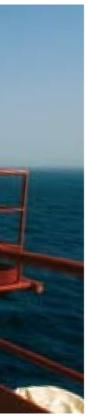
BW Offshore Limited
Annual Report 2007

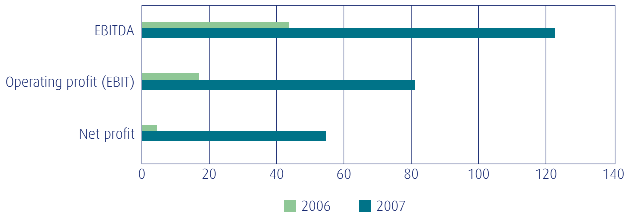


Highlights

- Completed FPSO YÙUM K'AK'NÁAB for Pemex
  - world's largest converted FPSO and first FPSO in GoM
- Successfully completed share issues raising USD 985 million
- Acquired oil service technology company APL
- Raised stake in Nexus Floating Production to 49.7%
- Completed installation of offshore LNG terminal for Excelerate Energy
- Awarded installation contract for Aker's Reliance FPSO
- Awarded Chinook Cascade FPSO contract for Petrobras
  - first FPSO in US GoM
- Aquired 26.5% of Prosafe SE
- Awarded STP turret and swivel contract for Nexus II FPSO
- Awarded offshore LNG terminal contract for Suez LNG
- Subsequent event: Awarded STP turret and swivel contract for Maersk' Peregrino FPSO

Key figures 2007

USD million, unless stated otherwise	2007	2006
Operating revenue	662.6	450.8
EBITDA	122.6	43.5
Operating profit (EBIT)	81.1	17.0
Net profit	54.6	4.5
Total assets	2,996.6	952.8
Net interest bearing debt (NIBD)	901.1	383.6
Equity ratio	50.5%	40.2%
Operating margin (EBIT margin)	12.2%	3.8%
Return on average capital employed (ROACE)	7.7%	5.6%
Number of shares - fully diluted, million	456.2	205.1
Market cap	1,921.0	862.0



Our people

As of December 2007 we had a total of 1,079 staff.

On track
in developing a world-class company

2007 was a year of significant progress on our path to building a world-class company in the floating production market. We expanded our business scope from project management and operation to also encompass technology and installation. We are now firmly established in the top tier of the floating production industry and are able to take on the most challenging projects.

Looking forward, we will continue to deliver on our strategic objectives, thereby creating long-term value for our shareholders.

In the early months of 2007, we embarked on the task of acquiring APL, a global leader in mooring technologies and offshore terminals. We successfully closed the project in the middle of the year and have fully integrated the company as a division of BW Offshore. APL will continue to deliver superior products to the global market, whilst at the same time acting as our technology division. The YÙUM K'AK'NÁAB commenced operations for Pemex during the summer, and as the first FPSO in the Gulf of Mexico, is a great success. The project is the largest converted FPSO in the world to date. Having already conquered the Mexican side of the Gulf, we are pleased to have been selected by Petrobras to deliver what will be the first FPSO on the US side. The project is well under way, in line with expectations, and is set to commence operations in the first quarter of 2010. It will be moored in a water depth of 2,600 meters, the deepest to date for any FPSO, by our disconnectable turret mooring technology, the STP.

In an effort to develop a broader service scope for our clients, we established our installation business in 2007 and were awarded a contract by Aker to install its FPSO and related sub-sea equipment in India. The installation business will not only enable us to add revenue to our projects, but will also act as a risk-mitigator by allowing us to take control of this important component in our business model. We delivered and installed the second offshore LNG terminal in the US and were awarded a contract for a third, a vote of confidence in our unique and leading technology.

In a year of otherwise positive events, we took the difficult decision to terminate the contract for BW Peace. The client was unable to meet its obligations, forcing us to trigger the financial security package to protect our interests.

Supporting our broader strategy to become a formidable player in floating production, we have gradually built up a 26.5 per cent stake in Prosafe, one of our competitors. Prosafe has announced its intention to split its two businesses - floating production and offshore support services - into two separately listed companies. We will continue to keep a close watch on this investment in the best interest of our shareholders.

A solid track record in successful project execution is more important that ever. A company's past performance, as well as resources and capabilities, are top priorities for customers when selecting their preferred partners. Numerous customers are also looking for partners who can deliver broader services. We are confident that we are well positioned to meet these needs. We also expect the recent emergence of small project companies to change, as securing quality people and financing becomes more difficult for smaller companies.

Our future strategy will be driven by three core components: enhancing staff competence, extending geographical presence, and developing our own technologies. We will increase staff competence by continuing to invest in the best people, be it our existing staff or new recruits. We will also broaden the range of competence to reflect the demand for more comprehensive services. Providing staff with development opportunities through training and on-the-job experience will contribute to our goal of improving customer satisfaction as well as retaining our attractiveness as an ideal work place. As a truly international company, we will extend our geographic reach by establishing a presence closer to our customers as well as in competitive centres of engineering and fabrication. As we approach more complex field developments and markets, technology will play an increasingly significant role. Pressing ahead on developing cost-competitive applications and new solutions for developing markets such as FLNG (Floating Liquefied Natural Gas), we expect that technology will be a critical success factor. Our strategy addresses our interests on several fronts, and the prospects of new FPSO contracts, commercialising our FLNG concept, and a good order intake on technology and installation, combine to make 2008 a very promising year for BW Offshore.

Staying ambitious, with best regards

Svein Moxnes Harfjeld
CEO

Directors' report

BW Offshore Limited ('BW Offshore' or the 'Company') and its subsidiaries (the 'Group') is one of the world's leading contractors of floating production systems and related technologies. In 2007, the Company acquired APL (Advanced Production & Loading) Plc ('APL'), a market leader in turret mooring systems and offshore terminals for the oil and gas industry.

The Company was incorporated in Bermuda on 7 June 2005. However the origins of BW Offshore pre-date this as Bergesen d.y. ASA in 1982 ventured into its first FPSO project. The Company decided in 1996 to increase its investment in the FPSO market and established an offshore division. Following the acquisition of Bergesen d.y. ASA by Sohmen family interests, this offshore division grew significantly and has now become a separate listed company in its own right. The Company is domiciled in Bermuda and is listed on the Oslo Stock Exchange (ticker 'BWO') since 2006.

The Group is a provider of FPSOs through operational lease arrangements as well as a contractor of turret mooring systems and offshore terminals. The floating production division has assets operating in offshore waters in Nigeria, Mauritania, Malaysia, Russia and Mexico and will commence operations in the USA in 2010. The technology division has delivered solutions for production vessels, storage vessels and tankers in a wide range of field developments.

BW Offshore owns and operates the following fleet:

Name of unit	Country of operation	Contract period
FPSOs		
Berge Okoloba Toru	Nigeria	2005-2009 + options
Sendje Berge	Nigeria	2005-2009 + options
Berge Helene	Mauritania	2006-2013 + options
YÙUM K'AK'NÁAB	Mexico	2007-2022
BW Peace	-	Uncommitted
BW Carmen	-	Uncommitted
BW Pioneer (ex Sarasota)*	Ongoing conversion	2010-2015 + options
Arctic FSO		
Belokamenka	Russia	2004-2019
Conversion candidates		
BW Nisa (323,000 dwt)	Malaysia	2006 – temporary FSO
BW Endeavour (150,000 dwt)	-	Uncommitted
M/T Tiara (294,739 dwt)	-	Uncommitted **

* BW Pioneer (ex Sarasota) was delivered to BW Offshore on 29 January 2008. The vessel is undergoing conversion before it commences operation under the Cascade Chinook contract in the US Gulf of Mexico in 2010

** M/T Tiara is currently on a bareboat charter to its seller

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

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

At 31 December 2007 the Group held 26.5% of the shares in Prosafe SE, a Cyprus-registered oil service company with operations within two businesses, offshore support services and floating production. In addition, the Group holds 49.7% of the shares in Nexus Floating Production Pte Ltd., a Singapore-based company that is currently constructing two FPSOs to be used in harsh environments. Both companies are listed on the Oslo Stock Exchange.

Financial result

The Group's 2007 operating profit before depreciation, interest and taxes (EBITDA) was USD 122.6 million compared to USD 43.5 million in 2006. Operating profit increased by USD 64.1 million to USD 81.1 million in 2007, compared to USD 17.0 million in 2006. Net profit increased by USD 50.1 million to USD 54.6 million in 2007, compared to a profit of USD 4.5 million in 2006. The increases in EBITDA and operating profit were primarily attributable to increased activity from the FPSO YÙUM K'AK'NÁAB commencing operation, the acquisition of APL, share of net profit from our associated companies (Prosafe and Nexus), net profit from the conversion of YÙUM K'AK'NÁAB and a collection under a bank guarantee related to the cancellation of the contract for BW Peace. The results have been reduced by increased expenses during the start-up phase of YÙUM K'AK'NÁAB, charges related to doubtful debt, and expenses related to the compressors onboard the FPSO Berge Helene.

The Group's revenue derived from charter hire increased by USD 28.1 million to USD 134.7 million in 2007, compared to USD 106.6 million in 2006. The increase was primarily attributable to increased activity with one additional unit in operation and one additional unit operating full year.

Five units were in operation at 31 December 2007 compared to four units at 31 December 2006. Revenue derived from lease interests increased by USD 9.4 million to USD 14.7 million in 2007, compared to USD 5.3 million in 2006. The increase in lease interests is mainly related to YÙUM K'AK'NÁAB commencing operation, operating on a fixed 15 year financial lease contract. Lease revenue is also derived from the lease of the FSO Belokamenka, the lease of a gas splitter module installed onboard Berge Okoloba Toru and the lease of equipment onboard Sendje Berge.

Other income related primarily to the collection of a bank guarantee related to the cancellation of the contract for BW Peace of USD 20 million.

Project costs related to the conversion of YÙUM K'AK'NÀAB have been recognized in the income statement according to IAS 11 (Construction contracts).

Operating expenses include all expenses related to the operation of the FPSOs and FSOs (including offshore crew), including provisions for bad debt. Total operating expenses were USD 97.0 million in 2007 compared to USD 48.1 million in 2006. The increase in operating expenses was mainly attributable to the increased number of FPSOs in operation and a provision for doubtful debt amounting to USD 25.4 million.

Administrative expenses include expenses that are not attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo, Arendal and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD 43.0 million in 2007 compared to USD 20.3 million in 2006. The increase was attributable to an increased headcount, which is a result of an increased number of FPSO units in the fleet, the acquisition of APL, increased wage costs and increased number of consultants engaged.

Due to the increased number of vessels in operation and amortisation of APL's intangible assets, depreciation and amortisation amounted to USD 37.1 million in 2007, compared to USD 26.5 million in 2006.

Currency exchange losses were USD 1.6 million in 2007, compared to losses of USD 1.0 million in 2006.

Net gain on changes in fair value of financial instruments are recorded in the Income Statement and amounted to USD 23.7 million in 2007, compared to USD 2.3 million in 2006. The main contributor to the increase was the inclusion of the fair value of an option to purchase 39.4 million shares in Prosafe.

Net interest expense (interest income less interest expense) in 2007 was USD 33.4 million compared to USD 6.9 million in 2006. The major contributors to the increase are one additional unit in operation and the acquisition of APL, resulting in increased borrowings.

Tax expense increased by USD 8.3 million to USD 15.2 million in 2007 compared to USD 6.9 million in 2006. The Group is not subject of taxation in Bermuda, however the Group is subject to taxation in the various countries in which it operates. The increase is due to increased withholding taxes in the countries of operation regardless of whether the operations are profitable, due to the fact that the taxation is based on a deemed profit. Furthermore, the acquisition of APL is also contributing to a higher tax expense.

Total assets increased from USD 952.8 million at 31 December 2006 to USD 2,996.6 million at 31 December 2007. The increase is mainly attributable to the investments in additional conversion candidates, the investment in Prosafe and the acquisition of APL.

At 31 December 2007, the Group had a net equity of USD 1,511.1 million compared to USD 383.4 million at 31 December 2006. The increase in equity is due to a combination of the share issues conducted during the first half of 2007 and the net income earned in 2007.

At 31 December 2007, the Group has long term interest-bearing debt of USD 844.6 million and short-term interest bearing debt of USD 413.3 million, cmpared to USD 495.4 million and USD 0.5 million, respectively, at 31 December 2006. A favorable export financing scheme (CIRR financing) of total USD 284.9 million has been drawn down on two loan facilities with Eksportfinans ASA. The proceeds of the CIRR financing have been placed as long term bank deposits. Net interest-bearing debt at 31 December 2007 was USD 901.1 million.

Net cash flow from investment activities in 2007 amounted to USD 815.6 million compared to USD 32.6 million in 2006. Net cash flow from investment activities in 2007 relates primarily to the completion of the conversions of BW Peace and YÙUM K'AK'NÁAB, the acquisition of APL and the investment in Prosafe. The Group received a partial payment under the financial lease contract for YÙUM K'AK'NÁAB of USD 344.6 million in 2007 (included in net cash flow from operating activities).

The Group's revenue derived from charter hire increased by USD 28.1 million to USD 134.7 million in 2007, compared to USD 106.6 million in 2006.

Environmental issues

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

The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Group to incur costs to remedy such discharge. Environmental laws may also expose the Group to liability for the conduct of or conditions caused by others, or for acts of the Group which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault.

The working environment within the Group is good. Absence due to sickness amounted to 0.9% of total hours worked by employees in 2007.

The Group had no harmful spill to the environment during 2007.

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

Health, safety, security, quality, working environment and gender equality

Health, safety, security, working environment and quality ('HSSEQ') are given a high priority in all parts of the Group's management, conversions and operations of FPSOs and FSOs, construction and support service processes. The Group's management systems address HSSEQ in detail and ensure a high HSSEQ standard throughout the whole organization. BW Offshore's management has established policies for safety, security, occupational health and working environment, and environmental management. Measurable targets are defined for each onshore and offshore unit to ensure compliance with the laid down policies and to maintain a continuous improvement cycle. Personnel training and familiarisation with the said policies is recognised as one of the key activities in order to achieve a HSSEQ culture of the highest standard and minimise risks.

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

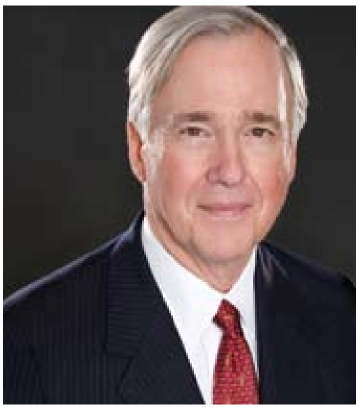
- ISO 9001 - Quality Management
- ISO 14001 - Environmental Management
- OHSAS 18001 - Occupational Health and Safety Management

There were no serious injuries or accidents of any kind among the Group's employees in 2007. Total LTI-rate (lost time injuries) and total TRC-rate (total recordable casualties) for the Group's employees, consultants and other people involved in conversion projects in 2007 were 1.0 and 3.0, respectively. Total high-risk rate was 1.7 in 2007.

The working environment within the Group is good. Absence due to sickness amounted to 0.9% of total hours worked by employees in 2007. During the year, several initiatives were taken to further improve the working environment and thereby prevent absence due to sickness. Training and safety inspections are examples of these initiatives.

At 31 December 2007, 13% of employees were female. Top management consists of two females and six males. The board of directors of BW Offshore Limited consists of seven members, of which one member is female. The board of directors and the administration of BW Offshore pursue a policy of gender equality in the Group.

Helmut Sohmen
Chairman



William A. Smith
Vice Chairman

Christophe Pettenati-Auzière

Corporate governance

Bermuda does not have a corporate governance code that is applicable to the Company, but the board of directors of the Company has adopted a Corporate Governance Policy to reflect BW Offshore's commitment to good corporate governance. This Policy is based on the 'Norwegian Guidelines on Corporate Governance' dated 4 December 2007, prepared by the Norwegian Corporate Governance Board, given the listing in Norway.

The Norwegian Guidelines on Corporate Governance are 'comply or explain' guidelines. BW Offshore's Corporate Governance Policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the Annual report.

Going concern

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

Significant events after the balance sheet date

The Group has been involved in certain transactions subsequent to 31 December 2007. These transactions are described in detail in note 28 in the consolidated financial statements. The transactions are as follows:

- Acquisition of the Aframax oil tanker BW Pioneer (ex Sarasota)
- Received approval from banks participating in the Groups loan facilities to make changes in some of the financial covenants attached to these facilities
- Awarded a contract for a complete turret and mooring system to Maersk Contractors

Bermuda, 26 March 2008

Helmut Sohmen
Chairman

William A. Smith
Vice Chairman

Andreas Sohmen-Pao

Christophe Pettenati-Auzière

David Gairns

René Huck

Kathie Child-Villiers

David Gairns

Kathie Child-Villiers

René Huck

Andreas Sohmen-Pao

Solid and sustainable demand

The oil service sector is experiencing record high demand. High oil prices and the search for new reserves are important factors.

Key elements driving this include underinvestment in the oil and gas industry over the last 20 to 30 years that has put a strain on resources; a negative reserve-replacement ratio caused by oil being consumed more rapidly than it is being found globally; and sustained high oil prices enabling aggressive exploration and production spending.

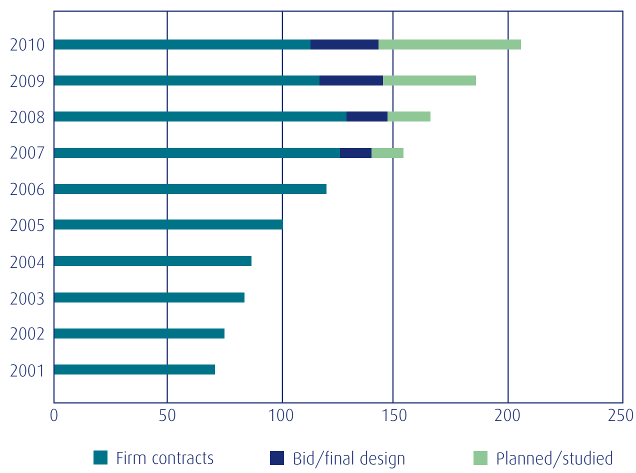
Furthermore, easy oil is history. New discoveries and developments are increasingly in deep waters, remote areas and marginal fields – all of which have challenging characteristics and require the help of service companies.

National oil companies are also increasingly approaching the service industry directly, which is pushing activity levels to new heights. However, the general cost increase in field developments has to some extent slowed the decision-making process. Progress is being made and contracts are being awarded, but at a somewhat slower pace than expected.

We expect the industry to maintain its growth as market fundamentals relating to the supply, demand and pricing of oil continue to support a sustained expansion of the industry. The number of floating platform installations continues to increase in most regions, with 182 units forecast for installation through to 2011. More than 100 prospects for floating production solutions and terminals are registered with more than 40 actively monitored and pursued as opportunities for the Group. The number of prospects suggests that we will maintain a strong deal flow in our selected market groups in the higher end of the market through challenging FPSO projects. We had a strong focus towards Brazil and Petrobras in 2007, an effort we will increase during 2008 to secure our first FPSO contract in Brazil.

Our business development activities are organized geographically as follows: Africa, Americas, Asia-Pacific and Europe. Two main areas of activity: FPSOs and Offshore Turret and Loading Technology (APL) including installation.

Record high FPSO demand




ETP TECHNOLOGY

Entering the **top tier**

2007 has been another exciting year for our FPSO business with high activity and new important milestones achieved.

The current fleet consists of 11 vessels, including FPSO and FSOs in operation, vessels undergoing conversion and tankers ready for new conversion projects. Our FPSO business remains the same: to develop competitive FPSO concepts with timely delivery and reliable operations.

The first key event in 2007 was the completion of the FPSO YÙUM K'AK' NÁAB at Sembawang shipyard in Singapore in January. She arrived in Mexican waters in March, with first oil and final acceptance achieved in June. The Ku-Maloob-Zaap development has been a large and challenging conversion project, due to the fact that the FPSO is processing large volumes of extremely heavy crude and sour gas as well as importing large volumes of stabilised light crude for blending purposes. The total crude oil handling capacity is 600,000 barrels per day and represents a significant and challenging marine operation. Close to 100 off-loadings were carried out in the last six months of 2007. The size and complexity of the FPSO confirms the organisation's ability to grow with challenges and to execute complex conversion projects in the high-end of the market.

The second key event was the award of the Cascade & Chinook FPSO contract from Petrobras in October. The FPSO, named BW Pioneer, will be the first FPSO in the US Gulf of Mexico and it will mark an important milestone for us. The project represents another challenging task where the main focus is around the turret and mooring system. Situated in 2,600 meters of water depth, this constitutes the deepest moored FPSO to date. The FPSO will operate in a hurricane prone area, hence the design will be based on a disconnectable turret system with the FPSO scheduled to disconnect and leave location during named storms. The project will provide continuous challenges to our engineers and provide exciting opportunities for individuals. It will also serve as a great opportunity to develop the organisation further and enhance the technical capabilities of the Company.

Thirdly, 2007 was characterized by an increased interest and focus for floating LNG solutions (FLNG). Increased oil and gas prices has increased the focus on marginal oilfield developments and stranded gas fields. Our FLNG concept has been further refined and tuned through 2007 with input from a number of potential clients. In addition we have focused on key technology components, such as a novel containment system for a converted LNG FPSO and a new system for tandem offloading. We expect to make important progress in client commitment to launch an FLNG project during 2008.


AUTO
AUTO

A **technological** edge

We have achieved a year of record high activity and profit levels in our technology division APL. We benefited from the technological edge that APL products provide as the oil industry continues to move into more technologically advanced developments.

2007 was characterized by record high order intake. Important milestones were the awards of Montara project in Australia with Tanker Pacific Offshore Terminals and MAD6 project in India with Aker Floating Production, underpinning the strong position in the Asia Pacific market and the importance of the disconnectable feature of the technology.

It has now been recognized in the market that our disconnectable technology not only provides a means to avoid the effect of natural phenomena like typhoons, cyclones or hurricanes but it also allows for future upgrades and modifications of vessels and topsides in a more cost efficient way than competing technology. An increasing number of clients appreciate the risk reducing measures offered by the technology through the installation campaign by allowing pre-installation of complete mooring systems as well as speedy and simple hook-up of the FPSO.

We continued the development of LNG terminals with the award of the Neptune project outside Boston for Suez and the announcement of the start of the application process for the first offshore LNG terminal in California for Woodside.

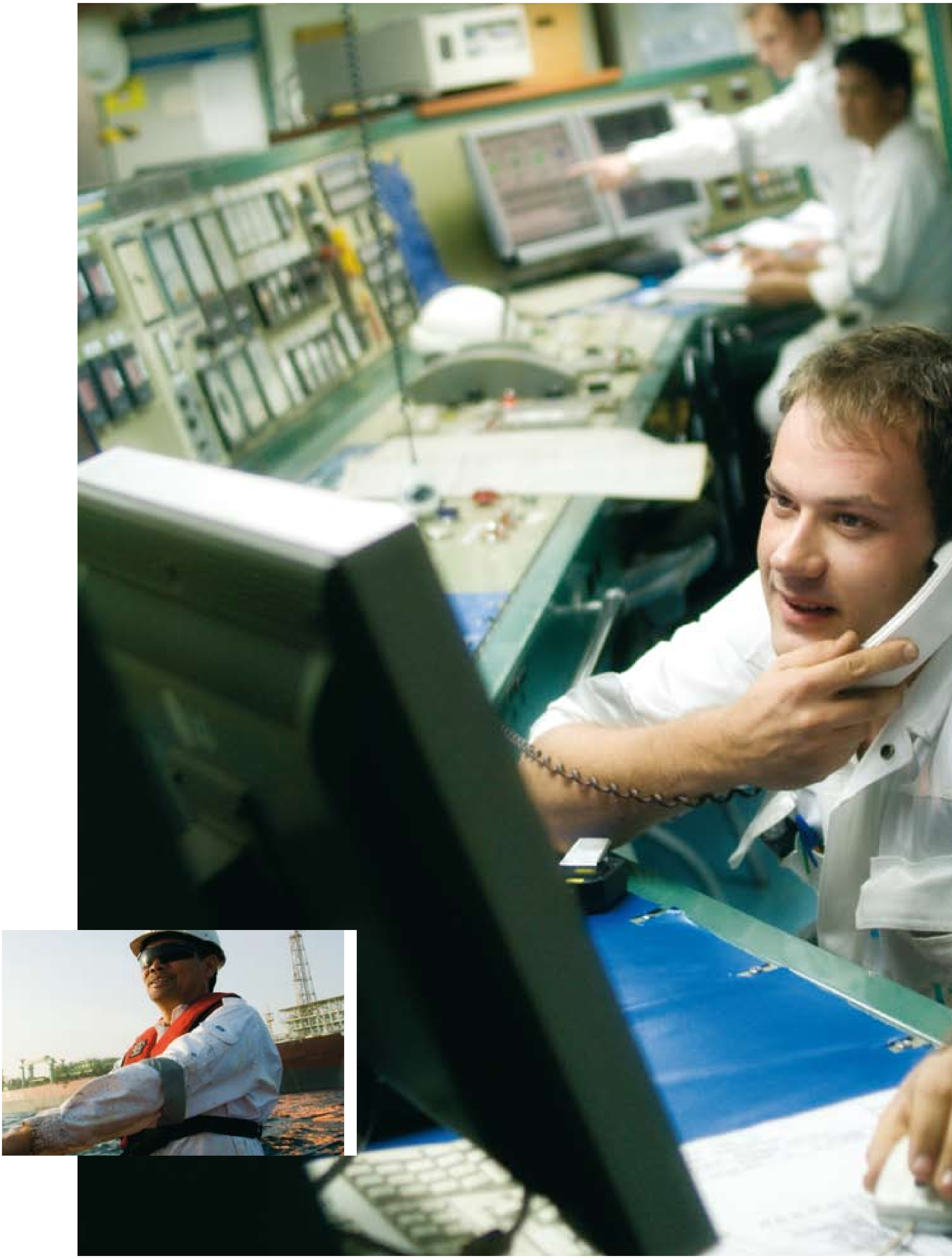
A record number of projects were delivered or under delivery in 2007, most notably: Vincent – STP system for Mærsk Contractors in Australia, North East Gateway – STP, LNG terminal for Excelerate Energy and the Mari and the Montara projects for Tanker Pacific Offshore Terminals.

Inflationary pressure and restricted delivery capacity for certain key components experienced in the business has influenced the overall industry but not the growth of our activity. Our order backlog was at record level at the start of 2008 and the number of prospects under bid remains high.

Product development has focused on advancing our swivels and our LNG transfer technology. It is expected that these developments will enable new business and contribute significantly to group overall growth targets.

APL

A BW Offshore company



Introducing installation services

We have through the years carried out more than 15 internal installation projects in connection with FPSO contracts and sale of turret technology. We have decided to utilize our resources in this area and offer installation services to the market.

Our experience and competence provide significant efficiency gains and reduction of risk to internal as well as external projects. Our new and integrated approach has already been successfully employed on two major installation projects; the North East Gateway project for Excelerate Energy outside Boston in September and the Reliance MAD-6 development for Aker in India that commenced in the second half of last year.

The next step of development will entail securing a main installation vessel. The main vessel will provide transport, mobilization and installation capabilities. In addition to this we have developed several relationships with vessel owners that will be converted to strategic relationships to cater for project specific demand.

The organization will be developed with geographical hubs of resources in Asia and the Americas being combined with our existing team in Norway. The activity level is expected to be high going forward with coverage of installation campaigns already secured for 2008 and 2009.

Related to technology sales, our EPIC capabilities represent improved services to our clients through control of all facets of design, construction and installation, thereby reducing interface risk and timely delivery.

It is expected that the installation activity will become a significant contributor to our profits going forwards.

Safety in organization and operation

Quality management

Recognising the importance of proper quality management, BW Offshore has over the years built up a new management system and implemented effective systems and routines. This ensures a high quality standard throughout the whole organisation and business. The BW Offshore management system is compliant to and certified in accordance with ISO 9001 Quality Management.

Health, Safety and Environment

The handling of health, safety and environment (HSE) is given close attention in the organisation. The BW Offshore Management system is certified towards several international standards within the subject: ISO 14001 Environment management, OHSAS 18001 Occupational Health and Safety Management as well as the International Safety Management code (ISM).

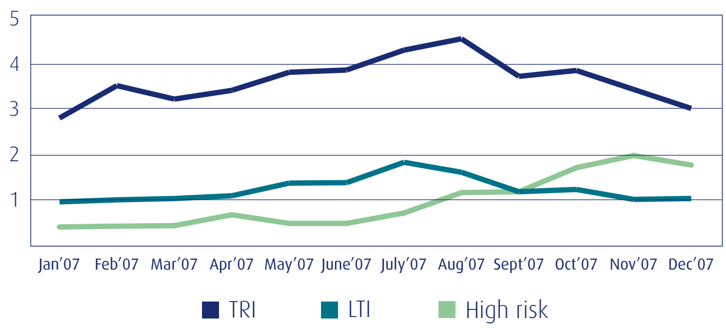
BW Offshore has an overall good HSE performance. The HSE statistics are based on industry standards, being LTI rates, TRI-rates and high risk incident rates.

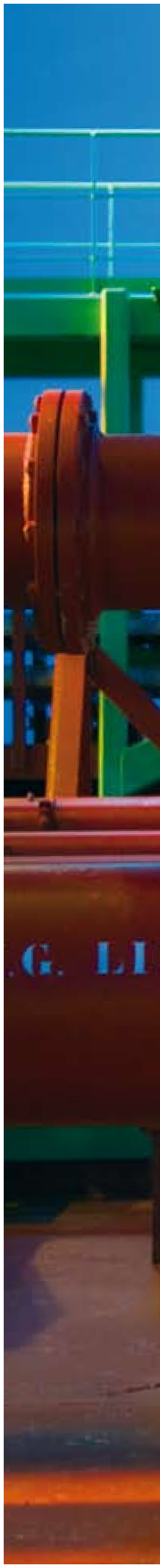
- LTI (Lost Time Incidents): injury at work leading to the injured person being unable to resume his/her normal duties in the next shift or subsequent shifts
- TRI (Total Recordable Incidents): the sum of all work-related lost time due to injuries, restricted work cases and medical treatment cases
- High Risk Incidents: incidents which under slightly different conditions could have resulted in a serious incident (severity 4 or 5)
- Rates: no. of incidents x 1.000.000/total exposure hours (for all personnel)

In 2007 a total of 4 LTI’s were reported, and compared to 2006 this is a slightly positive trend.

BW Offshore had no spill harmful to the environment during 2007. One minor spill in Mexican waters was above the limit for reportable incidents and was reported to the authorities accordingly. The spill did not have negative effects on the environment.

HSE statistics, all hours
(12 months rolling average)





Corporate governance

1. Implementation and reporting on Corporate governance

BW Offshore Limited is a Bermuda limited liability company (hereinafter the 'Company') listed on Oslo Børs (the Oslo Stock Exchange). BW Offshore AS (the 'manager'), a wholly owned subsidiary of BW Offshore Ltd, provides management services to the Company.

The Company and its activities are primarily governed by the Bermuda Companies Act, its Memorandum of Association and its Bye-laws. Since the Company is listed on the Oslo Stock Exchange, certain aspects of the Company's activities are governed by Norwegian law pursuant to the Listing Agreement between the Oslo Stock Exchange and the Company. In particular, the Norwegian Securities Trading Act and the Norwegian Stock Exchange Regulations will apply. However, the provisions regarding mandatory offer obligations in Chapter 4 of the Securities Trading Act do not apply to the Company, as they only apply to Norwegian companies.

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

The board therefore commits the Company to good corporate governance, and has adopted the 'Norwegian Code of Practice for Corporate Governance' dated 4 December 2007, prepared by the Norwegian Corporate Governance Board (hereinafter the 'Code'). Adherence to the Code is according to a 'comply or explain' principle. Deviations to the Code are outlined and explained below.

2. The Business

In accordance with common practice for Bermuda companies, the Company's objectives as stated in its Memorandum of Association are wider and more extensive than recommended in the Code. Within the scope of its Memorandum of Association, the goal of the Company is to be a leading and competitive operator and provider of floating production storage and offloading solutions for the offshore oil and gas industry.

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

3. Equity and Dividends

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

Pursuant to the Company bye-laws, the board is authorised to declare dividend(s) to the shareholders. To date, the board has not exercised this authority. The board will draw up a clear and predictable dividend policy as a basis for its declarations of dividends, such policy to be published immediately upon its adoption.

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

4. Ensure equitable treatment of shareholders and transactions with associates

The Company has one class of shares, and each share has one vote at the general assembly. The board's authority to alter the share capital and to purchase its own shares means that the board within the scope of the Bermuda Companies Act is free to decide how the alteration of share capital and purchase or sale of its own shares shall take place. The board will monitor the process of such alteration of share capital and purchase or sale of its own shares to ensure equal treatment of shareholders.

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

During 2007, one material transaction took place between the Company and a shareholder, in that the Company was granted, and later exercised an option from BW Euroholdings Ltd., a company controlled by the main shareholder of the Company, to procure 39,675,905 shares in Prosafe ASA. The two board members directly associated with the main shareholder were declared to have an interest, and did not partake in the board's deliberations and subsequent decision to exercise this option. Press releases giving further details on this transaction can be found on www.bwoffshore.com.

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

5. Freely negotiable shares

The shares in the Company are in general freely transferable. However, the board may refuse to register the transfer of any share, and may direct the Registrar to decline (and the Registrar shall decline if so requested) to register the transfer of any interest in a share held through the VPS, where such transfer would, in the opinion of the board, be likely to result in 50% or more of the aggregate issued and outstanding share capital of the Company, or shares of the Company to which are attached 50% or more of the votes attached to all issued and outstanding shares of the Company, being held or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares being effectively connected to a Norwegian business activity, or the Company otherwise being deemed a Controlled Foreign company pursuant to Norwegian tax legislation.

6. General meetings

The annual general meeting will normally take place prior to 1 June each year. Notice of the meeting will normally be sent at least two weeks before the meeting with documentation containing all information necessary for the shareholders to make a decision on all the items on the agenda. The board may decide by the notice of the meeting that shareholders who intend to attend the general meeting shall give notice to the Company within a time limit expiring not earlier than five days prior to the general meeting.

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

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

7. Nomination committee

Considering the shareholder structure as of end 2007, with one dominant shareholder holding more than 60% of the shares in the Company, the Company does not have a nomination committee as recommended in the Code.

8. The Board; composition and independence

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

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

Currently, the Company has 7 directors, 5 of which are independent from the manager, the main business partners and the Company's major shareholder(s). The composition of the board meets the Company's need for expertise, capacity and diversity. The directors are presented on the Company's web-site (www.bwoffshore.com).

9. The work of the Board

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

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

The board has approved mandates for and established an audit committee and a compensation committee in order to ensure enhanced attention to financial reporting and remuneration.

The board carries out an annual evaluation of its work.

10. Risk management and internal control

The board ensures that the Company has satisfactory internal control procedures to manage exposure to risks related to the successful conduct of the Company's business, to support the quality of its financial reporting and to ensure compliance with laws and regulations. Such procedures and systems shall contribute to securing shareholders investment and the Company's assets.
Management and internal control is based on company wide policies and internal guidelines in areas such as Finance and Accounting, HSE, Project Management, Operation, Technical and Business Development, in addition to implementation and follow-up of a risk assessment process. The Company's management system is central in the Company's internal control and ensures that the Company's vision, policies, goals and procedures are known and adhered to.

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

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

The board's audit committee follows up internal control in connection with quarterly reviews of the Group's financial reporting in addition to two meetings in which internal control issues are addressed specifically. The chief financial officer, the Group chief controller and representatives of the external auditor attend meetings of the audit committee.

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

11. Remuneration of the Board of directors

The general meeting decides annually the remuneration of the board. The remuneration of the board and its individual directors shall reflect the board's responsibility, competence, use of resources and the complexity of the business activities. The directors do not receive profit related remuneration or share options or retirements benefit from the Company. Directors, or companies to which they are related, shall not normally undertake special tasks for the Company in addition to the directorship. However, if they nevertheless do so, the entire board shall be informed, and the fee shall be approved by the board.

Remuneration of the directors is stated in the annual report.

12. Remuneration of the executive management

Remuneration of the executive management of the manager is reviewed annually. The work is carried out by the Compensation Committee, who takes into consideration the executive managements' performance and also gathers information from comparable companies before making its recommendation to the board for approval.

Stock owning programs in the Company to employees of the manager are also reviewed and recommended by the Compensation Committee and approved by the board.

Detailed information of remuneration, loans, shareholding of the management and employee stock owning programme can be found in note 7 in the notes included as an integral part of the consolidated financial statements.

13. Information and communications

The Company is committed to provide information in a manner that contributes to establish and maintain confidence with important interest groups. The information shall be based upon openness and equal treatment of all shareholders. A precondition for the share value to reflect the underlying values in the Company is that all relevant information is disclosed to the market. Therefore the Company will endeavour to keep the shareholders informed about profit developments, prospects and other relevant conditions for evaluation of the Company's position and a fully informed pricing of the share in the market. It is emphasised that the information is identical and simultaneous.

A currently updated finance calendar with dates for important events as general meeting, publishing of interim annual reports, dates for payment of potential dividend etc shall be accessible for the shareholders on www.oslobors.no and on the Company's website www.bwoffshore.com.

Public investor presentations are arranged in connection with submission of annual- and quarterly results for the Company. The presentations are accessible on the Company website. Further, continuous dialogue is held with, and presentations are given to analysts and investors.

14. Take-overs

There are no defence mechanisms stated in the bye-laws against acquisition of shares other than referred to in section 5 above, and no measures are taken as to limit the opportunity of buying shares in the Company.

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

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

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

15. Auditor

The auditor is elected by the general meeting, and is responsible for the audit of the consolidated financial statements of the Company. The auditor shall annually present an audit plan to the audit committee and/or the board.

The auditor participates during the audit committee's review and discussion of the annual accounts and quarterly interim accounts. In these meetings, the audit committee is informed about the annual and quarterly accounts and issues of special interest to the auditor, including possible disagreements between the auditor and the management.

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

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

Shareholder information

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

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

BW Offshore has completed six share issues during 2007, increasing the total number of shares from 205.1 million shares to 456.2 million shares. The share price by the end of 2007 was NOK 22.90, corresponding to USD 4.21 and a market cap of USD 1.9 billion. The Company's shares are listed on the Oslo Stock Exchange, with ticker code BWO.

BW Offshore is experiencing a growing interest for the Company among investors and analysts. By the end of 2007, ten stock brokers have coverage of BW Offshore. The analysts are listed on our website. Liquidity of the BW Offshore stock has improved during 2007, which led to an inclusion on the main board of the Oslo Stock Exchange (OSE). BW Offshore is included in the OSE All share index (OSEAX), and has during 2007 also been included in the two major Norwegian fund manager indices - the OSE Benchmark index (OSEBX) and the OSE Mutual Fund index (OSEFX). Liquidity in the Company's share is of high importance to BW Offshore, and the Company shall continue its work to improve the volume in the stock.

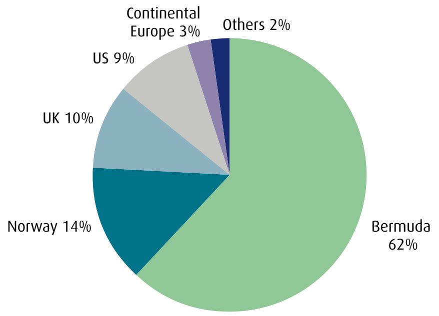
FINANCIAL INFORMATION

Figures in USD million, unless stated otherwize

	2007	2006
Income statement		
Operating revenue	662.6	450.8
Operating expenses	557.7	407.3
EBITDA	122.6	43.5
Depreciation	23.5	26.5
Amortization, gains/loss and write downs	18.0	0.0
Operating profit (EBIT)	81.1	17.0
Net financial items	(11.3)	(5.6)
Profit before tax	69.8	11.4
Income tax expense	(15.2)	(6.9)
Net profit	54.6	4.5
Balance sheet		
Total assets	2,996.6	952.8
Interest bearing debt	1,257.9	495.4
Cash and cash equivalents	36.5	38.0
Net interest bearing debt (NIBD)	901.1	383.6
Total equity	1,511.1	383.4
Cash flow		
Net cash flow from operating activities	179.3	(343.7)
Net cash flow from investing activities	(815.6)	(32.6)
Net cash flow from financing activities	634.8	377.6
Net change in cash and cash equivalents	(1.5)	1.3
Cash and cash equivalents at end of period	36.5	38.0

	2007	2006
Key figures		
Equity ratio	50.5%	40.2%
Debt-to-equity ratio	59.6%	100.1%
EBITDA margin	18.5%	9.6%
Operating margin (EBIT margin)	12.2%	3.8%
Return on average capital employed (ROACE)	7.7%	5.6%
Return on equity (ROE)	4.9%	1.4%
Number of shares - millions	456.2	205.1
Number of shares - fully diluted	456.2	205.1
Shareprice - NOK	22.90	26.20
Shareprice - USD	4.21	4.20
Market cap - million NOK	10,447	5,374
Market cap - million USD	1,921	862
Enterprise value (EV) - million USD	2,823	1,246

Geographical distribution of shareholders
as of 11 February 2008



Shareprice (NOK)

SHAREHOLDERS AS OF 31 DECEMBER 2007

	Name		Country	No of shares	Percentage
1	BW GROUP LIMITED		Bermuda	282,336,227	61.9%
2	MORGAN STANLEY & CO. INC.	NOM	UK	18,754,068	4.1%
3	BANK OF NEW YORK, BRUSSELS BRANCH		Belgium	18,666,535	4.1%
4	VERDIPAPIRFOND ODIN NORDEN		Norway	11,256,075	2.5%
5	GOLDMAN SACHS INT. - EQUITY -	NOM	UK	9,357,918	2.1%
6	ODIN OFFSHORE		Norway	7,000,000	1.5%
7	CITIBANK, N.A.	NOM	UK	5,855,953	1.3%
8	VERDIPAPIRFONDET KLP AKSJENORGE		Norway	5,734,000	1.3%
9	UBS AG, LONDON BRANCH	NOM	UK	5,688,132	1.2%
10	KOLBJØRN INVEST AS		Norway	5,600,000	1.2%
11	VERDIPAPIRFOND ODIN NORGE		Norway	4,661,097	1.0%
12	J.P. MORGAN BANK LUXEMBOURG S.A.	NOM	Luxembourg	4,147,788	0.9%
13	BANK OF NEW YORK, BRUSSELS BRANCH		Belgium	3,825,934	0.8%
14	MORGAN STANLEY & CO INTL PLC	NOM	UK	3,805,531	0.8%
15	BANK OF NEW YORK, BRUSSELS BRANCH		Belgium	2,813,120	0.6%
16	JPMORGAN CHASE BANK		UK	2,717,500	0.6%
17	UBS AG, LONDON BRANCH		UK	2,703,247	0.6%
18	JPMORGAN CHASE BANK		UK	1,964,500	0.4%
19	VITAL FORSIKRING ASA		Norway	1,936,343	0.4%
20	JPMORGAN CHASE BANK		UK	1,874,959	0.4%
	Total 20 largest			**400,698,927**	**87.8%**
	Total number of shares			**456,213,515**	

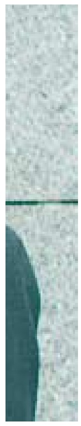
Management

Erik Svendsen
Director Project Management

Tom Arne Kristiansen
Director Technical

Knut R. Sæthre
CFO

Svein Moxnes Harfjeld
CEO



Torfinn Buarøy
Director Operations

Elisabeth Barstad Dehlie
Director Strategic Planning and Corporate Development

Nina Christin Yttervik
Director HR and Administration

Carl K. Arnet
President Business Development/ Managing Director APL

BW Offshore
Drammensveien 149
P.O. Box 33 Skøyen
N-0212 Oslo
Norway
Phone: +47 2313 0000
Fax: +47 2313 0001
www.bwoffshore.com

APL Offshore
8 Shenton Way, #49-03
Singapore 068811
Phone: +65 6325 0388
Fax: +65 6323 1263
www.apl.no

Global presence
Hamilton, Bermuda
Nicosia, Cyprus
Oslo, Stavanger and Arendal, Norway
Houston, USA
Aberdeen, UK
Paris, France
Rio de Janeiro, Brazil
Kuala Lumpur, Malaysia
Shanghai, PRC
Singapore
Nouakchott, Mauritania
Campeche, Mexico
Lagos, Nigeria

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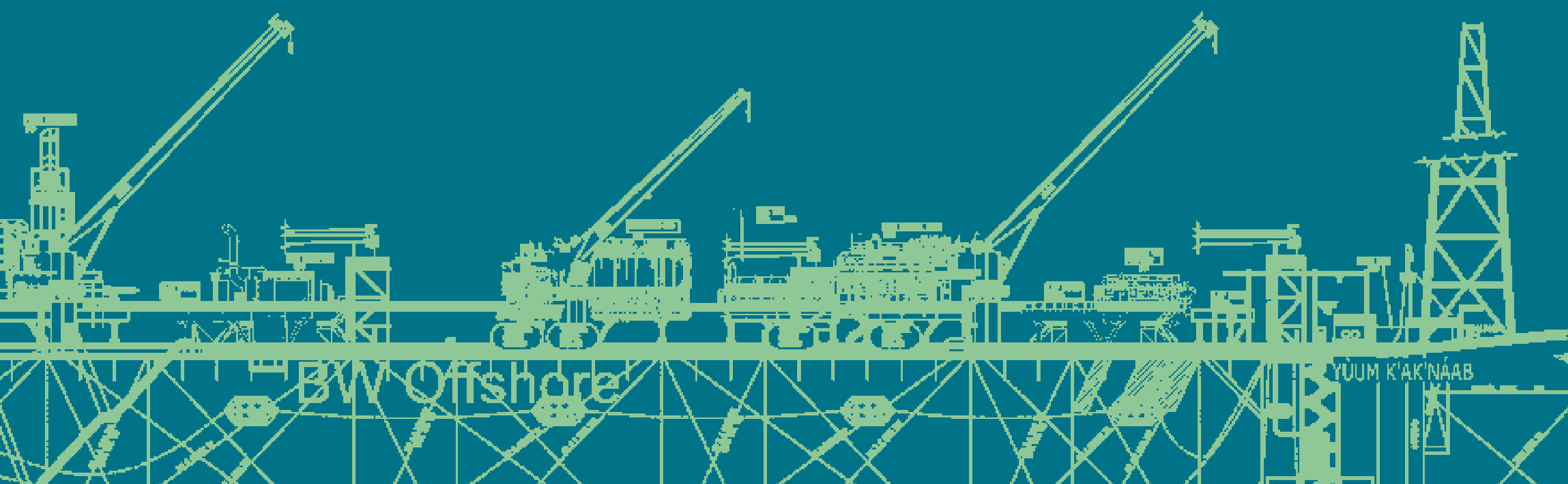
BW Offshore Limited consolidated financial statements 2007



BW Offshore

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BW Offshore Limited

DIRECTORS' REPORT

BW Offshore Limited ('BW Offshore' or the 'Company') and its subsidiaries (the 'Group') is one of the world's leading contractors of floating production systems and related technologies. In 2007, the Company acquired APL (Advanced Production & Loading) Plc ('APL'), a market leader in turret mooring systems and offshore terminals for the oil and gas industry.

The Company was incorporated in Bermuda on 7 June 2005. However the origins of BW Offshore pre-date this as Bergesen d.y. ASA in 1982 ventured into its first FPSO project. The Company decided in 1996 to increase its investment in the FPSO market and established an offshore division. Following the acquisition of Bergesen d.y. ASA by Sohmen family interests, this offshore division grew significantly and has now become a separate listed Company in its own right. The Company is domiciled in Bermuda and is listed on the Oslo Stock Exchange (ticker 'BWO') since 2006.

The Group is a provider of FPSOs through operational lease arrangements as well as a contractor of turret mooring systems and offshore terminals. The floating production division has assets operating in offshore waters in Nigeria, Mauritania, Malaysia, Russia and Mexico and will commence operations in the USA in 2010. The technology division has delivered solutions for production vessels, storage vessels and tankers in a wide range of field developments.

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

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

At 31 December 2007 the Group held 26.5% of the shares in Prosafe SE, a Cyprus-registered oil service Company with operations within two businesses: offshore support services and floating production. In addition, the Group holds 49.7% of the shares in Nexus Floating Production Pte Ltd., a Singapore-based company that is currently constructing two FPSOs to be used in harsh environments. Both companies are listed on the Oslo Stock Exchange.

Financial result

The Group's 2007 operating profit before depreciation, interest and taxes (EBITDA) was USD 122.6 million compared to USD 43.5 million in 2006. Operating profit increased by USD 64.1 million to USD 81.1 million in 2007, compared to USD 17.0 million in 2006. Net profit increased by USD 50.1 million to USD 54.6 million in 2007, compared to a profit of USD 4.5 million in 2006. The increases in EBITDA and operating profit were primarily attributable to increased activity from the FPSO YÙUM K'AK'NÁAB commencing operation, the acquisition of APL, share of net profit from our associated companies (Prosafe and Nexus), net profit from the conversion of YÙUM K'AK'NÁAB and a collection under a bank guarantee related to the cancellation of the contract for BW Peace. The results have been reduced by increased expenses during the start-up phase of YÙUM K'AK'NÁAB, charges related to doubtful debt, and expenses related to the compressors onboard the FPSO Berge Helene.

The Group's revenue derived from charter hire increased by USD 28.1 million to USD 134.7 million in 2007, compared to USD 106.6 million in 2006. The increase was primarily attributable to increased activity with one additional unit in operation and one additional unit operating full year.

Five units were in operation at 31 December 2007 compared to four units at 31 December 2006. Revenue derived from lease interests increased by USD 9.4 million to USD 14.7 million in 2007, compared to USD 5.3 million in 2006. The increase in lease interests is mainly related to YÙUM K'AK'NÁAB commencing

BW Offshore owns and operates the following fleet:

Name of unit	Country of operation	Contract period
FPSOs		
Berge Okoloba Toru	Nigeria	2005-2009 + options
Sendje Berge	Nigeria	2005-2009 + options
Berge Helene	Mauritania	2006-2013 + options
YÙUM K'AK'NÁAB	Mexico	2007-2022
BW Peace	-	Uncommitted
BW Carmen	-	Uncommitted
BW Pioneer (ex Sarasota)*	Ongoing conversion	2010-2015 + options
Arctic FSO		
Belokamenka	Russia	2004-2019
Conversion candidates		
BW Nisa (323,000 dwt)	Malaysia	2006 – temporary FSO
BW Endeavour (150,000 dwt)	-	Uncommitted
M/T Tiara (294,739 dwt)	-	Uncommitted **

* BW Pioneer (ex Sarasota) was delivered to BW Offshore on 29 January 2008. The vessel is undergoing conversion before it commences operation under the Cascade Chinook contract in the US Gulf of Mexico in 2010

** M/T Tiara is currently on a bareboat charter to its seller operation, operating on a fixed 15 year financial lease contract. Lease revenue is also derived from the lease of the FSO Belokamenka, the lease of a gas splitter module installed onboard Berge Okoloba Toru and the lease of the equipment on board Sendje Berge.

Other income related primarily to the collection of a bank guarantee related to the cancellation of the contract for BW Peace of USD 20 million.

Project costs related to the conversion of YÙUM K'AK'NÀAB have been recognized in the income statement according to IAS 11 (Construction contracts).

Operating expenses include all expenses related to the operation of the FPSOs and FSOs (including offshore crew), including provisions for bad debt. Total operating expenses were USD 97.0 million in 2007 compared to USD 48.1 million in 2006. The increase in operating expenses was mainly attributable to the increased number of FPSOs in operation and a provision for doubtful debt amounting to USD 25.4 million.

Administrative expenses include expenses that are not attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo, Arendal and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD 43.0 million in 2007 compared to USD 20.3 million in 2006. The increase was attributable to an increased headcount, which is a result of an increased number of FPSO units in the fleet, the acquisition of APL, increased wage costs and increased number of consultants engaged.

Due to the increased number of vessels in operation and amortisation of APL's intangible assets, depreciation and amortisation amounted to USD 37.1 million in 2007, compared to USD 26.5 million in 2006.

Currency exchange losses were USD 1.6 million in 2007, compared to losses of USD 1.0 million in 2006.

Net gain on changes in fair value of financial instruments are recorded in the Income Statement and amounted to USD 23.7 million in 2007, compared to USD 2.3 million in 2006. The main contributor to the increase was the inclusion of the fair value of an option to purchase 39.4 million shares in Prosafe.

Net interest expense (interest income less interest expense) in 2007 was USD 33.4 million compared to USD 6.9 million in 2006. The major contributors to the increase are one additional unit in operation and the acquisition of APL, resulting in increased borrowings.

Tax expense increased by USD 8.3 million to USD 15.2 million in 2007 compared to USD 6.9 million in 2006. The Group is not subject of taxation in Bermuda, however the Group is subject to taxation in the various countries in which it operates. The increase is due to increased withholding taxes in the countries of operation regardless of whether the operations are profitable, due to the fact that the taxation is based on a deemed profit. Furthermore, the acquisition of APL is also contributing to a higher tax expense.

Total assets increased from USD 952.8 million at 31 December 2006 to USD 2,996.6 million at 31 December 2007. The increase is mainly attributable to the investments in additional conversion candidates, the investment in Prosafe and the acquisition of APL.

At 31 December 2007, the Group had a net equity of USD 1,511.1 million compared to USD 383.4 million at 31 December 2006. The increase in equity is due to a combination of the share issues conducted during the first half of 2007 and the net income earned in 2007.

At 31 December 2007, the Group has long term interest-bearing debt of USD 844.6 million and short-term interest bearing debt of USD 413.3 million, compared to USD 495,4 million and USD 0,5 million, respectively, at 31 December 2006. A favorable export financing scheme (CIRR financing) of total USD 284.9 million has been drawn down on two loan facilities with Eksportfinans ASA. The proceeds of the CIRR financing have been placed as long term bank deposits. Net interest-bearing debt at 31 December 2007 was USD 901.1 million.

Net cash flow from investment activities in 2007 amounted to USD 815.6 million compared to USD 32.6 million in 2006. Net cash flow from investment activities in 2007 relates primarily to the completion of the conversions of BW Peace and YÙUM K'AK'NÁAB, the acquisition of APL and the investment in Prosafe. The Group received a partial payment under the financial lease contract for YÙUM K'AK'NÁAB of USD 344.6 million in 2007 (included in net cashflow from operating activities).

Environmental issues

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

The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Group to incur costs to remedy such discharge. Environmental laws may also expose the Group to liability for the conduct of or conditions caused by others, or for acts of the Group which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault.

The Group had no harmful spill to the environment during 2007.

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

Health, safety, security, quality, working environment and gender equality

Health, safety, security, working environment and quality ('HSSEQ') are given a high priority in all parts of the Group's management, conversions and operations of FPSOs and FSOs, construction and support service processes. The Group's management systems address HSSEQ in detail and ensure a high HSSEQ standard throughout the whole organization. BW Offshore's management has established policies for safety, security, occupational health and working environment, and environmental management. Measurable targets are defined for each onshore and offshore unit to ensure compliance with the laid down policies and to maintain a continuous improvement cycle. Personnel training and familiarisation with the said policies is recognised as one of the key activities in order to achieve a HSSEQ culture of the highest standard and minimise risks.

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

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

There were no serious injuries or accidents of any kind among the Group's employees in 2007. Total LTI-rate (lost time injuries) and total TRC-rate (total recordable casualties) for the Group's employees, consultants and other people involved in conversion projects in 2007 were 1.0 and 3.0, respectively. Total high-risk rate was 1.7 in 2007.

The working environment within the Group is good. Absence due to sickness amounted to 0.9% of total hours worked by employees in 2007. During the year, several initiatives were taken to further improve the working environment and thereby prevent absence due to sickness. Training and safety inspections are examples of these initiatives.

At 31 December 2007, 13% of employees were female. Top management consists of two females and six males. The board of directors of BW Offshore Limited consists of seven members, of which one member is female. The board of directors and the administration of BW Offshore pursue a policy of gender equality in the Group.

Corporate governance

Bermuda does not have a corporate governance code that is applicable to the Company, but the board of directors of the Company has adopted a Corporate Governance Policy to reflect BW Offshore's commitment to good corporate governance. This Policy is based on the 'Norwegian Guidelines on Corporate Governance' dated 4 December 2007, prepared by the Norwegian Corporate Governance Board, given the listing in Norway.

The Norwegian Guidelines on Corporate Governance are 'comply or explain' guidelines. BW Offshore's Corporate Governance Policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the Annual report.

Going concern

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

Significant events after the balance sheet date

The Group has been involved in certain transactions subsequent to 31 December 2007. These transactions are described in detail in note 28 in the consolidated financial statements. The transactions are as follows:

- Acquisition of the Aframax oil tanker BW Pioneer (ex Sarasota)
- Received approval from banks participating in the Groups loan facilities to make changes in some of the financial covenants attached to these facilities
- Awarded a contract for a complete turret and mooring system to Maersk Contractors

Bermuda, 26 March 2008

Helmut Sohmen Chairman	**William A. Smith** Vice Chairman	**Andreas Sohmen-Pao**

Christophe Pettenati-Auzière	**David Gairns**	**René Huck**	**Kathie Child-Villiers**

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AS
NO-0106 Oslo
Telephone 02316
Facsimile 23161000
www.pwc.com

Independent auditor's report

To the Shareholders of BW Offshore Limited

We have audited the accompanying consolidated financial statements of BW Offshore Limited and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Oslo, April 3, 2008
PricewaterhouseCoopers AS

Rita Granlund
Rita Granlund
State Authorized Public Accountant (Norway)

BW Offshore Limited

CONSOLIDATED INCOME STATEMENT

USD million (Year ended 31 December)	Note	2007	2006*	2005
OPERATING REVENUE				
Charter hire	5,6	134.7	106.6	46.2
Construction contract revenue	7	488.4	338.9	0.0
Lease interest	6	14.7	5.3	4.9
Other Income	6	24.8	0.0	0.0
Total revenues		**662.6**	**450.8**	**51.1**
OPERATING EXPENSES				
Operating expenses vessels	8,9	(97.0)	(48.1)	(28.8)
Construction contract expenses	7	(417.7)	(338.9)	0.0
Administrative expenses	8,9,19	(43.0)	(20.3)	(7.6)
Total expenses		**(557.7)**	**(407.3)**	**(36.4)**
Share of profit of associated companies	14	17.7	0.0	0.0
Operating profit before depreciation, amortization & net gain		**122.6**	**43.5**	**14.7**
Depreciation and amortization	11,12,13	(37.1)	(26.5)	(8.4)
Net gain (loss) on sale of tangible fixed assets	11,12	(4.4)	0.0	0.0
Operating profit		**81.1**	**17.0**	**6.3**
FINANCIAL INCOME AND FINANCIAL COSTS				
Net currency exchange gain (loss)	18	(1.6)	(1.0)	4.8
Interest income	18	12.8	6.7	1.4
Fair value gain on financial instruments	18	23.7	2.3	0.0
Interest expense	18	(46.2)	(13.6)	(6.7)
Net financial items		(11.3)	(5.6)	(0.5)
Profit before tax		**69.8**	**11.4**	**5.8**
Income tax expense	10	(15.2)	(6.9)	(2.9)
Net profit (loss)		**54.6**	**4.5**	**2.9**
Profit (loss) attributable to equity shareholders		53.0	4.5	2.9
Minority interest		1.6	0.0	0.0
Basic earnings/per share (figures in USD)	24	0.13	0.03	2.41
Diluted earnings/per share (figures in USD)	24	0.13	0.03	2.41

* Interest income and interest expenses in 2006 have been restated in order to reflect the CIRR financing scheme related to one of the Group's vessels (note 20)

The notes in pages 12-38 are an integral part of these consolidated financial statements.

BW Offshore Limited

CONSOLIDATED BALANCE SHEET

USD million (Year ended 31 December)	Note	2007	2006*
ASSETS			
Vessels and vessels under construction	11	610.7	400.3
Property and other equipment	12	17.9	4.3
Goodwill	13	481.2	0.0
Other intangible assets	13	43.5	0.0
Finance lease receivable	6	244.0	31.0
Investments in associates	14	978.9	0.0
Non-current deposits	15	320.3	73.8
Other non-current assets		12.1	5.0
Total non-current assets		**2,708.6**	**514.4**
Inventory		7.0	1.8
Trade and other receivables	17	146.8	57.4
Trade receivables not invoiced	7	97.7	338.9
Derivatives at fair value	18	0.0	2.3
Cash and deposits	15	36.5	38.0
Total current assets		**288.0**	**438.4**
TOTAL ASSETS		**2,996.6**	**952.8**
EQUITY AND LIABILITIES			
Share capital	16	4.6	2.1
Share premium		1,444.6	462.3
Other equity		61.9	(81.0)
Total shareholder's equity		**1,511.1**	**383.4**
Long-term loan facility	18,20	844.6	495.4
Retirement benefit obligations	19	8.7	4.0
Other non-current liabilities	10	22.6	6.6
Total non-current liabilities		**875.9**	**506.0**
Trade and other payables		180.6	62.5
Interest-bearing short term debt	18,20	413.3	0.0
Income tax liabilities	10	15.7	0.4
Amount due to ultimate holding Company		0.0	0.5
Total current liabilities		**609.6**	**63.4**
Total liabilities		**1,485.5**	**569.4**
TOTAL EQUITY AND LIABILITIES		**2,996.6**	**952.8**

* Non-current cash deposits and Interest-bearing long term debt at 31 December 2006 have been restated in order to reflect the CIRR financing scheme related to one of the Group's vessels (note 20.

The notes in pages 12-38 are an integral part of these consolidated financial statements.

BW Offshore Limited

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

USD million (Year ended 31 December)	Note	SHARE CAPITAL	SHARE PREMIUM	OTHER EQUITY	MINORITY INTERESTS	TOTAL
At 1 January 2006		**-**	**-**	**(85.5)**	**-**	**(85.5)**
Debt conversion 24 April 2006		1.2	148.8	-	-	150.0
Issue of new shares 25 April 2006	16	0.8	299.2	-	-	300.0
Expenses related to share issue	16	-	(8.9)	-	-	(8.9)
Issue of new shares 5 May 2006	16	0.1	23.2	-	-	23.3
Profit (loss) for the period		-	-	4.5	-	4.5
At 31 December 2006		**2.1**	**462.3**	**(81.0)**	**-**	**383.4**
Employee Stock Owning Programme		0.0	4.9	-	-	4.9
Private placement 15 January *		0.5	175.2	-	-	175.7
Private placement 5 February **		0.1	47.2	-	-	47.3
Private placement 22 February ****		0.0	20.0	-	-	20.0
Private placement 23 March **		1.7	735.3	-	-	737.0
Expenses related to private placement		-	(4.9)	-	-	(4.9)
Private placement 8 May ***		0.2	85.6	-	-	85.8
Transfer of share premium to other equity		-	(81.0)	81.0	-	-
Changes in minority interest		-	-	-	(1.6)	(1.6)
Treasury shares purchased		-	-	(0.2)	-	(0.2)
Changes in equity		**2.5**	**982.3**	**80.8**	**(1.6)**	**1,064.0**
Currency translation adjustments		-	-	8.3	-	8.3
Other		-	-	0.8	-	0.8
Profit (loss) for the period		-	-	53.0	1.6	54.6
Total recognised income and expense		**-**	**-**	**62.1**	**1.6**	**63.7**
At 31 December 2007		**4.6**	**1,444.6**	**61.9**	**-**	**1,511.1**

* The private placement on 15 January 2007 was settled through cash (USD 8.9 million) and shares in Prosafe SE (USD 166.7 million)
** The private placement on 23 March 2007 was settled through cash (USD 178.0 million) and shares in Prosafe SE (USD 559.0 million)
*** Private placements related to the acquisition of APL Plc.
**** Private placement related to the acquisition of the FPSO Crystal Sea (renamed BW Carmen)

The notes in pages 12-38 are an integral part of these consolidated financial statements.

BW Offshore Limited

CONSOLIDATED CASH FLOW STATEMENT

USD million (Year ended 31 December)	Note	2007	2006
Cash flow from operating activities			
Profit/(loss) before tax		69.8	11.4
Income tax paid	10	(9.8)	(6.5)
Loss/(gain) on disposal of fixed assets	11,12	4.4	0.0
Fair value change on financial instruments	18	(24.1)	(2.3)
Share of profit associated companies	14	(17.7)	0.0
Currency exchange differences		9.3	0.0
Depreciation and amortisation	11,12,13	37.1	26.5
Net cash flow from FPSO construction contract		127.6	(338.9)
Installments under financial lease contracts		10.2	0.0
Difference between pension costs and pension payments	19	(0.2)	(0.7)
Changes in inventories, receivables and accounts payable		(27.3)	(33.2)
Net cash flow from operating activities		**179.3**	**(343.7)**
Cash flow from investing activities			
Investments in operating fixed assets and other assets	11,12,13,15	(301.4)	(33.0)
Sale of fixed assets	11	8.4	0.0
Investments in subsidiaries	22	(382.7)	0.0
Investments in associates	14	(184.6)	0.0
Dividend received from associates	14	52.2	0.0
Net investment in other non-current assets	6	(7.5)	0.4
Net cash flow from investing activities		**(815.6)**	**(32.6)**
Cash flow from financing activities			
Received payments from raising new long-term debt	20	352.1	427.6
Repayment of long-term debt	20	(312.0)	0.0
Received payments from raising new short-term debt	20	623.2	0.0
Repayment of short-term debt	20	(210.5)	(364.5)
Paid-in/(distributed) equity		182.0	314.5
Net cash flow from financing activities		**634.8**	**377.6**
Net change in cash and cash equivalents		(1.5)	1.3
Cash and cash equivalents at 1 January		38.0	36.7
Cash and cash equivalents at 31 December		**36.5**	**38.0**

The notes in pages 12-38 are an integral part of these consolidated financial statements.

NOTE 1 | GENERAL

BW Offshore Limited ('BW Offshore' or 'the Company', formerly Bergesen Worldwide Offshore Limited) was incorporated in Bermuda in 2005 and is domiciled in Bermuda. The address of its registered office is
Clarendon House,
2 Church Street,
Hamilton HM11, Bermuda
The Company is listed on the Oslo Stock Exchange (OSE).

BW Offshore and its subsidiaries are referred to as 'the Group'. The Group develops, owns, and operates Oil and Gas FPSOs (Floating Production, Storage and Offloading Units) and FSOs (Floating Storage and Offloading Units). In addition the Group develops and sells mooring and turret systems as well as specialized equipment for ships, through the wholly-owned subsidiary APL PLC and its subsidiaries, (APL).

Bergesen Worldwide Limited (BWW), a company owned by Sohmen family interest, became the ultimate parent company of BW Offshore in 2005. At this point, the Group and its activities related to the operation of FPSOs and FSOs were created. In 2007, the Sohmen family interests decided to restructure its current activities. A new ultimate parent company of BW Offshore, BW Group Limited, was incorporated. Subsequent to the incorporation of BW Group Limited, BWW, which has a contract with a customer regarding the operation of a FPSO in Mexico, became a wholly-owned subsidiary of BW Offshore.

All figures are in USD million if not otherwise stated.

The financial statements were approved by the board of directors on 26 March 2008.

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Standards, amendment and interpretations effective in 2007
The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7, Financial Instruments: Disclosures
- IAS 1, Amendment – Presentation of Financial Statements
- IFRIC 8, Scope of IFRS 2
- IFRIC 10, Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risk arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 18.

IFRIC 8 Scope of IFRS 2
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment
The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

(b) Standards adopted early by the Group
IFRIC 11, 'IFRS 2 – Group and treasury share transactions', was adopted early in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(c) Standards, amendments and interpretations effective in 2007 but not relevant
The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies.
- IFRS 4, Insurance contracts

(d) Standards, amendments and interpretations

to existing standards that are not yet effective and have not been adopted early by the Group
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but have not been adopted early by the Group:

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

IFRS 8 replaces IAS 14. Disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- IAS 23, Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group has applied a policy of capitalisation of borrowing costs under the choice provided by the existing standard, and therefore the implementation of IAS 23 Revised is not expected to have material effect on the Group's financial statements after 1 January 2009 on a prospective basis.

- IFRIC 14 (IAS 19), The limit on a defined benefit asset, minimum funding requirements and their interaction.

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

- IFRS 3 Business combinations, and IAS 27, Consolidated and Seperate Financial Statements, (revised, effective from 1 July 2009). The changes in the standards deal with business combinations and consolidation. The Group will evaluate the effect on the consolidated financial statements
- IAS 1 Revised

The revised standard will become effective on 1 January 2009. It will effect the presentation of owner charges in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transitions and other events required by other International standards.

(e) Standards and Interpretations to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- IFRIC 12, Service concession arrangements
- IFRIC 13, Customer loyalty programmes
- IFRS 2 Revised

REVENUE RECOGNITION
Revenue comprises the fair value of the consideration received or receivable for the chartering and rendering of operational services related to FPSOs and FSOs. In addition the Group has revenues consisting of development and sales of mooring and turrets systems.

Operational services
Income from the rendering of services on FPSO and FSO operating contracts is recognised as revenue on a straight line basis based on contractual daily rates.

Chartering of vessels
Chartering of FPSO and FSO to customers is recognised as revenue based on whether the chartering contract is considered to be an operating lease or a finance lease under IAS 17.

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

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

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

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

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

Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

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

Other revenues
Sales are recognised after the transfer of the significant risks and rewards that are connected with the ownership of the goods sold to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are shown net of indirect sales taxes, discounts and exchange differences on sales in foreign currency.

Note 2 cont.

SEGMENT REPORTING

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

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

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

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

Internal transactions between the various segments are eliminated.

CONSOLIDATION

Subsidiaries

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

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

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

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

Associates

Associates are all entities over which the Group has a significant influence but no control, generally acCompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates included goodwill and excess values identified on acquisition, net of any accumulated impairment loss. Any excess values that are to be amortised are deducted from profit according to the same principles as for consolidated companies. Goodwill is not amortised. Dividends received from associates are recognised as a deduction in investment in the balance sheet and regarded as repayment of capital. The balance sheet value of associates thus represents the original cost price (which equals the fair value at the time of purchase) plus profit accumulated up to the present, less any amortisation of excess values and accumulated dividends received.

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

Joint ventures

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

Minority interests

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

TANGIBLE FIXED ASSETS

Measurement

(i) Vessels, vessels under construction, conversion candidates and other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) The cost of vessels, vessels under construction, conversion candidates and other tangible fixed assets include expenditure that is directly attributable to the acquisition of the items.

(iii) Instalments on conversion projects are capitalised as vessels under construction as they are paid. Capitalised value is reclassified as vessels, upon successful commissioning at the oil field. The acquisition cost reported is the sum of the instalments paid plus costs incurred during the construction period including interest expenses.

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

Depreciation

Depreciation is calculated using a straight-line method to allocate the depreciable amounts of vessels, conversion candidates and other tangible fixed assets, after taking into account the residual values, over their estimated useful lives, of which both the residual values and estimated useful lives are both subject to review at each balance sheet date. Depreciation is charged from the point in time when the vessel is successfully installed at the oil field. Conversion candidates are only subject to depreciation if the vessels have entered into temporary revenue earning contracts awaiting conversion.

Subsequent cost and cost regarding repairs and maintenance

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

Disposal activities

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

Impairment of tangible fixed assets

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

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in 'Investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. BW Offshore allocates goodwill to each business segment.

Computer software

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

Other intangible assets

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

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

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

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

Research and development

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

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

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards incidental to ownership of the leased item to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction rather than the form of the contract, and the determination is made when the leasing agreement is entered into.

Most of the lease contracts include one or several options for the charterer to purchase the vessel and/or option(s) for the charterer to extend the lease period beyond the firm period. At the inception of the lease, these options are taken into consideration in the evaluation of whether the lease is a finance lease or an operational lease. Cash flows in the option periods are included in the minimum lease payments described in note 6 if it is reasonably certain that the option(s) will be exercised.

The Group as lessor

Assets held under a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets held under an operating lease are included in the balance sheet based on the nature of the asset. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

BORROWINGS

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

Note 2 cont.

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

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

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

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

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

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

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

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

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

INVENTORIES
Inventories comprise mainly fuel oil remaining on board vessels and manufactured goods not for sale. Inventories are measured at the lower of cost or net realizable value. Cost is determined by the first-in first-out (FIFO) method. The cost of purchase of inventories comprise the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of the purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

GOVERNMENT GRANTS
Loans granted to the company at below market interest rates to assist in purchasing or constructing vessels are accounted for at fair value on initial recognition under IAS 39; the resulting difference between the fair value of the loan and the amount of cash received is a government grant accounted for under IAS 20. which is recognised when it is reasonably certain that the Company will meet the conditions stipulated for the grants. Such grants are deducted from the cost of the respective vessel.

FINANCIAL ASSETS
In accordance with IAS 39, Financial instruments: Recognition and measurement, financial instruments within the scope of IAS 39 are classified in the following categories: at fair value with changes in value through the income statement, held to maturity, loans and receivables, available for sale and other liabilities.
Investments that are held to maturity, loans and receivables and other liabilities are recognised at their amortised cost. Financial instruments that are classified as available for sale and held for trading purposes are recognised at their fair value, as observed in the market on the balance sheet date, without deducting costs linked to a sale.

Changes in the fair value of financial instruments classified as held for trading purposes or designated as being at fair value with changes in value through the income statement are recognised in the income statement and presented as a financial income/expense.

IMPAIRMENT OF FINANCIAL ASSETS
Financial assets valued at amortised cost are written down when it is probable, based on objective evidence, that the instrument's cash flows have been negatively affected by one or more events occurring after the initial recognition of the instrument. The impairment loss is recognised in the income statement.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES
Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is reasonably certain.

EMPLOYEE BENEFITS
Defined benefit plans
The Group has funded and unfunded defined benefit pension plans. The funded schemes are funded through payments to insurance companies determined by periodic actuarial calculations. Unfunded schemes are financed through the Group's operations. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.
Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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

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

Bonus plans
The Group recognises a liability and an expense for bonuses to employees when the Group contractually is obliged or where there is a past practice that has created a constructive obligation.

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

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

TAXES AND DEFERRED TAX LIABILITIES
The Company is not subject to any taxation. However, some of its subsidiaries are subject to income tax in the countries in which they operate. The Group provides for tax on profit on the basis of the profit for financial reporting purposes, adjusted for non-taxable revenue and expenses. Income tax expense represents the sum of the tax currently payable, changes in deferred tax and deferred tax asset and withholding tax on charter hire.

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

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

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

Deferred tax on undistributed earnings of subsidiaries and associates is charged, if applicable, when a resolution to distribute such earnings is made.

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

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

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

NOTE 3 | ACCOUNTING ESTIMATES AND ASSESSMENTS

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

VESSELS

Useful life

The level of depreciation depends on the estimated useful life of the vessels. The estimated useful life is based on previous experience and knowledge of the vessels owned by the Company.

Residual value at the end of useful life

Depreciation depends on the estimated residual value at the balance date. Assumptions about residual value are based on knowledge of scrap values for FPSOs and FSOs. Scrap values depend on steel prices and demobilization costs. Demobilization costs are covered by the lease contracts.

Impairment

The Group reviews periodically whether vessels, vessels under construction and conversion candidates have suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amounts of each vessel, which is defined as a cash-generating unit, have been determined based on value-in-use calculations. The calculations are based on contracted cash flows and estimates of uncontracted cash flows for the useful lives of each vessel including scrap values discounted by an estimated discount rate.

IMPAIRMENT OF INTANGIBLE ASSETS

Impairment testing for cash-generating units containing goodwill, order backlog, tender portfolio and technology. The impairment testing for cash-generating units requires a number of estimates and judgments in order to calculate the net present value of future cash flows such as the development of revenues and costs, the discount rate etc. The key assumptions used for the impairment testing of goodwill are discussed in note 23.

CONSTRUCTION CONTRACTS

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts. Use of the percentage-of-completion method requires the Group to estimate the degree of completion and the total cost and revenue related to the construction contract. When the total outcome of the construction contract can not be estimated reliably, revenue is recognised only to the extent of contract costs incurred provided that it is probable that the contract cost will be recovered.

LEASE CONTRACTS

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

As at the date of inception of the lease, a lease contract is classified as either an operating or a finance lease.

The lease term is the 'non-cancellable period' for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

The lessee's purchase option is taken into consideration in the classification of the lease contracts. If it is not reasonably certain that the option will be exercised, the option will not be a part of the basis for classification. If the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable, the exercise of the option is regarded reasonably certain.

The evaluation of the term reasonably certain involves estimation and judgement. The estimated useful life of the vessels described above is also relevant in relation to evaluating lease contracts.

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

RETIREMENT BENEFIT OBLIGATIONS

Accounting for defined benefit plans is complex because it requires both actuarial and economic assumptions to be estimated. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

The calculation of pension obligations is mainly affected by assumptions about the discount rate. The discount rate is based on 10-year government bond rate in Norway and estimated duration of the pension obligations. A 1% decrease in the discount rate could imply an increase in present value of funded obligations of approximately 20-25%. This will not imply an immediate increase in the pension cost recognised in the income statement due to the fact that actuarial gains/losses are recognised over the expected average remaining working lives of the employees.

ASSOCIATES

Nexus Floating Production Ltd is a public Company listed on Oslo Stock Exchange list in Norway. The Group does not have power over more than half of the voting rights in Nexus Floating Production. Further the BW Offshore group does not have the power to cast the majority of votes at meetings of the board of directors or equivalent governing body. The investment in Nexus Floating Production is therefore accounted for as an associated Company.

The Group holds 9,474,800 shares in Nexus at 31 December 2007, corresponding to 49.7% of the outstanding shares. In addition, several employees of the Group hold shares in Nexus. If these shares are taken into consideration when to conclude whether the Group has de facto control of Nexus, the Group controls marginally above 50% of the outstanding shares in Nexus. However, Nexus has issued a convertible bond loan of which the Group only holds USD 5.3 million out of USD 75.0 million, corresponding to 7.1%. The conversion rights were not in the money at 31 December 2007 but these rights are currently convertible, and have been taken into consideration when deciding on whether the Group had, or could have had, de facto control in Nexus at 31 December 2007 according to IAS 27.14. If all of the holders of the convertible bond loan decide to convert the bond loan into shares, the Group would decrease its shareholding in Nexus to 40.64%. If the Group's total ownership in Nexus at some point exceeds 50.0 %, the other holders of the bond loan can either a) require early redemption of its bonds, or b) convert the bonds to shares at a rebated value.

NOTE 4 | LIST OF SUBSIDIARIES

Name of companies	Country of incorporation	Ownership 2007	Ownership 2006
Subsidiaries held by the Group			
Belokamenka Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
Berge Carmen Singapore Private Limited	Singapore	100%	100%
Bergesen Worldwide Offshore Nigeria Limited	Nigeria	100%	100%
Berge Helene Limited	Bermuda	100%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
Berge Troll Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	100%	100%
BW Offshore (M) Sdn Bhd	Malaysia	100%	100%
Bergesen Worldwide Mexico, S.A. de C.V.	Mexico	100%	100%
Bergesen Worldwide Offshore Mexico S. de RL de CV	Mexico	100%	100%
BW Offshore AS	Norway	100%	100%
BW LPG FPSO I Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
Bergesen Worldwide Offshore Singapore Private Limited	Singapore	100%	100%
Ceiba Management AS *	Norway	100%	100%
Sendje Berge Limited	Bermuda	100%	100%
Bergesen Worldwide Limited	Bermuda	100%	-
BW Offshore Cyprus Limited	Cyprus	100%	-
BW Brazil Limited	Bermuda	100%	-
BW Carmen Limited	Bermuda	100%	-
BW Peace Limited	Bermuda	100%	-
BW Ara Limited	Bermuda	100%	-
BW Offshore USA Inc	USA	100%	-
APL Plc	Cyprus	100%	-
APL ASA**	Norway	100%	-
APL Singapore Pte Limited	Singapore	100%	-
APL Technology AS	Norway	100%	-
Advanced Production and Loading AS (APL AS)	Norway	100%	-
APL Property AS	Norway	100%	-
APL Process Systems AS	Norway	100%	-
Advanced Production and Loading Inc Houston	USA	100%	-
APL do. Brazil Ltda	Brazil	100%	-
APL UK	United Kingdom	100%	-
APL Management Services AS	Norway	100%	-
APL Subsea Installation Services AS	Norway	100%	-
APL Asia Sdn Bhd	Malaysia	100%	-
APL Offshore Pte Limited	Singapore	100%	-
APL Malaysia Sdn Bhd	Malaysia	49%	-

* Renamed to BW Offshore Norwegian Manning AS in January 2008.
** Renamed to APL AS in February 2008.

NOTE 5 | SEGMENT INFORMATION

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

2007	Floating Production	Technology/ Installation services *	Group
Operating revenues	442.3	220.3	662.6
Operating expenses	(373.4)	(184.3)	(557.7)
Share of profit of associates	18.1	(0.4)	17.7
Operating profit before depreciation (EBITDA)	87.0	35.6	122.6
Depreciation, amortization and write-down	(26.6)	(14.9)	(41.5)
Operating profit	60.4	20.7	81.1
Capital expenditures	257.9	2.0	259.9
Segment assets	2,154.2	842.4	2,996.6
Segment liabilities	1,251.5	234.0	1,485.5

* In the period 8 May until 31 December 2007

2006	Floating Production
Operating revenues	450.8
Operating expenses	(407.3)
Share of profit of associates	-
Operating profit before depreciation (EBITDA)	43.5
Depreciation, amortization and write-down	(26.5)
Operating profit	17.0
Capital expenditures	371.5
Segment assets	952.8
Segment liabilities	569.4

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

2007	America	Africa	Europe	Asia	Other	Total
Operating revenues	337.9	137.8	40.9	108.0	38.0	662.6
Share of profit of associates	-	-	-	-	17.7	17.7
Operating expenses	312.7	46.9	35.6	71.0	91.5	557.7
Operating profit before depreciation and sales gains/losses	25.2	90.9	5.3	37.0	(35.8)	122.6
Depreciation, amortization and write-down	-	(19.6)	-	(0.3)	(21.6)	(41.5)
Operating profit	25.2	71.3	5.3	36.7	(57.4)	81.1
Segment assets	222.9	439.6	-	43.0	2,291.1	2,996.6

2006	America	Africa	Europe	Asia	Other	Total
Operating revenues	338.9	94.5	-	16.5	0.9	450.8
Share of profit of associates	-	-	-	-	-	-
Operating expenses	(338.9)	(40.9)	-	(8.6)	(18.9)	(407.3)
Operating profit before depreciation and sales gains/losses	-	53.6	-	7.9	(18.0)	43.5
Depreciation, amortisation and write-down	-	(25.7)	-	(0.3)	(0.5)	(26.5)
Operating profit	-	27.9	-	7.6	(18.5)	17.0
Segment assets	338.9	369.7	-	19.3	224.9	952.8

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

NOTE 6 | LEASES

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

Operating leases
The FPSO **Sendje Berge** has been committed for a four year firm lease at the Okwori field in Nigeria. The operation commenced in April 2005 and the client has an option to extend the charter for 4 years.

The FPSO **Berge Okoloba Toru** is on a four year firm lease contract in Nigeria. The operation started in February 2005, and the client has an option to extend the contract period for 4 years. The client has a purchase option to buy the vessel after three years after the start of the contract term at a value based on declining purchase prices.

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

BW Nisa is operating as FSO on temporary contract in Malaysia. The contract term started in April 2006 and was prolonged in January 2008. The temporary contract can be cancelled by the Group by providing a 180 days notice if the vessel is required to be converted for a FPSO project.

M/T Tiara is on a temporary bareboat charter to its seller

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

	2007	2006	2005
Not later than one year	74.9	69.3	67.8
Later than one year and not later than five years	145.5	169.5	205.2
Later than five years	5.6	39.1	72.7
Total nominal amount	**226.0**	**277.9**	**345.7**

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

Note 6 cont.

Finance leases

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

The Group will operate and maintain the vessel over the 15 year period. Revenues and expenses arising from this operation are recognised as Charter hire and Operating expenses vessels.
In 2006 and 2007 there have been changes in law in Mexico with effect for the prices stated in the contracts for the construction and operation of the FPSO YÙUM K'AK'NÁAB. Further details are given in note 27.
The construction of the FPSO YÙUM K'AK'NÁAB was accounted for as a fixed price construction contract (note 7). Net profit from the conversion, recorded in the income statement in 2007, amounted to USD 15.7 million.

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

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

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

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

	2007	2006	2005
Not later than one year	48.9	9.4	5.2
Later than one year and not later than five years	128.6	26.4	15.5
Later than five years	272.9	41.2	46.4
Gross receivables from finance leases	**450.4**	**77.0**	**67.1**
Unearned future finance income on finance leases	(182.7)	(42.8)	(44.3)
Net investment in finance leases	**267.7**	**34.2**	**22.8**

NOTE 7 I CONSTRUCTION CONTRACTS

The Group has different categories of construction contracts: construction of FPSOs and construction of oil field related equipment.

When a contract to charter the vessel is considered to be a finance lease, this implies a fixed price construction contract in which the fixed price is the net investment in the lease. The development and delivery of mooring and turret systems are also deriving from fixed price construction contracts. Revenue from fixed-price contracts is recognised under the percentage-of-completion (POC) method.

Under the POC method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the recognition of revenue, expenses and profit which can be attributed to the proportion of work completed. The stage of completion of contracts is measured on basis of cost incurred compared to the total estimated cost. When the outcome of construction contracts cannot be estimated reliably, no gain is recognised and only revenues equal to the accrued project costs are taken to revenue.

	2007	2006	2005
Contract revenue	488.4	338.9	0.0
Contract costs	(417.7)	(338.9)	0.0
Net profit recorded in the income statement	**70.7**	**0.0**	**0.0**
Contract revenue ongoing projects	97.7	338.9	0.0
Advance payments	(8.1)	0.0	0.0
Net receivable at 31 December	**89.6**	**338.9**	**0.0**

At 31 December 2007 retentions held by customers for contract work amounted to USD 1.7 million.

At 31 December 2007, an amount of USD 0.0 million included in trade and other receivables and arising form construction contracts are due for settlement after more than 12 months.

Foreign exchange gain or losses related to projects are accounted for as increase or reduction of project revenue. Due to currency risk hedging policy, gain or losses are offset against gains and losses on forward currency contracts.

NOTE 8 | SPECIFICATION OF OPERATING EXPENSES VESSELS AND ADMINISTRATIVE EXPENSES

Operating expenses vessels	2007	2006	2005
Employee benefit expenses crew (note 9)	29.1	19.2	3.6
Insurance	6.9	3.5	2.9
Operation, maintenance, spare parts and repairs	35.4	22.8	22.3
Bad debt and provision for bad debt	25.6	2.6	0.0
Total	**97.0**	**48.1**	**28.8**

Administrative expenses	2007	2006	2005
Employee benefit expenses (note 9)	18.7	8.1	4.8
Auditors	1.0	0.2	0.1
IT & communication	3.6	4.1	1.9
Offices (rent etc)	2.7	1.6	0.5
Travel expenses	4.7	0.7	0.1
Other management expenses	5.4	4.9	0.0
Other expenses	6.9	0.7	0.1
Total	**43.0**	**20.3**	**7.6**

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

Employee benefit expenses	2007	2006	2005
Wages, crew	28.1	19.2	3.6
Wages, construction contract personnel	21.0	0.0	0.0
Wages, administrative personnel	14.5	4.2	3.4
Social security tax	2.2	1.6	0.8
Pension costs defined benefit plans (Note 19)	3.0	2.3	0.6
Total employee benefit expenses	**68.8**	**27.3**	**8.4**
Total employee benefit expenses are included in the following accounts:			
Operating expenses	29.1	19.2	3.6
Construction contract expenses	21.0	0.0	0.0
Administrative expenses	18.7	8.1	4.8
Total employee benefit expenses	**68.8**	**27.3**	**8.4**
Number of man years employed	746	441	213

Remuneration paid to Chief Executive Officer, Key management and board of directors (USD '000)	2007
Chief Executive Officer	
Remuneration	626
Pension	25
Bonuses	0
Loan *	184
Key Management	
Wages	2,324
Pension	341
Total compensation paid to CEO and key management personnel	**3,500**
The board of directors **	179
Total remuneration	**3,679**
Loans to Key Management	439
Loans to other employees	3,885
Total	**4,324**

* Employee Stock Owning Programme. Further details below.

** The compensation for board services for the period May 2007 to May 2008 will be decided at the annual general meeting in May 2008.

EMPLOYEE BENEFITS

Employee Stock Owning Programme (ESOP)

In connection with the listing of the Company on the Oslo Stock Exchange, the Company resolved to offer the employees of a subsidiary, BW Offshore AS (BWO AS) shares in the Company. In September 2006 the BWO AS employees were offered shares in the Company for an amount corresponding to one-third of their annual salary at the time of the listing.

The employees have undertaken not to sell the shares during the period of three years as from the date of the purchase and the shares will be attached with a lock-up correspondingly. The Company is offering a loan for the purposes of financing the share acquisition. No repayment of the loan will be required during the lock-up period of three years. There will be calculated interest on the loan corresponding to the interest rate applicable to favourable loans to employees at any given time, cf. Section 5-12, Sub-section 4, of the Tax Act. If the employee remains in employment with BWO AS after the end of the three-year period, the Company will pay a bonus to the employee corresponding to the loan. If the employee resigns prior to the three-year period, the employee will have to repay the loan in its entirety upon the discontinuation of employment. The loans granted to employees in respect of ESOP are treated as bonus plan under IAS 19.

BONUS SCHEME

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

FEES TO AUDITORS (USD '000)	2007	2006	2005
Statutory audit	302.0	113.0	78.3
Other attestation services	150.1	80.0	-
Tax related services	222.7	1,413.0	94.6
Total fees	**674.8**	**1,606.0**	**172.9**

NOTE 10 | INCOME TAX EXPENSE

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

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

Tax expense for the year	**2007**	**2006**	**2005**
Changes in temporary differences	(6.3)	(0.2)	(0.7)
Tax payable ex withholding tax	15.7	1.0	0.8
Withholding tax	5.8	6.1	2.8
Total	**15.2**	**6.9**	**2.9**

Effective income tax rate	**2007**	**2006**	**2005**
Accounting profit before income tax	69.8	11.4	5.8
Income tax at BWOs statutory income tax rate of 0%	**0.0**	**0.0**	**0.0**
Withholding taxes	5.8	6.1	2.8
Non-deductible expenses	1.4	0.1	0.0
Effect of higher tax rates outside Bermuda	8.0	0.7	0.1
Income tax at the effective income tax rate	**15.2**	**6.9**	**2.9**
Effective tax rate	22%	60%	50%

Tax liabilities at 31 December	**2007**	**2006**
Tax payable	15.7	0.4
Withholding taxes payable	0.0	0.0
Tax payable	**15.7**	**0.4**

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

	2007	**2006**
Deferred tax assets		
Pensions	(1.9)	(1.5)
Deferred tax assets - gross	**(1.9)**	**(1.5)**
Deferred tax liabilities		
Fixed assets	8.2	0.6
Projects in progress	5.9	0.0
Other	0.7	0.0
Pensions	3.2	0.0
Deferred tax liabilities - gross	**18.0**	**0.6**
Net recognised deferred tax liabilities/deferred tax assets (-)	**16.1**	**(0.9)**

Deferred tax arising through the acquisition of APL amounted to USD 23.3 million.

Net recognised deferred tax asset is expected to be utilised against future net taxable profits.

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

NOTE 11 | FPSOS, FSOS AND VESSELS UNDER CONSTRUCTION

The fleet at 31 December 2007 included the following vessels: Sendje Berge, Berge Helene, Berge Okoloba Toru, Belokamenka, YÙUM K'AK'NÁAB, BW Nisa, BW Endeavour, BW Peace, BW Carmen and M/T Tiara.

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

2007	Conversion candidates	Vessels under construction *	FPSOs and FSOs	Total
Cost at 1 January 2007	11.3	67.3	359.9	438.5
Additions	23.9	233.8	(0.6)	257.1
Disposals	(14.9)	(11.6)	0.0	(26.5)
Reclassification	0.0	(220.3)	220.3	(0.0)
Cost at 31 December 2007	**20.3**	**69.2**	**579.6**	**669.2**
Accumulated depreciation at 1 January 2007	0.0	(0.1)	(38.1)	(38.2)
Current year depreciation	0.0	0.0	(20.4)	(20.4)
Disposals	0.0	0.1	0.0	0.1
Reclassification	0.0	0.0	0.0	0.0
Accumulated depreciation at 31 December 2007	**0.0**	**0.0**	**(58.5)**	**(58.5)**
Book value at 31 December 2007	**20.3**	**69.2**	**521.2**	**610.7**
Useful life	N/A	N/A	15-25 years	
Capitalised interest cost vessels under construction		11.8		11.8

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

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

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

2006 in USD million	Conversion candidates	Vessels under construction *	FPSOs and FSOs	Total
Cost at 1 January 2006	0.0	304.4	117.7	422.1
Additions	11.3	85.7	0.0	97.0
Disposals	0.0	(80.6)	0.0	(80.6)
Reclassification	0.0	(242.2)	242.2	0.0
Cost at 31 December 2006	**11.3**	**67.3**	**359.9**	**438.5**
Accumulated depreciation at 1 January 2006	0.0	(5.4)	(6.9)	(12.3)
Current year depreciation	0.0	0.0	(25.9)	(25.9)
Disposals	0.0	0.0	0.0	0.0
Reclassification	0.0	5.3	(5.3)	0.0
Accumulated depreciation at 31 December 2006	**0.0**	**(0.1)**	**(38.1)**	**(38.2)**
Book value at 31 December 2006	**11.3**	**67.2**	**321.8**	**400.3**
Useful life	N/A	N/A	15-25 years	
Capitalised interest cost vessels under construction		3.9		3.9

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

Note 11 cont.

2005 in USD million	Vessels under construction *	FPSOs and FSOs	Total
Cost at 1 January 2005	178.2	3.7	181.9
Additions	218.6	25.3	243.9
Disposals	0.0	(3.7)	(3.7)
Reclassification	(92.4)	92.4	0.0
Cost at 31 December 2005	**304.4**	**117.7**	**422.1**
Accumulated depreciation at 1 January 2005	(4.1)	(1.2)	(5.3)
Current year depreciation	(1.3)	(7.0)	(8.3)
Disposals	0.0	1.3	1.3
Accumulated depreciation at 31 December 2005	**(5.4)**	**(6.9)**	**(12.3)**
Book value at 31 December 2005	**299.0**	**110.8**	**409.8**
Useful life	N/A	10-25 years	
Capitalised interest cost vessels under construction	3.8		3.8

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

NOTE 12 I PROPERTY AND OTHER EQUIPMENT

2007 in USD million	Vehicles and equipment	Computer hardware	Land	Building	Machinery	Total
Cost at 1 January 2007	3.5	1.5	0.0	0.0	0.0	5.0
Changes due to business combinations	0.0	0.0	0.8	8.5	6.4	15.7
Additions	1.4	1.2	0.0	0.1	1.9	4.5
Disposals	(0.2)	(1.5)	0.0	0.0	0.0	(1.7)
Exchange difference	0.0	0.1	0.1	0.8	0.6	1.6
Cost at 31 December 2007	**4.7**	**1.3**	**0.9**	**9.4**	**8.9**	**25.1**
Accumulated depreciation at 1 January 2007	(0.3)	(0.5)	0.0	0.0	0.0	(0.8)
Changes due to business combinations	0.0	0.0	0.0	(0.5)	(4.2)	(4.7)
Current year depreciation	(0.5)	(0.3)	0.0	(0.1)	(0.9)	(1.8)
Disposals	0.0	0.3	0.0	0.0	0.0	0.3
Exchange difference	0.0	(0.0)	0.0	(0.1)	(0.1)	(0.2)
Accumulated depreciation at 31 December 2007	**(0.8)**	**(0.5)**	**0.0**	**(0.7)**	**(5.2)**	**(7.2)**
Balance at 31 December 2007	**3.9**	**0.8**	**0.9**	**8.7**	**3.7**	**17.9**
Useful life	5-11 years	3 years	indefinite	50 years	3-5 years	

2006 in USD million	Vehicles and equipment	Computer hardware	Total
Cost at 1 January 2006	1.1	0.2	1.3
Additions	2.5	1.3	3.8
Disposals	(0.1)	0.0	(0.1)
Cost at 31 December 2006	**3.5**	**1.5**	**5.0**
Accumulated depreciation at 1 January 2006	(0.1)	0.0	(0.1)
Current year depreciation	(0.3)	(0.3)	(0.6)
Disposals	0.0	0.0	0.0
Accumulated depreciation at 31 December 2006	**(0.4)**	**(0.3)**	**(0.7)**
Balance at 31 December 2006	**3.1**	**1.2**	**4.3**
Useful life	5-11 years	3 years	

2005 in USD million	Vehicles and equipment	Computer hardware	Total
Cost at 1 January 2005	0.2	0.0	0.2
Additions	0.9	0.2	1.1
Disposals	0.0	0.0	0.0
Cost at 31 December 2005	**1.1**	**0.2**	**1.3**
Accumulated depreciation at 1 January 2005		0.0	0.0
Current year depreciation	(0.1)	0.0	(0.1)
Disposals	0.0	0.0	0.0
Accumulated depreciation at 31 December 2005	**(0.1)**	**0.0**	**(0.1)**
Balance at 31 December 2005	**1.0**	**0.2**	**1.2**
Useful life	5 years	3 years	

NOTE 13 I INTANGIBLE ASSETS

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

	Goodwill	Other intangible assets						Total intangible assets
Internally developed intangible assets:	**Goodwill**	**Internal development**	**Soft-ware**	**Techno-logy**	**Order Backlog**	**Tender portifolio**	**Total other**	**Total**
Cost:								
At 1 January 2006	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.2
Additions - internal development	0.0	0.0	1.3	0.0	0.0	0.0	1.3	1.3
Carrying amount, 31 December 2006	**0.0**	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**1.5**	**1.5**
Additions	0.0	0.0	2.6	0.0	0.0	0.0	2.6	2.6
Additions - internal development	0.0	2.4	0.0	0.0	0.0	0.0	2.4	2.4
Business combinations	481.2	0.2	0.0	15.8	31.5	5.0	52.5	533.7
Effect of foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
At 31 December 2007	**481.2**	**2.6**	**4.1**	**15.8**	**31.5**	**5.0**	**58.9**	**540.1**
Amortisation and impairment:								
At 1 January 2006	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	(0.3)	0.0	0.0	0.0	(0.3)	(0.3)
At 31 December 2006	**0.0**	**0.0**	**(0.3)**	**0.0**	**0.0**	**0.0**	**(0.3)**	**(0.3)**
Amortisation	0.0	0.0	(1.4)	(1.1)	(11.9)	(0.8)	(15.1)	(15.1)
At 31 December 2007	**0.0**	**0.0**	**(1.7)**	**(1.1)**	**(11.9)**	**(0.8)**	**(15.4)**	**(15.4)**
Net book value								
At 31 December 2007	**481.2**	**2.6**	**2.4**	**14.8**	**19.6**	**4.1**	**43.5**	**524.7**
At 31 December 2006	**0.0**	**0.0**	**1.2**	**0.0**	**0.0**	**0.0**	**1.2**	**1.2**
At 31 December 2005	**0.0**	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**1.5**	**1.5**
Economic life	indefinite		3 years	10 years	3 years	4 years		
Amortisation method			linear	linear				

Development costs of USD 0,0 million, have been expensed in 2007 (USD 0,0 million in 2006)

NOTE 14 I INVESTMENTS IN ASSOCIATED COMPANIES

BW Offshore has the following investments in associates:

Entity	**Nexus Floating Production Limited (Nexus)**	**Prosafe SE (Prosafe)**	
Country	Norway	Cyprus	
Industry	Floating production	Floating production	
Ownership interest	49.7%	26.5%	**Total**
Investment at cost	121.5	891.9	1013.4
Share of net profit*	-0.4	18.1	17.7
Dividend	0.0	-52.2	-52.2
Carrying amount 31 Dec 2007	121.1	857.8	978.9
Fair value	118.2	1064.4	1182.6

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

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

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

Entity	**Assets**	**Liabilities**	**Equity**	**Revenues**	**Profit (loss) for the year**
Nexus	434.5	238.6	195.9	0.2	(2.9)
Prosafe	2,624.0	1,585.4	1,038.6	527.1	143.7
Total	**3,058.5**	**1,824.0**	**1,234.5**	**527.3**	**140.8**

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

BW Offshore has a 49.7% interest in **Nexus**, which is involved in building FPSO's. Nexus is founded in Singapore in 2006, where APL ASA, a subsidiary of BW Offshore at 31 December 2007, subscribed for 40.33% of the shares, and has entered into a building contract for two FPSO with shipyard Samsun Heavy Industries in South Korea. Nexus is a public company listed on Oslo Stock Exchange in Norway. The group does not have power over more than half of the voting rights in Nexus. Further the BW Offshore group does not have the power to cast the majority of votes at meetings of the board of directors or equivalent governing body. Nexus has been considered an associate since 8 May 2007.

The group participates in a convertible bond loan in Nexus. Total loan in Nexus is USD 75 million and the group's share is USD 5.3 million. In Nexus, the convertible bond loan has been accounted for in separate components. The value of the conversion right has been recognised as equity and the remaining part as liability. The corresponding equity part of the group's receivable (USD 0.8 million) has been reclassified from receivable to investment in associate.

NOTE 15 | CASH AND CASH DEPOSITS

Cash and cash equivalents are denominated primarily in USD and NOK. Restricted bank deposits at 31 December 2007 and 31 December 2006 amounted to USD 1.2 million and USD 0.9 million, respectively, and relate to taxes withheld from employees. In addition the Group has a bank guarantee related to additional liabilities regarding taxes withheld from employees.

Other non-current assets includes cash deposits amounting to USD 284.9 million related to CIRR financing schemes for YÙUM K'AK'NÁAB and Berge Helene (note 20). The interest rates on these deposits are 4.7% and 3.6%, respectively. In addition, a bank deposit of USD 35.4 million has been placed as security for a performance guarantee related to the contract with Petrobras Americas Inc. for the Cascade Chinook project.

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

	Share capital USD '000
Authorised share capital	
At 31 December 2006: 250,000,000 ordinary shares at par value 0.01 USD each	
Increase during 2007: 250,000,000 ordinary shares at par value 0.01 USD each	
At 31 December 2007: 500,000,000 ordinary shares at par value 0.01 USD each	
Issued and fully paid	
At 1 January 2006	12.0
Debt conversion April 2006	1,188.0
Issue of share capital April 2006	790.0
Issue of share capital May 2006	61.0
At 31 December 2006	**2,051.0**
Employee Stock Owning Programme	13.0
Private placement 15 January	436.0
Private placement 5 February	106.0
Private placement 22 February	44.0
Private placement 23 March	1,729.0
Private placement 8 May	183.0
At 31 December 2007	**4,562.0**

The Company acquired 39,505 of its own shares through acquisition of APL. The total amount paid to acquire the shares, net of income tax, was USD 0.2 million and has been deducted from other equity within shareholders' equity. The shares are held as 'treasury shares'.

The 20 largest shareholders at 31 December 2007 were:

Shareholder	No of shares	Holding%
BW GROUP LIMITED *	282,336,227	61.9%
MORGAN STANLEY & CO. INC.	18,754,068	4.1%
BANK OF NEW YORK, BRUSSELS BRANCH	18,666,535	4.1%
VERDIPAPIRFOND ODIN NORDEN	11,256,075	2.5%
GOLDMAN SACHS INT. - EQUITY -	9,357,918	2.1%
ODIN OFFSHORE	7,000,000	1.5%
CITIBANK, N.A.	5,855,953	1.3%
VERDIPAPIRFONDET KLP AKSJENORGE	5,734,000	1.3%
UBS AG, LONDON BRANCH	5,688,132	1.2%
KOLBJØRN INVEST AS	5,600,000	1.2%
VERDIPAPIRFOND ODIN NORGE	4,661,097	1.0%
J.P. MORGAN BANK LUXEMBOURG S.A.	4,147,788	0.9%
BANK OF NEW YORK, BRUSSELS BRANCH	3,825,934	0.8%
MORGAN STANLEY & CO INTL PLC	3,805,531	0.8%
BANK OF NEW YORK, BRUSSELS BRANCH	2,813,120	0.6%
JPMORGAN CHASE BANK	2,717,500	0.6%
UBS AG, LONDON BRANCH	2,703,247	0.6%
JPMORGAN CHASE BANK	1,964,500	0.4%
VITAL FORSIKRING ASA	1,936,343	0.4%
JPMORGAN CHASE BANK	1,874,959	0.4%
	400,698,927	87.8%

* BW Group Limited is approximately 93% owned by companies controlled by corporate interests associated with the Sohmen family. Chief Executive Officer and Key Management own a total of 316,733 (195,000 in 2006) and 5,881,627 (282,472 in 2006) shares, respectively, in the Company at 31 December 2007.

NOTE 17 | TRADE RECEIVABLES

Total	2007	2006
Trade and other receivables - gross	175.4	60.4
Provision for doubtful debt	(28.6)	(3.0)
Trade and other receivables - net	**146.8**	**57.4**

Trade receivables not invoiced relate to construction contracts (note 7).
The charges for doubtful debt were USD 25.6 million for 2007 and USD 3.0 million for 2006 respectively.
Charges for doubtful debt are classified as other operating expenses in the income statement.

Changes in provision for doubtful debt:

	2007	2006
Provision at 1 January	3.0	-
Charge for doubtful debt during the period	25.4	3.6
Realized losses for the year	-	(0.6)
Changes due to business combinations	0.2	-
Provision at 31 December	**28.6**	**3.0**

Credit risk and foreign exchange risk regarding accounts receivable is described in note 18.
As of 31 December 2007 the amount of USD 0.0 million was past due by more than 90 days but not impaired.
As of 31 December 2006 the amount of USD 8.3 million was past due by more than 90 days but not impaired.

NOTE 18 | FINANCIAL RISK MANAGEMENT

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

FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: price risk (including currency risk and market risk), credit risk, liquidity risk and interest rate risk. Historically, demand for offshore exploration, development and production has been volatile and closely linked to the oil price. Low oil prices typically lead to a reduction in exploration as the oil companies' scale down their own investment budgets. Most of the Company's units at 31 December 2007 are fixed on long-term contracts, and this, to some extent, reduces the Company's exposure against intermediate oil and gas price fluctuations. Nevertheless, a decrease in the oil prices may have an adverse impact on the financial position of the Company.

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

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

FOREIGN CURENCY RISK

The functional currency of the parent Company and most of its subsidiaries is USD. Substantially all operating revenue, interest bearing debt and contractual obligations for vessels under construction are denominated in USD. The Group's vessels are also valued in USD when trading in the second-hand market. The Group is exposed to expenses incurred in currencies other than USD, the major currencies being Norwegian Kroner ('NOK'), Singapore Dollars ('SGD'), British Pounds ('GBP') and Euro ('EUR'). Operating expenses denominated in NOK, SGD, GBP and EUR constitute a minor part of the Group´s total operating expenses. However, capital expenditures related to ongoing conversions of FPSO´s and the construction contracts regarding oil field related equipment, will to some extent be denominated in other currencies than USD. Therefore, fluctuations in the exchange rate of NOK, SGD, GBP and EUR might have significant impact on the financial statements of the Group.

The Group enters into forward/futures contracts and option agreements in order to reduce the exchange-rate risk in cash flows nominated in foreign currencies. The exchange-rate risk is calculated for each foreign currency and takes into account assets and liabilities, liabilities not recognised in the balance sheet and very probable purchases and sales in the currency in question.

A 10% weakening of the USD against other currencies at 31 December 2007 would have decreased the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Increase/decrease in USD rate +/- 10%	Effect on profit before tax
2007	Fair value of monetary assets and liabilites	+/- 14.5
2006	Fair value of monetary assets and liabilites	+/- 0.3

The Group held interests in associated companies accounted for under the equity method (Nexus and Prosafe), traded on the Oslo Stock Exchange in NOK, with a fair value of NOK 6,408 million equivalent to USD 1,182.6 million at 31 December 2007. An increase / decrease in USD rate +/- 10% will have a stand alone effect on the Groups fair value of these shares amounting to +/- USD 118.2 million. Further details regarding associated companies are given in note 14.

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

	2007	2006
Currency		
NOK	110.7	-
USD	1,147.2	495.4
Other currency	-	-
Total	**1,257.9**	**495.4**

Note 18 cont.

Hedging of capital expenditures related to ongoing conversions of FPSO's
The conversions of FPSOs give rise to capital expenditures in other currencies than USD. In order to reduce its exposure to changes in foreign currencies against USD, the Group has entered into foreign currency exchange contracts. These hedging arrangements do not qualify for hedge accounting under IAS 39, thus these contracts are accounted for at fair value through the income statement. The market value of these contracts is estimated to USD 0.1 million at 31 December 2007 (2006 USD 0.6 million). Estimation of fair values of forward exchange contracts are at marked to market using listed market prices.

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

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

Fair values of foreign exchange contracts at 31 December 2007 amounted to USD 5.2 million and USD – 5.5 million and are presented gross in the balance sheet. Net effect of forward exchange contracts recognised in the income statement in 2007 is USD 4.1 million.

CREDIT RISK
Several of the Group's contracts are long-term, and there can be no guarantees that the financial position of the Group's major partners will not materially change during the contracted period. Given the limited number of major partners of the Group and the significant portion they represent of the Group's income, the inability of one or more of them to make full payment on any of the Group's contracted units may have a significant adverse impact on the financial position of the Group. The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Another risk factor to be addressed is whether negative reservoir development can affect the oil Company's ability to fulfil its obligations also within the fixed contract. The probability for options to be exercised and extension of contracts to be entered into will be negatively affected by reduction in actual reservoir reserves. It is common for customers, i.e. the oil companies, to contract the firm period for the FPSO lease equivalent to a very high probability of the producing life of the reserves. The existing contracts are essentiality covered against these risks through termination fees, cash-flow arrangements, and financial and corporate guarantees. The Group will continue its active risk management to mitigate these risk factors. Furthermore, the Group has implemented policies to ensure that cash funds are deposited with internationally recognised financial institutions with a good credit rating.

The Group has issued performance guarantees in favour of various customers totalling USD 195 million.

The maximum risk exposure is represented by the carrying amount of the financial assets in the balance sheet. Counterparties for derivative financial instruments are normally a bank; the credit risk linked to these financial derivatives is limited. The Group regards its maximum credit risk exposure to the carrying amount of trade receivables (note 17), other current assets and financial lease receivables (note 6).

LIQUIDITY RISK
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains sufficient cash for its daily operations via short-term cash deposit at banks and a commitment from the Company undertaking to make available funds from the unutilised portion of revolving facilities offered by financial institutions to the Company.
The table below sets out the maturity profile of the Group for financial liabilities based on contractual undiscounted payments. When a counterparty has a choice of when an amount is to be paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. Financial liabilities that can be required to be repaid on demand are included in the 'within 1 month' column.

	Period left					
Year ended 2007	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
USD 600 million facility	-	-	-	462.2	-	462.2
CIRR financing schemes**	-	8.2	53.7	223.0	-	284.9
Mortage loan	0.1	-	0.4	2.0	4.1	6.6
Bond loan	-	-	-	91.4	-	91.4
USD 400 million facility*	-	-	400.0	-	-	400.0
Other short term loan and borrowings	-	-	18.8	-	-	12.8
Other liabilities non-current	-	-	-	22.6	8.7	31.3
Interest rate swaps	-	0.2	1.0	19.8	-	21.0
Interest payable	1.3	10.8	35.1	151.8	0.0	198.9
Trade and other payables current	-	15.7	159.6	-	-	175.3
	1.4	**34.9**	**662.6**	**972.8**	**12.8**	**1,684.4**

* The maturity of the loan is extended until May 2009 (note 20).
** A total amount of USD 284.9 million has been placed as long term bank deposits securing full settlement of the total debt and interest expenses related to these financing schemes.

Note 18 cont.

	Period left					
Year ended 2006	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
USD 600 million facility	-	-	-	200.0	221.6	421.6
CIRR financing scheme*	-	8.2	8.2	57.4	-	73.8
Other liabilities non-current	-	-	-	6.6	4.0	10.6
Interest payable	-	6.8	20.3	122.0	-	149.1
Trade and other payables current	-	0.4	63.0	-	-	63.4
	0.0	**7.2**	**83.3**	**402.4**	**225.6**	**718.5**

* A total amount of USD 73.8 million has been placed as long term bank deposits securing full settlement of the total debt related to these financing schemes.

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

The Group has the following undrawn borrowing facilities:

	2007	2006
Floating rate		
Expire within one year	56.4	-
Expire beyond one year	158.9	175.0
Fixed rate		
Expire within one year	-	-

The Group had no loans advanced to associates at 31 December 2007.

After the balance sheet date the Banks participating in the USD 400 million loan has extended the maturity of the loan until May 2009. Against the background of the Group's current fleet, contracts and overall position at the end of the year, and the current amendments to the loan facilities, a good basis exists of the continued operation of the Group.

INTEREST RATE RISK

The exposure off the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follow:

	2007	2006
6 months or less	560.2	421.6
6-12 months	0.0	0.0
1-5 years	284.9	73.8
Over 5 years	0.0	0.0
	845.1	**495.4**

Average interest rate on cash deposits were 5.0% in 2007 (5.3%).

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

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

To reduce the interest rate risk regarding the USD 600 million facility the Group entered into ia interest rate collar of USD 200 million in September 2007. The terms of the collar is a LIBOR floor rate of 4.23% and a LIBOR cap rate of 5.55%. The market value of the interest rate collar amounted to USD - 4.4 million at 31 December 2007 and is recognised as a fair value loss on financial instruments. The interest collar has a 5 year tenure.

To reduce the interest rate risk regarding the NOK 500 million bond loan the Group has entered into a interest rate swap at a fixed rate of 7.22% related to the entire NOK loan. As the interest rate swap do not qualify for hedge accounting under IAS 39, the changes in market value as well as realised gains/losses are recorded in the income statement as other financial income USD 1.2 million and as an asset amounting to USD 7.2 million at 31 December 2007. The Group may redeem the bond loan at certain dates. The fair value of this option is calculated using Hull-White model (Tree implementation) for the pricing of the callability of the bond, and Linearrate model to price the interest part of the bond has a value. The change in market value as well as realised gains/losses are recorded in the income statement as other financial income USD 0.4 million and as an asset amounting to USD 0.7 million at 31 December 2007. The bond loan has been entered into by APL. APL was not a part of the Group in 2006.

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

	Increase/ decrease in basis points	Effect on profit before tax
2007	+/- 50	+/- 1.1
2006	+/- 50	+/- 0.5

The average interest rate on financial instruments were as follows:

	2007	2006
Loans secured by collateral	5.9%	4.8%
Bank loans - unsecured	7.1%	6.4%

CAPITAL STRUCTURE AND EQUITY

The primary focus of the Group's financial strategy is to ensure a healthy capital structure to support its business, fulfil all financial obligations and maximise shareholder values. The Group also monitors and manages its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

NOTE 19 | RETIREMENT BENEFIT OBLIGATIONS

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

The above mentioned plans had 243 members at 31 December 2007 and 120 members at 31 December 2006. No other post-retirement benefits are provided.

The most recent actuarial valuations of plan assets and the defined benefit obligation were carried out at 31 December 2007 by Storebrand Actuarial Services, a member of the Norwegian Institute of Actuaries.

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

The principal actuarial assumptions used for calculating the pension obligations and expenses were as follows:

	2007	2006
Discount rate	4.90%	4.40%
Expected return on plan assets	5.90%	5.40%
Future salary increases	4.50%	4.50%
Future pension increases	2.00%	1.60%
Increase in social security base amount related to Norwegian state pension	4.25%	4.25%
Social security tax	14.10%	14.10%

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

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

Figures in USD million	2007	2006
Present value of funded obligations	26.5	15.8
Fair value of plan assets	(20.1)	(9.8)
Present value of unfunded obligations	1.4	0.8
Unrecognised actuarial gains/(losses)	0.9	(2.8)
Liability in the balance sheet	**8.7**	**4.0**

The amounts recognised in the **income statement** are as follows:

Figures in USD million	2007*	2006	2005
Current service cost	5.7	2.0	0.6
Interest cost	1.0	0.9	0.1
Expected return on plan assets	(0.8)	(0.6)	(0.1)
Change in contracts	(2.8)	0.0	0.0
Net actuarial gain recognised during the financial period	0.1	0.0	0.0
Net periodic pension cost (Note 9)	**3.0**	**2.3**	**0.6**

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

Best estimate of net pension cost for 2008 amounts to USD 4.0 million (USD 4.0 million). Best estimate of premium payments in 2008 amounts to USD 3.1 million (USD 2.0 million).

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

Figures in USD million	2007	2006	2005
At 1 January/at establishment of the Group in 2005	(4.0)	(4.3)	(3.8)
Acquisitions of subsidiaries	(5.1)	0.0	0.0
Contributions paid	3.7	2.8	0.0
Exchange differences	(0.3)	(0.2)	0.1
Charged to income statement*	(3.0)	(2.3)	(0.6)
At 31 December	**(8.7)**	**(4.0)**	**(4.3)**

* Expenses related to defined contribution plans amounted to USD 0.3 million in 2007 (USD 0.0 million in 2006)

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

	2007	2006	2005
Shares and equity instruments	24.5%	23.0%	27.0%
Bonds - fixed yield	17.4%	35.0%	29.0%
Bonds held to maturity	25.8%	29.0%	28.0%
Properties and real estate	13.7%	12.0%	10.0%
Loans	1.3%	0.0%	1.0%
Certificates	8.6%	0.0%	4.0%
Other	8.7%	1.0%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**

The actual return on plan assets amounted to 6.4% (6.5%) at 30 September 2007.

NOTE 20 | LOAN FACILITIES

	Effective interest rate	Maturity date	Carrying amount 2007	2006
Secured				
CIRR Y'UUM K'AK'NAAB	4.77%	9 July 2012	227.5	-
CIRR Berge Helene	3.57%	17 February 2011	57.4	73.8
Mortage loan	3 month NIBOR + 3.00%	15 March 2022	6.6	-
Total secured long-term debt			**291.5**	**-**
Unsecured				
Bank loan USD 600 million facility	3 month LIBOR + 0.975%	7 July 2012	462.2	421.6
Bond loan APL (NOK 500 million)	3 month NIBOR + 2.75%	28 March 2012	91.4	-
Total unsecured long-term debt			**553.6**	**421.6**
Total long-term debt			845.1	495.4
1st year's principal repayments on long-term debt (Note 18)			(0.5)	(16.4)
Total long-term debt excluding the 1st year's principal repayments			**844.6**	**479.0**
Short term loan				
Secured				
Bank loan USD 400 million facility	3 month LIBOR + 1.35%	14 May 2008	400.0	-
Bank loan SEK 429 million facility	7.50%	24 April 2008	13.3	-
			413.3	-

USD 600 million facility
At 31 December 2007, a total of USD 465 million has been drawn down of the loan facility.

The facility has a grace period until Q3 2011 when the facility will be reduced by USD 200.0 million. The remaining outstanding amount will have to be repaid in full in 2012. The loan is charged with interest based on floating interest rate of LIBOR + 0.975% margin. In addition, a commitment fee of 0.4% of available, but undrawn, facility is charged. The commitment fee is recorded in the income statement.

The facility agreement contains the following covenants:

- The book value of consolidated equity shall be minimum USD 300 million (USD 500 million effective from January 2008).

- The book value of the Group's consolidated equity cannot fall below 35% of the book value of total consolidated assets.

- The ratio of total consolidated debt to consolidated EBITDA (Operating profit before interest, depreciation and taxes) (including cash flow from lease interests) shall not exceed 6 (7 effective from January 2008).

- The Group's ratio of total consolidated financial indebtedness to present value of the firm period of the contracts (discounted at a rate equal to 3 months LIBOR plus the applicable margin) shall not exceed 0.8.

The Company is in a compliance with these covenants at 31 December 2007.

The facility agreement contains a 'change of control' clause, whereby the Group (if the Lenders so require) shall mandatorily prepay the facility and all commitments thereunder be terminated within 60 days in the event that BW Group Limited ceases to own (directly or indirectly) more than 50% of the shares and voting rights of the Company and/or the Sohmen family interest ceases to own more than 50% of the shares and voting rights of BW Group Limited or the Company.

NOK 500 million bond loan
In 2006, APL, a subsidiary of BW Offshore, entered into a loan agreement with Norsk Tillitsmann ASA regarding a bond loan of NOK 500 million at a floating interest rate of NIBOR plus 2.75%. To reduce the interest risk regarding this loan the Company has entered into a interest rate swap with a fixed rate of 7.22% related to the entire NOK 500 million bond loan.

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

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

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

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

CIRR financing
A total of USD 284.9 million has been drawn down on two loan facilities entered into with Eksportfinans ASA related to the conversions of Berge Helene and Y'UUM K'AAK N'AAB (CIRR). The proceeds from the draw down have been placed as long term bank deposits to be used to amortise and service the loans. The bank deposits and the loans are according to IFRS presented as non-current assets and liabilities, on a gross basis, in the balance sheet. The corresponding interest income and interest expenses are presented on a gross basis in the income statement. The loans are charged with a fixed interest of 4.7% and 3.6% respectively, over a period of 5 years. On receipt of the financing for YÙUM K'AK'NÁAB in 2007 the fair value of the grant of USD 4.1 million has been recognised as a reduction of the cost of construction of the vessel

The Group has restated prior year accounts to reflect the presentation of loans and the deposits, as well as the respective interest income and expense on gross basis; interest income and expense amounts for 2006 and 2005 were grossed up by USD 2.6 million and USD 0.0 million, respectively.

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

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

Short term debt
A loan facility of USD 400 million was established through the process of acquiring shares in APL. The loan facility was established at market conditions and a total of USD 400 million was drawn down at 31 December 2007. Shares in Prosafe have been pledged as security for this loan facility, which has a 12 month tenure.

At 31 December 2007, a total of NOK 74 million equivalent to USD 13.6 million have been drawn down on a loan facility with Carnegie Investment Bank. The facility has a limit of SEK 429 million. The funds available under the facility will be drawn in NOK.

NOTE 21 | INVESTMENT IN JOINT VENTURE

The Group has the following investment in a joint venture:

Company	Registered office	Holding in % 2007	Holding in % 2006
LLC Oil Terminal Belokamenka	Russia	50%	50%

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

	2007 LLC Oil Terminal Belokamenka	2006 LLC Oil Terminal Belokamenka	2005 LLC Oil Terminal Belokamenka
Revenue	6.1	7.0	6.2
Expenses	(5.8)	(5.3)	(5.5)
Net financial Items	(0.2)	(0.1)	(0.1)
Profit before tax	0.1	1.6	0.6
Income tax expense	0.1	(0.4)	(0.1)
Profit after tax	**0.2**	**1.2**	**0.5**
Non-current assets	0.4	0.7	0.5
Current assets	1.6	1.1	1.4
Total assets	**2.0**	**1.8**	**1.9**
Equity	0.9	1.5	1.7
Non-current liabilities	0.0	0.0	0.0
Current liabilities	1.1	0.3	0.2
Total Equity and liabilities	**2.0**	**1.8**	**1.9**

The following transactions were carried out between the Group and OOO Oil Terminal Belokamenka:
• Lease of the FSO Belokamenka (note 6), USD 14,144 per day.
• Management services, USD 84,000 per month.

NOTE 22 | CHANGES IN THE GROUP'S STRUCTURE

BW Offshore acquired APL during the first nine months of 2007, where the Company obtained control on 8 May 2007. The acquisition of 76.2% of the shares in APL was financed in cash, shares and by loan with a total consideration of USD 439.6 million including transaction costs. BW Offshore issued 28,861,024 new shares at NOK 28.1 which was market value at the time of the acquisition.

The acquisition of APL was performed as a stage acquisition as presented in the table below:

Date	Number of shares	Ownership after acquisition
5 February 2007	4,415,000	10.1%
28 February 2007	6,500,000	24.9%
8 May 2007	21,478,215	76.2%
8 May 2007	32,393,215	76.2%

The change in fair values of net assets identified in the purchase price allocation is not significant, and thus the impact of stage acquisition on equity is not material.

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

The preliminary purchase price allocation has been performed by management assisted by independent financial experts. The Group has yet to finalise the purchase price allocation and the allocation of goodwill to cash generating units according to IAS 36.84.

The acquired unit has from the date of acquisition contributed to the Group's revenues and profit before taxes by USD 220.3 million and USD 14.3 million respectively. If the acquisition had occurred at the beginning of 2007, revenues for 2007 and profit before taxes for 2007 for the Group would have been USD 771.5 million and USD 66.2 million respectively.

Note 22 cont.

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

	Carrying amount 8 May 2007	Fair value in excess of carrying amount	Fair value 8 May 2007
Technology	0.0	15.8	15.8
Order backlog	0.0	31.4	31.4
Tender portifolio	0.0	5.0	5.0
Inangible asset	35.7	(35.7)	0.0
Tangible fixed assets	11.0	0.0	11.0
Investment in associated Company	68.6	11.4	80.0
Financial fixed assets	1.5	0.0	1.5
Account receivables	151.3	0.0	151.3
Inventories	1.8	0.0	1.8
Other current assets, excluding cash and bank	4.2	0.0	4.2
Cash and cash equivalents	73.6	0.0	73.6
Total assets	**347.7**	**27.9**	**375.6**
Provision (non interest bearing)	2.8	0.0	2.8
Long term liabilities	88.2	0.0	88.2
Current liabilites, (interest bearing)	0.5	0.0	0.5
Accounts payable	9.3	0.0	9.3
Deferred tax liabilities	8.3	15.0	23.3
Other current liabilites	144.6	0.0	144.6
Total liabilites	253.7	15.0	268.7
Net assets in APL	94.0	12.9	106.9
Consideration paid for 76,16%			439.6
Majority share of fair value in net identifiable assets			81.4
Goodwill from the acquisition			358.2

Acquisition of minority interests (23.84%) in APL
On 17 July 2007 the Group acquired an additional of 23.74% of the voting shares in APL.
A cash consideration of USD 149.4 million was paid.

On 30 September 2007, the Group acquired the remaining 0.1% of the voting shares in APL, bringing its ownership in APL to 100.0% A cash consideration of USD 0.6 million was paid.

The minorities share of the net identifiable assets of APL at these dates were USD 26.9 million and USD 0.1 million, respectively. Total excess value of USD 123.0 million has been recognised as goodwill (note 13).

Overview of the business combination and the following acquisition of minority interests and how the acquisitions of shares were settled.

	Shareholding acquired			
	76.16%	23.74%	0.10%	**100%**
Cash	302.5	149.4	0.6	**452.5**
Shares issued at fair value	133.3	0.0	0.0	**133.3**
Cost associated with acquisition	3.8	0.0	0.0	**3.8**
Total consideration paid	439.6	149.4	0.6	**589.6**
Total cash paid				**456.3**
Cash in APL at 8 May 2008				**(73.6)**
Net decrease in cash				**382.7**

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

NOTE 23 | IMPAIRMENT TESTING OF GOODWILL

Recognised preliminary goodwill in the Group at 31 December 2007 was USD 481.2 million. Goodwill is derived from the acquisition of APL (note 22). APL was defined as a separate cash-generating unit (CGU) within the Group. All preliminary goodwill from this acquisition was temporary allocated to this CGU. The Group has yet to finalise the allocation of goodwill to cash generating units according to IAS: 36.84.

The impairment test is carried out by the management. The valuation was performed in December 2007, and it is the management assessment that the goodwill is not impaired after the valuation was performed.

The recoverable amount is based on value in use. Value in use is the net present value of estimated cash flow before tax, using a discount rate reflecting the timing of the cash flows and the expected risk.

Projected cash flows of the APL CGU have been determined based on the budgets approved by the Group Management, covering a five-year period. The projected cash flows are based on historical cash flows for the CGU, reflecting moderate growth in the total market, our market share and the prices of our products. The market is growing and management expects that our products still will be appreciated by our industry. Our reference list and order backlog support this judgement. Beyond the five-year budget period a 2% nominal growth rate is used.

The discount rate used for calculating the net present value of the cash flow is 9.8%. This is based on a weighted average cost of capital (WACC) rate of 9.7% and a risk premium of 0.1%. The risk premium is based on empirical data of similar companies on Oslo Stock Exchange.

Sensitivity in key assumptions used
APL was acquired in 2007 and the management believes that the purchase price was fair. However, the value of the unit is based on several key assumptions. If these key assumptions are developing unfavourably it may cause impairment of the recognised goodwill. If the growth is 0% after the five year period the CGU will be impaired if other assumptions are unchanged.

NOTE 24 | EARNINGS PER SHARE

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

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

	2007	2006	2005*
Profit attributable to equity holders of the Group (USD million)	53.0	4.5	2.9
Weighted average number of ordinary shares in issue (thousands)	407,049	137,111	1,200
Basic and dilluted earnings per share *	0.13	0.03	2.41

* The Company was established in Bermuda in 2005. Note that the weighted average number of ordinary shares outstanding during 2005 has been calculated as if the shares have been outstanding since 1 January 2005.

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

NOTE 25 | RELATED PARTIES TRANSACTIONS

The ultimate holding corporation is BW Group Limited, incorporated in Bermuda and is approximately 93% owned by companies controlled by Sohmen family interests.

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

Remuneration to the board of directors, Auditors and Key management is detailed in note 9.

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

The following transactions were carried out with related parties:

	2007	2006
Interest expenses to group companies *	0.0	12.5
Management, administration and rental services from BW Gas	4.7	6.1
Year-end balances		
Receivables from Group companies	0.0	1.5
Payables to Group companies	1.8	2.5

* Interest expenses were related to loans from BW Group Limited for the period from September 2005 to July 2006. The terms of the agreement are LIBOR + 1.5-2.0% for the loan from BW Gas ASA and LIBOR + 0.8% for the loan from BW Group Limited.

The non-trade amount due to the ultimate holding corporation at 31 December 2007 were USD 0.0 million (USD 0.0 million in 2006).

Interest paid in 2007 and 2006 amounted to USD 0.0 million and USD 12.5 million respectively. The Group was financed by BW Group Limited until the beginning of July 2006.

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

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

Transactions with Nexus Floating Production Ltd and subsidiaries	**2007**	**2006**
Trade receivable at 31 December	0.7	0.0
Convertible bond at 31 December	5.3	0.0
Total sales	14.7	0.0

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

NOTE 26 | COMMITMENTS

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

	2007	2006
Nominal amount	100.7	80.2
Net present value	94.6	75.3
Interest rate	6.5%	6.5%

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

NOTE 27 | CONTINGENT ASSETS AND LIABILITIES

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

In 2006 and 2007 there have been changes in laws in Mexico with effect for the prices stated in the contract for the operation of the FPSO YÙUM K'AK'NÁAB. The Group and the respective client have yet not agreed on how to calculate and allocate the financial effects of these changes. The amount disputed is USD 83.8 million and the Group has made a provision of USD 34.4 million in this respect.

The Group experienced technical problems onboard one of its FPSOs in 2006. A claim has been set forward against insurers and charges have been recorded to cover the franchises. In addition, charges for rate reductions and expenses that are non-recoverable have been recorded at 31 December 2007.

With effect from 1 October 1998, the subsidiary APL AS acquired exclusive rights to the commercial utilization of technology owned by Offtech Invest AS. The purchase price was NOK 65 million (equivalent to USD 12.0 million). That amount has been capitalized in the Company's balance sheet. Retention of the full rights that APL markets the technology-products included in the patents and also that APL does not lodge a petition of bankruptcy or compulsory winding up.

NOTE 28 | SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 29 January 2008, BW Offshore took delivery of the double-hull vessel Sarasota. The vessel was renamed BW Pioneer and will be used as a conversion candidate for the Cascade Chinook project. The purchase price for the vessel was USD 43.5 million.

BW Offshore has requested the banks participating in the USD 600 million facility, to make some changes in the financial covenants attached to this facility in order to increase the utilization of the facility. In addition, BW Offshore has requested the banks participating in the USD 400 million facility, to extend the maturity of the loan from 14 May 2008 until 14 May 2009. The participating banks approved both requests on 30 January 2008.

On 31 January 2008, BW Offshore's technology division APL announced that is has been awarded a contract for a complete turret and mooring system to Maersk Contractors. The submerged turret production (STP) system will be installed on Maersk's Peregrino FPSO, which will commence production on the Peregrino oil field outside of Brazil during Q1 2010. The owners of the field are StatoilHydro and Anadarko.

Bermuda, 26 March 2008

Helmut Sohmen
Chairman

William A. Smith
Vice Chairman

Andreas Sohmen-Pao

Christophe Pettenati-Auzière

David Gairns

René Huck

Kathie Child-Villiers

BW Offshore
Drammensveien 149
P.O. Box 33 Skøyen
N-0212 Oslo
Norway
Phone: +47 2313 0000
Fax: +47 2313 0001
www.bwoffshore.com

APL Offshore
8 Shenton Way, #49-03
Singapore 068811
Phone: +65 6325 0388
Fax: +65 6323 1263
www.apl.no

Global presence
Hamilton, Bermuda
Nicosia, Cyprus
Oslo, Stavanger and Arendal, Norway
Houston, USA
Aberdeen, UK
Paris, France
Rio de Janeiro, Brazil
Kuala Lumpur, Malaysia
Shanghai, PRC
Singapore
Nouakchott, Mauritania
Campeche, Mexico
Lagos, Nigeria

BW Offshore
Drammensveien 149
P.O. Box 33 Skøyen
N-0212 Oslo
Norway
Phone: +47 2313 0000
Fax: +47 2313 0001

www.bwoffshore.com