62 million was eliminated in the consolidated accounts. The H&W yard continued its operations in engineering, ship repair and shipbuilding. Large projects during the year have seen utilization of the yard as a logistics and assembly base for Windfarms and work related to the upgrade of the Group's drilling rigs. In addition, H&W has received a Waste Management License for ship demolition and the demolition of the first ship started in the second quarter of 2007. The core workforce increased by 21 persons in 2007, to

#### USD Interest Rate, 3 Month Libor



## Board of Director's Report 2007

121 employees, with supplementary employment of 100 people by year end.

#### Financial result and balance sheet at year end

Consolidated revenues of NOK 4 277 million represent an increase of 6% compared to 2006, primarily reflecting increased revenues from offshore drilling services. EBITDA for the Group were NOK 1 955 million, an increase of NOK 246 million, or 14%, compared to 2006. After depreciation, amortization and impairment of NOK 500 million, the operating profit was NOK 1 454 million, compared with an operating profit of NOK 1,209 million the previous year. Net financial expenses were NOK 36 million, a decrease of 176 million from the previous year. Profit before taxes was NOK 1 418 million compared to NOK 997 million in 2006. The net profit for the year was NOK 1 392 million against NOK 974 million in 2006. At year-end, the Group had consolidated assets of NOK 9 197 million. The ratio of net interest bearing debt to total assets was 37 % compared to 30 % at the beginning of the year. The book value of the equity was NOK 4 088 million. Cash flow generated from continuing operations was NOK 1 604 million against NOK 1 238 million in 2006. Cash and cash equivalents decreased by NOK 199 million during the year, from NOK 912 million to NOK 714 million at the end of the year.

Fred. Olsen Energy ASA provides holding company and management services for the subsidiary companies within the Group. The Company had NOK 1 million in revenues – the same as in 2006. EBITDA for the year was a loss of NOK 33 million compared with NOK 48 million in 2006. Net loss was NOK 157 million compared to a loss of NOK 76 million in 2006. The increase is due to higher financial

expenses since the debt level was somewhat higher in 2007 than previous year. The annual accounts of the parent 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 NGAAP (Norwegian Generally Accepted Accounting Principles).

#### Investment and capital resources

Capital expenditures amounted to NOK 2 272 million in the year compared to NOK 1 739 million in 2006. The capital expenditures were mainly related to Blackford Dolphin and Bredford Dolphin. The Group's debt consists of several loans. The largest is a USD 600 million credit facility, which was established in March 2006 with final maturity in 2013. The outstanding amount under the credit facility at year-end was USD 536 million. Two short term loans totaling USD 175 million were raised during the year with maturity in second quarter 2008. At year-end, the Company has outstanding unsecured senior debt notes totaling NOK 300.5 million, due in 2009. In addition, at year-end the Company had outstanding NOK 215 000 in subordinated convertible bonds, due in 2009. The holders of the convertible bonds have the right to convert bonds into shares in the Company at a conversion price of NOK 68 per share. The loan agreements contain operational and

financial covenants typical for credit arrangements of this nature. As per 28 March 2008, the Group is in compliance with all covenants in the 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 know-how 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 continually monitors its financial risks and applies from time to time financial derivatives to hedge its exposure. See also note 10.

#### Foreign exchange

The Group's financial statements are presented in NOK. The Group's revenues consist primarily of NOK, GBP and USD with USD as the most

#### USD/NOK



## Board of Director's Report 2007

dominant currency. The Group's expenses are primarily in USD, NOK and GBP. 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 is 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 and NOK. At 31 December 2007 approximately 7 % of the Group's interest expense was based on fixed rate loans. 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. The Group continually evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees. As such, the credit risk is generally considered to 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 60 to 62.

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 2007 the Board of Directors had 8 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 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 of three Directors, including the Chairman of the Board and one of the independent Directors. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer 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 and stated that the Company will pursue a yearly strategy to pay a dividend of NOK 10,- per share. In light of the current strong outlook for the Company, the Board has decided to propose to the Annual General Meeting in May 2008 a dividend payment of NOK 10,- per share and additionally NOK 15,- per share as

an extraordinary dividend for the year 2007. Going forward, dividend will be distributed subject to approval by the shareholders and the Company's investment plans and financial strategy. In addition, the Company will consider share buy-backs in accordance with the authorization to the Board from the Annual General Meeting.

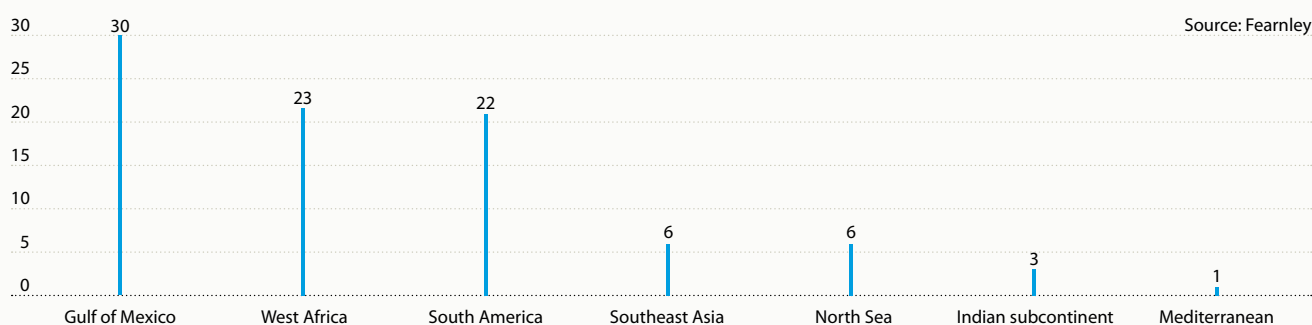
### Share Capital Issues

The Annual General Meeting in May 2007 authorized the Board of Directors to issue up to 15 000 000 new shares in the Company for a period of up to one year in order to strengthen its business within the offshore segment. An increase in the share capital may be brought about either by issuing new shares or by raising loans with rights to subscribe for new shares. At 1 January 2007, the Company owned 5 334 of its own shares. At 31 December 2007 the Company's share capital amounted to NOK 1 334 million, corresponding to 66 693 862 shares at par value NOK 20,- each. At year-end the Company owned 4 000 of its own shares.

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

The Group has a strong focus on safe working environments for its employees 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 2007 was 3.5 per million working hours, which is regarded to be the average for the industry. In 2006 LTA was 2.0. The Group has performed

### Deepwater Units Supply > 3000 feet by area (28.03.2008)



## Board of Director's Report 2007

several HSE activities in 2007 in order to continuously improve the HSE culture. Special focus has been paid to Safe Behavior training and Observation Technique training for the offshore crews to prevent and reduce the risk for potential danger and accidents. HSE Trend Analyses and Working Environment Mapping have been performed in order to compare results with the HSE goals. In 2006 technical measures were taken on the rigs to prevent spills to the external environment and also to reduce noise in machinery spaces, this work has also continued during 2007. Internal audits have been carried out in order to verify knowledge and implementation of the Management System, the result from these audits confirm that the Management System is well known and accessible. 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 accepted business conduct. The working environment both offshore and onshore is considered to be good. Absence due to illness was 3.6% (2006: 3.3%), for the Group and 3.2% (2006: 3.3%) for the parent company. The Group continues to focus on reducing absence due to illness.

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 male and female and efforts are made to attract female employees. Assuming all other qualifications are equal, the Group gives priority to the underrepresented gender within each job category. Two out of five members of the Board of Directors are women, including the Chairman of the Board. At year-end 2007 the Group had 1 148 employees, including 10 in the parent company. 101 of the employees were women and 29 percent of leading personnel within the Group are female.

### Significant legal matters

During 2007 the Group had legal disputes with three specific customers. At 31 December 2007 the Group had filed arbitration amounting to totally USD 35.4m. The Group has made provisions of USD 5.7m based on evaluations of the contractual status of the outstanding receivables.

### External Environment

The Group's operations may involve activities that entail potential risks to the external envi-

ronment. 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 our environment. The Group is careful in its approach to the environment and continually 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.

### Allocation of profit

The Board proposes an ordinary dividend of NOK 10,- per share for 2007 and an extraordinary dividend of NOK 15,- per share in addition. Net loss after tax for the parent company was NOK 157 million, which is proposed to be allocated as follows:

For dividend	1 667 million
From free reserves	(1 824) million
Total allocated	(157) million

### Annual General Meeting

The date of the Annual General Meeting is 27 May 2008.

Oslo, 31 December 2007 / 28 March 2008

Fred. Olsen Energy ASA

Anette S. Olsen  
*Chairman*

Jan Peter Valheim

Cecilie B. Heuch

Øivin Fjeldstad

Agnar Gravdal

Helge Haakonsen  
*Chief Executive Officer*

Fred. Olsen Energy – Group

# Consolidated Income Statement

For the years ended 31 December

Amounts in NOK 000's	Note	2007	2006	2005
Revenues	2,18,21	4 276 981	4 048 184	2 882 880
Materials		(30 246)	(12 476)	(53 564)
Salaries and other personnel costs	3,18	(967 834)	(877 916)	(719 959)
Other operating expenses	4,18	(1 324 038)	(1 448 754)	(1 188 701)
Operating profit before depreciation, amortisation, other items and financing costs		1 954 863	1 709 038	920 656
Navis Settlement	5	0	0	(33 683)
Impairment	8	0	(19 881)	0
Depreciation and amortisation	8,9	(500 432)	(479 745)	(618 265)
Operating profit before financing costs		1 454 431	1 209 412	268 708
Financial income		142 380	88 579	118 311
Financial expenses		(178 826)	(300 861)	(398 878)
Net financial expenses	6,8,10,18	(36 446)	(212 282)	(280 567)
Profit/(loss) before tax		1 417 985	997 130	(11 859)
Income tax expense	7	(26 067)	(23 324)	(3 820)
Profit/(loss) for the period		1 391 918	973 806	(15 679)
Attributable to:				
Equity holders of the parent		1 391 918	973 806	(15 679)
Profit/(loss) for the period	13	1 391 918	973 806	(15 679)
Basic earnings per share	23	21.02	15.49	(0.26)
Diluted earnings per share	23	20.93	15.05	(0.26)

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

Fred. Olsen Energy – Group

## Consolidated Statement of Recognised Income and Expense

For the years ended 31 December

Amounts in NOK 000's	Note	2007	2006	2005
Exchange differences on translation of foreign operations		(636 249)	(293 906)	395 385
Net income/(expense) recognised directly in equity		(636 249)	(293 906)	395 385
Profit/(loss) for the period		1 391 918	973 806	(15 679)
Total recognised income and expense for the period		755 669	679 900	379 706
Attributable to:				
Equity holders of the parent		755 669	679 900	379 706
Total recognised income and expense for the period	13	755 669	679 900	379 706

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

Fred. Olsen Energy – Group

# Consolidated Balance Sheet

As at 31 December

Amounts in NOK 000's	Note	2007	2006
<b>Assets</b>			
Property, plant and equipment	8	7 147 881	6 181 719
Intangible assets	9	98 577	98 577
Other non-current assets	16,18	5 954	6 294
Deferred tax assets	11	13 988	15 087
<b>Total non-current assets</b>		<b>7 266 400</b>	<b>6 301 677</b>
Inventories and consumable spare parts	8	222 125	220 475
Financial instruments	10	1 309	8 142
Prepayments and tax refunds		193 774	173 211
Trade and other receivables	10,18	800 026	618 574
Cash and cash equivalents	12	713 605	912 490
<b>Total current assets</b>		<b>1 930 839</b>	<b>1 932 892</b>
<b>Total assets</b>		<b>9 197 239</b>	<b>8 234 569</b>

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

## Consolidated Balance Sheet

As at 31 December

Amounts in NOK 000's	Note	2007	2006
<b>Equity</b>			
Share capital		1 333 877	1 316 845
Share premium		548 107	507 230
Capital reserves		3 144	9 147
Translation reserves		(769 175)	(132 926)
Reserve for own shares		(80)	(107)
Retained earnings		2 972 290	2 237 118
Total equity	13	4 088 163	3 937 307
<b>Liabilities</b>			
Interest-bearing loans and borrowings	10,14,18	2 868 859	3 091 422
Employee benefits	16	199 731	248 584
Deferred tax liabilities	11	0	1 145
Total non-current liabilities		3 068 590	3 341 151
Interest-bearing loans and borrowings	10,14,18	1 288 108	284 658
Trade and other payables	18	400 390	325 681
Financial instruments	10	0	6 361
Tax payable		23 603	24 729
Other accrued expenses and deferred revenue		328 385	314 682
Total current liabilities		2 040 486	956 111
Total liabilities		5 109 076	4 297 262
Total equity and liabilities		9 197 239	8 234 569

The notes represent an integral part of the financial statements.

Oslo, 31 December 2007 / 28 March 2008

Fred. Olsen Energy ASA

Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Øivin Fjeldstad	Agnar Gravdal	Helge Haakonsen
Chairman					Chief Executive Officer

Fred. Olsen Energy – Group

# Consolidated Statement of Cash Flows

For the year ended 31 December

Amounts in NOK 000's	Note	2007	2006
<b>Cash flows from operating activities</b>			
Profit before income tax		1 417 985	997 130
<i>Adjustment for:</i>			
Depreciation, amortisation and impairment	8,9	500 432	499 626
Interest expense	6	112 704	167 847
Net gain on sale of property, plant and equipment		(9 919)	(7 078)
Unrealised foreign currency gain/loss		(80 355)	0
Changes in trade and other receivables		(276 001)	(40 704)
Changes in trade and other payables		248 061	(128 945)
Changes in other balance sheet items		(52 465)	19 716
Cash generated from operations		1 860 442	1 507 592
Interest paid		(231 254)	(249 589)
Income taxes paid		(25 114)	(20 350)
Net cash from operating activities		1 604 074	1 237 653
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(2 400 514)	(1 581 474)
Proceeds from sale of equipment		18 095	16 250
Net cash used in investing activities		(2 382 419)	(1 565 224)
<b>Cash flows from financing activities</b>			
Proceeds from interest bearing loans		1 639 698	3 318 841
Repayments of interest bearing loans		(271 712)	(3 048 597)
Sale of treasury shares	13	10	1 747
Dividends paid	13	(659 861)	0
Proceeds from the issue of share capital	13	0	300 659
Net cash from financing activities		708 135	572 650
Net (decrease) / increase in cash and cash equivalents		(70 210)	245 079
Cash and cash equivalents at 1 January		912 490	717 110
Effect of exchange rate fluctuations on cash held		(128 675)	(49 699)
Cash and cash equivalents at 31 December	12	713 605	912 490

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

# 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 2007 comprise the Company and its subsidiaries (together referred to as the “Group”).

The financial statements were authorised for issue by the Board of Directors on 28 March 2008.

### 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 and financial instruments at fair value through profit or loss 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 IFRS 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 intercompany transactions, any unrealised gains and losses and intragroup 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 quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### 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 include cash, bank deposits and other short-term highly liquid

## Notes

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.

#### *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 net 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.

#### *Inventories and 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 a 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 day rates and broker valuations. The recoverable amount of an asset is the higher of its fair value less costs

## Notes

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 which is Dolphin as.

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 percent 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.

#### Share based payment transactions

In 1998, the Company's shareholders resolved to grant the Board of Directors authority to issue up to 3 million shares to be used for an employee incentive compensation plan designed to align the interest of management with those of its shareholders. All share based payment awards are settled by the physical delivery of shares. The company has elected to use the voluntary exemption available for share based payment transactions from the general requirement for retrospective application of IFRS. The recognition and measurement requirements of IFRS 2: Share-based Payment is therefore not applied retrospectively to equity instruments that were granted on or before 7 November 2002.

Social security tax is calculated for share options in the money at year end and is recognised as expense over the vesting period.

#### 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 that 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 fees are 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

##### Pool income/expense

Certain rig owning subsidiaries had entered into a five-rig pool agreement with the owner of the Bulford Dolphin, where net earnings before depreciation are equalised amongst the rig owners. The net pool income or pool expenses from the Group's four rigs included in the pool are netted against the bareboat/time charter fees paid to the owner of the Bulford Dolphin. Bulford Dolphin was sold in 2007 and the pool agreement was subsequently terminated. The settling of accounts are in the process of being finalized.

##### Operating lease expenses

Payments made under operating leases are

## Notes

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

A segment is a distinguishable component of the Group that is engaged in either providing products or services (business segment), or in providing goods or services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments. The Group provides services and operates within the two business segments; offshore drilling and engineering and fabrication.

#### 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 has two categories of dilutive potential ordinary shares: convertible notes and share options. 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. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Companies shares) based on the monetary value of the rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. Potential ordinary shares that are anti-dilutive are excluded from the calculation.

#### New accounting pronouncements applied

The following standards and interpretations were potentially applicable to the Group and were effective during 2007:

*IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*

These are effective for annual periods beginning on or after January 1, 2007 and introduce new disclosure requirements. The Group has applied these on effective date.

*IFRIC 8, Scope of IFRS 2*

*(effective from 1 January 2007)*

IFRIC 8 clarifies the scope of IFRS 2 to include transactions in which the entity cannot identify specifically some or all of the goods and services received in exchange for equity instruments and is applicable for the Group

beginning January 1, 2007. The Group has applied this interpretation from 1 January 2007, with no significant impact on the financial statements.

*IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 January 2007)*

IFRIC 9 provides guidance on when an entity must reassess the accounting for embedded derivatives and is applicable for the Group beginning January 1, 2007. The Group has applied this interpretation from 1 January 2007, with no significant impact on the financial statements.

*IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 January 2008)*

IFRIC 10 provides guidance on accounting for impairment charges and reversal in interim periods and is applicable for the Group beginning January 1, 2007. The Group has applied this interpretation from 1 January 2007, with no significant impact on the financial statements.

#### New accounting pronouncements not yet applied

At the date of authorization of these financial statements, the following standards and interpretations that were potentially applicable to the Group were issued but not yet effective:

*IFRS 8, Operating Segments*

*(effective from 1 January 2009)*

This standard will change the information required to be presented for segment information and is required to be implemented for annual periods beginning on January 1, 2009. The Group has not yet determined whether it will adopt the standard as of an earlier date.

*IFRIC 11 / IFRS 2, Group and Treasury Share Transactions (effective from 1 March 2007)*

IFRIC 11 provides guidance on treasury share transactions within a consolidated group and is applicable for the Group beginning January 1, 2008. The Group does not believe this interpretation will have a significant impact on its financial statements.

*IFRIC 12, Service Concession Agreements*

*(effective from 1 January 2008)*

IFRIC 12 provides guidance on accounting for service concession agreements and is applicable for the Group beginning January 1, 2008.

## Notes

The Group does not believe this interpretation will have a significant impact on its financial statements.

### *IFRIC 13, Customer Loyalty Programmes (effective from 1 July 2008)*

IFRIC 13 relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The Group does not believe this interpretation will have a significant impact on its financial statements.

### *IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

*(effective from 1 January 2008)*

IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. The Group does not believe this interpretation will have a significant impact on its financial statements.

### 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 benefits

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 interest rate should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The rate is based on a 10 years 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 day rates 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.

## Notes

## Note 2 - Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

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.

## Geographical segments

The offshore drilling segment provides services on a worldwide basis while engineering and fabrication segments primarily provides services in the UK. The segment revenue is based on the geographical location of 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		
	2007	2006	2005	2007	2006	2005
Revenues from external customers	4 149 815	3 934 659	2 755 797	127 166	113 525	127 083
Inter-segment revenues	0	0	0	150 313	385 397	79 861
Total revenues	4 149 815	3 934 659	2 755 797	277 479	498 922	206 944
Operating expenses	(2 201 347)	(2 272 047)	(1 875 392)	(259 841)	(390 097)	(155 673)
Navis settlement	0	0	(33 683)	0	0	0
Segment result before depreciation, amortisation and impairment	1 948 468	1 662 612	846 722	17 638	108 825	51 271
Depreciation and amortisation	(495 512)	(475 378)	(614 395)	(4 920)	(4 367)	(3 870)
Impairment	0	(19 881)	0	0	0	0
Segment result	1 452 956	1 167 353	232 327	12 718	104 458	47 401
Net financing costs	(40 907)	(214 351)	(280 567)	4 461	2 069	0
Income tax expense	(26 067)	(23 324)	(3 820)	0	0	0
Profit/(loss) for the period	1 385 982	929 678	(52 060)	17 179	106 527	47 401
Segments assets	9 049 627	8 068 736	7 143 482	213 146	237 352	104 294
Total assets	9 049 627	8 068 736	7 143 482	213 146	237 352	104 294
Segments liabilities	4 893 936	4 024 468	4 018 997	280 674	344 313	314 426
Total liabilities	4 893 936	4 024 468	4 018 997	280 674	344 313	314 426
Capital expenditure	2 265 050	1 734 025	515 735	7 081	4 785	3 379

## Notes

Amounts in NOK 000's	Eliminations			Consolidated		
	2007	2006	2005	2007	2006	2005
Revenues from external customers	0	0	0	4 276 981	4 048 184	2 882 880
Inter-segment revenues	(150 313)	(385 397)	(79 861)	0	0	0
Total revenues	(150 313)	(385 397)	(79 861)	4 276 981	4 048 184	2 882 880
Operating expenses	139 070	322 998	68 841	(2 322 118)	(2 339 146)	(1 962 224)
Navis settlement	0	0	0	0	0	(33 683)
Segment result before depreciation, amortisation and impairment	(11 243)	(62 399)	(11 020)	1 954 863	1 709 038	886 973
Depreciation and amortisation	0	0	0	(500 432)	(479 745)	(618 265)
Impairment	0	0	0	0	(19 881)	0
Segment result	(11 243)	(62 399)	(11 020)	1 454 431	1 209 412	268 708
Net financing costs	0	0	0	(36 446)	(212 282)	(280 567)
Income tax expense	0	0	0	(26 067)	(23 324)	(3 820)
Profit/(loss) for the period	(11 243)	(62 399)	(11 020)	1 391 918	973 806	(15 679)
Segments assets	(65 534)	(71 519)	(47 023)	9 197 239	8 234 569	7 200 753
Unallocated assets				0	0	39 059
Total assets	(65 534)	(71 519)	(47 023)	9 197 239	8 234 569	7 239 812
Segments liabilities	(65 534)	(71 519)	(47 023)	5 109 076	4 297 262	4 286 400
Unallocated liabilities				0	0	2 824
Total liabilities	(65 534)	(71 519)	(47 023)	5 109 076	4 297 262	4 289 224
Capital expenditure	0	0	0	2 272 131	1 738 810	519 114

## Geographical segments

Amounts in NOK 000's	Europe			Asia			Americas		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Revenues from external customers	3 174 723	2 765 809	1 823 217	202 731	818 647	764 384	223 223	123 040	205 604
Capital expenditure	119 051	13 390	184 436	2 153 080	1 725 420	334 678	0	0	0

Amounts in NOK 000's	Other regions			Consolidated		
	2007	2006	2005	2007	2006	2005
Revenues from external customers				4 276 981	4 048 184	2 882 880
Capital expenditure	0	0	0	2 272 131	1 738 810	519 114

## Notes

## Note 3 - Salaries and other personnel costs

Amounts in NOK 000's	2007	2006	2005
Salary	740 865	693 849	598 446
Social security costs	92 521	87 695	68 930
Pension costs	31 951	17 157	(5 894)
Training	31 218	24 435	21 767
Travel	20 984	16 080	9 595
Other	50 295	38 700	27 115
Total	967 834	877 916	719 959
Average number of employees	1 094	1 003	861
Number of employees at year end	1 148	1 053	932

The pension costs of (NOK 5 894) in 2005 include the pension settlement at Harland and Wolff of NOK 42.9 million (see note 16).

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 in the offshore segment working directly on the construction of assets have been capitalised and is included as part of the rigs. See note 8.

## Note 4 - Other operating expenses

Amounts in NOK 000's	2007	2006	2005
Repairs and maintenance on offshore units	332 887	310 500	266 575
Integrated services/recharged expenses	286 867	447 338	407 531
Rig overheads	204 937	200 735	208 280
General operating expenses	124 298	106 240	88 513
Insurance	75 916	87 792	58 408
Professional and operational fees	50 437	52 108	57 401
Catering costs	61 727	47 780	29 889
Property rental expenses	12 648	10 135	8 727
Bareboat and pool income/expenses	173 696	186 126	63 377
Loss on sale of assets	625	0	0
Total	1 324 038	1 448 754	1 188 701

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

Amounts in NOK 000's	2007	2006	2005
Audit	3 840	5 118	3 645
Tax advisory services	794	955	497
Other assurance services	488	15	85
Other non-audit services	184	825	502
Total	5 306	6 913	4 729

## Notes

## Note 5 - Other items

Amounts in NOK 000's	2007	2006	2005
Offshore drilling segment	0	0	(33 683)

In 2005, the final settlements were made in the Navis case against the Group of NOK 172 million, which comprised a share price component and an interest component. The Group had made provisions of NOK 137 million in previous years and recorded NOK 34 million as an additional cost in 2005 upon settlement. The amount was paid in 2006.

## Note 6 - Net financing costs

Amounts in NOK 000's	2007	2006	2005
Financial income			
Interest income	34 320	28 395	9 249
Gain financial instruments	21 280	46 700	8 168
Other financial income	353	570	336
Foreign exchange gain	86 427	12 914	100 558
Total	142 380	88 579	118 311
Financial expense			
Interest expense	112 704	167 847	201 277
Loss financial instruments	547	0	118 090
Other financial expense	11 259	76 194	23 530
Foreign exchange loss	54 316	56 820	55 981
Total	178 826	300 861	398 878
Net financial expenses	(36 446)	(212 282)	(280 567)

Net financing costs include non-cash interest on borrowings calculated using the effective interest rate method.

The interest cost above is net of capitalised interest in 2006 and 2007. See note 8.

## Notes

## Note 7 - Income tax expense

Recognised in the income statement

Amounts in NOK 000's

	2007	2006	2005
Current tax expense	26 859	29 126	1 178
Deferred tax expense/(benefit)	(792)	(5 802)	2 642
Total income tax expense in income statement	26 067	23 324	3 820

Deferred tax recognised directly in equity	(1 217)	(6 249)	(2 332)
--	---------	---------	---------

Reconciliation of effective tax rate	2005	
Loss before tax		(11 859)
Income tax using the domestic corporation tax rate	28.0 %	(3 321)
Permanent differences	(84.0) %	9 967
Effect of foreign subsidiaries	960.8 %	(113 940)
Change in limitation of deferred tax assets related to tax loss carryforward	(937.0) %	111 114
Effective tax rate	(32.2) %	3 820

Reconciliation of effective tax rate	2006	
Profit before tax		997 130
Income tax using the domestic corporation tax rate	28.0 %	279 196
Permanent differences	0.1 %	707
Effect of foreign subsidiaries	(27.7) %	(276 113)
Change in limitation of deferred tax assets related to tax loss carryforward	2.0 %	19 534
Effective tax rate	2.3 %	23 324

Reconciliation of effective tax rate	2007	
Profit before tax		1 417 985
Income tax using the domestic corporation tax rate	28.0 %	397 036
Permanent differences	0.1 %	1 113
Effect of foreign subsidiaries	(29.2) %	(413 777)
Change in limitation of deferred tax assets related to tax loss carryforward	2.9 %	41 695
Effective tax rate	1.8 %	26 067

## Note 8 - Property, plant and equipment

Amounts in NOK 000's	Rigs and drillship	Machinery and equipment	Plant, building and land	Total
<b>Cost</b>				
Balance at 1 January 2006	6 247 786	454 198	48 112	6 750 096
Acquisitions	1 723 643	12 134	3 033	1 738 810
Disposals	(9 702)	(409)	0	(10 111)
Reclassifications	5 623	(52 643)	0	(47 020)
Effect of movements in foreign exchange	(474 074)	(3 232)	159	(477 147)
Balance at 31 December 2006	7 493 276	410 048	51 304	7 954 628
Balance at 1 January 2007	7 493 276	410 048	51 304	7 954 628
Adjustment opening balance	0	229 831	58 807	288 638
Balance at 1 January 2007	7 493 276	639 879	110 111	8 243 266
Acquisitions	2 256 961	12 736	2 434	2 272 131
Disposals	(44 538)	(2 365)	0	(46 903)
Reclassifications	77 146	(77 146)	0	0
Effect of movements in foreign exchange	(1 011 175)	(72 297)	(9 165)	(1 092 637)
Balance at 31 December 2007	8 771 670	500 807	103 380	9 375 857
<b>Depreciation</b>				
Balance at 1 January 2006	1 101 749	247 281	10 048	1 359 078
Depreciation charge for the year	468 247	9 956	1 542	479 745
Impairment	0	19 881	0	19 881
Disposals	(938)	0	0	(938)
Effect of movements in foreign exchange	(95 309)	9 928	524	(84 857)
Balance at 31 December 2006	1 473 749	287 046	12 114	1 772 909
Balance at 1 January 2007	1 473 749	287 046	12 114	1 772 909
Adjustment opening balance	0	231 010	57 628	288 638
Balance at 1 January 2007	1 473 749	518 056	69 742	2 061 547
Depreciation charge for the year	489 412	9 465	1 555	500 432
Disposals	(35 453)	(1 858)	0	(37 311)
Reclassifications	61 222	(61 222)	0	0
Effect of movements in foreign exchange	(232 839)	(57 520)	(6 333)	(296 692)
Balance at 31 December 2007	1 756 091	406 921	64 964	2 227 976
<b>Carrying amounts</b>				
At 1 January 2006	5 146 037	206 917	38 064	5 391 018
At 31 December 2006	6 019 527	123 002	39 190	6 181 719
At 1 January 2007	6 019 527	123 002	39 190	6 181 719
At 31 December 2007	7 015 579	93 886	38 416	7 147 881

Capitalised costs on the rigs in 2007 included NOK 139 million (2006: 323 million) related to services and materials provided by the Group's engineering and fabrication segment.

On 31 December 2007, the Group reclassified NOK 77 million (2006: 6 million) of spare assets previously reported as machinery and equipment to the rig value. In 2006 NOK 47 million was reclassified to inventory as consumables spare parts. Consumable spare parts are shown on the balance sheet as inventories and consumable spare parts.

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Interest cost of NOK 122 million (2006: NOK 45 million) has been capitalised to the Blackford rig under construction in 2007. The weighted average expenditures during the period have been used in calculating the amount on which interest is capitalised. The interest rates used are the actual interest rate for the loan that has been used to finance 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 in dry dock 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 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 2007 is USD 13.8 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 would 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. 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, Bideford, Borgland and Borgholm are either new or substantially upgraded, and have longer expected useful lifetimes than the 2nd generation rigs. Using the same principle for these units, two more scheduled class renewal surveys have been assumed followed by five years operation.

Bredford Dolphin completed its upgrade and class renewal survey in June 2007. The rig is now substantially upgraded and the reviewed estimate of the lifetime is now 15 years, extended by 5 years.

In million of NOK	Estimates	Net book value as at	
	Remaining lifetime	31 December	
	as at 31 December 2007	2007	2006
Belford Dolphin	18	1 362	1 547
Bideford Dolphin	12	674	846
Borgland Dolphin	12	746	915
Byford Dolphin	7	163	226
Borgny Dolphin	6	112	118
Borgsten Dolphin	7	178	223
Bredford Dolphin	15	905	370
Borgholm Dolphin	10	188	225
Blackford Dolphin	Under construction	2 687	1 550
Total rigs and drillship		7 015	6 020

#### Impairment

There are no impairment for any of the Group's units that impacted their carrying amount as at 31 December 2007.

The Group had recognised during 2006 an impairment loss of NOK 20 million 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.

#### Capital commitments

In June 2005 the Group purchased the semi-submersible drilling rig Ocean Liberator for USD 14 million. The Group renamed the rig to Blackford Dolphin and entered into an upgrade project which has an estimated budget of USD 580 million. As at 31 December 2007 the value of work done represented 82 % of the total project budget including the rig investment. The Group has contractually committed 98 % of the total budget of the project, although related amounts are not fully reflected in the 2007 annual statements. Blackford Dolphin is estimated to complete the upgrade and commence on a three year contract in Q2 2008. The first 100 days of the contract is with Tullow in Ghana, and the remaining contract period is with Reliance in India.

**Note 9 - Intangible assets****Goodwill**

The intangible assets 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. The value in use 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.

Five years of operating cash flow is used and is based on future budgets based on expected day rates and operating expenses for the rigs being operated by Dolphin AS. The discount rate used is 10 percent.

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

**Management agreement**

A management agreement related to the purchase of Navis management from Reading and Bates in 2000 was fully amortised by the end of 2005 due to the end of its term. The management agreement was purchased in parallel to the purchase of the drill ship Navis Explorer 1 and has been amortised over its 5 year term which ended in 2005. Amortisation charge for 2005 was NOK 22 257.

**Note 10 - 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 proposes dividends 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 with authorization given by the Annual General Meeting. The Company does not have a defined share buy back program however this will be evaluated continuously.

The Company is in compliance with all external loan covenants.

**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 Company 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. The Group continually evaluates the credit risk associated with customers and, when considered necessary, seeks certain guarantees, either in the form of parent company guarantees, bank guarantees or cash collateral. The Group's short-term investments are limited to reputable money market funds and cash deposits in the Group's relationship banks. 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 2007 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	2007	2006
Loans and receivables	801 182	619 844
Cash and cash equivalents	713 605	912 490
Derivative financial assets	1 309	8 142
<b>Total</b>	<b>1 516 096</b>	<b>1 540 476</b>

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## Notes

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

Amounts in NOK 000's	2007	2006
Loans to employees	1 156	1 270
Trade receivables due from related parties	3 757	5 635
Other trade receivables	796 269	612 939
<b>Total</b>	<b>801 182</b>	<b>619 844</b>

The ageing of trade receivables at the reporting date was:

	2007			2006		
	Nominal value	Provision	Balance	Nominal value	Provision	Balance
Not due	602 933	(1 769)	601 164	582 666	0	582 666
Overdue 0-30 days	26 490	0	26 490	7 309	0	7 309
Overdue 30-90 days	30 459	(13 944)	16 515	2 153	0	2 153
Overdue 90-180 days	125 139	(1 553)	123 586	1 917	0	1 917
Overdue 180-360 days	49 435	(18 430)	31 005	16 814	(14 312)	2 502
Overdue > 360 days	21 675	(20 409)	1 266	22 027	0	22 027
<b>Total</b>	<b>856 131</b>	<b>(56 105)</b>	<b>800 026</b>	<b>632 886</b>	<b>(14 312)</b>	<b>618 574</b>

#### Liquidity risk

The following are the contractual maturities of financial liabilities including interest payments. The Group continuously evaluates its refinancing needs and will carry out refinancing transactions from time to time. See note 14 for further details.

Amounts in NOK 000's	Nominal value	Contractual cash flows	Due in					2013 and thereafter
			2008	2009	2010	2011	2012	
31 December 2007								
Non-derivative financial liabilities	4 169 601	4 833 603	1 491 494	779 410	441 960	423 546	404 045	1 293 148

	Nominal value	Contractual cash flows	Due in					2012 and thereafter
			2007	2008	2009	2010	2011	
31 December 2006								
Non-derivative financial liabilities	3 400 946	4 197 799	475 218	572 157	891 845	489 474	466 543	1 302 562

#### 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 satisfactory mix of exposure to fixed and floating interest rates on its debt instruments. During 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. At 31 December 2007, the Group's USD denominated debt amounted to USD 715 million, of which the total amount is based on floating interest rates (USD LIBOR) plus a margin. The Group's NOK debt consist of a bond loan of NOK 300.5 million maturing in 2009 and a convertible bond loan of NOK 0.2 million maturing in 2009. Both the bond loan and the convertible bond loan carry a fixed interest rate of 4.5% p.a. to maturity. At 31 December 2007 the Group had no interest rate derivatives.

#### 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 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 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 2007, approximately 82% of revenues and 27% of operating expenses were in USD. In the longer term, parts of the USD/NOK exposure is neutralised due to the majority of the Group's debt being denominated in USD. At 31 December 2007, approximately 93% of the debt was in USD. At 31 December 2007, the Group had outstanding currency derivative contracts for forward sale of USD 30 million against GBP, of which USD 10 million

## Notes

are at spot rate as long as the spot rate does not exceed the forward rate or falls below 1.81, in which cases the forward rate will be 1.997, USD 10 million are at spot rate as long as the spot rate does not exceed the forward rate or falls below 1.80, in which case the forward rate will be 1,9788 and USD 10 million are at the spot rate as long as the spot rate does not exceed the forward rate or falls below 1.80, in which case the forward rate will be 2.00. All outstanding currency derivative contracts expire in 2008. The fair value of currency derivative 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 derivative contracts as per 31 December 2007 was NOK 1.3 million recorded as current asset (2006: NOK 7.7 million). A gain of NOK 21.0 million was recorded as financial income in 2007.

**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 permanent changes in currency exchange rates and interest rate levels will have an impact on the Group's earnings.

*Interest rate sensitivity*

At 31 December 2007 it is estimated that one percentage point incremental change in USD LIBOR and NIBOR is estimated to have an effect on the net result of approximately NOK 31 million (2006: NOK 21 million).

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 interest rate profile of the Group's interest-bearing financial instruments was:

Amounts in NOK 000's	2007	2006
Fixed rate instruments		
Financial liabilities	(302 337)	(362 305)
Variable rate instruments		
Bank deposits	713 605	912 490
Financial liabilities	(3 867 264)	(3 038 641)
Total variable rate instruments	(3 153 659)	(2 126 151)

*Exchange rate sensitivity*

At 31 December 2007, an incremental change in the GBP/USD exchange rate (where GBP appreciates or depreciates) will have the following impact on the results due to the currency derivatives of USD 30 million which is sold against GBP (please see section on foreign currency risk) and accounts payable denominated in GBP:

Impact on operating results in NOK millions	2007		2006	
% Change in GBP/USD	10 %	(10) %	10 %	(10) %
Through outstanding derivatives	31.6	(33.3)	11.5	(7.7)
Through GBP accounts payable	(3.4)	3.4	(2.9)	2.9
Total impact in NOK million	28.2	(29.9)	8.6	(4.8)

The below financial instruments are stated at fair values. The gain or loss on re-measurement to fair value is recognized in profit or loss.

Amounts in NOK 000's	2007	2006
Current assets		
Currency contracts	1 309	7 692
Interest rate swaps	0	450
Total assets	1 309	8 142
Current liabilities		
Interest rate swaps	0	6 361

## Notes

## Note 11 - Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Amounts in NOK 000's	2007	2006	2007	2006	2007	2006
Property, plant and equipment	(2 699)	(3 140)	39 232	44 876	36 533	41 736
Interest bearing loans and borrowings	0	0	266 374	89 639	266 374	89 639
Provisions	(3 799)	(5 581)	367	2 280	(3 432)	(3 301)
Other items	(13 048)	(13 940)	3 343	3 906	(9 705)	(10 034)
Tax value of loss carry-forward recognised	(303 758)	(131 982)	0	0	(303 758)	(131 982)
Tax (assets)/liabilities	(323 304)	(154 643)	309 316	140 701	(13 988)	(13 942)
Set off <sup>1)</sup>	309 316	139 556	(309 316)	(139 556)	0	0
Net tax (assets)/liabilities	(13 988)	(15 087)	0	1 145	(13 988)	(13 942)

<sup>1)</sup> 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	2007	2006
Deductible temporary differences	63 130	54 887
Tax losses	578 453	732 209
Other	46 137	63 953
Total unrecognised deferred tax assets	687 720	851 049

As at 31 December 2007, the tax losses carried forward totaling NOK 3.1 billion are primarily from the UK and Norway. Approximately NOK 1.3 billion of these tax losses carried forward are available only to offset the taxable income, if any, of a certain subsidiary of Harland & Wolff Group PLC and are consequently not recorded as a deferred tax asset in the accompanying consolidated financial statements. A certain portion of losses carried forward in Norway are also not recorded as a deferred tax asset due to uncertainty of the level of the future suitable taxable profits.

There is an ongoing dispute with Norwegian tax authorities related to the tax year 2005 for one of the Norwegian subsidiaries which could increase taxable income related to specific transactions. The Group believes the tax authorities claims are without merit and is responding accordingly. However, in the event the Group is unsuccessful in its response any potential negative outcome will be covered by tax losses carried forward not recognised in the balance sheet.

The tax losses carried forward have no expiry date.

## Note 12 - Cash and cash equivalents

Amounts in NOK 000's	2007	2006
Cash related to payroll tax withholdings	21 813	18 063
Other restricted cash	21 102	38 144
Total restricted cash	42 915	56 207
Unrestricted cash	670 690	856 283
Total cash & cash equivalents	713 605	912 490

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

## Notes

## Note 13 - Capital and reserves

Amounts in NOK 000's	Share capital	Share premium	Capital reserves	Translation reserves	Reserve for own shares	Retained earnings	Total
Balance at 1 January 2006	1 224 119	284 687	31 133	160 980	(1 687)	1 251 356	2 950 588
Total recognised income and expense	0	0	(5 917)	(293 906)	0	979 723	679 900
Issue of shares	88 429	212 230	0	0	0	0	300 659
Own shares sold in connection with exercise of options	0	0	0	0	1 580	167	1 747
Conversion of convertible bonds and derecognition of equity component, net of tax	4 297	10 313	(16 069)	0	0	5 872	4 413
Balance at 31 December 2006	1 316 845	507 230	9 147	(132 926)	(107)	2 237 118	3 937 307
Balance at 1 January 2007	1 316 845	507 230	9 147	(132 926)	(107)	2 237 118	3 937 307
Total recognised income and expense	0	0	(3 131)	(636 249)	0	1 395 049	755 669
Dividend	0	0	0	0	0	(659 861)	(659 861)
Own shares sold in connection with exercise of options	0	0	0	0	27	(16)	11
Conversion of convertible bonds, derecognition of equity component and modifications to loan, net of tax	17 032	40 877	(2 872)	0	0	0	55 037
Balance at 31 December 2007	1 333 877	548 107	3 144	(769 175)	(80)	2 972 290	4 088 163
Share capital and share premium							
Par value per share	NOK 20						
Number of shares authorized	81 693 862						
Number of shares issued	66 693 862						

Outstanding shares	2007	2006
As at 1 January	65 836 914	61 121 616
Own shares sold	1 334	79 002
Conversion of convertible bonds	851 614	214 847
Share issue	0	4 421 499
As at 31 December	66 689 862	65 836 914

In 2007 bondholders have converted convertible bonds of NOK 57 910 giving an increase in the number of shares by 851 614. Fifteen bondholders holding NOK 300.7 million of the subordinated convertible bond accepted in 2006 the Group's offer to participate in a private placement at NOK 68 per share, subject to the bondholders agreeing to waive their conversion rights under the bonds. The private placement of 4 421 499 shares was completed in August 2006.

## Capital reserves

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

	2007	2006
Component of convertible debt instruments net of tax	7	3 491
Fair value reserve of bond loan	3 137	5 656
Balance as at 31 December	3 144	9 147

The convertible bonds were issued in March 2004. The bonds are convertible into ordinary shares of the Company at any time between the date of issue of the notes and their loan maturity date. The bonds are convertible at a conversion price of NOK 68 per share. The net proceeds received from the issue of the convertible bonds have been split between the liability element and an equity component, 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.

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## Notes

The recognition in income and expense of NOK 3 131 (2006: NOK 5 917) 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 new bonds (nominal 4.5%, market rate 5.8%), net of tax.

Under IFRS, the transaction with the participating bondholders (see 2nd paragraph) is accounted for as an extinguishment of the original bond related conversion feature in exchange for new bonds and shares at a sales price of NOK 68 per share. The net impact of this transaction of NOK 5.9 million was reported as a financial expense in 2006. Interest expense for the new bond is 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 4 000 shares as at 31 December 2007 (2006: 5 334).

#### Dividend

The Board has decided to propose to the Annual General Meeting in May 2008 an ordinary dividend payment of NOK 10,- and an extraordinary dividend payment of NOK 15,- per share for the year 2007. This will amount to NOK 1 667 million based on outstanding shares as at 31 December 2007.

The Annual General Meeting in May 2007 approved the Board's proposal of a dividend payment of NOK 10,- per share for the year 2006. The payment was made on 8th June 2007 and amounted to NOK 659.9 million.

#### Note 14 - Interest-bearing loans and borrowings

Amounts in NOK 000's	Nominal Value	Contractual cash flows	Due in					2013 and thereafter
			2008	2009	2010	2011	2012	
FOE Bonds (NOK)	300 500	327 546	13 523	314 023	0	0	0	0
FOE Convertible Bonds (NOK)	215	235	10	225	0	0	0	0
Bank loans (USD)	946 925	980 681	980 681	0	0	0	0	0
Fleet loan (USD)	2 901 649	3 503 888	479 880	461 309	441 960	423 546	404 045	1 293 148
Slender-Well (USD)	18 690	19 631	15 778	3 853	0	0	0	0
Government loan (GBP)	1 622	1 622	1 622	0	0	0	0	0
<b>Total Interest bearing loans and borrowings</b>	<b>4 169 601</b>	<b>4 833 603</b>	<b>1 491 494</b>	<b>779 410</b>	<b>441 960</b>	<b>423 546</b>	<b>404 045</b>	<b>1 293 148</b>

Amounts in NOK 000's	Nominal Value	Contractual cash flows	Due in					2012 and thereafter
			2007	2008	2009	2010	2011	
FOE Bonds (NOK)	300 500	341 069	13 523	13 523	314 023	0	0	0
FOE Convertible Bonds (NOK)	58 125	65 973	2 616	2 616	60 741	0	0	0
Fleet loans (USD)	2 994 629	3 739 299	432 553	535 768	512 399	489 474	466 543	1 302 562
Slender-Well (USD)	38 369	41 763	18 671	18 410	4 682	0	0	0
Government loan (GBP)	3 680	3 680	1 840	1 840	0	0	0	0
Other (GBP)	5 643	6 015	6 015	0	0	0	0	0
<b>Total Interest bearing loans and borrowings</b>	<b>3 400 946</b>	<b>4 197 799</b>	<b>475 218</b>	<b>572 157</b>	<b>891 845</b>	<b>489 474</b>	<b>466 543</b>	<b>1 302 562</b>

## Notes

Amounts in NOK 000's				31.12.07		31.12.06	
	Currency	Interest rate	Maturity	Nominal value	Balance	Nominal value	Balance
FOE Bonds	NOK	4.50 % (Fixed)	2009	300 500	295 888	300 500	291 405
FOE Convertible Bonds	NOK	4.50 % (Fixed)	2009	215	205	58 125	53 277
Bank loan	USD	5.6 %	2008	541 100	541 100	0	0
Bank loan	USD	5.9 %	2008	405 825	405 825	0	0
Fleet loan	USD	5.7 %	2013	2 901 649	2 893 637	2 994 629	2 983 706
Slender-Well	USD	6.0 %	2009	18 690	18 690	38 369	38 369
Other	GBP	5.00 %	2007	0	0	5 643	5 643
Government loan	GBP	0.00 %	2008	1 622	1 622	3 680	3 680
Total Interest bearing loan and borrowings				4 169 601	4 156 967	3 400 946	3 376 080
Current interest bearing loans and borrowings					1 288 108		284 658
Non-Current interest bearing loan and borrowings					2 868 859		3 091 422
Total interest bearing loans and borrowings					4 156 967		3 376 080

Of interest bearing debt of the Group at 31 December 2007, NOK 3 867 million or USD 715 million is denominated in US dollars.

The Group established two short-term facilities totalling USD 175 million in 2007, which mature during 2008. Both loans are based on a floating interest rate (USD Libor) plus a margin. In March 2006 the Group redeemed the "FOE 01" bonds 2004/09 of NOK 760 million. A new 7 year facility of USD 600 million replaced the credit facility of USD 300 million established in July 2004 and the "FOE 01" bonds 2004/09 of NOK 760 million. The new facility is based on floating interest rates (USD LIBOR) plus a margin. The loan agreement contains operational and financial covenants typical for credit arrangements of this nature. As of 31 December 2007, the Group was in compliance with its loan covenants.

As part of the restructuring of the Groups loan portfolio in 2006, the Group submitted an offer to the holders of the subordinated convertible bond loan FOE 02 4.5% 2004/09 to participate in a private placement of up to 5.34 million shares at NOK 68 per share, equal to the conversion price, in exchange for a termination of the right. Fifteen bondholders holding NOK 300.7 million accepted the offer. The remaining loan continues at unchanged terms.

Bondholders have converted convertible bonds of NOK 57 910 during 2007.

#### Note 15 - Mortgages and guarantees

Amounts in NOK 000's	2007	2006
Interest bearing loan and borrowings	3 867 264	3 022 075
Other guarantees and liabilities	21 102	38 144
Total	3 888 366	3 060 219
The net book value of assets pledged as security:		
Rigs and drillship	7 015 579	6 019 527
Others	83 329	110 078
Total	7 098 908	6 129 605

As a normal part of its operations, the Group has provided performance guarantees in relation to certain of its drilling contracts.

## Notes

## Note 16 - 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 2007 was 622 and the number of pensioners was 2 291, of which the majority is related to Harland & Wolff. The pension plan assets consist primarily of bank deposits, investments in fixed income and equity securities. 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.

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

Fred. Olsen Energy ASA has pension agreements for senior management, in which the beneficiaries will receive 70% of their final year salary with 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 status of the defined benefit obligations is as follows:

Amounts in NOK 000's	2007	2006
Present value of unfunded obligations	2 289	253
Present value of funded obligations	1 577 321	1 739 799
Total present value of obligations <sup>1)</sup>	1 579 610	1 740 052
Plan assets at market value	1 479 494	1 670 693
Present value of net obligations	(100 116)	(69 359)
Unrecognised net experience gain	(94 904)	(174 311)
Net liability for defined benefit obligations	(195 020)	(243 670)
Hereof unfunded pension plans (net liability)	(5 528)	(29)
Hereof funded pension plans	(189 492)	(243 641)
Net liability for defined benefit obligations	(195 020)	(243 670)
Other investments	4 711	4 914
Employee benefits	(199 731)	(248 584)
Net liability at 31 December	(195 020)	(243 670)

<sup>1)</sup> Social security for one of our entities was previously included in unrecognised net experience loss/(gain) but are now included in present value of obligations. Previous year has been corrected accordingly.

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

Funded	2007	2006
Net liability at 1 January	(243 641)	(262 293)
Pension contribution (incl. Social security)	44 148	38 672
Expenses recognised in the income statement	(17 306)	(9 071)
Foreign currency translation	27 307	(10 949)
Net liability at 31 December	(189 492)	(243 641)
Unfunded	2007	2006
Net liability at 1 January	(29)	0
Payments during the year to pensioners (incl. Social security)	61	61
Unrecognised net experience gain and implementation	(2 702)	(56)
Expenses recognised in the income statement	(2 858)	(34)
Net liability at 31 December	(5 528)	(29)

## Notes

## Movements in plan assets

Amounts in NOK 000's	2007	2006
Fair value of plan assets at 1 January	1 670 693	1 576 762
Contributions paid into the plan	39 336	36 490
Benefits paid by the plan	(57 838)	(170 335)
Expected return of plan assets	90 644	87 296
Transferred value to employees (changed from funded to unfunded)	(25 280)	0
Actuarial (losses)/gains	(52 037)	61 491
Foreign currency translation	(186 024)	78 989
Fair value of plan assets at 31 December	1 479 494	1 670 693

## Major categories of plan assets

	2007	2006
Equity instruments	37 %	50 %
Bonds	43 %	30 %
Annuities	17 %	19 %
Other assets	3 %	1 %
Plan assets	100 %	100 %

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

Funded	2007	2006
Gross liability for defined benefit obligations at 1 January	1 739 799	1 676 476
Benefits paid by the plan	(62 650)	(172 517)
Current service costs	32 325	28 226
Interest on pension liability	79 450	74 665
Actuarial (gains)/losses	(1 835)	56 746
Settlements	0	(4 231)
Transferred value to employees (changed from funded to unfunded)	(25 280)	0
Foreign currency translation	(184 488)	80 434
Gross liability at 31 December	1 577 321	1 739 799

Unfunded	2007	2006
Gross liability for defined benefit obligations at 1 January	253	0
Benefits paid by the plan	(61)	(61)
Current service costs	2 717	10
Interest on pension liability	127	10
Actuarial (gains)/losses	(747)	294
Gross liability at 31 December	2 289	253

## Expense recognised in the income statement for defined benefit plans

Amounts in NOK 000's	2007	2006	2005
Current service costs	35 042	28 236	24 487
Interest on obligations	79 577	74 675	87 766
Expected return of plan assets	(90 644)	(87 296)	(87 096)
Amortisation expense	(4 955)	(2 257)	1 247
Deferred pension settlement	0	(4 231)	(42 910)
Net pension cost for defined benefit plans	19 020	9 127	(16 506)

The expense is recognised in the line for personnel expenses in the income statement.

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## Notes

The deferred pension settlement of NOK 42,9 million (2005) is the result of an irrevocable settlement offer made by the Board and Pension Trustees at Harland and Wolff to plan participants. Letters were issued to deferred members offering them the option of being transferred out of the pension scheme either by cash payment or move of their value to an alternative external scheme. An estimate was made by the Group as at 31 December 2005 of the probable number of participants that will ultimately accept the offer, and the resulting impact on the pension plan. The estimate was made by the plan actuary based on the responses to date and experience with other similar plans. The settlement gain of NOK 4.2 million in 2006 is the final adjustment of the actual impact of the offer.

Amounts in NOK 000's	2007	2006
Assumed salary increases	2.8-5.5%	2.8-4.0%
Discount rates	4.8-5.8%	4.4-5.1%
Interest rates	4.8-5.8%	4.4-5.1%
Expected rates of return on pension plan assets	5.8-5.9%	5.4-5.7%

The Norwegian group companies have used a discount rate of 4.8% for the calculation of the benefit obligations and assumed salary increases of 4% and 5.5% dependent on type of employment. The discount rate is the yield at the balance sheet date reflecting the maturity dates approximating to the terms of the Group's obligations.

*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 0.8% change in the projected benefit obligations. A 0.5% change in the discount rate gives a change in Service Cost of 10% and 9% change in the projected benefit obligations.

Unfunded Pension Plans: 0.25% change in future salary increase and the official pension index (G), gives a 2.7% change in Service cost and 1.6% change in projected benefit obligations. A 0.5% change in the discount rate gives a change in Service Cost of 10% and 7% change in the projected benefit obligations.

Amounts in NOK 000's	2007	2006	2005
Present value of the defined benefit obligation - funded	(1 577 321)	(1 739 799)	(1 668 204)
Present value of the defined benefit obligation - unfunded	(2 289)	(253)	0
Fair value of plan assets	1 479 494	1 670 693	1 576 762
Deficit in the plan	(100 116)	(69 359)	(91 442)
Experience adjustments arising on plan liabilities - funded	(1 835)	56 746	(37 830)
Experience adjustments arising on plan liabilities - unfunded	(747)	294	0
Experience adjustments arising on plan assets	(52 037)	61 491	122 106

**Note 17 - 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	2007	2006
Less than one Year	5 276	6 207
Between one and five years	13 217	18 993
More than five years	239 268	275 380
Total	257 761	300 580

The Group does not have any financial leases. The Group subsidiary Compact Properties in Belfast has a property lease contract that expires in 2115 and is the major part of the above.

## Notes

## Note 18 - 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. Bonheur ASA controls Ganger Rolf ASA and the Group is thereby consolidated in Bonheur ASA's group accounts. Revenues, purchases, interest income and expenses from such companies were as follows:

Amounts in NOK 000's	2007	2006	2005
<b>Revenues</b>			
Bulford Dolphin Pte Ltd	25 873	782	9 533
Others	1 401	182	0
<b>Total</b>	<b>27 274</b>	<b>964</b>	<b>9 533</b>
<b>Operating expenses</b>			
Fred. Olsen & Co.	6 141	6 344	6 545
Bulford Dolphin Pte Ltd	173 696	186 126	66 648
<b>Total</b>	<b>179 837</b>	<b>192 470</b>	<b>73 193</b>
<b>Interest expenses</b>			
Bonheur ASA/Ganger Rolf ASA	13 527	13 496	13 482
<b>Total</b>	<b>13 527</b>	<b>13 496</b>	<b>13 482</b>

Amounts in NOK 000's	2007	2006
<b>Accounts receivable</b>		
Fred. Olsen & Co.	94	92
Bulford Dolphin Pte Ltd	3 663	5 543
<b>Total</b>	<b>3 757</b>	<b>5 635</b>
<b>Accounts payable</b>		
Fred. Olsen & Co.	250	153
Bulford Dolphin Pte Ltd	158 108	46 450
<b>Total</b>	<b>158 358</b>	<b>46 603</b>
<b>Long-term debt</b>		
Bonheur ASA/Ganger Rolf ASA	300 500	300 500
<b>Total</b>	<b>300 500</b>	<b>300 500</b>
<b>Loan to employees</b>		
Chief Executive Officer	0	0
Loan to employees	1 156	1 270
<b>Total</b>	<b>1 156</b>	<b>1 270</b>

The Group and Bulford Dolphin Pte Ltd which is owned by First Olsen Ltd, which is a subsidiary of Bonheur ASA, entered into a pool agreement in August 2001. Five rigs were included in the pool, four of which are owned by the Company and the fifth, Bulford Dolphin, owned by First Olsen Tankers. Bulford Dolphin was sold in November 2007 and the pool agreement was terminated at the date of the sale. The settling of accounts are in the process of being finalised.

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## Notes

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

Amounts in NOK 000's	Board of Directors		
	2007	2006	2005
Remuneration	1 280	1 080	1 080
Total	1 280	1 080	1 080

Amounts in NOK 000's	Senior Management		
	2007	2006	2005
Salary	10 881	10 176	9 517
Bonus	8 580	7 592	164
Pension costs	1 721	2 964	2 322
Other	1 789	2 134	1 943
Total	22 971	22 866	13 946

## 2007

Amounts in NOK 000's	Board					
	remuneration	Salary	Bonus	Other	Pension	Total
<b>Senior management</b>						
Helge Haakonsen, Chief Executive Officer	175	2 717	2 400	169	116	5 577
Hjalmar Krogseth Moe, Chief Financial Officer (from 1st of June)	47	562	-	65	249	923
Jan Peter Valheim, Chief Financial Officer (until 31st of May)	35	867	1 700	66	-	2 668
Per Johansson, Managing Director		1 819	1 608	515	526	4 468
Joakim Kleppe, Managing Director		1 596	1 430	50	543	3 619
John A. Sydness, Managing Director (until 31st of May)		670	1 279	445	-	2 394
Robert Cooper, Managing Director		1 808	163	222	222	2 415
Iain Mitchell, Managing Director		842	-	-	65	907
Total - 2007	257	10 881	8 580	1 532	1 721	22 971

## Board of Directors

Anette S. Olsen	250	250
John C. Wallace (until December 2007)	200	200
Ivar J. Saunes (until May 2007)	200	200
Mårten Lunde (until May 2007)	100	100
Øivin Fjeldstad	200	200
Jan Peter Valheim (from June 2007)	100	100
Agnar Gravdahl (from June 2007)	100	100
Cecilie B. Heuch (from June 2007)	100	100
Stephen Knutzon	30	30
Total - 2007	1 280	1 280

## Notes

2006

Amounts in NOK 000's	Board					Total
	remuneration	Salary	Bonus	Other	Pension	
Senior management						
Helge Haakonsen, Chief Executive Officer	177	2 234	2 020	145	637	5 213
Jan Peter Valheim, Chief Financial Officer	94	1 556	1 500	138	634	3 922
Per Johansson, Managing Director		1 532	1 485	366	481	3 864
Joakim Kleppe, Managing Director		1 545	1 362	56	581	3 544
John A. Sydness, Managing Director		1 659	1 225	934	443	4 261
Robert Cooper, Managing Director		1 650	-	223	189	2 062
Total - 2006	271	10 176	7 592	1 862	2 965	22 866
Board of Directors						
Anette S. Olsen	250					250
John C. Wallace	200					200
Ivar J. Saunes	200					200
Mårten Lunde	200					200
Øivin Fjeldstad	200					200
Stephen Knutzon	30					30
Total - 2006	1 080					1 080

In 2006 the following options were exercised by members of Senior Management:

	Number of options	Weighted average		Net gain
		Strike price	Sales price	
Helge Haakonsen, Chief Executive Officer	55 000	28.33	241.15	NOK 11.7 million
Jan Peter Valheim, Chief Financial Officer	5 000	7.90	241.15	NOK 1.2 million
Per Johansson, Managing Director	4 000	7.90	241.15	NOK 0.9 million
Joakim Kleppe, Managing Director	4 000	7.90	241.15	NOK 0.9 million
John A. Sydness, Managing Director	4 000	7.90	265.63	NOK 1.0 million

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 share option scheme implemented in 1997 was terminated from and including 2004 and replaced with a management cash bonus scheme from 2005. 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. For 2005 the Group made an accrual for the bonus scheme of NOK 16 million, which was paid in 2006. For 2006 the Group made an accrual for the bonus scheme of NOK 15 million which was paid in 2007. No such accrual is included in 2007. The bonus is included in the amounts above in the year paid. Social security costs are not included in the disclosures above.

#### Guidelines for 2008

The Board of Directors of Fred. Olsen Energy ASA has a Compensation Committee comprising 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 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 2007 has been in accordance with the statement presented at the Annual General Meeting in May 2007. The principles are unchanged from 2007 to 2008.

### Note 19 - Contingencies

#### Outstanding receivables from customers

During 2007 the Group has entered into legal disputes with three specific customers. As at 31 December 2007 the Group had filed arbitration amounting to USD 35.4 million.

The Group have made provisions of USD 5.7 million based on evaluations of the contractual status of the outstanding receivables.

#### Tax dispute

There is an ongoing dispute with Norwegian tax authorities related to the tax year 2005 for one of the Norwegian subsidiaries which may increase taxable income related to specific transactions. The Group believes the tax authorities claims are without merit and is responding accordingly. However, in the event the Group is unsuccessful in its response any potential negative outcome will be offset by tax losses carried forward not recognised in the balance sheet.

### Note 20 - Share based payments

In 1998, the Group's shareholders resolved to grant the Board of Directors authority to issue up to 3 million shares to be used for an employee incentive compensation plan designed to align the interest of management with those of its shareholders. All share based payment awards are settled by the physical delivery of shares. The stock option plan was discontinued in 2004, and no grants have been made under the plan in 2005, 2006 or 2007. All options carry an exercise price which was determined by the market price of the stock price on the date of grant. No options are outstanding as at 31 December 2007.

During 2007, 1 334 options were exercised by management in accordance with the terms of the 2003 plan (strike price 7.9). During 2006, 44 002 and 35 000 options were exercised by management in accordance with the terms of 2003 and 2002 (strike price 40.0) respectively. During 2005, 35 998, 55 333 and 102 500 options were exercised by management in accordance with the terms of the 2003, 2002 and 2001 (strike price 81.0) plans respectively.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise prices	Number of options	Weighted average exercise prices	Number of options	Weighted average exercise prices	Number of options
	2007	2007	2006	2006	2005	2005
Outstanding at the beginning of the period	7.9	1 334	21.89	80 336	46.55	279 501
Forfeited during the period	-	-	-	-	7.90	5 334
Exercised during the period	7.9	1 334	22.12	79 002	57.83	193 831
Expired during the period	-	-	-	-	-	-
Outstanding at the end of period	-	-	7.9	1 334	21.89	80 336
Exercisable at the end of the period	-	-	7.9	1 334	40.00	45 000

The weighted average share price at the date of exercise was NOK 284.50, NOK 242.75 and NOK 97.20 during 2007, 2006 and 2005, respectively.

## Notes

## Note 21 - Uncompleted contracts

At 31 December the Group's engineering and fabrication division had uncompleted activities on various ship repair, ship building, manufacturing and engineering activities at Harland & Wolff.

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

Amounts in NOK 000's	2007	2006
Contract Revenue during the period, external	127 166	113 525
Contract Revenue during the period, internal	150 313	385 397
Contract cost incurred plus recognised profit on uncompleted contracts	13 632	1 950
Less progress billings to date	(12 659)	(466)
Accrued revenue, net	973	1 484

The accrued revenue is included in the accompanying balance sheet under the following captions:

Amounts in NOK 000's	2007	2006
Accounts receivable	973	1 705
Accounts payable	0	(221)
Accrued revenue, net	973	1 484

## Note 22 - Shareholder information

The shareholders, who hold more than 1% of the shares at 31 December 2007 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	5.99 %	3 997 350
UBS AG, London Branch	3.42 %	2 281 340
Verdipapirfondet Odin	1.57 %	1 047 295
Pictet & Cie Banque	1.38 %	919 181
Mellon Bank As Agent	1.29 %	860 770
JP Morgan Chase Bank	1.16 %	776 889
Vital Forsikring ASA	1.07 %	712 337
Others	30.70 %	20 469 936
Total	100.00 %	66 693 862

Shares and options owned by the Company's directors and senior corporate management at 31 December 2007:

Name	Title	Shares	Options	Convertible bonds (NOK)
Anette S. Olsen	Chairman	100	-	-
Øivin Fjeldstad	Director	2 470	-	-
Agnar Gravdal	Director	-	-	-
Jan Peter Valheim	Director	-	-	-
Cecilie B. Heuch	Director	-	-	-
Stephen Knudtzon	Deputy Director	-	-	-
Helge Haakonsen	Chief Executive Officer	10 100	-	-
Hjalmar Krogseth Moe	Chief Financial Officer	-	-	-

## Notes

## Note 23 - Earnings per share

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

## Earnings

Amounts in NOK 000's	2007	2006	2005
Earnings for the purpose of basic earnings per share	1 391 918	973 806	(15 679)
Effect of dilutive potential ordinary shares:			
Interest on convertible bonds	1 392	15 374	0
Earnings for the purpose of diluted earnings per share	1 393 310	989 180	(15 679)

## Number of shares

In thousands of shares	2007	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	66 223	62 856	60 459
Effect of dilutive potential ordinary shares:			
Share options	0	11	0
Convertible bonds	360	2 858	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	66 583	65 725	60 459

## Earnings per share

	2007	2006	2005
Basic	21.02	15.49	(0.26)
Diluted	20.93	15.05	(0.26)

In 2005 all potentially dilutive securities, being the common shares issuable upon conversion of convertible debt and share options, are excluded from the dilutive earnings per share calculation since they were anti-dilutive to the loss.

Fred. Olsen Energy ASA

# Income Statement

For the years ended 31 December

Amounts in NOK 000's	Note	2007	2006	2005
Revenues		655	770	799
Gain on sale of fixed assets		439	0	0
Salaries and other personnel costs	3	(17 510)	(24 314)	(23 975)
Other operating expenses	4	(16 429)	(24 097)	(16 445)
Operating loss before depreciation and financial income / expenses		(32 845)	(47 641)	(39 621)
Depreciation and amortisation	7	(413)	(472)	(525)
Operating loss before financial expenses		(33 258)	(48 113)	(40 146)
Financial income		275 505	280 259	454 758
Financial expenses		(399 615)	(307 922)	(299 176)
Net financial (expenses) / income	5	(124 110)	(27 663)	155 582
(Loss) / profit before tax		(157 368)	(75 776)	115 436
Income tax expense	6	0	0	(147 587)
Loss for the period		(157 368)	(75 776)	(32 151)
Proposed allocations:				
Dividend		1 667 247	659 862	0
From free reserves		(1 824 615)	(735 638)	(32 151)
Total allocations		(157 368)	(75 776)	(32 151)

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	2007	2006
<b>Assets</b>			
Property, plant and equipment	7	1 130	1 138
Investments in subsidiary companies	16	2 914 533	2 914 533
Other non-current assets	8, 15	2 363 634	1 916 463
Deferred tax assets	6	0	0
Total non-current assets		5 279 297	4 832 134
Other current assets		1 896	8 801
Trade and other receivables	9, 15	77 706	158 877
Cash and cash equivalents	10	133 070	355 882
Total current assets		212 672	523 560
Total assets		5 491 969	5 355 694
<b>Equity</b>			
Share capital		1 333 877	1 316 845
Treasury shares		(80)	(107)
Share premium		548 107	507 230
Other equity		616 434	2 441 064
Total equity	11	2 498 338	4 265 032
<b>Liabilities</b>			
Interest-bearing loans and borrowings	12, 15	300 715	358 625
Other non-current liabilities	3	5 528	3 737
Total non-current liabilities		306 243	362 362
Interest-bearing loans and borrowings	12	946 925	0
Trade and other payables	13, 15	56 338	45 440
Dividend	11	1 667 247	659 862
Other accrued expenses	14	16 878	22 998
Total current liabilities		2 687 388	728 300
Total liabilities		2 993 631	1 090 662
Total equity and liabilities		5 491 969	5 355 694

The notes represent an integral part of the financial statements.

Oslo, 31 December 2007 / 28 March 2008

Fred. Olsen Energy ASA

Anette S. Olsen	Jan Peter Valheim	Cecilie B. Heuch	Øivin Fjeldstad	Agnar Gravdal	Helge Haakonsen
Chairman					Chief Executive Officer

Fred. Olsen Energy ASA

# Statement of Cash Flows

For the years ended 31 December

Amounts in NOK 000's	2007	2006	2005
<b>Cash flows from operating activities</b>			
(Loss) / profit before income taxes	(157 368)	(75 776)	115 436
<i>Adjustment for:</i>			
Depreciation and amortization	413	472	525
Interest expense	40 725	32 826	111 248
(Gain) / loss on sale of property, plant and equipment	(439)	0	9
Unrealised currency (gains)/losses	224 207	172 237	(239 640)
Changes in trade and other receivables	84 831	(67 699)	(51 233)
Changes in trade and other payables	2 470	(164 578)	74 321
Changes in other balance sheet items	2 943	16 015	61 225
Cash generated from operations	197 782	(86 503)	71 891
Interest paid	(38 418)	(85 358)	(109 368)
Taxes paid / (refunded)	0	0	(361)
Net cash from / (used in) operating activities	159 364	(171 861)	(37 838)
<b>Cash flows from investing activities</b>			
Proceeds from sales of property, plant and equipment	826	0	200
Purchase of property, plant and equipment	(792)	(852)	(526)
Net investment in subsidiary	0	0	(32 137)
Net cash from / (used in) investing activities	34	(852)	(32 463)
<b>Cash flows from financing activities</b>			
Borrowing of interest-bearing loans	1 027 280	0	0
Repayments of interest-bearing loans		(868 659)	0
Intercompany loans	(749 639)	906 519	(367 704)
Dividend paid	(659 862)		
Sale of treasury shares	11	1 747	273 542
Issue of shares	0	300 659	0
Net cash (used in) / from financing activities	(382 210)	340 266	(94 162)
Net (decrease) / increase in cash and cash equivalents	(222 812)	167 553	(164 463)
Cash and cash equivalents at 1 January	355 882	188 329	352 792
Cash and cash equivalents at 31 December	133 070	355 882	188 329

The notes represent an integral part of the financial statements.

# 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 1998.

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

## Note 2 - Summary of significant accounting policies

### Pool income/expense

Certain rig-owning subsidiaries had entered into a five-rig pool agreement with the owner of the Bulford Dolphin rig, where net earnings before depreciation were equalised amongst the rig owners. The Company was established as the pool manager and was receiving a management fee. Bulford Dolphin was sold in 2007 and the pool agreement was subsequently terminated.

### 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 at the balance sheet date.

### Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-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.

### 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 includes 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 relevant contracts, foreign currencies, useful life of the assets and market growth. Impairment losses are recognised in the income statement.

### Financial instruments

#### Interest 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 expenses.

### 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.

## Notes

## Note 3 - Salaries and other personnel costs

Amounts in NOK 000's	2007	2006	2005
Salary	8 319	13 727	14 961
Social security expenses	2 292	3 445	2 977
Pension costs	3 239	5 102	3 623
Travel expenses	1 607	1 009	1 145
Other	2 053	1 031	1 269
Total	17 510	24 314	23 975
Average number of employees	9	10	10

Salaries, remuneration and other personnel expenses to the Chief Executive Officer (CEO Helge Haakonsen), Senior management (CFO Jan Peter Valheim for the period January to May and CFO Hjalmar K. Moe for the period June to December) and Board of Directors (Anette S. Olsen, Øivin Fjeldstad, Jan Peter Valheim, Cecilie B. Heuch and Agnar Gravdal) are as follows:

Amounts in NOK 000's	2007	2006	2005
<b>Chief Executive Officer</b>			
Salary	2 717	2 234	2 017
Bonus	2 400	2 020	0
Current earned pension	116	637	567
Other	344	322	304
Total	5 577	5 213	2 888

<b>Senior management</b>			
Salary	1 429	1 556	1 342
Bonus	1 700	1 500	0
Current earned pension	249	634	436
Other	220	232	209
Total	3 598	3 922	1 987

<b>Board of directors</b>			
Remuneration	1 280	1 080	1 080

The management share option scheme implemented in 1997 was terminated from and including 2004 and replaced with a management cash bonus scheme from 2005. 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. For 2005 the Company made an accrual for the bonus scheme of NOK 6.3 million, which was paid in 2006. For 2006 the Company made an accrual for the bonus scheme of NOK 6.2 million, which was paid in 2007. The company has not made an accrual for the bonus scheme in 2007. The bonus is included above in the same year it has been paid.

## 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 2007 was 10. 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 note continues on the next page*

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

Amounts in NOK 000's	2007	2006	2005
Projected benefit obligation	9 771	42 884	39 135
Plan assets at market value	10 840	35 142	28 393
Funded status	1 069	(7 742)	(10 742)
Unrecognised net experience loss	(1 886)	8 919	5 173
Net pension asset/(liability)	(817)	1 177	(5 569)

At 31 December 2007 the net pension liability is presented in the balance sheet as a pension asset of NOK 4.7 million and a pension liability of NOK 5.5 million.

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

	2007	2006	2005
Assumed salary increases	4.0 %	4.0 %	3.0 %
Discount rates	4.8 %	4.4 %	4.3 %
Interest rates	4.8 %	4.4 %	4.3 %
Expected rates of return on pension plan assets	5.8 %	5.4 %	5.3 %

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

Amounts in NOK 000's	2007	2006	2005
This period's earned pensions	4 170	4 750	3 568
Interest expense on pension liabilities	491	1 581	1 444
Earnings on pension funds	(566)	(1 485)	(1 493)
Amortisation expense	(856)	256	104
Net pension cost for defined benefit plans	3 239	5 102	3 623

The following loans were outstanding from employees of the Company:

Amounts in NOK 000's	2007	2006
Loan to employees	158	163
Total	158	163

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

## Note 4 - Other operating expenses

Amounts in NOK 000's	2007	2006	2005
General operating overheads	15 213	14 962	15 276
Navis settlement	0	8 000	0
Insurance	26	0	11
Property rental expenses	1 190	1 135	1 149
Loss on sale of assets	0	0	9
<b>Total</b>	<b>16 429</b>	<b>24 097</b>	<b>16 445</b>

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

Amounts in NOK 000's	2007	2006	2005
Audit fees	1 279	1 466	1 060
Other assurance services	476	33	57
Tax advisory services	20	15	84
Other non-audit services	167	713	310
<b>Total</b>	<b>1 942</b>	<b>2 227</b>	<b>1 511</b>

## Note 5 - Net financing costs

Amounts in NOK 000's	2007	2006	2005
<b>Financial income</b>			
Interest income	156 450	157 532	146 466
Other financial income	11 360	69 439	53 968
Foreign exchange gains	107 695	53 288	254 324
<b>Total</b>	<b>275 505</b>	<b>280 259</b>	<b>454 758</b>
<b>Financial expense</b>			
Interest expense	40 725	32 826	111 248
Write down of shares in subsidiaries	0	0	17 785
Other financial expense	3 563	44 591	165 070
Foreign exchange losses	355 327	230 505	5 073
<b>Total</b>	<b>399 615</b>	<b>307 922</b>	<b>299 176</b>
<b>Net Financial Income/(expense)</b>	<b>(124 110)</b>	<b>(27 663)</b>	<b>155 582</b>

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

Other financial income relates primarily to realised and unrealised gains on various derivatives. Other financial expenses relate primarily to amortisation of capitalised borrowing costs and realised and unrealised losses on various derivatives.

Information regarding interest income and expenses from Group companies and other related parties is provided in 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	2007	2006
Long-term differences	(2)	8 315
Temporary difference	(2)	8 315
Losses carried forward	(621 789)	(472 738)
Limitation of deferred tax assets	621 791	464 423
Basis for deferred tax liabilities	0	0
Net 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 provision for income taxes is as follows:

Amounts in NOK 000's	2007	2006	2005
Income taxes payable from previous year	0	0	361
Deferred income tax expense	0	0	147 226
Income tax expense	0	0	147 587

Taxes payable are as follows:

Amounts in NOK 000's	2007	2006	2005
(Loss) / profit before income tax	(157 368)	(75 776)	115 436
Change in temporary differences	8 317	(3 641)	(34 588)
Permanent differences	0	5	21 719
Utilisation tax loss carryforwards	0	0	(102 567)
Basis taxes payable	(149 051)	(79 412)	0
Tax rate	28 %	28 %	28 %

Effective tax rate:

Amounts in NOK 000's	2007		2006	
Expected income tax expense according to statutory tax rate (28%)	(44 063)	28%	(21 217)	28 %
Permanent differences	0		1	
Tax losses not recognised	44 063		21 216	
Income tax (benefit)/expense	0	0%	0	0 %

## Notes

## Note 7 - Property, plant and equipment

Amounts in NOK 000's	2007	2006
<b>Cost</b>		
Balance at 1 January	5 462	4 687
Additions during the period	792	852
Disposals during the period	(1 852)	(77)
Balance at 31 December	4 402	5 462
<b>Depreciation</b>		
Balance at 1 January	4 324	3 929
Depreciation during the period	413	472
Disposals during the period	(1 465)	(77)
Balance at 31 December	3 272	4 324
Net book value at 31 December	1 130	1 138

## Note 8 - Other non-current assets

Amounts in NOK 000's	2007	2006
Pension assets (see note 3)	4 711	4 914
Long-term receivables (see note 15)	2 358 670	1 910 353
Capitalised borrowing costs	253	1 196
Total	2 363 634	1 916 463

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	2007	2006
Trade and other receivables	1 324	1 231
Related parties (note 15)	76 382	157 646
Total	77 706	158 877

## Note 10 - Cash and cash equivalents

Amounts in NOK 000's	2007	2006
Payroll taxes	591	564
Total restricted cash	591	564
Unrestricted cash	132 479	355 318
Total cash and cash equivalents	133 070	355 882

## 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 2006	1 224 119	(1 687)	284 687	158 376	3 018 159	4 683 654
Net loss for the period	0	0	0	0	(75 776)	(75 776)
Conversion of convertible notes	4 297	0	10 313	0	0	14 610
Issue of shares	88 429	0	212 230	0	0	300 659
Treasury shares	0	1 580	0	(1 222)	1 389	1 747
Dividend	0	0	0	0	(659 862)	(659 862)
Other changes	0	0	0	(2 338)	2 338	0
Balance at 31 December 2006	1 316 845	(107)	507 230	154 816	2 286 248	4 265 032
Balance at 1 January 2007	1 316 845	(107)	507 230	154 816	2 286 248	4 265 032
Net loss for the period	0	0	0	0	(157 368)	(157 368)
Conversion of convertible notes	17 032	0	40 877	0	0	57 909
Treasury shares	0	27	0	(15)	0	12
Proposed dividend	0	0	0	0	(1 667 247)	(1 667 247)
Balance at 31 December 2007	1 333 877	(80)	548 107	154 801	461 633	2 498 338

## Treasury shares

The Company holds 4 000 of its own shares at 31 December 2007. During 2007 the Company sold 1 334 treasury shares (2006: sold 79 002 treasury shares).

## Par value

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

## Conversion of convertible notes

For the year ended 31 December 2007 convertible bondholders have converted 851 614 shares (2006: converted 214 847 shares).

## Issue of shares

In 2006 there was a private placement of 4 421 449 shares at NOK 68 per share. See note 12 for more information.

## Dividend

The Annual General Meeting in May 2007 decided a dividend payment of NOK 10 per share for the year 2006. Based on outstanding shares at 21 March 2007, the payment was NOK 660 million in 2007.

The Board has decided to propose to the Annual General Meeting in May 2008 an ordinary dividend payment of NOK 10 and an extraordinary dividend payment of NOK 15 per share for the year 2007. This will amount to NOK 1 667 million based on outstanding shares as at 31 December 2007. In 2006, the Company applied IFRS rules accepted under NGAAP and accounted for dividend when they were formally approved at the Annual General Meeting. In 2007, the Company changed this principle in accordance with change in NGAAP and accounted for dividends when proposed by the Board. This change has been included in equity and current liabilities and the comparable numbers for 2006 have been changed accordingly.

## Unrestricted equity

The unrestricted equity of the parent Company is as follows:

Amounts in NOK 000's	
Other equity	461 633
Paid in other equity	154 801
Treasury Shares	(80)
Total	616 354

## Note 12 – Interest-bearing loans and borrowings

Amounts in NOK 000's	Balance at 31.12.07	Interest rate at 31.12.07	Principal and interest payments				2012 & Thereafter
			2008	2009	2010	2011	
Parent company facilities							
FOE Convertible Bonds (NOK)	215	4.50 % (fixed)	10	225	0	0	0
FOE Bonds (NOK)	300 500	4.50 % (fixed)	13 523	314 023	0	0	0
Bank loan (USD)	541 100	5.6 %	562 833	0	0	0	0
Bank loan (USD)	405 825	5.9 %	417 848	0	0	0	0
Total parent company facilities	1 247 640		994 214	314 248	0	0	0

In 2007, the Company established two short term bank loan totalling USD 175 million. Both loans mature during 2008 and are based on a floating interest rate plus a margin. In 2006 fifteen bondholders holding NOK 300.7 million of the outstanding FOE Convertible Bond loan accepted the Company's offer to participate in a private placement at NOK 68 per share (the bond's original conversion price) subject to the bondholders agreeing to waive their conversion rights under the bonds. The private placement of 4 421 449 shares was completed in August 2006. Except for the termination of the conversion right, the amended loan will continue at unchanged terms until the maturity date at 30 March 2009. In 2007 bondholders converted NOK 57.9 million into 851 614 new shares. The remaining holders of the issue of NOK 0.2 million will continue to maturity at unchanged terms, including a conversion right at NOK 68 per share.

The Company's debts are included in the Group loan covenants. As of 31 December 2007 the Group was in compliance with its loan covenants.

## Note 13 - Trade and other payables

Amounts in NOK 000's	2007	2006
Trade	230	450
Related parties (note 15)	56 108	44 990
Total	56 338	45 440

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	2007	2006
Accrued interest expense	14 455	12 148
Accrued wages	1 917	9 395
Other accruals	506	1 455
Total	16 878	22 998

## 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	2007	2006	2005
Revenues			
Subsidiaries	524	616	646
Other related parties	131	154	153
Total	655	770	799
Operating expenses			
Other related parties	6 141	6 344	6 545
Total	6 141	6 344	6 545
Interest income			
Subsidiaries	149 247	151 329	144 757
Total	149 247	151 329	144 757
Interest expenses			
Subsidiaries	0	0	9 315
Other related parties	13 527	13 496	13 482
Total	13 527	13 496	22 797

Amounts in NOK 000's	2007	2006
Other non-current assets		
Subsidiaries	2 358 512	1 910 190
Other related parties	158	163
Total	2 358 670	1 910 353
Trade and other receivables		
Subsidiaries	76 288	152 125
Other related parties	94	5 521
Total	76 382	157 646

The subsidiaries will repay the loans based on the "pay-as-you earn" principle.

Other non-current liabilities		
Other related parties	300 500	300 500
Total	300 500	300 500
Trade and other payables		
Subsidiaries	4	44 990
Other related parties	56 104	0
Total	56 108	44 990

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

## Notes

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

Subsidiaries	Business Offices	% of holding & voting shares	Amounts in NOK 000's				Book value
			Equity	Net profit/ (loss)	Historical cost	Accumulated write downs	
Dolphin AS	Tananger, Norway	100 %	156 529	(35 385)	750 611	555 693	194 918
Dolphin International AS	Oslo, Norway	100 %	2 543 868	1 284 409	2 717 264	0	2 717 264
Atlan Shipping Co. Ltd.	Hamilton, Bermuda	100 %	(41 778)	(3 025)	855 491	853 212	2 279
Navis Drilling Ltda.	Brazil	2 %	3 411	(82)	72	0	72
<b>Total</b>					<b>4 323 438</b>	<b>1 408 905</b>	<b>2 914 533</b>

## Note 17 - Shareholder information

The registered shareholders, who hold more than 1% of the shares at 31 December 2007 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	5.99 %	3 997 350
UBS AG, London Branch	3.42 %	2 281 340
Verdipapirfondet Odin	1.57 %	1 047 295
Pictet & Cie Banque	1.38 %	919 181
Mellon Bank As Agent	1.29 %	860 770
JP Morgan Chase Bank	1.16 %	776 889
Vital Forsikring ASA	1.07 %	712 337
Others	30.70 %	20 469 936
<b>Total</b>	<b>100.00 %</b>	<b>66 693 862</b>

Each share has one vote.

Shares and options owned by the Company's directors and senior management at 31 December 2007:

Name	Title	Shares	Options	Convertible bonds (NOK)
Anette S. Olsen	Chairman	100	-	-
Øivin Fjeldstad	Director	2 470	-	-
Agnar Gravdal	Director	-	-	-
Cecilie B. Heuch	Director	-	-	-
Jan Peter Valheim	Director	-	-	-
Stephen Knudtzon	Deputy Director	-	-	-
Helge Haakonsen	Chief Executive Officer	10 100	-	-
Hjalmar Krogseth Moe	Chief Financial Officer	-	-	-

### Note 18 - 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 is exposed to fluctuations in the USD interest rate. The Company has used interest rate derivatives to achieve a satisfactory mix of exposure to fixed and floating interest rate on its debt instruments.

The Company's NOK debt as of 31 December 2007 consists of a convertible bond loan of NOK 0.2 million and a bond loan of NOK 300.5 million, both maturing in 2009. The loans carry a fixed interest rate of 4.5% p.a. to maturity. The Company established two short-term facilities totalling USD 175 million in 2007, which mature during 2008. Both loans are based on a floating interest rate (USD Libor) plus a margin. At 31 December 2007 the Company had no interest rate derivatives (2006: USD 35 million). The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date. Net fair market value of interest rate derivatives at 31 December 2006 was NOK 0.5 million recorded as an asset.

#### Foreign currency risk

At 31 December 2007, the Company had outstanding currency derivative contracts for forward sale of USD 30 million against GBP, of which USD 10 million are at spot rate as long as the spot rate does not exceed the forward rate or falls below 1.81, in which cases the forward rate will be 1.997, USD 10 million are at spot rate as long as the spot rate does not exceed the forward rate or falls below 1.80, in which case the forward rate will be 1,9788 and USD 10 million are at the spot rate as long as the spot rate does not exceed the forward rate or falls below 1.80, in which case the forward rate will be 2.00. All outstanding currency derivative contracts expire in 2008.

The fair value of currency derivative 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 derivative contracts as per 31 December 2007 was NOK 1.3 million recorded as assets (2006: NOK 7.7 million recorded as assets), of which NOK 1.3 million was current.

At 31 December 2007 the Company had the following currency derivative contracts:

#### Currency contracts

Notional amount	Forward rate	Expiring	
\$ 10 000 000	1.9970	10.06.2008	Spot to 1,81
\$ 10 000 000	1.9788	19.08.2008	Spot to 1.80
\$ 10 000 000	2.0000	18.08.2008	Spot to 1.80

# Auditor's Report



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

## AUDITOR'S REPORT FOR 2007

### Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of the Fred. Olsen Energy ASA as of 31 December 2007, showing a loss of NOK 157 368 000 for the parent company and a profit of NOK 1 391 918 000 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 coverage of loss of the parent company. 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 balance sheet, the statements of income and cash flows, the statement of recognized income and expense 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 statements. 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 Managing Director. 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 Den norske Revisorforening (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 2007, 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 2007, the results of its operations, its cash flows and the statement of recognized income and expense 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 and the going concern assumption is consistent with the financial statements and comply with the law and regulations.
- the proposal for the coverage of loss in the annual financial statements is in compliance with the law and regulations.

Oslo, 18 April 2008

KPMG AS

  
Arve Gevoll

State Authorised 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 behave in an ethical and non-discriminatory manner.

## 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 2007 to increase the share capital by 15 000 000 shares. The proxy expires on 24 May 2008. At 31 December 2007 the Company held 4 000 shares of its own shares.

In 2007 the Company distributed dividends for the first time since the listing in 1997. The Company paid dividend 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. In light of the current strong outlook for the Company, the Board has decided to propose to the Annual General Meeting in May 2008 a dividend payment of NOK 10,- per share and an additional NOK 15,- per share as an extraordinary dividend for the year 2007. Going forward, dividend will be distributed subject to approval by the shareholders and the Company's investment plans and financial strategy. In addition, the Company will consider share buy-backs in accordance with the authorization to the Board from the Annual General Meeting.

## Equal treatment of shareholders, transactions with close associates

The Company's shares are listed on the 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 consisting of Board members independent of the Company's main shareholders, Bonheur ASA and Ganger Rolf ASA, deals with possible conflict-of-interest matters related to those shareholders.

## 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 or to the shareholder's security deposit bank. Shareholders registered in VPS (the Norwegian Registry of Securities) can vote in person or by proxy. The 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

The Company has no corporate assembly. 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 provide that the Board of Directors shall have no fewer 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 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. 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 2007 the Board of Directors had 8 meetings.

## The Board of Directors consists of:

**Anette S. Olsen**, Chairman. Ms. Olsen has been chairman of the Board since the inception of the Company in 1997. Since 1994, Ms. Olsen has been the sole owner of Fred. Olsen & Co., the management company of the stock listed companies Bonheur ASA and Ganger Rolf ASA, which she joined in 1981. Ms. Olsen holds chairman and board positions with a number of companies including First Olsen Ltd., Fred. Olsen Renewables Ltd., Fred. Olsen Cruise Lines Ltd., Timex Corporation and A/S Norges Handels og Sjøfartstidende. In addition, she is a member of the Norwegian Shipping Association's Advisory Board and the Council of Det Norske Veritas. Ms. Olsen has a BA in Business Organization and an MBA. Ms. Olsen is a Norwegian citizen, resident in Oslo, Norway.

**Øivin Fjeldstad**, 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 AL Industrier AS, 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 Ringelike, Norway.

**Agnar Gravdal**, Director. Mr. Gravdal joined the Board in May 2007. He has 10 years experience in advanced shipdesign and nearly 30 years experience from the offshore industry. He has held a number of positions as CEO for companies within Aker and Kværner group. From 1991 to 2001 he was the CEO of the Umoe Group. He has several board positions in companies listed on the Oslo Stock Exchange. Mr. Gravdal 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**, 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**, 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 behind 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 three Directors including the Chairman of the Board and one of the independent Directors. The Compensation Committee discusses and recommends to the Board salary

and benefits for the Chief Executive Officer 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 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 18 on page 40.

### 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:*

**Helge Haakonsen**, Chief Executive Officer. Mr. Haakonsen has been President and Chief Executive Officer of the Company since 1997. Mr. Haakonsen joined Fred. Olsen & Co. in 1972, and has held a number of senior project and management positions within the offshore and tanker industries, including offshore drilling and floating production operations. Mr. Haakonsen received a Bachelor of Science degree in engineering from the University of Newcastle in 1969 and a degree in business administration from the Norwegian School of Management in 1973. Mr. Haakonsen is a Norwegian citizen, and resides in Oslo, 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 a.s since June 2002. Mr. Kleppe was previously Snr. Vice President HR/QHS&E & ICT with 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 Distrikthøyskole, Stavanger. Mr. Kleppe is a Norwegian citizen and resides in Stavanger, Norway.

**Iain Mitchell**, Managing Director of Dolphin Drilling Ltd since May 2007. Mr. Mitchell was previously Snr Vice President Marketing with Dolphin Drilling Ltd and has worked as part of the management team of Dolphin since 1996. Mr. Mitchell has worked in the oil and gas industry since 1982, both onshore and offshore. Mr. Mitchell is a BSc graduate of Aberdeen University and resides in Aberdeen, 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. He was appointed financial director in Harland and Wolff Group in 1993. Mr. Cooper joined the Company in 1983 as a trainee accountant, and after completing his ICMA professional examinations 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

In 1998 the Company's Annual General Meeting resolved to grant the Board of Directors authority to issue up to 3 million shares to be used for employee incentive compensation

## Corporate Governance

plans designed to align the interest of management with those of its shareholders. The management share option scheme was terminated from after 2003 and replaced with a management cash bonus scheme from 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 18 on page 40 and note 20 on page 42.

### 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.

### Take-overs

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 do 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 that the auditor be independent, the Company is cautious when using an 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 to review the report on the auditor's view of the company's accounting principles, risk areas and internal controls routines.



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