



BW OFFSHORE



# GLOBAL FOOTPRINT



## BW OFFSHORE UNITS



SENDJE BERGE FPSO, SINOPEC



BERGE HELENE FPSO, PETRONAS



YÜUM K'AK'NÁAB FPSO, PEMEX



BW CIDADE DE SÃO VICENTE FPSO, PETROBRAS



BELOKAMENKA FSO, ROSNEFT



BW ATHENA FPSO, ITHACA ENERGY



BW JOKO TOLE FPSO, KEI



BW PIONEER FPSO, PETROBRAS



ESPOIR IVOIRIEN FPSO, CNR



POLVO FPSO, BP



PEREGRINO FPSO, STATOIL O&M contract



UMUROA FPSO, AWE



ABO FPSO, ENI



PETRÓLEO NAUTIPA FPSO, VAALCO



AZURITE FDPSO, MURPHY



CIDADE DE SÃO MATEUS FPSO, PETROBRAS



P-63 FPSO, PETROBRAS EPC, O&M contract

**OWNED FLEET:**  
14 FPSOs + 1 FSO  
**O&M CONTRACTS:**  
2 FPSOs

## BW OFFSHORE OFFICES

- A** BERMUDA
- B** SINGAPORE
- C** NORWAY
- D** BRAZIL
- E** MEXICO
- F** NEW ZEALAND
- G** NIGERIA
- H** MAURITANIA
- I** USA
- J** IVORY COAST
- K** CONGO
- L** CHINA
- M** U.K.
- N** CYPRUS
- O** NETHERLANDS
- P** INDIA
- Q** INDONESIA

## COMPETENCE

### REFERENCES

- BW OFFSHORE HAS A CLASS LEADING PRODUCTION UPTIME – FIVE YEAR AVERAGE UPTIME IS 98.4%.
- FPSO BW PIONEER, THE FIRST FPSO IN THE US GULF OF MEXICO, THE DEEPEST MOORED FPSO TO DATE, WITH A TURRET AND MOORING SYSTEM FOR 2,500 METERS WATER DEPTH.
- FDP SO AZURITE, THE WORLD'S FIRST COMBINED DRILLING AND PRODUCTION UNIT.
- FPSO BW CIDADE DE SÃO VICENTE, THE FIRST FPSO ON THE LULA (EX TUPI) FIELD.
- FPSO YÜUM K'AK' NÁAB, THE LARGEST CONVERTED FPSO TO DATE, IN THE GULF OF MEXICO.

### WE DEPENDABLY BUILD, INSTALL, LEASE AND OPERATE

BW OFFSHORE OFFERS ENGINEERING, PROCUREMENT, CONSTRUCTION AND INSTALLATION SERVICES (EPCI), LEASE AND OPERATION SERVICES OF FPSO AND FSO UNITS. BW OFFSHORE'S TRACK RECORD INCLUDES 27 FPSO PROJECTS AND 10 FSO PROJECTS. BW OFFSHORE MEETS ITS CLIENTS' NEEDS THROUGH VERSATILE SOLUTIONS, WITH EXECUTION AND OPERATIONAL EXCELLENCE FOR OFFSHORE OIL AND GAS PROJECTS.



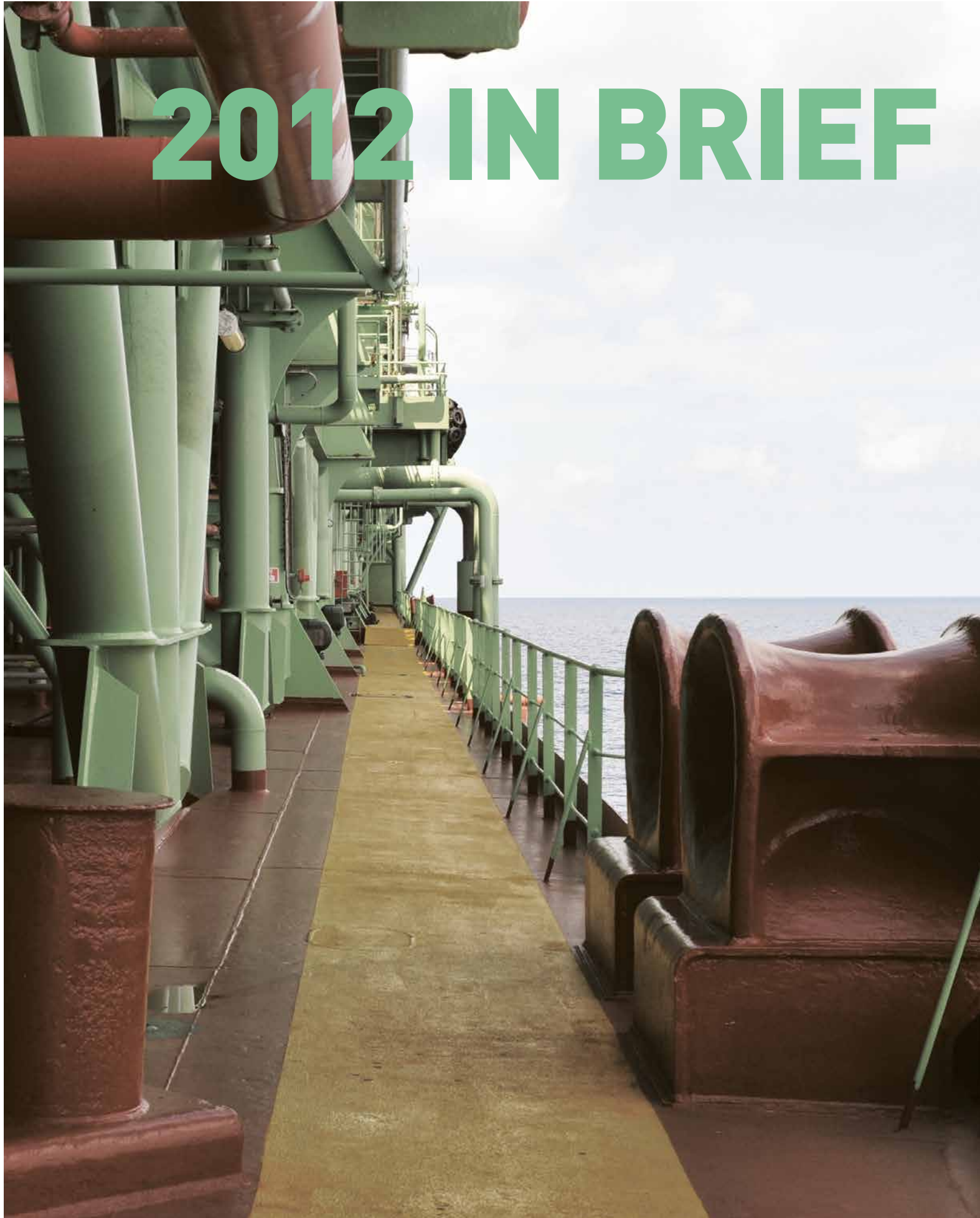
### GLOBAL FOOTPRINT

BW OFFSHORE IS REPRESENTED IN ALL THE MAJOR OIL AND GAS REGIONS WORLD-WIDE, ACROSS ASIA PACIFIC, THE AMERICAS, EUROPE AND WEST AFRICA. THE COMPANY CURRENTLY OPERATES FPSO AND FSO UNITS IN 12 DIFFERENT COUNTRIES, SUPPORTED BY LOCAL ONSHORE TEAMS AND AN ORGANIZATION WITH A GLOBAL PRESENCE.



FOR MORE INFORMATION, PLEASE VISIT [www.bwoffshore.com](http://www.bwoffshore.com)

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# 2012 IN BRIEF

## ACHIEVEMENTS

- FPSO BW PIONEER RECEIVED FIRST OIL ON THE CASCADE CHINOOK FIELDS IN THE GULF OF MEXICO, BECOMING THE ONLY FPSO IN THE WORLD TO PRODUCE OIL AND GAS IN US WATERS.
- BW JOKO TOLE RECEIVED FIRST GAS AHEAD OF SCHEDULE IN THE TERANG, SIRASUN AND BATUR FIELDS OFFSHORE EAST JAVA IN INDONESIA.
- FIRST OIL WAS RECEIVED ON BW ATHENA ON THE ATHENA FIELD OFFSHORE UNITED KINGDOM.
- BW OFFSHORE SIGNED A CONTRACT WITH STATOIL, FOR THE OPERATIONS OF FPSO PEREGRINO, OPERATED IN THE PEREGRINO OILFIELD OFFSHORE BRAZIL.
- BW OFFSHORE SIGNED CONTRACT EXTENSIONS FOR THREE VESSELS IN THE EXISTING FLEET; ESPOIR IVOIRIEN (TO 2017), PETROLEO NAUTIPA (TO 2020) AND BERGE HELENE (TO 2015).
- 2012 EBITDA OF USD 247.9 MILLION
- EIGHT CONSECUTIVE QUARTERS WITH DIVIDED PAYMENT SINCE INTRODUCTION OF DIVIDEND POLICY

## KEY FIGURES

LTI-rate	HSSEQ	0.8
Production uptime		98.8%
Operating revenues	USD million	909.4
EBITDA	USD million	247.9
Operating profit (EBIT)	USD million	94.8
Net profit	USD million	0.0
Total assets	USD million	3,423.7
Total equity	USD million	1,127.1
Equity ratio		32.9%
Market cap	USD million	800
Enterprise value	USD million	2,500
Daily export	BOE per day	700,000
Total number of offloadings	Crude Cargos	373

EMPLOYEES 2,100

## OUR FLEET

UNIT	TYPE	CONTRACT	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22	'23	'24	'25
SENDJE BERGE	FPSO	LEASE	ADDAX/SINOPEC, NIGERIA: 2005-2013																
BERGE HELENE	FPSO	LEASE	PETRONAS, MAURITANIA: 2006-2015 (2021)																
YÛUM K'AK'NÁAB	FPSO	LEASE	PEMEX, MEXICO: 2007-2022 (2025)																
BW CIDADE DE SÃO VICENTE	FPSO	LEASE	PETROBRAS, BRAZIL: 2009-2019 (2024)																
BW PIONEER	FPSO	LEASE	PETROBRAS, US: 2012-2017 (2020)																
BW ATHENA	FPSO	LEASE	ITHACA, UK: 2012-2015 (2020)																
BW JOKO TOLE	FPSO	LEASE	KANGEAN, INDONESIA: 2012-2022 (2026)																
UMUROA	FPSO	LEASE	AWE, NEW ZEALAND: 2007-2015 (2022)																
POLVO	FPSO	LEASE	BP, BRAZIL: 2007-2014 (2022)																
ABO	FPSO	LEASE	AGIP/ENI, NIGERIA: 2003-2013																
ESPOIR IVOIRIEN	FPSO	LEASE	CNR, IVORY COAST: 2002-2017 (2036)																
PETROLEO NAUTIPA (50%)	FPSO	LEASE	VAALCO, GABON: 2002-2020 (2022)																
CIDADE DE SÃO MATEUS	FPSO	LEASE	PETROBRAS, BRAZIL: 2009-2018 (2024)																
AZURITE	FPSO	LEASE	MURPHY, CONGO: 2009-2016 (2024)																
BELOKAMENKA	FSO	LEASE	ROSNEFT, RUSSIA: 2004-2019																
P-63 (PAPA TERRA)	FPSO	EPC/OPERATE	PETROBRAS, BRAZIL: 2013-2016																
PEREGRINO	FPSO	OPERATE	STATOIL, BRAZIL: 2013-2018 (2033)																

■ OPERATION (OWNED) - FIXED PERIOD   
 ■ OPERATION (NOT OWNED) - FIXED PERIOD   
 ■ CONSTRUCTION / EPC  
■ OPERATION (OWNED) - OPTION PERIOD   
 ■ OPERATION (NOT OWNED) - OPTION PERIOD

# CEO'S REPORT



BW OFFSHORE, WITH ITS SERVICE OFFERING AND RIGHT MIX OF EXPERIENCE, CAPABILITY AND OPPORTUNITIES IS AN ATTRACTIVE PARTNER FOR CLIENTS AND A SOLID VEHICLE FOR INVESTORS AND LENDERS.

## BW OFFSHORE, THE SPECIALIST OFFSHORE FLOATING PRODUCTION COMPANY

During 2012 BW Offshore continued to perform among best in class on health, safety and security in its operations. The company consolidated the technical standard of its operating fleet and improved the total regularity to 98.8% while starting up three new operations, BW Pioneer, BW Joko Tole and BW Athena.

BW Offshore continues to be ranked among best in class when it comes to health, safety, security and the environment (HSSE) in its operations. This performance stems from a relentless emphasis on these aspects as priorities from both a business and social standpoint. Our commitment to the highest international standards is acknowledged and appreciated by clients, partners, lenders, investors and staff.

The company's business focus for the year has been on achieving a consistent technical standard across all operating units. The company's contractual backlog improved by USD 1.7 billion through the year mainly due to extensions on existing units and the operations contract for the Statoil and partners owned Peregrino FPSO in Brazil.

In 2012 the aim was to reverse the negative regularity trend that started in 2011 and was caused by frequent breakdown on certain ex Prosafe units due to lack of preventive maintenance over some years. As a result of a focused maintenance effort the company managed to lift the overall regularity back to 98.8% in spite of starting up three new operations: BW Pioneer in US Gulf of Mexico, BW Joko Tole in Indonesia, and BW Athena in the UK North Sea.

Reducing downtime during the first phases of new plant operations has been a particular focus of the company's efforts. By completing the units to a much higher standard prior to departure from the main yard and improving commissioning and preservation procedures the company managed to avoid downtime after start-up on these new units:

- The FPSO BW Pioneer for Petrobras Americas which is the deepest operating unit in the world was started up in the first half of 2012. The contract has a 5 year fixed term with options for 3 additional years. The unit has operated with full regularity since.

- The gas FPSO BW Joko Tole for the Indonesian TSB project for Kangean Energy was started up in the first half of 2012. The contract has a 10 year fixed term with options for 4 additional years. The unit has operated with full regularity since.

- The FPSO BW Athena for the UK Athena project for Ithaca Energy was started up in the first half of 2012. The contract has a 3 year fixed term with options until the end of the field's producing life. After some minor system malfunction initially this unit has also operated with full regularity since.

The company's activities on Ningaloo Vision were concluded with the hand-over of the operations to the client and the final instalment being paid.

Significant extensions were negotiated and concluded for the vessels FPSO Petrolia Nautipa (50/50 ownership with Fred Olsen Production) and FPSO Espoir Ivorien. Due to improved oil production in their respective fields the vessels could now both be under contract for more than 20 years. Maintaining these units for such extended life is a considerable technical challenge. The new contracts for these units reflect this challenge and represent a significant upside for the company.

Negotiations for significant extensions are also ongoing for the FPSO ABO and FPSO Sendje Berge in Nigeria. Both units are coming to the end of their contracts while oil production remains high. The company believes it is highly likely that new contracts will be entered into for these units.

The joint venture with QUIP for the EPCI (Engineering Procurement Construction and Installation) contract, for the Brazilian Papa Terra project for Petrobras continued in 2012. The turnkey contract, where BW Offshore is responsible for providing the conversion hull and carrying out the marine conversion including certain specified utility systems developed very negatively in the first half of 2012. The marine conversion undertaken at the COSCO Dalian shipyard in China was not completed until November 2012 after a number of shortcomings in our planning, engineering and construction became evident as work progressed in the yard. The company mounted a large-scale rescue effort to mitigate the situation. A new and reinforced project team was mobilized at the construction yard in Dalian while a new and strengthened engineering team was set up in Oslo. While a very rapid turn-around was achieved, the additional work and schedule resulted in a negative charge of USD 135 million in 2012. The current estimate is that the project will cost USD 450 million to complete versus a contract of USD 350 million. The current status is that the project is tracking well to complete according to Petrobras' plans for an end July start-up.

Contracted revenue visibility improved by USD 1.7 billion and stands at an average of

five years – ten including options – for the fleet. The fleet of BW Offshore will continue to generate an increasing cash flow in the time ahead providing a sound basis for dividend payments as well as for further investment in new assets.

Market activity was stable and high in 2012. The number of awards remained below historical levels but the number of projects being progressed for development by clients saw an increase in 2012. BW Offshore is confident that the outcome will be a good flow of projects that will result in a sustained period of profitable growth ahead. The continuing strong oil prices and the significant increase in available offshore drilling facilities give us every indication that the supply demand balance will continue to be very favourable for years to come.

The recent increase in activity for more sophisticated offshore processing units, Floating Liquefaction of Natural Gas (FLNG), is further increasing the potential as well as

differentiating the competitive arena. BW Offshore is pleased that our strengths in offshore operations is recognised and that we have been selected to participate in one of these trail blazing projects - the King FLNG project for Pangea on the Tamar field in Israel.

BW Offshore, with its service offering and right mix of experience, capability and opportunities remains an attractive partner for clients and a solid vehicle for investors and lenders. At the same time, the strong competent workforce, learning environment and challenging work opportunities make it an attractive employer.

In 2012 BW Offshore carried out a significant re-organisation to streamline the land based organisation. The focus of the reorganisation was to reduce administrative headcount and improve both quantity and quality of resources for commercial, engineering and project activities. The effort resulted in a total of 87 exits (approx. 20% of onshore staff) and 56 new entrants.

BW Offshore today has 2,100 employees with 1,600 working on our 15 FPSOs and FSOs and 500 working in our onshore offices in 17 different locations around the world.

In 2013 we will continue our efforts to improve consistency, planning, disciplined execution and financial control. We will continue our work on clarifying and harmonizing work methods internally and staffing up with the right competence.

The talent at BW Offshore remains our biggest asset – giving us a competitive advantage in terms of capability and attitude. I would like to thank every individual on our team for their hard work, dedication and continued commitment. My thanks also go to the Board of Directors for another year of valued support, sound advice and good steer.

## MANAGEMENT



**Carl K. Arnet**  
CEO



**Knut R. Sæthre**  
CFO



**Stuart Bannerman**  
COO



**Thyl Kint**  
CTO



**Claude Rouxel**  
CBDO



**Magda Karim Wakil**  
Head of Legal



**Rebekah France**  
Head of Human Capital



REDUCING DOWNTIME DURING THE FIRST PHASES OF NEW PLANT OPERATIONS HAS BEEN A PARTICULAR FOCUS OF THE COMPANY'S EFFORTS.

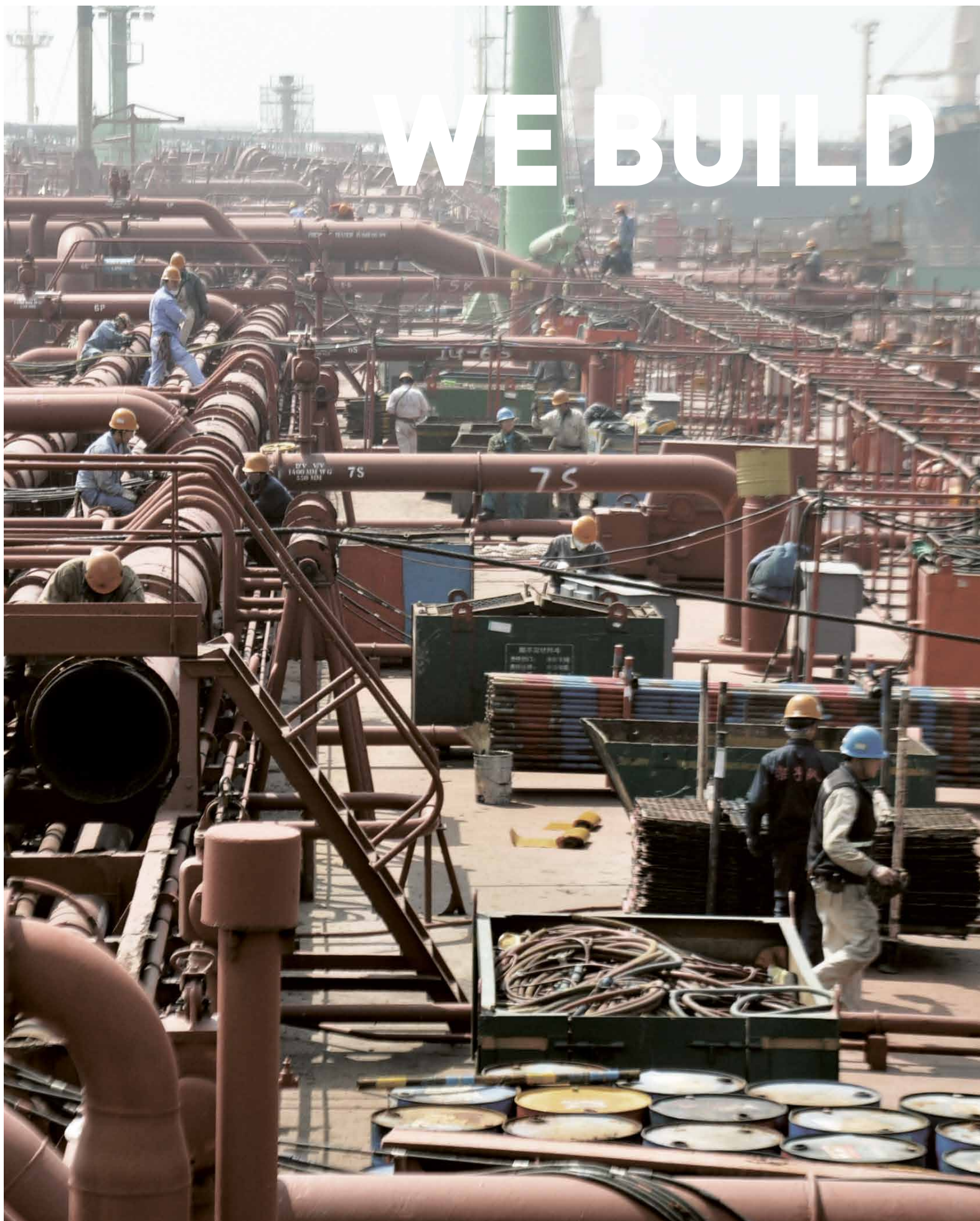


*Carl K. Arnet*

**Carl K. Arnet**  
CEO



# WE BUILD



## PROVEN TRACK RECORD

The team at BW Offshore has now completed 37 FPSO and FSO conversions in three decades giving it an invaluable experience bank and a robust foundation for future projects. The wealth of experience gained from operating these very units we built is captured and re-invested in future projects giving BW Offshore a unique competitive advantage in providing the right life cycle cost efficiency for clients.

### CONCEPT DEVELOPMENT

The conceptual design of an FPSO is crucial and determines much of the future technical and economic lifecycle of the unit in production. Concept development begins early in the tendering process with a close collaboration between the client team and BW Offshore concept and technology experts to explore and evaluate options. BW Offshore has a core team of top engineering talent involved in this phase. A highly educated and well accomplished team allows for unique, innovative and fit for purpose solutions to be considered. At the same time, the real life FPSO experience ensures that the FPSO design concept is pragmatic and workable.

The vessel selection and the decision on whether to build or convert is one of the first decision points which influences the design. This is a decision that needs a good understanding of the risks and rewards of using an available hull. Weighing the benefits of a proven hull, the costs of refurbishment and the schedule implications against a new-built hull is a complex optimisation exercise that company engineers are expert at performing and providing to clients.

In any development there are numerous factors to be taken into account to find the optimal solution to an offshore production scenario. The weather conditions in the field need to be carefully considered as do the field, oil quality, gas solutions, water, environmental concerns and last but not least regulatory framework. In all these areas BW Offshore has gathered a unique experience database over the years. The early engagement with the client team ensures a solid concept selection process to meet technical and financial objectives over the unit lifecycle.

### ENGINEERING DESIGN

BW Offshore has three major strengths with regard to engineering design - the in-house competence with a focused core team of engineering experts, technical documentation and standards built from years of FPSO engineering experience and the decades of operating experience working with FPSOs long after they have been designed and built - producing, processing, storing and offloading. The team at BW Offshore establish optimised design criteria keeping in mind the details of prevailing laws and regulations, client requirements and past experience.

Having built and now operating the world's largest and the world's smallest FPSOs as well as the world's deepest moored FPSO, BW Offshore has experience in a wide range and number of challenging assignments, pushing the envelope of what is achievable in offshore production to the very edge of present technical feasibility. Operating a fleet of 16 FPSO/FSOs in West Africa, Brazil, Gulf of Mexico, the US Gulf, The North Sea, Indonesia, and New Zealand means that there



THE VESSEL SELECTION AND THE DECISION ON WHETHER TO BUILD OR CONVERT IS ONE OF THE FIRST DECISION POINTS AND DRAMATICALLY INFLUENCES THE DESIGN.





is new learning for technical maintenance and uptime management every day. It also means that the company is less focused on meeting short term cost objectives in the project phase and more occupied with the cost of an asset over its entire lifecycle. A solid base of engineering standard documentation ensures a consistent and optimised approach to engineering activity while ensuring that new lessons learned from operations are continuously incorporated.

With the multi-million dollar investments required in FPSO conversions and new building, clients are now increasingly approaching BW Offshore's engineering team to participate in paid Front End Engineering Design (FEED) studies either exclusively or in competitive tenders. The team is also approached from time to time to support and complement a client team in the role of Owner's Engineer - helping oversee engineering sub-contractors on behalf of the client.

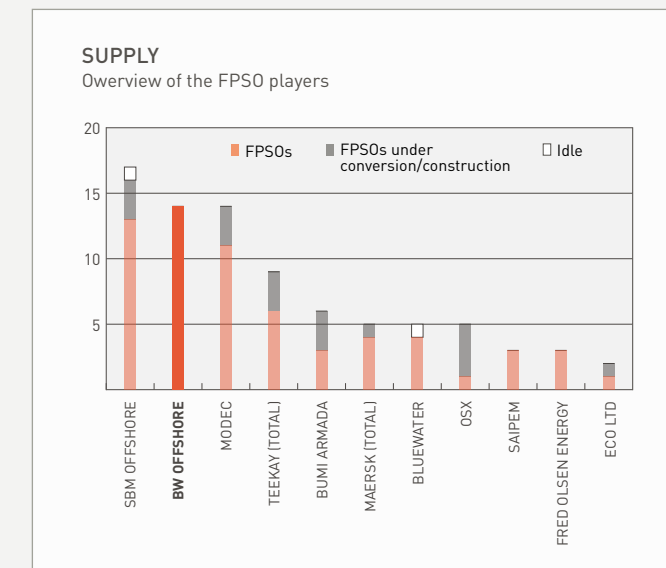
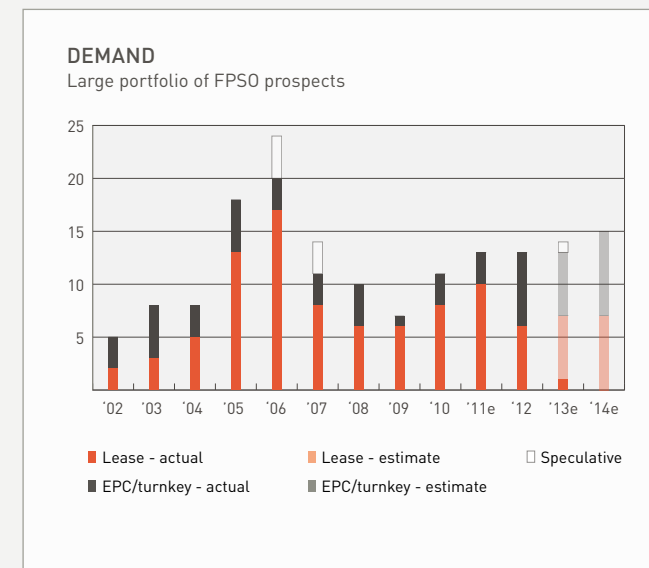
**PROJECT MANAGEMENT**

Project execution is a complex activity, starting from engineering, procurement of materials and equipment, fabrication and integration, and finally testing the facility before hand over to the Operations team. It also requires extreme discipline to ensure that multiple hundreds of people from BW Offshore, subcontractors and yards work together seamlessly to deliver on time and on budget. The project execution division is focused on institutionalising disciplined project execution. BW Offshore has a strong in-house project execution resource pool comprising project engineers, construction superintendents and managers, safety and quality personnel, supply chain competence, project planners, estimators and cost controllers, and mechanical completion, commissioning and start-up experts.

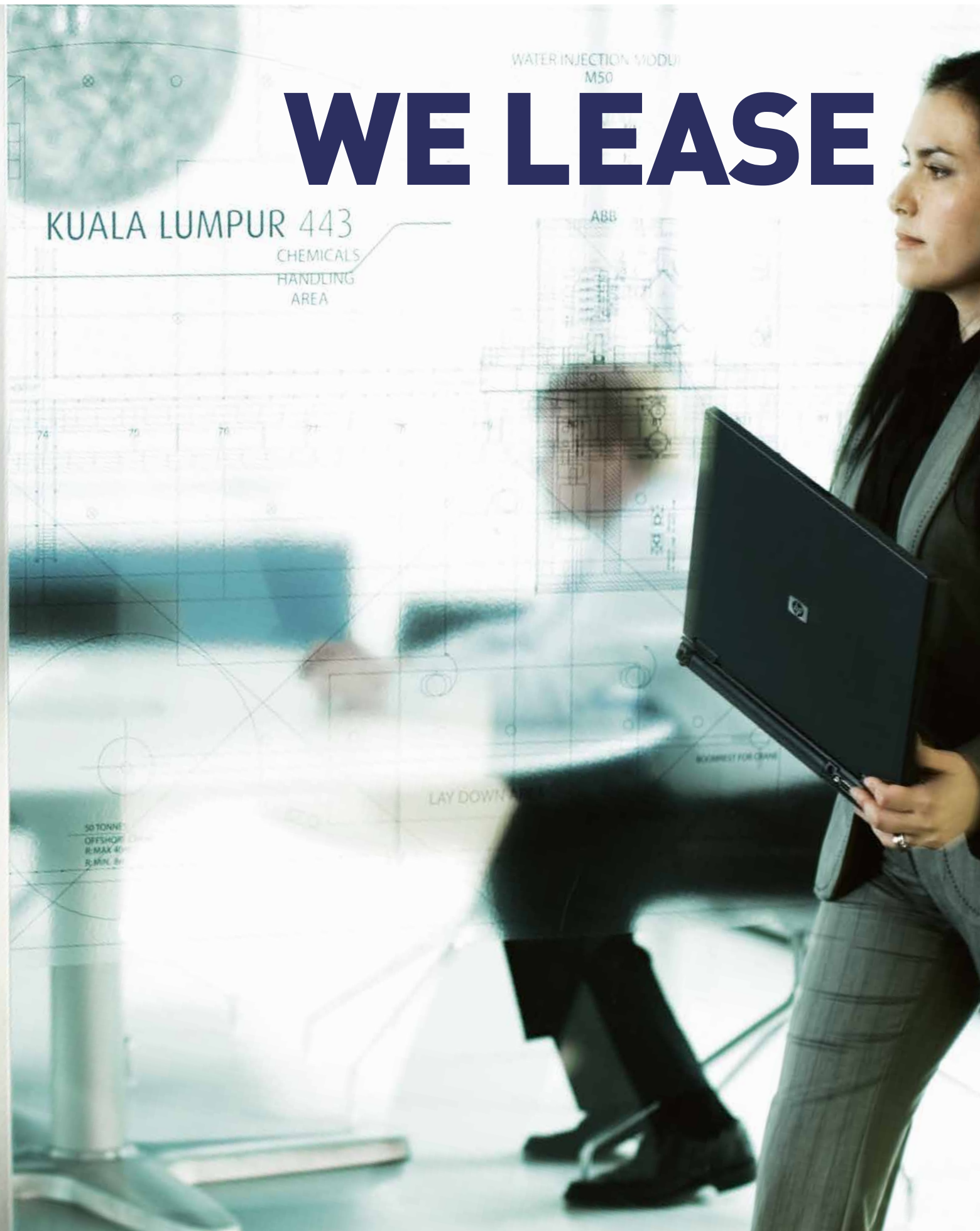
In the project execution phase a strong link is maintained with the engineering team through a team of engineering discipline engineers and topside, hull and overall engineering managers. This is essential

to ensure that the design concept and the engineering deliveries are translated effectively to a working, well-constructed FPSO. Frontloading of engineering and procurement activities is essential in project execution to ensure sufficient time for construction teams to execute plans and build the facility. This in turn allows for a thorough and timely commissioning process where individuals who combine the best of project and operations experience test the unit adequately to ensure a smooth start-up and high regularity right from day one.

BW Offshore combines competence and scalability by building inorganic project specific teams - handpicking individuals with specialist knowledge and experience for each assignment and partnering with appropriate subcontractors. Pulling such multi-national, multi-skilled and multi-locational teams together in a coordinated manner requires a high level of planning and organising as well as a strong corporate culture built on teamwork, communication and solution orientation.



Source: ODS Petrodata, Fearnley, DNB



# WE LEASE

## STABLE FINANCIAL FOUNDATION WITH A ROBUST BALANCE SHEET AND AVAILABLE FUNDS

Leasing the production asset frees up oil companies to focus on what they do best, mainly reservoir development and management. Leasing on BW Offshore to finance and dispose of production assets reduces the investment and the financial exposure related to major production assets which to clients are essentially non-core activities. BW Offshore today fully owns 13 FPSOs and 1 FSO and has a joint ownership with Fred Olsen Production in one additional FPSO. The fleet represents a large investment in advanced offshore production facilities. BW Offshore has an excellent track record for redeployment and contract extensions, and is well placed to realise the vast untapped commercial potential in the existing fleet.

**FIRM Foothold:** BW Offshore enjoys a stable financial foundation with a robust balance sheet and available funds. Looking

to read and respond to the ever changing financial market, BW Offshore is exploring funding alternatives including project equity financing and the bond market. A strong relationship with lending banks and close contact with the equity market through the Oslo Stock Exchange listing enable the structuring of attractive financial packages and the offering of lease charters to clients. In addition the company is in a position to handle the residual value of operating units effectively thanks to its global footprint and extensive market access.

**LIFELONG LEASE:** In a leasing arrangement BW Offshore takes full responsibility to operate and maintain as well as upgrade or change the production asset as needed by the client. This ensures that production requirements are met for the total duration of the field life including necessary funding,

providing the right competencies, as well as know-how of production equipment.

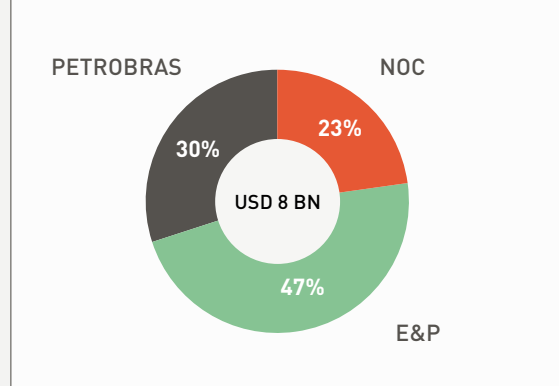
**CENTRAL CONTACT:** BW Offshore offers field partners a transparent day rate while serving as a single point of contact behind the scenes for various parties and processes. The contract between the oil company or the operator and BW Offshore regulates numerous operational and financial obligations including production and processing performance. Leases are structured to ensure that unit ownership and other details comply with local law and tax regulations in the country of operation.

BW Offshore offers significant support in the form of management resources and staff to execute, arrange and manage the necessary funding.



BW OFFSHORE ENJOYS A STABLE FINANCIAL FOUNDATION WITH A ROBUST BALANCE SHEET AND AVAILABLE FUNDS.

STRONG REVENUE BACKLOG WITH SOLID CLIENTS



NOC: National Oil Companies  
E&P: AWE, BP, CNR, ENI, Kangean, Ithaca, Murphy, Vaalco



## DELIVERING SAFE OPERATIONS AND HIGH UPTIME TO THE CLIENT

BW Offshore units perform with class leading production uptime. The relentless focus on Health, Safety, Security and Environmental (HSSE) standards coupled with quality maintenance to ensure asset integrity are the reasons behind the excellent results. BW Offshore is a significant offshore employer in all the countries where it operates, providing local opportunities as well as access to an international market for 1,500 production operators and mariners.

### SAFETY FIRST

In 2012 the company had no fatalities, serious injuries or harm to the environment and demonstrated industry leading performance on lost time injuries.

### PROVEN RECORD

BW Offshore operates 15 FPSOs and 1 FSO around the world. Over 700,000 BOE in daily volume is handled in areas as diverse as Northern Russia, West Africa, the South Atlantic off Brazil, the Gulf of Mexico, and South East and Far East Asia. The profile ranges from FSOs serving as oil storage and

export terminals to highly sophisticated disconnectable FPSOs and test production units that are frequently relocated at the client's request. Safety, quality and consistency are the hallmarks of this performance generating significant cash flow for clients. With an average up time of 98.4% over the past five years BW Offshore exceeds client expectations and earns its place in the top tier for FPSO operations globally.

### EXPERIENCED TEAM

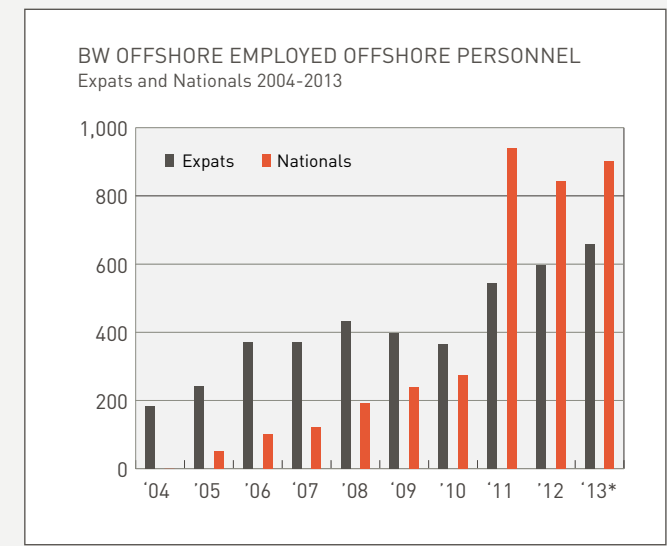
BW Offshore's world class performance is delivered by highly qualified, competent and dedicated technical support and logistics service staff. A strong network of onshore in-country offices ensures operational support that links the units to hubs in Brazil, Oslo and Singapore. Global recruitment centres and manning supply partners attract and select best in class candidates for fleet positions offshore from New Zealand, the Philippines, India, Africa, Brazil, Norway, the UK, Russia and Latvia. BW Offshore's international pool of manpower allows for global rotation of talent based on required

competence. There is high commitment to deployment of local content in countries where the company operates with a heavy investment in training and development of native personnel. In a highly competitive and tight talent market, BW Offshore's work ethic and culture, high level of experience and competence, global work opportunities and challenging class leading assignments make it an attractive employer.

### SMART PARTNERSHIPS

Although the primary focus so far has been on operating units owned by the company, BW Offshore is being increasingly approached to provide Operations & Maintenance (O&M) services to FPSOs built, owned or leased by clients. With its vast and proven experience in this arena, BW Offshore makes a smart partnering choice for clients wanting to share risk and outsource the technical competence to run and operate these complex units. With an existing operational network to leverage, the company offers synergies that are difficult for a client to achieve on a stand-alone basis. Well established

“ THERE IS HIGH COMMITMENT TO DEPLOYMENT OF LOCAL CONTENT IN COUNTRIES WHERE THE COMPANY OPERATES. ”



\* As of January 2013



infrastructure, manning pools and supply chain networks are some immediate advantages to clients in addition to the familiarity with regulatory requirements, technical maintenance and life-cycle cost management offered by BW Offshore.

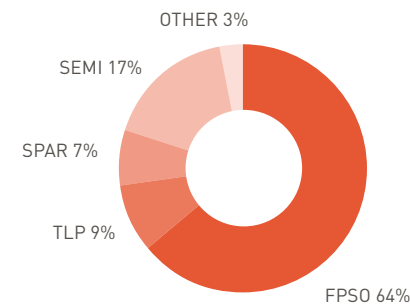
**LIFE EXTENSIONS**

New commercial opportunities are making themselves accessible through modifications of existing FPSOs approaching the end of their planned life. Taking into account asset conditions and energy economics, more

clients see the benefit of investing in repairs, upgrades and modifications to continue operating in existing fields. BW Offshore's project and engineering expertise makes this possible. Working closely with client teams, BW Offshore has set up internal teams combining competent project and operations staff from across the organisation specifically for this purpose. Managing modifications and upgrades on live producing units calls for specialised competence as safety related and economic risks multiply compared to projects run on site in a shipyard.

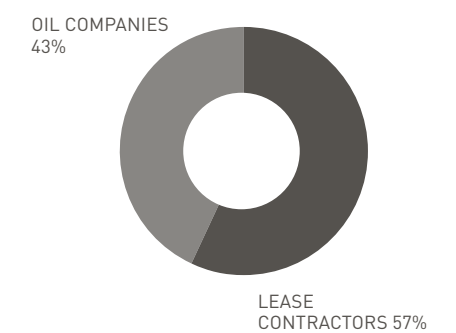
BW Offshore is today looking at life extension scenarios of up to 20-25 years in addition to the initial 10-year term. Maintaining asset integrity in situ in such scenarios represents one of the most advanced technical execution challenges in the business - a challenge BW Offshore is well placed to meet.

GLOBAL FLOATING PRODUCTION UNITS  
FPSO is the preferred solution for floating production



Source: IMA, based on a total number of 257 units

FPSO OWNERSHIP  
Equally split between oil companies and lease contractors



Source: IMA



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

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

BW Offshore is committed to the highest level of HSE performance in all its operations, for all personnel on all its units and at all its premises. The company seeks to provide a safe working environment which prevents injuries and ill health, and works to reduce the environmental impact of its operations. BW Offshore is certified in accordance with ISO 14001 on environment management, OHSAS 18001 on occupational health and

safety management, and the International Safety Management (ISM) code.

BW Offshore did not experience any serious personnel injuries or significant environmental incidents in 2012. The majority of the FPSOs in the total fleet succeeded in operating for the full year with no Lost Time Injuries (LTIs).

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

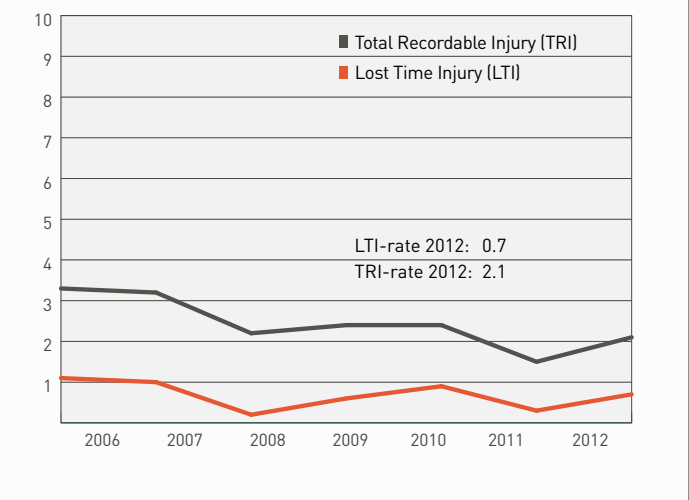
The graph 'BW Offshore HSE statistics' shows the rolling average injury trend for BW Offshore in 2012. The following terms are used:

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

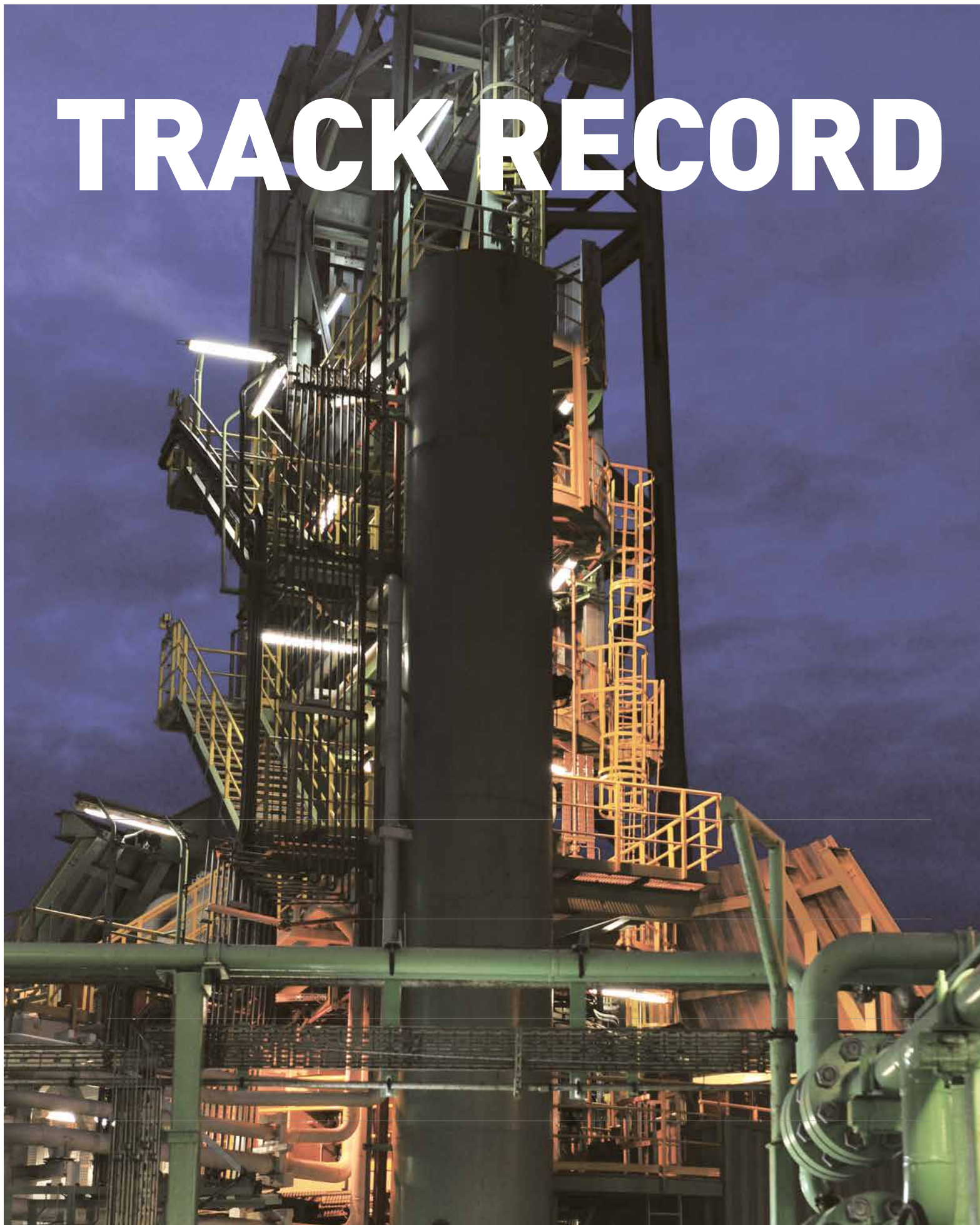
“

THE COMPANY SEEKS TO PROVIDE A SAFE WORKING ENVIRONMENT WHICH PREVENTS INJURIES AND ILL HEALTH, AND WORKS TO REDUCE THE ENVIRONMENTAL IMPACT OF ITS OPERATIONS

BW OFFSHORE HSE STATISTICS, ALL HOURS



# TRACK RECORD



1982

NAME	TYPE	LOCATION	CLIENT
BERGE SISAR	FPSO	BLOCKO, ANGOLA	CHEVRON (GULF OIL)
BERGE TROLL	LPG FPSO	CABINDA, ANGOLA	CHEVRON (KOMMA E CABINDA)
NAVION MUNIN	FPSO	SOUTH CHINA SEA	STATOIL (ORIENT)
BERGE HUGIN	FPSO	PIERCE FIELD, UK	ENTERPRISE OIL
SENDJE BERGE	FPSO	EQUATORIAL GUINEA	TRITON ENERGY
SENDJE CEIBA	FPSO	EQUATORIAL GUINEA	HESS
BERGE HELENE	FPSO	AL SHAHEEN, QUATAR	MAERSK OIL
SENDJE BERGE *	FPSO	OKWORI, NIGERIA	SINOPEC (ADDAX)
BERGE OKOLOBA TORU	LPG FPSO	BONNY RIVER, NIGERIA	GLOBAL ENERGY
BW NISA	FPSO	MALAYSIA	VITOL
BERGE HELENE *	FPSO	CHINGUETTI, MAURITANIA	PETRONAS
BELOKAMENKA *	FPSO	MURMANSK	SOVCOMFLOT/ROSNEFT
ASOKA NUSANTARA	FPSO	MADURA, INDONESIA	KODECO ENERGY
CAMAR NUSANTARA	FPSO	CAMAR, INDONESIA	ENTERPRISE OIL
CAMAR AYU	FPSO	CAMAR, INDONESIA	GFB RESOURCES
AL ZAAFARANA	FPSO	AL ZAAFARANA, EGYPT	ZAAFARANA OIL COMPANY
ENDEAVOR	FPSO	PY-3, INDIA	TATA OIL/HARDY OIL
PETRÓLEO NAUTIPA	FPSO	KIAME, ANGOLA	RANGER OIL
PETRÓLEO NAUTIPA *	FPSO	ETAME, GABON	RANGER OIL
RUBY PRINCESS	FPSO	RUBY, VIETNAM	PETRONAS CARIGALI
MADURA AYU	FPSO	POLING, INDONESIA	KODECO ENERGY
ABO *	FPSO	OPL 316, NIGERIA	ENI (AGIP)
MADURA JAYA	FPSO	MADURA SEA, INDONESIA	KODECO ENERGY
ESPOIR IVOIRIEN *	FPSO	ESPOIR, IVORY COAST	CANADIAN NATURAL RESOURCES
YÙUM K'AK'NÀAB *	FPSO	KMZ, MEXICO	PEMEX
BW CIDADE DE SÃO VICENTE *	FPSO	TUPI, BRAZIL	PETROBRAS
BW CARMEN	FPSO	NORTH SEA	STATOIL
BW CARMEN	FPSO	NORTH SEA	SHELL
POLVO *	FPSO	POLVO, BRAZIL	BP (DEVON ENERGY)
UMUROA *	FPSO	TUI, NEW ZEALAND	AWE
CIDADE DE SÃO MATEUS *	FPSO	CIDADE DE SÃO MATEUS, BRAZIL	PETROBRAS
AZURITE *	FDPSO	AZURITE, REPUBLIC OF CONGO	MURPHY
NINGALOO VISION	FPSO	VAN GOGH, AUSTRALIA	APACHE
OSX 1	FPSO	WAIMEA, BRAZIL	OSX
BW PIONEER *	FPSO	CASCADE CHINOOK, US	PETROBRAS
BW ATHENA *	FPSO	ATHENA, UK	ITHACA ENERGY
BW JOKO TOLE *	FPSO	TSB, INDONESIA	KANGEAN ENERGY

\* UNITS CURRENTLY IN BW OFFSHORE'S FLEET

2012

# CORPORATE GOVERNANCE

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

BW Offshore Limited (hereinafter 'BW Offshore' or 'Company') and its activities are primarily governed by the Bermuda Companies Act, its Memorandum of Association and its Byelaws. 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 generally apply.

## 1 Implementation and reporting on corporate governance

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

The Board therefore commits the Company to good corporate governance, and has adopted the most current version - including the changes introduced on October 23, 2012 - of the Norwegian Code of Practice for Corporate Governance (the 'Code'), prepared by the Norwegian Corporate Governance Board.

BW Offshore has implemented corporate values, ethical guidelines and guidelines for corporate social responsibility. These values and guidelines are described in BW Offshore's Code of Conduct and internal policies.

## 2 The Business

The purpose of the Company is described in the Company's Memorandum of Association.

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

## 3 Equity and Dividends

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

Pursuant to the Company's Bye-laws, the Board is authorised to declare dividend to the shareholders. The Board has drawn up a clear and predictable dividend policy approved by the Annual General Meeting on May 12, 2011. Full details of the dividend policy can be found on BW Offshore's website.

## 4 Equitable treatment of shareholders and transactions with close associates

The Company has one class of shares, and each share has one vote at the general assembly.

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

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

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

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

## 5 Freely negotiable shares

In general, the shares in the Company are freely transferable. However, the Board may refuse to register the transfer of any share, and may direct the Registrar to decline (and the Registrar shall decline if so requested) to register the transfer of any interest in a share held through Verdipapirsentralen (VPS), where such transfer would, in the opinion of the Board, likely result in 50% or more of the aggregate issued and outstanding share capital of the Company, or shares of the Company to which are attached 50% or more of the votes attached to all issued and outstanding shares of the Company, being held or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares being effectively connected to a Norwegian business activity, or the Company otherwise being deemed a Controlled Foreign company pursuant to Norwegian tax legislation. As the Company is already subject to Bermuda tax legislation, it is important to ensure that the Company is not concurrently subject to corporate tax in another jurisdiction.

## 6 General meetings

The annual general meeting will normally take place on or before 31 May each year. Notice of the meeting will normally be sent at least three weeks before the general meeting takes place. The information necessary for the shareholders to make decisions on all the items on the agenda will be included in this notice, including the recommendation from the Nomination and Compensation Committee. The annual report will be published on the Company's website [www.bwoffshore.com](http://www.bwoffshore.com), and a printed version can be made available upon request. 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 no later than up to five days prior to the general meeting.

Registration is made in writing, per telefax or by e-mail. The Board wishes to make efforts to enable as many shareholders as possible to

attend. Shareholders who are not able to attend are invited to meet by proxy, and efforts will be made for the proxies to relate to each individual item on the agenda.

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

#### **7 Nomination and Compensation Committee**

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

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

#### **8 The composition and independence of the Board**

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

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

The composition of the Board does not meet the recommended gender guidelines of the Code, but meets the Company's need for expertise and diversity. The directors are presented on the Company's website [www.bwoffshore.com](http://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 Nomination and Compensation Committee in order to ensure enhanced attention to financial reporting and remuneration.

The Board carries out an annual evaluation of its work.

#### **10 Risk management and internal control**

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

Management and internal control is based on Company-wide policies and internal guidelines

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

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

The internal auditor position is independent from the line management and reports directly to the CEO. In addition to its own controlling bodies and external audit, the Company is subject to external supervision by Det Norske Veritas (DNV) for classification in accordance with ISO.

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 Company's other relevant senior staff and representatives of the external auditor, attend the meetings of the Audit Committee.

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

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

#### **11 Remuneration of the Board of Directors**

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

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

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

Remuneration of the directors is stated in the annual report.

#### **12 Remuneration of the executive personnel**

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

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

The Board approves any share option programs in the Company available to the employees of the Company and subsidiaries. Detailed information of remuneration, loans, shareholding of the management and any share option programs can be found in the consolidated financial statements.

#### **13 Information and communications**

The Company is committed to provide information in a manner that contributes to establishing and maintaining confidence with important interest groups and stakeholders. The information shall be based upon transparency, openness and equal treatment of all share-

holders. A precondition for the share value to reflect the underlying values in the Company is that all relevant information is disclosed to the market. Based on this, the Company will endeavour to keep the shareholders informed about profit developments, prospects and other relevant factors for their analysis of the Company's position and value. It is emphasised that the information is uniform and simultaneous.

A currently updated financial calendar with dates for important events, such as general meeting, publishing of interim annual reports, dates for payment of potential dividend etc shall be accessible for the shareholders on [www.oslobors.no](http://www.oslobors.no) and on the Company's website [www.bwoffshore.com](http://www.bwoffshore.com).

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

#### **14 Take-over**

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

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

- Issue a statement evaluating the offer and making recommendations as to whether the shareholders should accept the offer or not. If the Board finds that it is unable to give a recommendation, the Board will explain the reason for not giving a recommendation. The statement should show whether the decision was unanimous, and if not, the background for why certain Board members did not adhere to the statement; and

- Arrange a valuation from an independent expert. The valuation should include an explanation, and should be made public no later than at the time of the public disclosure of the board's statement.

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

#### **15 Auditor**

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

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

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

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

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

# DIRECTORS' REPORT

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

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

BW Offshore is a provider of Floating Production, Storage and Offloading units (FPSOs) and Floating Storage and Offloading units (FSOs). By the end of 2012, the Company had units operating offshore Brazil, Mauritania, Mexico, Nigeria, Indonesia, Ivory Coast, Gabon, Congo, New Zealand, UK, USA and Russia.

The Company's core strengths are:

- Wide geographical presence
- Engineering
- Project execution
- Operations
- Installation services
- Lease services

**HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY**

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

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

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

Total LTI-rate (Lost Time Injuries) and total TRI-rate (Total Recordable Incidents) for the Company in 2012 were 0.8 (0.3) and 2.1 (1.5), respectively. The comparable rates for 2011 were 0.3 and 1.5.

The Board considers that the working environment in the Company is good. In 2012, absence due to sickness amounted to 1.5% of total hours worked by the employees. During the year, several initiatives were taken to further improve the working environment. Leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while organisation restructuring, recruitment of engineering and project competence, alignment of compensation and benefit policies and procedures on a global scale are some examples of onshore initiatives undertaken in the year.

The BW Offshore average number of employees including contract staff for 2012 was 2,280. The Company wants to be considered as an attractive workplace and attaches prime importance to offering challenging and motivating jobs and equal development opportunities for all, regardless of gender, nationality, culture or religion. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitment.

The activities of the Company are subject to environmental regulations pursuant to a variety of international conventions and national, state and municipal laws and regulations, which the Company is committed to uphold, and where appropriate, exceed. Compliance with such regulations can require significant expenditure and in the unlikely event breaches occur, this may result in the imposition of fines and penalties, some of which may be material. These concerns apply to all entities operating in the FPSO and FSO market.

The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. Environmental legislation may also expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault. The Company had no significant harmful environmental spills during 2012.

On a fleet wide basis, the Company takes out insurance cover for its crew and support staff, pollution and clean-up, damage to vessels, loss of income and third-party liabilities. The insurance also covers losses resulting from acts of war and terrorism. Cover for oil pollution and oil pollution caused by war and war-like actions are limited per incident.

**OPERATIONS AND PROJECTS**

BW Offshore owns and operates fourteen FPSOs and one FSO and has one ongoing FPSO conversion project together with Brazilian consortium partner QUIP.

1. The FPSO Yùum K'ak' Náab is in operation at the KMZ field offshore Mexico for Pemex and commenced operation in 2007. The duration of the contract is fifteen years fixed and with an option to extend for an additional three years.
2. The FPSO Sendje Berge is in operation at the Okwori field offshore Nigeria for Sinopec. The unit started operation in Equatorial Guinea in 2000 and was modified, upgraded and relocated to Nigeria in 2005. In 2010, the client extended the contract by another two years from 2011 to April 2013. The Group is currently negotiating with the client for a long term extension.

3. The FPSO Berge Helene is in operation at the Chinguetti field offshore Mauritania for Petronas. The duration of the contract is nine years fixed plus options for up to six years. The vessel started operation in 2006. In 2012 the firm period of the contract was extended by two years from 2013 to 2015.
4. The FPSO BW Cidade de São Vicente is in operation at the Lula field (former Tupi field) offshore Brazil for Petrobras. The vessel commenced operations in 2009 on a 10 year firm lease contract. The client has options for up to five years.
5. The Arctic FSO Belokamenka operates as an oil terminal in the Kola Bay, Russia for Sovcomflot. The unit commenced operation in 2004 and the duration of the contract is fifteen years.
6. The FPSO Cidade de São Mateus commenced its nine-year firm contract with Petrobras on the Camarupim field off the coast of Espirito Santo, Brazil, in 2009. Petrobras has the option to extend the contract by up to six years.
7. The FDPSP Azurite is the world's first FPSO with drilling capabilities. The unit is equipped with a modular drilling package, which can be removed and used elsewhere once drilling is completed. The unit commenced operations on Murphy's deep water Azurite development field in the Mer Profonde Sud block offshore the Republic of Congo in April 2009. The firm part of the contract is seven years, while there are options for up to eight years.
8. The FPSO Polvo is currently operating for BP on the Polvo field offshore Brazil. The contract started in 2007. The contract has a firm seven year period with an eight-year extension option.
9. The FPSO Espoir Ivoirien is in operation at the Espoir field offshore Ivory Coast for Canadian Natural Resources (CNR). The FPSO first time commenced operation in 2002. The contract has been renegotiated and

extended in 2012 and is now firm until 2017 with options to extend until 2036.

10. The FPSO Umuroa has since 2007 been on a five-year contract with options for additional five years of operations for Australian Worldwide Exploration on the Tui field offshore New Zealand. This contract was adjusted in 2008 to an eight-year firm period ending in 2015, with options for extension up to 2022.
11. The FPSO Abo commenced operation in 2003 and is on a contract with Nigerian Agip Exploration on the Abo field offshore Nigeria until April 2013. The Group is currently negotiating with the client for a long term extension.
12. The FPSO Petr leo Nautipa is operating for Vaalco on the Etame field offshore Gabon. The vessel started operation for Vaalco in 2002. The contract was extended in 2005 and in 2007. The contract was further extended in 2012 and is now firm until 2020 with options for two additional years.
13. The FPSO Ningaloo Vision was sold January 2012 to Apache after having been in operation in Australia since 2010. BW Offshore operated the FPSO on behalf of Apache until final handover in August 2012.
14. The FSO Endeavor was sold for scrap in 2012.
15. The FPSO BW Pioneer commenced operation on the Cascade Chinook oil and gas field for Petrobras in the US Gulf of Mexico in February 2012. The contract is for a fixed term of five years until 2017, with an optional period of up to three years.
16. The FPSO BW Athena commenced operation on the Athena field in the UK for Ithaca Energy in June 2012. The contract is for a fixed term of three years until 2015, with an option period of up to five years.

17. The FPSO BW Joko Tole commenced operation on the Terang Sirasun Batur gas fields for Kangean Energy Indonesia in May 2012. The contract is for a fixed period of ten years, with an option to extend for four years.
18. BW Offshore has signed a five year contract with Statoil for the operation of the FPSO Peregrino, with options for additional 15 years. The unit is operating on the Peregrino oil field offshore Brazil. BW Offshore has taken over operation 1 January 2013 after a transition period of six months.
19. BW Offshore, together with its Brazilian consortium partner QUIP, is converting FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility is to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The FPSO arrived January 2013 at QUIP's Rio Grande yard in Brazil for the integration of the remaining six modules. The FPSO is then expected to be installed on the Papa Terra field and commence operation. All possible efforts are being made by BW Offshore and its Brazilian partner, QUIP, to meet the overall project schedule requirements from Petrobras for a July 2013 start-up. The forecasted cost for completing the project has been increased to USD 450.0 million. The additional project costs are mainly linked to increased engineering, construction, procurement and commissioning cost and increased yard costs associated with the delayed schedule. BW Offshore does not anticipate any liquidated damages from this project based on the current project schedule, however further slippage might influence the total project cost. BW Offshore will, under a separate contract, subsequently be responsible for the operation of the vessel with the Brazilian JV partner, Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.

The order backlog for the Company represents a value of approximately USD 4.1 billion related to non-cancellable contracts and if including options, USD 8.2 billion.

**FINANCIAL RESULT**

The earnings before interest, taxes, depreciation and amortisation (EBITDA) for BW Offshore and its subsidiaries (the 'Group') for 2012 was USD 247.9 million compared to USD 311.9 million in 2011. Operating profit was USD 94.8 million, compared to a profit of USD 9.0 million in 2011. Operating profit included reversal of impairment of USD 75.0 million related to the operating vessels, compared to an impairment of USD 138.5 million in 2011. Net result was USD 0.0 million compared to a net loss of USD 115.5 million in 2011.

The Group's revenue derived from charter hire was USD 770.7 million compared to USD 619.8 million in 2011. The increase is primarily attributable to increased activity resulting from the commencement of operation for BW Pioneer, BW Joko Tole and BW Athena during the year. Revenue derived from construction contracts was USD 56.6 million compared to USD 184.2 million in 2011. Revenue derived from lease interests was USD 17.2 million compared to USD 18.3 million in 2011. Lease interest revenue is derived from the operation of the FPSO Yuum K'ak' N ab and from the lease of the FSO Belokamenka.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs. Total operating expenses were USD 662.4 million compared to USD 534.1 million in 2011. The increase in operating expenses was mainly attributable to the commencement of operation of BW Pioneer, BW Joko Tole and BW Athena.

Administrative expenses include expenses that are not directly attributable to the operation of the Company's FPSOs and FSOs, primarily employment expenses incurred by the operating offices in Oslo and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD

55.3 million compared to USD 51.1 million in 2011.

Depreciation and amortisation amounted to USD 226.8 million, compared to USD 183.0 million in 2011. The increase is mainly attributable to the commencement of depreciation of BW Pioneer, BW Joko Tole and BW Athena.

Net interest expense was USD 53.2 million compared to USD 46.2 million in 2011. The increase is due to net average higher interest bearing debt in 2012.

Tax expense amounted to USD 28.7 million compared to USD 43.9 million in 2011. The decrease is mainly due to a deferred tax asset related to the FPSO Ningaloo Vision which was expensed in 2011. The Group is not subject to taxation in Bermuda, but the Group is subject to taxation in the various countries in which it operates.

Total assets were USD 3,423.7 million as at 31 December 2012 compared to USD 3,616.6 million in 2011. The net decrease of USD 192.9 million (5%) mainly relates to depreciation on assets, down payment of the CIRR facility, lower cash level offset by capex on new vessels and higher trade receivables. Goodwill as at 31 December 2012 relates to the acquisition of Prosafe Production.

As at 31 December 2012, the Group had a net equity of USD 1,127.1 million compared to USD 1,171.9 million at 31 December 2011. The decrease is due to the dividends in 2012. The net equity ratio as at 31 December 2012 was 32.9% compared to 32.4% as at 31 December 2011.

As at 31 December 2012, the Group had interest-bearing debt of USD 1,778.7 million compared to USD 1,968.8 million in 2011. BW Offshore is mainly funded through a USD 2.4 billion seven year senior secured credit facility established in 2011. During first quarter 2012, the Group successfully completed the placement of a new NOK 500 million (USD 90 million) senior unsecured bond with

maturity date on 15th March 2017. The proceeds from this loan will be used for general corporate purposes. Net interest-bearing debt at 31 December 2012 was USD 1,678.8 million.

Net cash inflow from operating activities amounted to USD 209.9 million compared to net cash inflow of USD 236.0 million in 2011. Net cash outflow from investment activities amounted to USD 37.6 million, compared to a net cash outflow of USD 353.9 million in 2011. Investments in fixed assets amounted to USD 228.7 million, compared to USD 398.2 million in 2011. Cash outflow from investment activities in 2012 mainly relates to the conversion of the FPSO BW Joko Tole and the FPSO BW Athena.

**CORPORATE GOVERNANCE**

Good corporate governance plays a key role in creating shareholder value and building investor confidence, thereby ensuring an optimal capital cost. 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 latest 2011 update to the 'Norwegian Guidelines on Corporate Governance', prepared by the Norwegian Corporate Governance Board. The objective of the guideline is that companies listed in Norway will practice corporate governance that regulates the division of roles between shareholders, the Board of Directors and executive management more comprehensively than is required by legislation. BW Offshore's Corporate Governance policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the annual report.

**GOING CONCERN**

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

**RISK**

The Company's risk exposure is analyzed and evaluated to ensure sound internal control and appropriate risk management based on the Company's values, policies and code of ethics. The Company is exposed to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The most important operational risk factors are related to the operation of FPSOs and the execution of projects. Risk management is described more comprehensively under note 18 in the consolidated financial statements.

**EVENTS AFTER THE BALANCE SHEET DATE**

The FPSO P-63 arrived 28 January 2013 at QUIP's Rio Grande yard in Brazil for the integration of the remaining six modules. The FPSO is then expected to be installed on the Papa Terra field and commence operation. All possible efforts are being made by BW Offshore and its Brazilian partner, QUIP, to meet the overall project schedule requirements from Petrobras for a July 2013 start-up.

On 1 January 2013 BW Offshore successfully took over the operation of FPSO Peregrino after a planned transition period of six months.

The unit is owned by Statoil and is operating on the Peregrino oil field offshore Brazil.

On 14 March 2013 BW Offshore successfully completed a NOK 500 million senior unsecured bond issue with maturity in March 2018. The proceeds will be used for general corporate purposes.

**PARENT COMPANY ACCOUNTS**

The financial statements of the parent company, BW Offshore Limited, are prepared and presented in accordance with international financial reporting standards (IFRS). The company reported a net loss of USD 147.0 million for 2012, compared to a net profit of USD 127.7 million in 2011. BW Offshore Limited is a holding company with no operating activities. The loss for 2012 is primarily caused by management fees from BW Offshore Norway AS and BW Offshore Singapore Pte Ltd in addition to impairments of intercompany balances.

Total assets were USD 2,558.9 million as at 31 December 2012 compared to USD 1,407.9 million in 2011.

Total shareholders' equity in BW Offshore Limited as of December 31, 2012 was USD 1,142.5 million, corresponding to 44.3 percent of total assets.

**OUTLOOK**

The outlook for the energy market in general and FPSO business in particular remains good. Based on BW Offshore's products offering, geographical presence, scale and competence, the Company is very well positioned to grow its core business. BW Offshore's cash flow from the operating units is secure and based on long term contracts with national oil companies and independent oil companies.

The commencement of operation for the FPSOs BW Pioneer, BW Athena and BW Joko Tole, as well as the recent extensions of contracts for Petróleo Nautipa, Berge Helene and Espoir Ivoirien will contribute to significant growth in EBITDA for 2013 and beyond.

BW Offshore is currently evaluating several projects that may meet the Company's financial targets. This includes both contract extensions for existing units, as well as contracts for new units and operations.

BW Offshore is committed to deliver total shareholder return at or above peers in our sector. The Board wants to highlight a positive development in operating earnings through the course of the year. Efforts are being made to improve operational performance across the fleet. Steps have also been taken to strengthen engineering and project execution capabilities.

Bermuda, 21 March 2013

BOARD OF DIRECTORS



*[Signature]*  
Mr. Christophe Petteinati-Auzière

*[Signature]*  
Mr. Maarten R. Scholten

*[Signature]*  
Mr. Andreas Sohlen-Pao

*[Signature]*  
Mr. Roald Johan Langeland  
Vice Chairman

*[Signature]*  
Ms. Carine Smith Ihenacho

*[Signature]*  
Dr. Helmut Sohlen  
Chairman

Bermuda, 21 March 2013

# SHAREHOLDER INFORMATION

## INVESTOR RELATIONS POLICY

It is in the interest of BW Offshore as a public listed company to effectively communicate with the financial community and other stakeholders in order to ensure a fair valuation and increase the shareholder value. The integrity of the capital markets is based on full and fair disclosure of information. BW Offshore will maintain a reliable and open relationship with investors, and the company's objective is to provide a higher return than alternative investments with a comparable risk profile. Return is measured on a total shareholder return basis, including both share price performance and dividend payments. Based on these value parameters, the BW Offshore share shall be an attractive investment opportunity.

All shareholders in BW Offshore have equal rights and the company treats all shareholders equally. The company has

one share class and each share carries one vote at the company's general meetings.

BW Offshore is a Bermuda limited liability company listed on the Oslo Stock Exchange. The company is therefore obliged to comply with the Bermuda Companies Act, its Memorandum of Association and its Bye-laws, as well as the disclosure requirements of 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 generally apply. BW Offshore commits to good corporate governance and generally comply also with the Norwegian Code of Practice for Corporate Governance. Divergence from this code is clearly described in BW

Offshore's Corporate Governance policy, which is included in the Annual report and available on the company's website.

BW Offshore is committed to providing timely, orderly, consistent and credible information. Information and communication are regulated by the company's disclosure policy. This policy covers disclosure to the investment community, the press, industry consultants and other audiences. The purpose of this policy is to govern the disclosure of material, non-public information in a manner designed to provide broad, non-exclusionary distribution of information so that the public has equal access to the information. All investors have equal access to material information, and all information provided externally by the company shall be consistent with disclosures to the investment community.

BW Offshore complies with the Oslo Stock Exchange's recommendation for Investor Relations information.

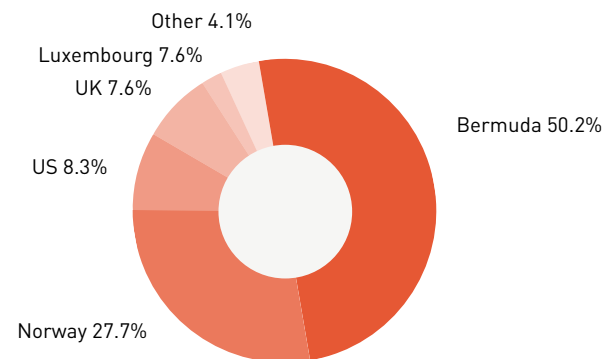
Any transactions by the company with its own shares are carried out either through the stock exchange or at prevailing stock exchange prices. In the event of any material transactions between the company and its shareholders, directors, members of the executive management or close associates of any such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

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

## 20 LARGEST SHAREHOLDERS AS OF 14 MARCH 2013

NAME	TYPE	COUNTRY	SHARES #	SHARES%
1 BW GROUP LIMITED C/O BW MARITIME PTE		BERMUDA	342,312,248	49.75 %
2 THE NORTHERN TRUST C USL NON-TREATY ACCOU	NOM	UK	35,080,869	5.10 %
3 RASMUSSENGRUPPEN AS		NORWAY	23,843,565	3.47 %
4 ODIN OFFSHORE		NORWAY	14,200,000	2.06 %
5 ODIN NORDEN		NORWAY	11,467,390	1.67 %
6 FIDELITY FUNDS-NORDI		LUXEMBOURG	10,935,899	1.59 %
7 ODIN NORGE		NORWAY	9,781,798	1.42 %
8 FIDELITY DIV GR FUND C/O CITIBANK NA NEW		US	8,762,498	1.27 %
9 KLP AKSJE NORGE VPF		NORWAY	8,644,360	1.26 %
10 KOLBJØRN INVEST II A		NORWAY	6,370,000	0.93 %
11 FIDELITY NORDIC FUND		US	6,304,100	0.92 %
12 KOMMUNAL LANDSPENSJO		NORWAY	6,287,038	0.91 %
13 JP MORGAN CLEARING C A/C CUSTOMER SAFE KE	NOM	US	5,437,704	0.79 %
14 JPMORGAN CHASE BANK A/C FIDELITY NON TRE	NOM	US	5,205,695	0.76 %
15 LOMA INVEST AS		NORWAY	5,198,185	0.76 %
16 GOLDMAN SACHS & CO - SECURITY CLIENT SEGR	NOM	US	4,964,370	0.72 %
17 SSTL AS DEP OF HSBC HSBC BANK PLC		UK	4,646,227	0.68 %
18 JPMORGAN CLEARING CO A/C CLEARING ACCOUNT	NOM	US	3,879,530	0.56 %
19 VERDIPAPIRFONDET DNB		NORWAY	3,780,948	0.55 %
20 VIOLA AS		NORWAY	3,649,075	0.53 %
<b>Top 20 shareholders</b>			<b>520,751,499</b>	<b>75.70 %</b>
<b>Total shares outstanding</b>			<b>688,006,004</b>	

## GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS



TOTAL NUMBER OF SHAREHOLDERS:  
**3,123**

### FINANCIAL CALENDAR 2013

19.02.2013	Q4 2012 results
16.05.2013	AGM
22.05.2013	Q1 2013 results
29.08.2013	Q2 2013 results
21.11.2013	Q3 2013 results

## DIVIDEND POLICY

BW Offshore has an objective to generate competitive long-term total shareholder returns. This return will be achieved through sustainable growth and stable dividend payments. BW Offshore targets a payout ratio of 20-25 per cent of EBITDA. The level of dividends will be approved by the Directors on a quarterly basis.

BW Offshore has paid dividend in eight consecutive quarters since introduction of the dividend policy in Q1 2011.

## FINANCIAL INFORMATION 2012 2011

P&L (MUSD)	2012	2011
Operating revenue	909.4	846.2
Operating expenses	(662.4)	(534.0)
Share of profit/(loss) of associates	0.9	(0.3)
EBITDA	247.9	311.9
Depreciation and amortisation	(226.8)	(183.1)
Gain on sale of assets and reversal of impairment	73.7	(119.8)
Operating profit (EBIT)	94.8	9.0
Net financial items	(66.1)	(79.9)
Profit before tax	28.7	(70.9)
Income tax expense	(28.7)	(43.9)
Net profit (loss) for the period	-	(115.5)

BALANCE SHEET	2012	2011
Total assets	3,423.7	3,616.6
Interest bearing debt	1,778.7	1,968.8
Cash and cash equivalents	101.9	243.6
Net interest bearing debt (NIBD)	1,676.8	1,725.2
Total equity	1,127.1	1,171.9

CASH FLOW	2012	2011
Net cash flow from operating activities	209.9	236.0
Net cash flow from investing activities	(37.6)	(353.9)
Net cash flow from financing activities	314.0	133.3
Net change in cash and cash equivalents	(141.7)	15.4
Cash and cash equivalents at end of period	101.9	243.5

KEY FIGURES	2012	2011
Equity ratio	32.9%	32.4%
EBITDA margin	27.3%	36.9%
Return on equity (ROE)	0.5%	(3.3%)
Number of shares (mill)	688.0	688.0
Number of shares fully diluted (mill)	688.0	688.0
Shareprice (NOK)	5.15	9.45
Market cap (MNOK)	3,543.0	6,502.0
Market cap (MUSD)	637.0	1,085.0
Enterprise value (EV. MUSD)	2,313.8	2,787.4

## SHAREPRICE (NOK)



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

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



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### GLOBAL PRESENCE

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

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## CONSOLIDATED FINANCIAL STATEMENTS

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## DIRECTORS' REPORT

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

BW Offshore was incorporated in Bermuda on 7 June 2005 and has been listed on the Oslo Stock Exchange (ticker 'BW0') since 2006. The Company was established to capitalise on the growing demand for offshore floating production and storage facilities.

BW Offshore is a provider of Floating Production, Storage and Offloading units (FPSOs) and Floating Storage and Offloading units (FSOs). By the end of 2012, the Company had units operating offshore Brazil, Mauritania, Mexico, Nigeria, Indonesia, Ivory Coast, Gabon, Congo, New Zealand, UK, USA and Russia.

The Company's core strengths are:

- Wide geographical presence
- Engineering
- Project execution
- Operations
- Installation services
- Lease services

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

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

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

Total LTI-rate (Lost Time Injuries) and total TRI-rate (Total Recordable Incidents) for the Company in 2012 were 0.8 and 2.1, respectively. The comparable rates for 2011 were 0.3 and 1.5.

The Board considers that the working environment in the Company is good. In 2012, absence due to sickness amounted to 1.5% of total hours worked by the employees. During the year, several initiatives

were taken to further improve the working environment. Leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while organisation restructuring, recruitment of engineering and project competence, alignment of compensation and benefit policies and procedures on a global scale are some examples of onshore initiatives undertaken in the year.

The BW Offshore average number of employees including contract staff for 2012 was 2,280. The Company wants to be considered as an attractive workplace and attaches prime importance to offering challenging and motivating jobs and equal development opportunities for all, regardless of gender, nationality, culture or religion. There is no discrimination due to gender, nationality, culture or religion with respect to remuneration, promotion or recruitment.

The activities of the Company are subject to environmental regulations pursuant to a variety of international conventions and national, state and municipal laws and regulations, which the Company is committed to uphold, and where appropriate, exceed. Compliance with such regulations can require significant expenditure and in the unlikely event breaches occur, this may result in the imposition of fines and penalties, some of which may be material. These concerns apply to all entities operating in the FPSO and FSO market. The discharge of oil, natural gas or other pollutants into the air or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. Environmental legislation may also expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company which were in compliance with all applicable laws at the time such actions were taken. Furthermore, some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, which could result in liability for environmental damage without regard to negligence or fault. The Company had no significant harmful environmental spills during 2012.

On a fleet wide basis, the Company takes out insurance cover for its crew and support staff, pollution and clean-up, damage to vessels, loss of income and third-party liabilities. The insurance also covers losses resulting from acts of war and terrorism. Cover for oil pollution and oil pollution caused by war and war-like actions are limited per incident.

### OPERATIONS AND PROJECTS

BW Offshore owns and operates fourteen FPSOs and one FSO and has one ongoing FPSO conversion

project together with Brazilian consortium partner QUIP.

1. The FPSO Yuum K'ak' Náab is in operation at the KMZ field offshore Mexico for Pemex and commenced operation in 2007. The duration of the contract is fifteen years fixed and with an option to extend for an additional three years.
2. The FPSO Sendje Berge is in operation at the Okwori field offshore Nigeria for Sinopec. The unit started operation in Equatorial Guinea in 2000 and was modified, upgraded and relocated to Nigeria in 2005. In 2010, the client extended the contract by another two years from 2011 to April 2013. The Group is currently negotiating with the client for a long term extension.
3. The FPSO Berge Helene is in operation at the Chinguetti field offshore Mauritania for Petronas. The duration of the contract is nine years fixed plus options for up to six years. The vessel started operation in 2006. In 2012 the firm period of the contract was extended by two years from 2013 to 2015.
4. The FPSO BW Cidade de São Vicente is in operation at the Lula field (former Tupi field) offshore Brazil for Petrobras. The vessel commenced operations in 2009 on a 10 year firm lease contract. The client has options for up to five years.
5. The Arctic FSO Belokamenka operates as an oil terminal in the Kola Bay, Russia for Sovcomflot. The unit commenced operation in 2004 and the duration of the contract is fifteen years.
6. The FPSO Cidade de São Mateus commenced its nine-year firm contract with Petrobras on the Camarupim field off the coast of Espirito Santo, Brazil, in 2009. Petrobras has the option to extend the contract by up to six years.
7. The FDP SO Azurite is the world's first FPSO with drilling capabilities. The unit is equipped with a modular drilling package, which can be removed and used elsewhere once drilling is completed. The unit commenced operations on Murphy's deep water Azurite development field in the Mer Profonde Sud block offshore the Republic of Congo in April 2009. The firm part of the contract is seven years, while there are options for up to eight years.
8. The FPSO Polvo is currently operating for BP on the Polvo field offshore Brazil. The contract started in 2007. The contract has a firm seven year period with an eight-year extension option.
9. The FPSO Espoir Ivoirien is in operation at the Espoir field offshore Ivory Coast for Canadian Natural Resources (CNR). The FPSO first time commenced operation in 2002. The contract has been renegotiated and extended in 2012 and is now firm until 2017 with options to extend until 2036.

10. The FPSO Umuroa has since 2007 been on a five-year contract with options for additional five years of operations for Australian World-wide Exploration on the Tui field offshore New Zealand. This contract was adjusted in 2008 to an eight-year firm period ending in 2015, with options for extension up to 2022.

11. The FPSO Abo commenced operation in 2003 and is on a contract with Nigerian Agip Exploration on the Abo field offshore Nigeria until April 2013. The Group is currently negotiating with the client for a long term extension.

12. The FPSO Petróleo Nautipa is operating for Vaalco on the Etame field offshore Gabon. The vessel started operation for Vaalco in 2002. The contract was extended in 2005 and in 2007. The contract was further extended in 2012 and is now firm until 2020 with options for two additional years.

13. The FPSO Ningaloo Vision was sold January 2012 to Apache after having been in operation in Australia since 2010. BW Offshore operated the FPSO on behalf of Apache until final handover in August 2012.

14. The FSO Endeavor was sold for scrap in 2012.

15. The FPSO BW Pioneer commenced operation on the Cascade Chinook oil and gas field for Petrobras in the US Gulf of Mexico in February 2012. The contract is for a fixed term of five years until 2017, with an optional period of up to three years.

16. The FPSO BW Athena commenced operation on the Athena field in the UK for Ithaca Energy in June 2012. The contract is for a fixed term of three years until 2015, with an option period of up to five years.

17. The FPSO BW Joko Tole commenced operation on the Terang Sirasun Batur gas fields for Kangean Energy Indonesia in May 2012. The contract is for a fixed period of ten years, with an option to extend for four years.

18. BW Offshore has signed a five year contract with Statoil for the operation of the FPSO Peregrino, with options for additional 15 years. The unit is operating on the Peregrino oil field offshore Brazil. BW Offshore has taken over operation 1 January 2013 after a transition period of six months.

19. BW Offshore, together with its Brazilian consortium partner QUIP, is converting FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility is to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The FPSO arrived January 2013 at QUIP's Rio Grande yard in Brazil for the integration of the

remaining six modules. The FPSO is then expected to be installed on the Papa Terra field and commence operation. All possible efforts are being made by BW Offshore and its Brazilian partner, QUIP, to meet the overall project schedule requirements from Petrobras for a July 2013 start-up. The forecasted cost for completing the project has been increased to USD 450.0 million. The additional project costs are mainly linked to increased engineering, construction, procurement and commissioning cost and increased yard costs associated with the delayed schedule. BW Offshore does not anticipate any liquidated damages from this project based on the current project schedule, however further slippage might influence the total project cost. BW Offshore will, under a separate contract, subsequently be responsible for the operation of the vessel with the Brazilian JV partner, Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.

The order backlog for the Company represents a value of approximately USD 4.1 billion related to non-cancellable contracts and if including options, USD 8.2 billion.

### FINANCIAL RESULT

The earnings before interest, taxes, depreciation and amortisation (EBITDA) for BW Offshore and its subsidiaries (the 'Group') for 2012 was USD 247.9 million compared to USD 311.9 million in 2011. Operating profit was USD 94.8 million, compared to a profit of USD 9.0 million in 2011. Operating profit included reversal of impairment of USD 75.0 million related to the operating vessels, compared to an impairment of USD 138.5 million in 2011. Net result was USD 0.0 million compared to a net loss of USD 115.5 million in 2011.

The Group's revenue derived from charter hire was USD 770.7 million compared to USD 619.8 million in 2011. The increase is primarily attributable to increased activity resulting from the commencement of operation for BW Pioneer, BW Joko Tole and BW Athena during the year. Revenue derived from construction contracts was USD 56.6 million compared to USD 184.2 million in 2011. Revenue derived from lease interests was USD 17.2 million compared to USD 18.3 million in 2011. Lease interest revenue is derived from the operation of the FPSO Yuum K'ak' Náab and from the lease of the FSO Belokamenka.

Operating expenses include all expenses related to the operation of the FPSOs and FSOs. Total operating expenses were USD 662.4 million compared to USD 534.1 million in 2011. The increase in operating expenses was mainly attributable to the commencement of operation of BW Pioneer, BW Joko Tole and BW Athena.

Administrative expenses include expenses that are not directly attributable to the operation of the Company's FPSOs and FSOs, primarily

employment expenses incurred by the operating offices in Oslo and Singapore, and all other administrative expenses. Total administrative expenses amounted to USD 55.3 million compared to USD 51.1 million in 2011.

Depreciation and amortisation amounted to USD 226.8 million, compared to USD 183.0 million in 2011. The increase is mainly attributable to the commencement of depreciation of BW Pioneer, BW Joko Tole and BW Athena.

Net interest expense was USD 53.2 million compared to USD 46.2 million in 2011. The increase is due to net average higher interest bearing debt in 2012.

Tax expense amounted to USD 28.7 million compared to USD 43.9 million in 2011. The decrease is mainly due to a deferred tax asset related to the FPSO Ningaloo Vision which was expensed in 2011. The Group is not subject to taxation in Bermuda, but the Group is subject to taxation in the various countries in which it operates.

Total assets were USD 3,423.7 million as at 31 December 2012 compared to USD 3,616.6 million in 2011. The net decrease of USD 192.9 million (5%) mainly relates to depreciation on assets, down payment of the CIRR facility, lower cash level offset by capex on new vessels and higher trade receivables. Goodwill as at 31 December 2012 relates to the acquisition of Prosafe Production.

As at 31 December 2012, the Group had a net equity of USD 1,127.1 million compared to USD 1,171.9 million at 31 December 2011. The decrease is due to the dividends in 2012. The net equity ratio as at 31 December 2012 was 32.9% compared to 32.4% as at 31 December 2011.

As at 31 December 2012, the Group had interest-bearing debt of USD 1,778.7 million compared to USD 1,968.8 million in 2011. BW Offshore is mainly funded through a USD 2.4 billion seven year senior secured credit facility established in 2011. During first quarter 2012, the Group successfully completed the placement of a new NOK 500 million (USD 90 million) senior unsecured bond with maturity date on 15th March 2017. The proceeds from this loan will be used for general corporate purposes. Net interest-bearing debt at 31 December 2012 was USD 1,678.8 million.

Net cash inflow from operating activities amounted to USD 209.9 million compared to net cash inflow of USD 236.0 million in 2011. Net cash outflow from investment activities amounted to USD 37.6 million, compared to a net cash outflow of USD 353.9 million in 2011. Investments in fixed assets amounted to USD 228.7 million, compared to USD 398.2 million in 2011. Cash outflow from investment activities in 2012 mainly relates to the conversion of the FPSO BW Joko Tole and the FPSO BW Athena.

### CORPORATE GOVERNANCE

Good corporate governance plays a key role in

creating shareholder value and building investor confidence, thereby ensuring an optimal capital cost. 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 latest 2011 update to the 'Norwegian Guidelines on Corporate Governance', prepared by the Norwegian Corporate Governance Board. The objective of the guideline is that companies listed in Norway will practice corporate governance that regulates the division of roles between shareholders, the Board of Directors and executive management more comprehensively than is required by legislation. BW Offshore's Corporate Governance policy complies with the Norwegian Guidelines with certain deviations as outlined and explained in a separate chapter in the annual report.

**GOING CONCERN**

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

**RISK**

The Company's risk exposure is analyzed and evaluated to ensure sound internal control and appropriate risk management based on the Company's values, policies and code of ethics. The Company is exposed to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The most

important operational risk factors are related to the operation of FPSOs and the execution of projects. Risk management is described more comprehensively under note 18 in the consolidated financial statements.

**EVENTS AFTER THE BALANCE SHEET DATE**

The FPSO P-63 arrived 28 January 2013 at QUIP's Rio Grande yard in Brazil for the integration of the remaining six modules. The FPSO is then expected to be installed on the Papa Terra field and commence operation. All possible efforts are being made by BW Offshore and its Brazilian partner, QUIP, to meet the overall project schedule requirements from Petrobras for a July 2013 start-up.

On 1 January 2013 BW Offshore successfully took over the operation of FPSO Peregrino after a planned transition period of six months. The unit is owned by Statoil and is operating on the Peregrino oil field offshore Brazil.

On 14 March 2013 BW Offshore successfully completed a NOK 500 million senior unsecured bond issue with maturity in March 2018. The proceeds will be used for general corporate purposes.

**PARENT COMPANY ACCOUNTS**

The financial statements of the parent company, BW Offshore Limited, are prepared and presented in accordance with international financial reporting standards (IFRS). The company reported a net loss of USD 147.0 million for 2012, compared to a net profit of USD 127.7 million in 2011. BW Offshore Limited is a holding company with no operating activities. The loss for 2012 is primarily caused by management fees from BW Offshore Norway AS and BW Offshore Singapore Pte Ltd in addition to impairments of intercompany balances.

Total assets were USD 2,558.9 million as at 31 December 2012 compared to USD 1,407.9 million in 2011.

Total shareholders' equity in BW Offshore Limited as of December 31, 2012 was USD 1,142.5 million, corresponding to 44.3 percent of total assets.

**OUTLOOK**

The outlook for the energy market in general and FPSO business in particular remains good. Based on BW Offshore's products offering, geographical presence, scale and competence, the Company is very well positioned to grow its core business. BW Offshore's cash flow from the operating units is secure and based on long term contracts with national oil companies and independent oil companies.

The commencement of operation for the FPSOs BW Pioneer, BW Athena and BW Joko Tole, as well as the recent extensions of contracts for Petróleo Nautipa, Berge Helene and Espoir Ivoirien will contribute to significant growth in EBITDA for 2013 and beyond.

BW Offshore is currently evaluating several projects that may meet the Company's financial targets. This includes both contract extensions for existing units, as well as contracts for new units and operations.

BW Offshore is committed to deliver total shareholder return at or above peers in our sector. The Board wants to highlight a positive development in operating earnings through the course of the year. Efforts are being made to improve operational performance across the fleet. Steps have also been taken to strengthen engineering and project execution capabilities.

# RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2012 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

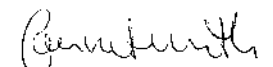
Bermuda, 21 March 2013



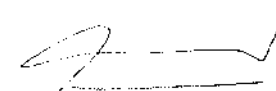
Dr. Helmut Sohmen  
Chairman



Mr. Bonny Johan Langeland  
Vice Chairman



Mrs. Carine Smith Ihenacho



Mr. Christophe Pettenati-Auzière

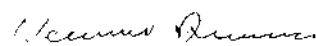


Mr. Maarten R. Scholten



Mr. Andreas Sohmen-Pao

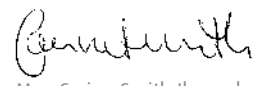
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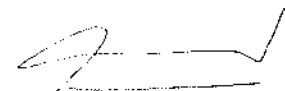
Dr. Helmut Sohmen  
Chairman



Mr. Bonny Johan Langeland  
Vice Chairman



Mrs. Carine Smith Ihenacho



Mr. Christophe Pettenati-Auzière



Mr. Maarten R. Scholten



Mr. Andreas Sohmen-Pao

# INDEPENDENT AUDITOR'S REPORT



Statsautoriserte revisorer  
 Ernst & Young AS  
 Dronning Eufemias gate 6, NO-0191 Oslo  
 Oslo Atrium, P.O.Box 20, NO-0051 Oslo  
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 Tlf.: +47 24 00 24 00  
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 Medlemmer av Den norske Revisorforening

To the Board of Directors and shareholders of  
 BW Offshore Limited

## AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of BW Offshore Limited, which comprise the financial statements of the Parent company and the consolidated financial statements of the Group. The financial statements of the Parent company and the Group comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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### Opinion

In our opinion, the financial statements of BW Offshore Limited present fairly, in all material respects, the financial position of the Parent company and the Group as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Oslo, 21 March 2013  
 ERNST & YOUNG AS

Nicolai Homme  
 State Authorised Public Accountant (Norway)

## CONSOLIDATED STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2012	2011
Charter hire	5,6	770.7	619.8
Construction contract revenue	7	56.6	184.2
Lease interest	5,6	17.2	18.3
Other income	6	64.9	24.0
<b>Total revenues</b>		<b>909.4</b>	<b>846.3</b>
<b>OPERATING EXPENSES</b>			
Operating expenses vessels	8,9	(351.7)	(311.9)
Construction contract expenses	7	(189.0)	(155.9)
Currency hedges and other currency effects	18	(0.9)	6.7
Other expenses		(65.5)	(21.9)
Administrative expenses	8,9,19	(55.3)	(51.1)
<b>Total expenses</b>		<b>(662.4)</b>	<b>(534.1)</b>
Share of profit/(loss) of associated companies	14	0.9	(0.3)
Operating profit before depreciation, amortisation & sale of assets		247.9	311.9
Depreciation and amortisation	11,12,13	(226.8)	(183.0)
Reversal of Impairment/(Impairment)	11,22	75.0	(138.5)
Net gain/(loss) on sale of tangible fixed assets	11,12	(1.3)	18.6
<b>Operating profit</b>		<b>94.8</b>	<b>9.0</b>
<b>FINANCIAL INCOME AND FINANCIAL EXPENSE</b>			
Interest income		0.4	2.3
Fair value loss on financial instruments		(12.1)	(30.6)
Interest expense		(53.6)	(48.5)
Other financial expenses		(0.8)	(3.1)
<b>Net financial expenses</b>		<b>(66.1)</b>	<b>(79.9)</b>
<b>Profit/(loss) before tax</b>		<b>28.7</b>	<b>(70.9)</b>
Income tax expense	10	(28.7)	(43.9)
<b>Net profit/(loss) for the year from continued operations</b>		<b>-</b>	<b>(114.8)</b>
Net profit/(loss) from discontinued operations		-	(0.7)
Net profit/(loss) for the year		-	(115.5)
Profit/(loss) attributable to equity shareholders		-	(115.5)
Basic/diluted earnings/(loss) per share from continuing operations	23	-	(0.17)
Basic/diluted earnings/(loss) per share from discontinued operations	23	-	-
Basic/diluted earnings/(loss) per share net	23	-	(0.17)

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

USD million (Year ended 31 December)	Note	2012	2011
Profit/(loss) for the year		-	(115.5)
<b>Other comprehensive income</b>			
Currency translation differences		0.7	0.3
Cash flow hedges	18	(4.5)	(3.2)
Treasury shares		0.1	-
Total other comprehensive income for the period, net of tax		(3.7)	(2.9)
<b>Total comprehensive income for the year</b>		<b>(3.7)</b>	<b>(118.4)</b>
<b>Attributable to</b>			
Equity holders of the parent		(3.7)	(118.4)
Non-controlling interests		-	-

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

USD million (As at 31 December)	Note	2012	2011
<b>ASSETS</b>			
Vessels and vessels under construction	11	2,700.1	2,620.4
Property and other equipment	12	8.2	6.7
Goodwill	13	186.9	186.9
Other intangible assets	13	2.6	3.6
Finance lease receivable	6	174.1	188.6
Investments in associates	14	3.9	3.1
Deferred tax asset	10	1.5	0.2
Derivatives	18	0.4	-
Other non-current assets		6.8	0.1
<b>Total non-current assets</b>		<b>3,084.5</b>	<b>3,009.6</b>
Inventory		8.9	5.3
Trade and other receivables	17	212.7	159.0
Finance lease receivable	6	14.5	13.3
Derivatives	18	1.3	0.8
Cash and deposits	15	101.9	243.6
Assets classified as held for sale	11	-	185.0
<b>Total current assets</b>		<b>339.3</b>	<b>607.0</b>
<b>TOTAL ASSETS</b>		<b>3,423.8</b>	<b>3,616.6</b>
<b>EQUITY</b>			
Share capital	16	6.9	6.9
Share premium		1,085.0	1,085.0
Other equity		35.2	80.0
<b>Total shareholder's equity</b>		<b>1,127.1</b>	<b>1,171.9</b>
Long-term loan facilities	18,20	1,548.0	1,689.8
Retirement benefit obligations	19	8.0	6.9
Deferred tax liabilities	10	0.1	0.1
Other non-current liabilities		176.3	129.6
Derivatives	18	55.6	75.5
<b>Total non-current liabilities</b>		<b>1,788.0</b>	<b>1,901.8</b>
Trade and other payables	27	231.7	216.7
Derivatives	18	11.8	16.3
Interest-bearing short term debt	18,20	230.7	279.0
Provisions	26	14.0	14.0
Income tax liabilities	10	20.5	16.9
<b>Total current liabilities</b>		<b>508.7</b>	<b>542.9</b>
<b>Total liabilities</b>		<b>2,296.7</b>	<b>2,444.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,423.8</b>	<b>3,616.6</b>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD million	Share capital	Share premium	Treasury shares	Currency translation reserve	Cash flow hedges	Other equity	Total
<b>At 1 January 2011</b>	<b>6.9</b>	<b>1,334.9</b>	<b>(9.2)</b>	<b>(0.2)</b>	<b>4.0</b>	<b>36.4</b>	<b>1,372.7</b>
Dividend distribution	-	-	-	-	-	(82.4)	(82.4)
Reduction of share premium	-	(249.9)	-	-	-	249.9	-
Profit (loss) for the period	-	-	-	-	-	(115.5)	(115.5)
Total comprehensive income	-	-	-	0.3	(3.2)	-	(2.9)
<b>At 31 December 2011</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.2)</b>	<b>0.1</b>	<b>0.8</b>	<b>88.4</b>	<b>1,171.9</b>
<b>At 1 January 2012</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.2)</b>	<b>0.1</b>	<b>0.8</b>	<b>88.4</b>	<b>1,171.9</b>
Dividend distribution	-	-	-	-	-	(41.1)	(41.1)
Profit (loss) for the period	-	-	-	-	-	-	-
Total comprehensive income	-	-	0.1	0.7	(4.5)	-	(3.7)
<b>At 31 December 2012</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.1)</b>	<b>0.8</b>	<b>(3.7)</b>	<b>47.3</b>	<b>1,127.1</b>

The Board has declared a cash dividend of USD 0.02 per share for the fourth quarter. The dividend will amount to approximately USD 13.7 million. Total distributed dividend in 2012 amounts to USD 41.1 million, at USD 0.06 per share.

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

## CONSOLIDATED STATEMENTS OF CASH FLOW

USD million (Year ended 31 December)	Note	2012	2011
<b>Operating activities</b>			
Profit (loss) before tax		28.7	(70.9)
Income tax paid	10	(26.7)	(25.5)
Loss (gain) on disposal of fixed assets	11,12	1.3	(18.6)
Fair value change on financial instruments	18	12.1	30.6
Share of loss of associated companies	14	(0.9)	0.3
Currency exchange differences		0.9	(6.7)
Depreciation and amortisation	11,12,13	226.8	183.0
Impairment charges/(Reversal of impairment)		(75.0)	138.5
Add back of net interest expense		53.2	46.2
Other changes		14.2	12.9
Changes in inventories, receivables and accounts payable		(24.7)	(53.8)
<b>Net cash flows from operating activities</b>		<b>209.9</b>	<b>236.0</b>
<b>Investing activities</b>			
Investments in operating fixed assets and other assets	11,12,13,15	(228.7)	(398.2)
Proceeds from disposal of fixed assets	11	190.4	42.8
Purchase of subsidiary, net of cash acquired	14	-	(0.8)
Interest received		0.4	2.3
<b>Net cash flows used in investing activities</b>		<b>(37.6)</b>	<b>(353.9)</b>
<b>Financing activities</b>			
Proceeds from new interest bearing debt	20	390.0	2050.0
Repayment of long-term debt	20	(541.4)	(1700.2)
Dividend paid		(41.1)	(82.4)
Interest paid		(95.5)	(134.1)
Repayment of short-term debt	20	(26.0)	-
<b>Net cash flow from/(used in) financing activities</b>		<b>(314.0)</b>	<b>133.3</b>
Net change in cash and cash equivalents		(141.7)	15.4
Cash and cash equivalents at 1 January		243.6	228.2
<b>Cash and cash equivalents at 31 December</b>	<b>15</b>	<b>101.9</b>	<b>243.6</b>

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

# NOTES

## NOTE 1 GENERAL

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

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

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

All figures are in USD million if not otherwise stated.

The financial statements were approved by the Board of Directors on 21 March 2013.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

### BASIS FOR PREPARATION

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

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

### REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for chartering and rendering of operational services related to FPSOs and FSOs. In addition, the Group has revenues deriving from fixed price construction contracts.

### Operational services

Income from the rendering of services from FPSOs and FSOs operating contracts is recognised as revenue in the accounting period when the services are rendered.

### Chartering of vessels

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

### Operating lease

Leases, in which a significant portion of the risks and rewards of 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 over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. The lease term period for each lease contract is the non-cancellable period for which the lessee has contracted the asset together with an assessment of any further terms that the lessee has the option to continue the lease, when management consider it reasonably certain that the lessee will exercise the option.

### Finance lease

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

### Fixed price construction contracts

Revenue from fixed-price contracts is recognised pursuant to the percentage-of-completion ('POC') method. Pursuant to the POC method, contract revenue is based on actual progress measured as a state of completion of different milestones,

resulting in the recognition of revenue, expenses and profit that can be attributed to the proportion of work completed. When the outcome of construction contracts cannot be estimated reliably, no gain is recognised and only revenues equal to the accrued project costs are taken to revenue to the extent cost incurred are expected to be recoverable.

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 prepayment from customers for contract work is presented as a liability.

### Interest income

Interest income, including interest income arising from a finance lease, is recognised on a time proportion basis applying the effective interest method. Interest income arising from finance lease is classified a part of operational income while other interest income is classified as finance income.

### Dividend income

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

### Other revenues

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

### SEGMENT REPORTING

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

### CONSOLIDATION

#### Subsidiaries

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

The purchase method of accounting is applied to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value as of the date of acquisition, irrespective of the extent of any minority interest. Minority interests

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

represent the portion of the income statement and net assets in the subsidiaries not held by the Group, and the amount attributable to the minority interest is shown beneath the income statement and is included in equity in the consolidated balance sheet.

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group.

### Associates

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

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

### Joint ventures

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

### TANGIBLE FIXED ASSETS

#### Measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment charges. This includes costs of material, direct labour and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended

by management, including financial costs paid during construction, attributable overheads and estimate of costs of demobilising the asset.

Subsequent costs are included in the asset's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Costs of day-to-day servicing of the asset are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts.

### Depreciation

Depreciation will start when the item of property, plant and equipment is ready for use as intended by management. For FPSO's this will be when the vessel is successfully installed on the oil field.

When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. The components are depreciated by using the straight-line method over their anticipated useful life, taking into account its residual value.

The estimated useful lives of the categories of property, plant and equipment are as follows:

#### FPSO's and FSO's

- Hull & Marine scope, including associated investments like refurbishment **15-25 years**
- Field specific equipment and associated investment costs which are incurred for a specific project, e.g. installation costs, transport costs are depreciated over the fixed period of the contract to which they relate **3-15 years**
- Process equipment and associated investment. (In case of long-term contracts these items can be fully depreciated over the contract duration.) **10-25 years**

Other fixed assets, like IT equipment, office equipment and cars **3-8 years**

The assets' useful life and residual values are reviewed, and if necessary adjusted, at each reporting sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

### Disposal activities

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

### Impairment of tangible fixed assets

Assets including vessels, vessels under construction, conversion candidates and other tangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A contract and the associated vessel are grouped and assessed together when testing for impairment. Each vessel is specific to the contract. An impairment loss is recognised for the amount that the asset's carrying amount

exceeds its recoverable amount, being the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units). Each FPSO and FSO is identified as a cash-generating unit.

At the end of each reporting period the Group will assess whether there is any indication that an impairment recognised in previous periods may no longer exist or may have decreased. If any such indication exists, the Group will estimate the recoverable amount of the asset. If the recoverable amount is higher than the carrying amount of the asset, the carrying amount of the asset will be increased to its recoverable amount. The increase shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous periods.

### INTANGIBLE ASSETS

#### Goodwill

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

Goodwill is allocated to one cash generating unit which consists of the combined group for the purpose of impairment testing. The allocation is made to the cash-generating unit that is expected to benefit from the business combination.

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

#### Computer software

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

#### Other intangible assets

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

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are annually tested for impairment.

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

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

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

**Research and development**

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

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

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

**Impairment of non-financial assets**

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

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

**Non-current assets (or disposal groups) held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and such sale is considered highly probable. The assets are stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Where a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate key line of business or geographical area of operations, is part of a single

coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, it is classified as discontinued operations. As a result, the figures relating to the continuing operations are presented exclusive of the discontinued operations. The comparative figures in the statement of income and statement of cash flows are restated and presented on a single line as discontinued operations.

**CONTINGENT ASSET AND LIABILITY**

A contingent liability is:

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

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

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

**LEASING**

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

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

**The Group as lessor**

Assets held pursuant to a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease.

**Assets held pursuant to an operating lease**

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

**The Group as lessee**

Lease payments where the Group is the lessee are recognized as an expense in the income statement on a straight line basis over the lease term.

**BORROWINGS**

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

Fees paid in relation to the establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

**BORROWING COSTS**

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

**TRADE AND OTHER RECEIVABLES**

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

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

**TRADE AND OTHER PAYABLES**

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

**INVENTORIES**

Inventories comprise mainly of fuel oil remaining on board the vessels and other consumables. Inventories are measured at the lower of cost or net realisable value. Cost is determined by the 'first-in first-out' (FIFO) method. The cost of purchase of

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

inventories comprises the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted when determining the costs of the purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**CASH AND CASH EQUIVALENTS**

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

**FINANCIAL ASSETS**

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

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

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

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

- (a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) Hedges of a net investment in a foreign operation (net investment hedge).

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The cash flow hedges of various derivative instruments used for hedging purposes are disclosed

in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

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

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

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

**PROVISIONS FOR OTHER LIABILITIES AND CHARGES**

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

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

**EMPLOYEE BENEFITS****Defined benefit plans**

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

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

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

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

**Defined contribution plans**

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

**Employee-leave entitlement**

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

**CURRENCY TRANSLATION****Functional and presentation currency**

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

**Transactions and balances**

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

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.****TAXES AND DEFERRED TAX LIABILITIES**

The Company is not subject to any income taxes, but some of its subsidiaries are subject to income tax in the countries in which they operate. The Group provides for tax on profit based on the profit for financial reporting purposes, adjusted for non-taxable revenue and expenses. Income tax expense represents the sum of the tax currently payable, changes in deferred tax liabilities and deferred tax assets, and withholding tax on charter hire. Charter hire are presented gross of withholding taxes payable where applicable.

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

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

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

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

**DIVIDEND DISTRIBUTION**

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

**SHARE CAPITAL**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share

capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

**USE OF ESTIMATES**

The preparation of the financial statements in conformity with IFRS requires management to exercise its judgment 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 installment on long-term debt. This is presented as current interest-bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

**CHANGES IN ACCOUNTING POLICIES**

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

Changes in accounting policies and disclosures:

(a) New and amended standards adopted by the Group. In 2012 the Group has adopted IFRS 13, as well as amendments to IAS 1, 12, 27, 28 and 32. These new and amended accounting standards have not had any material impact on the financial statements of the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but the Group has not early adopted them:

IFRS 7 - Amendment: New disclosure requirements - Offsetting of Financial Assets and Financial Liabilities. It is not applicable until 1 January 2013.

IFRS 9 - Financial Instruments. It is not applicable until 1 January 2015.

IFRS 10 - Consolidated: Financial Statements. It is not applicable until 1 January 2014. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In the standard an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group have assessed that the implementation of this standard may lead to a requirement to consolidate the investment in Nexus Floating Production.

IFRS 11 - Joint Arrangements. It is not applicable until 1 January 2014. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognises its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. Under this new standard, the Company will have to account for its shareholding in joint ventures according to the equity method. Instead of consolidating the assets, liabilities, revenues and expenses as disclosed in note 21, the Group will present its share of equity in joint venture as investment in shares in joint ventures and its share of result from joint ventures on one line as revenue from joint ventures.

IFRS 12 - Disclosure of Interests in Other Entities. It is not applicable until 1 January 2014. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity. The new disclosures will assist the users of the financial statements to make their own assessment of the financial impact in cases where management were to reach a different conclusion regarding consolidation — by providing more information about unconsolidated entities.

IFRS 13 - Fair Value Measurement. It is not applicable until 1 January 2013. IFRS 13 consolidates and clarifies the guidance on how to measure fair value.

IAS 19 - Amendment: Employee Benefits. It is not applicable until 1 January 2013. The amendments to IAS 19 Employee Benefits, proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the 'corridor approach'). The result is greater balance sheet volatility for those entities currently applying the corridor approach. In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. Expected returns on plan assets will be replaced by a credit to income based on the corporate bond yield rate. The unrecognised actuarial gains and losses will have to be booked against equity. As of 31 December 2012, the unrecognised actuarial losses amounted to USD 3.4 million.

IAS 27 Revised: Separate Financial Statements. It is not applicable until 1 January 2013. This amendment will not have a material impact of the Group.

IAS 28 Revised: Investments in Associates and Joint Ventures. It is not applicable until 1 January 2013. This amendment will not have a material impact of the Group.

IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities. It is not applicable until 1 January 2013. This amendment will not have a material impact of the Group.

**NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND ASSESSMENTS**

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

**VESSELS**

The level of depreciation depends on the estimated useful life of the vessels and residual value at the end of useful life. The estimated useful life is based on experience and knowledge of the vessels owned by the Group.

Assumptions about residual value are based on assumption and knowledge of scrap values which in turn depend on steel prices in the world market, and demobilisation costs. Assumptions on redeployment values are based on several variables such as comparing the FPSO designs with planned new FPSO projects around the world, as well as an assessment of investment levels to redeploy and assumptions on rates to be achieved from redeployment.

**IMPAIRMENT**

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

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

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

future changes may lead to reversals of currently recognised impairments.

**CONTINGENT ASSETS**

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

**CONSTRUCTION CONTRACTS**

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

**OPERATING LEASES – GROUP AS LESSOR**

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

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

**NOTE 4 LIST OF SUBSIDIARIES AND JOINT VENTURES**

Name of companies	Country of incorporation	Ownership 2012	Ownership 2011
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Pte Ltd	Singapore	100%	100%
Berge Helene Limited	Bermuda	100%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
Bergesen Worldwide Limited	Bermuda	100%	100%
Bergesen Worldwide Mexico, S.A. de C.V. Mexico	Mexico	100%	100%
Bergesen Worldwide Offshore Mexico S. de RL de CV	Mexico	100%	100%
BW Ara Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	100%	100%
BW Carmen Limited	Bermuda	100%	100%
BW Cidade de São Vicente Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW Offshore Peregrino Limited *	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore (KL) Sdn Bhd	Malaysia	100%	100%
BW Offshore China Ltd	China	100%	100%
BW Offshore Cyprus Limited	Cyprus	100%	100%
BW Offshore do Brazil Ltda	Brazil	100%	100%
BW Offshore Global Manning Pte. Ltd.	Singapore	100%	100%
BW Offshore Management USA Inc	USA	100%	100%
BW Offshore Netherlands B.V.	Netherlands	100%	100%
BW Offshore Nigeria Limited	Nigeria	100%	100%
BW Offshore Norway AS	Norway	100%	100%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Poland sp z o.o.	Poland	100%	100%
BW Offshore Shipholding Ltd	Bermuda	100%	100%
BW Offshore Shipholding Cyprus Ltd	Cyprus	100%	100%
BW Offshore Singapore Pte. Ltd.	Singapore	100%	100%
BW Offshore TSB Invest Pte. Ltd.	Singapore	100%	100%
BW Offshore (UK) Ltd	United Kingdom	100%	100%
BW Offshore USA, Inc	USA	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
BW Pioneer sp z o.o.	Poland	100%	100%
Egyptian Winlines Shipping Co. SAE	Egypt	100%	100%
OCS Services Limited	India	50%	50%
PPB do Brasil Servicos Maritimos Ltda	Brazil	100%	100%
PPS du Congo SARL	Congo	100%	100%
Prosafe FPSO (D) Pte. Ltd.	Singapore	100%	100%
Prosafe FPSO (D) SARL	Congo	100%	100%
Prosafe GFPSO I BV	Netherlands	100%	100%
Prosafe GFPSO I Pte. Ltd.	Singapore	100%	100%
Prosafe Nautipa AS	Norway	100%	100%
Prosafe Production B.V.	Netherlands	100%	100%
Prosafe Production do Brasil Ltda	Brazil	100%	100%
Prosafe Production Holding Limited	Cyprus	100%	100%
Prosafe Production Inc.	USA	100%	100%
Prosafe Production Public Limited Cyprus	Cyprus	100%	100%
Prosafe Production Management B.V.	Netherlands	100%	100%
Prosafe Production Nigeria Limited	Nigeria	100%	100%
Prosafe Production Pte Ltd	Singapore	100%	100%
Prosafe Production Services Australia Pty Ltd	Australia	100%	100%
Prosafe Production Services Pte Ltd	Singapore	100%	100%
Prosafe Production Technology Pte Ltd	Singapore	100%	100%
Prosafe Services Cote d'Ivoire Pte Ltd	Singapore	100%	100%
PT BW Offshore TSB Invest ***	Indonesia	49%	49%
Sendje Berge Limited	Bermuda	100%	100%
Tinworth Gabon SA **	Gabon	50%	0%
Tinworth Pte. Ltd.	Singapore	50%	50%
LLC 'Oil Terminal Belokamenka'	Russia	50%	50%

Tinworth Pte. Ltd. and LLC 'Oil Terminal Belokamenka' are consolidated in the financial statements of the Group by proportional consolidation based on ownership percentage, while OCS Services Ltd is consolidated using the equity method.

\* Company changed name from BW LPG FPSO I Limited during 2012.

\*\* Former branch converted into a subsidiary during 2012.

\*\*\* The company is 51% owned by Indonesian shareholders. The company is consolidated 100% as the Group has put in place agreements that ensure that 100% of profits are retained by the Group.

BW Offshore (M) Sdn Bhd was liquidated during 2012.

**NOTE 5 SEGMENT INFORMATION**

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

statements. These assets and liabilities are allocated based on the operations of the segment. Sales between segments are presented net of intercompany transactions.

The amounts provided to the Chief Operating Decision Maker with respect to the non-current assets and non-current liabilities are measured in a manner consistent with that of the financial

The segmental analysis of the consolidated income statement is as follows:

Period ending 31 December 2012	FPSO/FSO activity	Other	Consolidated
Revenues from third parties	909.4	-	909.4
EBIT	151.0	-	151.0
General and administrative	-	(55.3)	(55.3)
Currency hedges and other currency effects	-	(0.9)	(0.9)
<b>EBIT</b>	<b>151.0</b>	<b>(56.2)</b>	<b>94.8</b>
Net finance cost	-	-	(66.1)
Income tax expense	-	-	(28.7)
Profit	-	-	-
<b>EBITDA</b>			
EBIT	151.0	(56.2)	94.8
Net gain on sale of tangible fixed assets	1.3	-	-
Depreciation, amortization and impairment	151.8	-	153.1
<b>EBITDA</b>	<b>304.1</b>	<b>(56.2)</b>	<b>247.9</b>

**Other segment information**

Reversal of impairment	75.0
Capital expenditure	231.4
Non-current assets (excl finance items)	2,864.3
Investments in associates	3.9

**Geographical information**

The classification of revenue per region is determined by the final destination of the FPSO/FSO

Americas	356.8
Europe/Africa	358.7
Asia and the Pacific	193.9
<b>Total revenue</b>	<b>909.4</b>

**The FPSOs/FSO by region can be analyzed as follows:**

Americas	1,444.4
Europe/Africa	865.3
Asia and the Pacific	390.4
<b>Total non-current assets</b>	<b>2,700.1</b>

In accordance with IFRS 8.34, the Group has evaluated whether any single any single customers amount to 10% or more of the total revenue. The Group has identified one such customer. For this the revenue was USD 253.7 million in 2012.

Period ending 31 December 2011	FPSO/FSO activity	Other	Consolidated
Revenues from third parties	846.3	-	846.3
EBIT	53.3	-	53.3
General and administrative	-	(51.1)	(51.1)
Currency hedges and other currency effects	-	6.7	6.7
<b>EBIT</b>	<b>53.3</b>	<b>(44.4)</b>	<b>8.9</b>
Net finance cost	-	-	(79.9)
Income tax expense	-	-	(43.9)
Loss	-	-	(114.9)
<b>EBITDA</b>			
EBIT	53.3	(44.4)	8.9
Net gain on sale of tangible fixed assets	(18.6)	-	(18.6)
Depreciation, amortization and impairment	321.5	-	321.5
<b>EBITDA</b>	<b>356.2</b>	<b>(44.4)</b>	<b>311.8</b>

**Other segment information**

Impairment charges	(138.5)
Capital expenditure	(398.2)
Non-current assets (excl finance items)	2,817.9
Investments in associates	3.1

**Geographical information**

The classification of revenue per region is determined by the final destination of the FPSO/FSO.

Americas	475.9
Europe/Africa	286.5
Asia and the Pacific	83.9
<b>Total revenue</b>	<b>846.3</b>

**The FPSOs/FSO by region can be analyzed as follows:**

Americas	1,473.2
Europe/Africa	846.5
Asia and the Pacific (including asset held for sale)	485.8
<b>Total non-current assets</b>	<b>2,805.5</b>

In accordance with IFRS 8.34, the Group has evaluated whether any single customers amount to 10% or more of the total revenue. The Group has identified one such customer. For this the revenue was USD 227.4 million in 2011.

**NOTE 6 LEASES**

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

**Finance leases**

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

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

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

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

	2012	2011
Not later than one year	30.4	30.4
Later than one year and not later than five years	121.7	121.7
Later than five years	118.8	149.2
<b>Gross receivables from finance leases</b>	<b>270.9</b>	<b>301.3</b>
Unearned future finance income on finance leases	(82.3)	(99.6)
<b>Net investment in finance leases</b>	<b>188.6</b>	<b>201.7</b>
Included in non-current assets (Financial lease receivables)	174.1	188.6
Included in current assets (Financial lease receivables)	14.5	13.3

**Operating leases**

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

	2012	2011
Not later than one year	677.0	726.0
Later than one year and not later than five years	1,758.0	2,002.0
Later than five years	447.0	544.0
<b>Total nominal amount</b>	<b>2,882.0</b>	<b>3,272.0</b>

**NOTE 7 CONSTRUCTION CONTRACTS**

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

BW Offshore, together with its Brazilian consortium partner QUIP, is converting FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility has been to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The FPSO arrived 28 January 2013 in QUIP's Rio Grande yard in Brazil for the integration of the remaining six modules. The FPSO is then expected to be installed on the field and commence operation. All possible efforts are being made by BW Offshore and its Brazilian partner, QUIP, to meet the overall project schedule requirements from Petrobras for a July 2013 start-up. BW Offshore will, under a separate contract, be responsible for the operation of the vessel together with the Brazilian Joint Venture partner Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.

The management of BW Offshore has throughout 2012 carried out updated analysis of the project, and the forecasted cost for completing the project has been increased to USD 450.0 million. This includes managements best estimate of remaining expenses to complete the project. The additional project costs are mainly linked to increased engineering, construction, procurement and commissioning cost and increased yard costs associated with the delayed schedule. The Group does not anticipate any liquidated damages from this project based on the current project schedule, however further slippage from this schedule might influence the total project cost.

	2012	2011
Contract revenue FPSO	56.6	184.2
Contract cost FPSO	(189.0)	(155.9)
<b>Net profit/(loss) recorded in the income statement</b>	<b>(132.4)</b>	<b>28.3</b>
Due from customers for contract work	35.1	9.5
Advance payments	-	-
<b>Net receivable at 31 December</b>	<b>35.1</b>	<b>9.5</b>

At 31 December 2012, retentions held by customers for contract work amounted to USD 0.0 million (USD 0.0 million).

**NOTE 8 SPECIFICATION OF OPERATING EXPENSES VESSELS AND ADMINISTRATIVE EXPENSES**

Operating expenses vessels	2012	2011	Administrative expenses	2012	2011
Employee benefit expenses crew (Note 9)	146.8	116.3	Employee benefit expenses (Note 9)	25.9	18.7
Insurance	30.1	22.0	Travel expenses	4.0	5.3
Operation, maintenance, spare parts and repairs	175.7	173.6	Auditors	1.1	2.1
Charges for bad debt and other provisions	(0.9)	-	IT & communication	9.3	10.6
<b>Total</b>	<b>351.7</b>	<b>311.9</b>	Offices (rent etc.)	5.5	5.1
			Other expenses including restructuring costs	9.4	9.5
			<b>Total</b>	<b>55.3</b>	<b>51.1</b>

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

Employee benefit expenses	2012	2011		2012	2011
Wages, crew	146.8	116.3	Loans to other employees	222.4	339.2
Wages, administrative personnel	21.2	16.4	<b>Total</b>	<b>222.4</b>	<b>339.2</b>
Social security tax	4.7	2.3			
Pension costs defined benefit plans (Note 19)	5.0	4.8			
<b>Total employee benefit expenses</b>	<b>177.7</b>	<b>139.8</b>			

Total employee benefit expenses are included in the following accounts:

Operating expenses	151.8	121.1
Administrative expenses	25.9	18.7
<b>Total employee benefit expenses</b>	<b>177.7</b>	<b>139.8</b>

Average number of employees

	2,280	2,124
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**Remuneration to Top management and Board of Directors (USD)**

Corporate management	Year	Salary	Bonus	Pension	Other benefits	Shares owned	Share option
Top Management	2012	3,085,352	214,596	299,076	815,630	7,518,688	-
Top Management	2011	2,922,575	1,331,016	926,279	621,711	6,495,748	-

Top Management comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Technical Officer, the Chief Business Development Officer, the Head of Legal and the Head of Human Capital.

Board of Directors	Year	Directors fee	Share	Share option
Board of Directors	2012	468,057	334,412,248	-
Board of Directors	2011	617,801	323,859,963	-

The compensation for board services for the period May 2012 to May 2013 will be decided at the annual general meeting in May 2013.

The Group has not provided any loans to Top Management or affiliates.

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

**VARIABLE COMPENSATION SCHEME FOR BW OFFSHORE**

The Variable Compensation Scheme (VCS) is a system for rewarding employees if and when the Group reaches set goals, based on financial parameters. The VCS might differ from year to year depending on the challenges and goals set by the company, and the financial factors that influence the Group's performance. The VCS for 2013 is based on three parameters:

1. Share price performance relative to indices
2. Project EBITDA
3. Operations EBITDA

The assessment of the Group's achievement will determine the payout of the VCS. Recognition by the Board of Directors of achievement will be discretionary.

Full payout is capped at 3 months' salary per employee. Individual assessment may be added to the general payout on a scale from 0.75 to 1.25. Employees need to be employed at the time of VCS payment in order to be eligible for VCS scheme benefits.

Fees to Auditors (USD '000)	2012	2011
Statutory audit	784.7	779.4
Other attestation services	241.7	722.4
Tax related services	41.8	619.5
<b>Total fees</b>	<b>1,068.2</b>	<b>2,121.3</b>

Fees to auditors for 2011 include fees to previous auditor from PWC.

**NOTE 10 INCOME TAX EXPENSE**

BW Offshore Limited is a company registered in Bermuda. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that it will be exempt from taxation until 2036.

Certain subsidiaries operate in jurisdictions where taxes are imposed. Consequently, income taxes have been recorded in these jurisdictions when appropriate.

The Group's operational activities are subject to profit taxation rates which range from 0% to 40%. The withholding taxes 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	2012	2011
Changes in temporary differences	(1.3)	20.9
Tax payable ex withholding tax	13.4	9.8
Withholding tax	16.6	13.2
<b>Total</b>	<b>28.7</b>	<b>43.9</b>
<b>Effective income tax rate</b>	<b>2012</b>	<b>2011</b>
Net result before income tax	28.7	(70.9)
Income tax at Bermuda statutory	-	-
Income tax rate of 0%	-	-
Non-deductible expenses	-	-
Withholding taxes	16.6	13.2
Effect of higher tax rates outside Bermuda	13.4	9.8
Expensed deferred tax assets	(1.3)	20.9
Income tax at the effective income tax rate	28.7	43.9
Effective tax rate	100.0%	(61.9%)
<b>Tax liabilities at 31 December</b>	<b>2012</b>	<b>2011</b>
Tax payable	20.5	16.9
Withholding taxes payable	-	-
<b>Tax payable</b>	<b>20.5</b>	<b>16.9</b>

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

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

Deferred tax assets	2012	2011
Vessels	-	(0.2)
Other	(1.4)	-
<b>Deferred tax assets - gross</b>	<b>(1.4)</b>	<b>(0.2)</b>
Deferred tax liabilities	2012	2011
Fixed assets	0.1	0.1
<b>Deferred tax liabilities - gross</b>	<b>0.1</b>	<b>0.1</b>
Net recognised deferred tax liabilities/ Deferred tax assets (-)	(1.3)	(0.1)

The change in temporary differences in 2011 includes USD 21.3 million in impairment of deferred tax assets related to loss carried forward in Australia. Following the sale of FPSO Ningaloo Vision the Group does not have taxable profits in Australia, and the deferred tax asset was therefore impaired.

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

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

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

The fleet at 31 December 2012 included the following vessels: Sendje Berge, Berge Helene, Belokamenka, Yuum Kák'Náab, BW Joko Tole, BW Cidade de São Vicente, BW Pioneer, BW Athena, ABO, Espoir Ivoirien, Petróleo Nautipa, Cidade De São Mateus, Polvo, Azurite and Umuroa.

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

2012	Uncommitted vessels	Vessels in operation	Under conversion vessels	FSO	Total
Cost at 1 January 2012	-	2,805.1	450.8	2.0	3,257.9
Additions	-	42.4	189.0	-	231.4
Disposals	-	-	-	(2.0)	(2.0)
Reclassification*	-	639.8	(639.8)	-	-
Reclassification to asset classified as held for sale	-	-	-	-	-
<b>Cost at 31 December 2012</b>	<b>-</b>	<b>3,487.3</b>	<b>-</b>	<b>-</b>	<b>3,487.3</b>
Accumulated depreciation and impairment charge at 1 January 2012	-	(640.9)	-	3.5	(637.5)
Current year depreciation	-	(221.2)	-	-	(221.2)
Reversal of impairment**	-	75.0	-	-	75.0
Disposals	-	-	-	(3.5)	(3.5)
Reclassification	-	-	-	-	-
Reclassification to asset classified as held for sale	-	-	-	-	-
<b>Accumulated depreciation and impairment charge at 31 Dec 2012</b>	<b>-</b>	<b>(787.1)</b>	<b>-</b>	<b>-</b>	<b>(787.1)</b>
<b>Book Value at 31 December 2012</b>	<b>-</b>	<b>2,700.1</b>	<b>-</b>	<b>-</b>	<b>2,700.1</b>
Useful life	n/a	Up to 25 years	-	n/a	-
Capitalised interest cost for vessels under conversion	-	-	12.9	-	12.9

**NOTE 11 FPSO'S, FSO'S AND VESSELS UNDER CONSTRUCTION cont.**

\* BW Joko Tole and BW Athena were reclassified from 'vessels under conversion' to 'vessels in operation' during 2012.

\*\* As part of the impairment testing of fleet in 2012, the Group recognised USD 75.0 million reversal of previous impairment recorded in 2010. Vital to this reversal has been that the Group experience that the fleet is now performing well which has reduced technical and operational risk. This has been recognized in the income statement in the line 'Reversal of Impairment/(Impairment)'. The recoverable amount for the fleet was based on value-in-use calculations of the vessels determined at the level of cash generating unit. Each vessel is regarded as a cash generating unit. The calculations are based on contracted cash flows during firm and option periods for revenues, and best estimates of the un-contracted cost cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate.

The cash flows were discounted at a rate of 7.1% (7.4%) on a pre-tax basis. The discount rate is based on Weighted Average Cost of Capital (WACC) for the Group. The following assumptions have been made for the WACC:

- The equity risk premium is based on empirical data of similar companies listed on the Oslo Stock Exchange.
- The equity ratio is based on long term assumption on BW Offshore's financial strategy and capital structure, as well as peer group balance sheet data for listed oil service companies.
- For the risk free rate BW Offshore is using the US 10 year treasury yield as the basis for calculations, based on a weighted average contract length of the FPSO fleet.
- The debt margin used is based on an assessment of the cost of providing long term funding given the current market outlook and current company risk profile and contract structure.

If the estimated pre-tax discount rate applied to the discounted cash flows for the vessels had been 1% higher than management's estimates this would not have led to impairments.

Some of the vessels in the Group have terms of renewal, purchase options and escalation clauses.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalization was on average approximately 5.8% based on LIBOR + 2.00% margin and an average interest swap rate.

2011	Uncommitted vessels	Vessels in operation	Under conversion vessels	FSO	Total
Cost at 1 January 2011	68.0	2,145.1	892.4	10.0	3,115.5
Additions	-	98.0	296.1	0.1	394.2
Disposals	(21.9)	-	-	(8.1)	(30.0)
Reclassification	-	737.7	(737.7)	-	-
Reclassification to asset classified as held for sale	-	(221.8)	-	-	(221.8)
<b>Cost at 31 December 2011</b>	<b>46.1</b>	<b>2,759.0</b>	<b>450.8</b>	<b>2.0</b>	<b>3,257.9</b>
Accumulated depreciation and impairment charge at 1 January 2011	(47.6)	(318.0)	-	-	(365.6)
Current year depreciation	(0.3)	(175.1)	-	(2.3)	(177.7)
Impairment charge*	-	(138.5)	-	-	(138.5)
Disposals	1.7	-	-	5.8	7.5
Reclassification to asset classified as held for sale	-	36.8	-	-	36.8
<b>Accumulated depreciation and impairment charge at 31 December 2011</b>	<b>(46.1)</b>	<b>(594.8)</b>	<b>-</b>	<b>3.5</b>	<b>(637.5)</b>
<b>Book Value at 31 December 2011</b>	<b>-</b>	<b>2,164.2</b>	<b>450.8</b>	<b>5.5</b>	<b>2,620.4</b>
Useful life	n/a	Up to 15 years	-	15 years	-
Capitalised interest cost for vessels under construction.	-	-	17.3	-	17.3

Vessels under construction are not subject to depreciation. Vessels included in 'under conversion' at year end includes the vessels Joko Tole and BW Athena.

\* In 2011, the USD 138.5 million impairment loss represents the write down of certain vessels to the recoverable amount. This has been recognized in the income statement in the line 'Reversal of Impairment/(Impairment)'. The recoverable amount was based on observable market value of one vessel and value-in-use calculations of the remaining vessels determined at the level of cash generating unit. Each vessel is regarded as a cash generating unit. The calculations are based on contracted cash flows during firm and option periods for revenues, and best estimates of the un-contracted cost cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate. The FPSO BW Cidade De São Vicente was impaired by USD 30.3 million due to higher operating expenses than originally anticipated. The FPSO Ningaloo Vision, which was sold in January 2012, was impaired by USD 108.2 million in order to bring the book value down to the sales value.

Capitalization rate used to determine the amount of borrowing costs eligible for capitalisation was on average approximately 5.8% based on LIBOR + 2.00% margin and an average interest swap rate.

## NOTE 12 PROPERTY AND OTHER EQUIPMENT

2012 In USD million	Vehicles and equipment	Computer hardware	Building	Total
Cost at 1 January 2012	6.4	5.5	0.6	12.5
Additions	2.8	1.4	0.5	4.7
Disposals (impairment/discontinued operation)	(0.4)	-	-	(0.4)
Exchange difference	-	-	-	-
<b>Cost at 31 December 2012</b>	<b>8.8</b>	<b>6.9</b>	<b>1.1</b>	<b>16.8</b>
Accumulated depreciation at 1 January 2012	(2.2)	(3.6)	-	(5.8)
Current year depreciation	(1.6)	(1.3)	-	(2.9)
Disposals	0.2	-	-	0.2
Accumulated depreciation at 31 December 2012	(3.6)	(5.1)	-	(8.7)
<b>Balance at 31 December 2012</b>	<b>5.2</b>	<b>1.8</b>	<b>1.1</b>	<b>8.2</b>
Useful life	5-11 years	3 years	50 years	

2011 In USD million	Vehicles and equipment	Computer hardware	Building	Total
Cost at 1 January 2011	5.8	4.1	-	9.9
Additions	0.8	1.4	0.6	2.8
Disposals (impairment/discontinued operation)	(0.2)	-	-	(0.2)
Reclassified as held for sale	-	-	-	-
Exchange difference	-	-	-	-
<b>Cost at 31 December 2011</b>	<b>6.4</b>	<b>5.5</b>	<b>0.6</b>	<b>12.5</b>
Accumulated depreciation at 1 January 2011	(2.1)	(2.8)	-	(4.9)
Current year depreciation	(0.2)	(0.6)	-	(0.8)
Disposals	0.1	-	-	0.1
Reclassified as held for sale	-	-	-	-
Accumulated depreciation at 31 December 2011	(2.2)	(3.6)	-	(5.8)
<b>Balance at 31 December 2011</b>	<b>4.2</b>	<b>1.9</b>	<b>0.6</b>	<b>6.7</b>
Useful life	5-11 years	3 years	50 years	

## NOTE 13 INTANGIBLE ASSETS

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

	Goodwill	Internal development	Software	Total intangible assets
<b>Cost</b>				
At 1 January 2012	186.9	5.7	15.7	208.3
Additions	-	-	1.6	1.6
Disposal	-	(4.2)	(2.4)	(6.6)
<b>Carrying amount, 31 December 2012</b>	<b>186.9</b>	<b>1.5</b>	<b>14.9</b>	<b>203.3</b>
<b>Amortisation and impairment</b>				
At 1 January 2012	-	(5.5)	(12.3)	(17.8)
Amortisation and impairment	-	-	(2.6)	(2.6)
Disposal	-	4.2	2.4	6.6
<b>At 31 December 2012</b>	<b>-</b>	<b>(1.3)</b>	<b>(12.5)</b>	<b>(13.8)</b>
<b>Net book value</b>				
At 31 December 2012	186.9	0.2	2.4	189.5
At 31 December 2011	186.9	0.2	3.4	190.5
Useful life	indefinite	3 years	3 years	
Amortisation method		linear	linear	

Internal development expense for 2012 amounts to USD 0.0 million (USD 0.3 million in 2011)

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

## NOTE 14 INVESTMENTS IN ASSOCIATED COMPANIES

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

2012 Entity	Nexus Floating Production Limited (Nexus)	OCS Services Limited	Total
Country	Norway	India	
Industry	Floating Production	Manning Office	
Ownership interest	49.7%	50%	
<b>Carrying amount 1 January 2012</b>	<b>-</b>	<b>3.1</b>	<b>3.1</b>
Share of net profit	-	1.0	1.0
Additional investment	-	-	-
<b>Carrying amount 31 December 2012</b>	<b>-</b>	<b>4.1</b>	<b>4.1</b>
Fair value	0.3	n/a	

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

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

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

Entity	Assets	Liabilities	Equity	Revenues	Result for the year
Nexus	1.0	0.2	0.8	-	(64.2)
OCS Services Ltd.	10.9	3.1	7.8	5.6	2.0

2011 Entity	Nexus Floating Production Limited (Nexus)	OCS Services Limited	Total
Country	Norway	India	
Industry	Floating Production	Manning Office	
Ownership interest	49.7%	50.0%	
<b>Carrying value 1 January 2011</b>	<b>-</b>	<b>2.7</b>	<b>2.7</b>
Share of net profit	-	(0.3)	(0.3)
Additional investment	-	0.7	0.7
<b>Carrying amount 31 December 2011</b>	<b>-</b>	<b>3.1</b>	<b>3.1</b>
Fair value	0.3	n/a	

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

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

Entity	Assets	Liabilities	Equity	Revenues	Result for the year
Nexus	1.0	67.6	(66.5)	-	(0.7)
OCS Services Ltd.	7.3	1.0	6.3	3.9	(0.7)

## NEXUS

BW Offshore has a 49.7% interest in Nexus, a company that sold its only FPSO vessel during 2009 with a loss.

The Group does not have power over more than half of the voting rights in Nexus. Further, the Group does not have the power to cast the majority of votes at the meetings of the Board of Directors or equivalent governing body. Nexus has been considered an associate since 8 May 2007.

During 2012, Nexus booked a net loss, however as the carrying value of the shares in Nexus is USD 0.0 million, the net loss will not impact on the financial statements of the Group.

The Board of Directors in Nexus has initiated a process to de-list the company from Oslo Axess followed by a solvent liquidation. This process will not have any negative impacts on the financial statements of BW Offshore.

## OCS

The Group does not have power over more than half of the voting rights in OCS. Further, the Group does not have the power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body. As the Group is only acting as an investment partner, OCS is considered as an associate.

**NOTE 15 CASH AND CASH DEPOSITS**

Cash and cash equivalents are denominated primarily in USD, SGD and NOK. Restricted bank deposits at 31 December 2012 and 31 December 2011 amounted to USD 2.0 million and USD 3.5 million, respectively, and relate to taxes withheld from employees. In addition, the Group has bank guarantees related to additional liabilities regarding taxes withheld from employees and lease of office premises.

Other non-current assets include cash deposits of USD 0.3 million at year end 2012 compared to USD 0.0 million in 2011.

**NOTE 16 SHARE CAPITAL OF THE COMPANY, LARGEST SHAREHOLDERS, PAR VALUE ETC.****Share capital USD '000**

Authorised share capital

At 1 January 2012: 700,000,000 ordinary shares at par value USD 0.01 each  
At 31 December 2012: 700,000,000 ordinary shares at par value USD 0.01 each

**Issued and fully paid**

At 1 January 2012 6,880.0  
At 31 December 2012 6,880.0

The Company held a total of 2,609,535 own shares at 31 December 2012 (2,798,159). These shares are held as 'treasury shares'. Book value of the treasury shares was USD 9.1 million at 31 December 2012 (USD 9.2 million).

The 20 largest shareholders at 31 December 2012 were:

Name	No of shares	Holding
1 BW GROUP LIMITED *	334,312,248	48.6%
2 THE NORTHERN TRUST CO.	32,032,274	4.7%
3 RASMUSSENGRUPPEN AS	23,843,565	3.5%
4 ODIN OFFSHORE	14,200,000	2.1%
5 ODIN NORDEN	11,467,390	1.7%
6 FIDELITY FUND-NORDIC FUND/SICAV	10,935,899	1.6%
7 ODIN NORGE	9,781,798	1.4%
8 JPMORGAN CLEARING CORP.	9,188,491	1.3%
9 FIDELITY DIV GR FUND	8,972,698	1.3%
10 KLP AKSJE NORGE VPF	8,644,360	1.3%
11 CREDIT SUISSE SECURITIES (USA) LTD	8,286,888	1.2%
12 FIDELITY NORDIC FUND	6,304,100	0.9%
13 KOMMUNAL LANDSPENSJONSKASSE	6,287,038	0.9%
14 KOLBJØRN INVEST II AS **	6,120,000	0.9%
15 JPMORGAN CHASE BANK	5,667,583	0.8%
16 JPMORGAN CHASE BANK NA	5,442,495	0.8%
17 GOLDMAN SACHS & CO - EQUITY	4,908,454	0.7%
18 LOMA INVEST AS	4,617,706	0.7%
19 SSTL AS DEP OF HSBC EUROPEAN GROWTH	4,610,666	0.7%
20 VERDIPAPIRFONDET DNB SMB	3,800,000	0.6%
<b>Top 20 shareholders</b>	<b>519,423,653</b>	<b>75.5%</b>
Total shares outstanding	688,006,004	

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

\*\* Kolbjørn Invest II AS is controlled by corporate interests associated with CEO Carl K. Arnet.

The 20 largest shareholders at 31 December 2011 were:

Shareholder	No of shares	Holding
1 BW GROUP LIMITED *	323,834,963	47.1%
2 RASMUSSENGRUPPEN AS	23,843,565	3.5%
3 ODIN OFFSHORE	14,625,805	2.1%
4 JPMORGAN CHASE BANK	12,078,734	1.8%
5 ODIN NORDEN	11,156,375	1.6%
6 MORGAN STANLEY & CO INTERNAT. PLC	9,790,549	1.4%
7 ODIN NORGE	9,670,798	1.4%
8 ORKLA ASA	9,577,394	1.4%
9 STATE STREET BANK AND TRUST CO.	8,762,691	1.3%
10 THE NORTHERN TRUST CO.	8,555,426	1.2%
11 CREDIT SUISSE SECURITIES (USA) LTD	8,286,888	1.2%
12 JPMORGAN CLEARING CORP.	8,161,000	1.2%
13 PARETO AKSJE NORGE	7,789,183	1.1%
14 KLP AKSJE NORGE VPF	7,165,506	1.0%
15 KOLBJØRN INVEST II AS **	5,720,000	0.8%
16 RBC DEXIA INVESTOR SERVICES TRUST	5,190,222	0.8%
17 FIDELITY LOW-PRICED STOCK FUND	5,000,000	0.7%
18 KOMMUNAL LANDSPENSJONSKASSE	4,806,527	0.7%
19 STATE STREET BANK AND TRUST CO.	4,556,626	0.7%
20 HSBC BANK PLC	4,439,631	0.6%
<b>Top 20 shareholders</b>	<b>493,011,883</b>	<b>71.7%</b>
Total shares outstanding	688,006,004	

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

\*\* Kolbjørn Invest II AS is controlled by corporate interests associated with CEO Carl K. Arnet.

**NOTE 17 TRADE RECEIVABLES**

Total	2012	2011
Trade and other receivables – gross	212.7	159.0
Provision for doubtful debt	-	-
Trade and other receivables – net	212.7	159.0
Current portion	212.7	159.0

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

	2012	2011
Trade and other receivables	212.7	159.0

As of 31 December 2012, trade receivables of USD 33.6 million (USD 21.2 million) were overdue but not impaired. These relate to customers whom there is no recent history of default. Due to low production on one of our FSOs, the client has not been able to pay charter hire on time. A repayment plan is agreed on. The aging analysis of these trade receivables is as follows:

	2012	2011
Up to 3 months	23.2	16.2
3 - 6 months	4.1	2.2
6 - 12 months	4.9	2.7
12 - > months	1.4	0.1
<b>Total</b>	<b>33.6</b>	<b>21.2</b>

As of 31 December 2012, trade receivables of USD 0.0 million (USD 0.0 million) were impaired and provided for. The aging of these receivables is as follows:

	2012	2011
Up to 3 months	-	-
Over 3 months	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

The carrying amount of the Group's trade and other receivables are mainly denominated in USD.

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

	2012	2011
Provision at 1 January	-	4.9
Charge for doubtful debt during the period	-	-
Realised losses for the year	-	4.9
<b>Provision at 31 December</b>	<b>-</b>	<b>-</b>

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

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

**NOTE 18 FINANCIAL RISK MANAGEMENT**

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

**FINANCIAL RISK FACTORS**

The Group's activities expose the Group 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 Group's units at 31 December 2012 are fixed on long-term contracts, and this, to some extent, reduces the Group'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 Group.

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

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

**FOREIGN CURRENCY RISK**

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

The Group enters into forward/futures contracts in order to reduce the exchange-rate risk in cash flows nominated in foreign currencies, both related to conversion projects and to operating and administrative expenses. The exchange-rate risk is calculated for each foreign currency and takes into account assets and liabilities, liabilities not recognised in the balance sheet and expected purchases and sales in the currency in question. Currency hedges and other currency effects include changes in fair value of currency hedges, effects or settlement of these hedges, and other currency effects related to operating cash flows. To the extent possible, most of the cash flows in foreign currencies related to conversion projected have been hedged. As such, the Group's exposure to fluctuations in foreign currencies against USD will be limited.

## NOTE 18 FINANCIAL RISK MANAGEMENT cont.

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

Fair value of foreign exchange contracts at 31 December 2012 amounted to USD 1.7 million (USD 0.8 million) and USD -0.4 million (USD -3.1 million) (total nominal value USD 84.9 million) and are presented gross in the statement of financial position. Net effect of forward exchange contracts recognised in the income statement in 2012 is positive by USD 4.3 million (negative by USD 5.6 million) while the net effect recognised against equity amounts to USD 4.5 million (USD 3.2 million).

## CREDIT RISK

The Group's client contracts are long-term. The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. There are no guarantees that the financial position of the Group's major partners will not materially change during the contracted period. Given the limited number of major partners of the Group and the significant portion these represent to the Group's income, the inability of one or more of them to make full

payment on any of the Group's contracted units may have a significant adverse impact on the financial position of the Group. As most of the Group's portfolio is with National oil companies, the Group believes that the credit risk related to counterparties is at an acceptable level.

Another risk factor to be addressed is whether negative reservoir development may affect the oil company's ability to fulfill its obligations within the fixed contract. The probability for options to be exercised and extension of contracts to be entered into will be negatively affected by a reduction in actual reservoir reserves. It is common for customers, i.e. the oil companies, to contract the firm period for the FPSO lease corresponding to the expected producing life of the reserves. The existing contracts are essentially 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.

The Group is exposed to certain credit risk related to agreements entered into with customers such as yards used for conversions. The Group manages its exposure to such risks through a thorough evaluation of the counterparty and subsequently by continuously monitoring of larger counterparties.

The Group has cash deposits with several banks. In order to mitigate the credit risk related to these deposits, the Group has implemented policies to ensure that cash funds are deposited with internationally recognised financial institutions

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

## LIQUIDITY RISK

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

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

Year ended 2012	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
USD 2,400 million facility	-	111.2	111.2	1,411.1	-	1,633.5
Umuroa facility	-	4.2	12.5	59.2	-	75.9
Bond loan	-	-	-	90.0	-	90.0
Pension liabilities	-	-	-	-	8.0	8.0
Interest rate swaps	4.0	10.2	17.2	47.3	-	78.7
Interest payments	2.9	10.7	33.4	115.7	-	162.7
Trade and other payables current	-	41.6	190.1	-	-	231.7
<b>Total</b>	<b>6.9</b>	<b>177.9</b>	<b>364.4</b>	<b>1,723.3</b>	<b>8.0</b>	<b>2,280.5</b>

Year ended 2011	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
USD 2,400 million facility	132.5	111.2	111.2	889.6	633.6	1,878.1
CIRR financing schemes *	-	-	22.8	-	-	22.8
Umuroa facility	4.2	4.2	8.3	80.0	-	96.7
Nautipa facility	-	-	5.7	-	-	5.7
Pension liabilities	-	-	-	-	6.9	6.9
Interest rate swaps	4.1	11.6	30.0	75.5	-	121.2
Interest payments	3.6	11.6	28.8	160.8	15.3	220.1
Trade and other payables current	-	33.4	183.3	-	-	216.7
<b>Total</b>	<b>144.4</b>	<b>138.6</b>	<b>390.1</b>	<b>1,205.9</b>	<b>655.8</b>	<b>2,534.8</b>

\* A total amount of USD 22.8 million has been placed as long term bank deposits securing full settlement of the total debt and interest expenses related to these financing schemes.

## NOTE 18 FINANCIAL RISK MANAGEMENT cont.

The Group has the following undrawn borrowing facilities, which can be utilized as long as the Group is in compliance with its loan covenants:

	2012	2011
<b>Floating rate</b>		
Expire within one year	-	-
Expire beyond one year	129.2	258.7
<b>Fixed rate</b>		
Expire within one year	-	-

The Group had one loan advanced to an associate at 31 December 2012 at USD 0.9 million.

## INTEREST RATE RISK

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

	2012	2011
6 months or less	1,799.4	1,980.5
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	1,799.4	1,980.5

Average interest rate on cash deposits was 0.3% in 2012 (0.4%).

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

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

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

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

The fair value of the interest rate swaps amounts to USD -56.9 million (nominal value USD 1,390 million), of which USD 5 million is presented as current liabilities and USD 51.9 million is presented as non-current liabilities in the balance sheet. The fair value of the cross-currency interest rate swap is USD -3.8 million of which all is presented as non-current liabilities in the balance sheet.

The carrying amounts and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2012	2011	2012	2011
CIRR	-	22.8	-	22.8
Umuroa facility	78.3	94.5	75.9	94.5
Bond loan	89.1	-	90.0	-
Nautipa facility	-	5.7	-	5.7
USD 2,400 million facility	1,611.3	1,845.9	1,633.5	1,878.1
	1,778.3	1,968.9	1,799.4	2,001.1

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant.

The Group is exposed to interest-rate risk through its funding activities. A significant part of the interest bearing debt has floating interest rate conditions, making the Group influenced by changes in the market rates. The Group aims to cover at least 50% of its forward interest rate exposures.

The Group holds interest swaps with a nominal value of USD 1,390 million in total with maturity in 2013-2018. The weighted average interest swap rate was 3.14% at 31 December 2012. The swaps are held to hedge the quarterly cash flows from floating rate interest payments on the USD 2,400 million debt facility and the NOK 500 million (USD 90 million) Bond loan. The market value of the interest derivatives amounted to USD -56.9 million at 31 December 2012 (USD -91.8 million) and the changes in fair value is recognised as a fair value loss on financial instruments.

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

	Increase/decrease in basis points	Effect on profit/loss before tax *
2012	+/- 50	+/- 10.0
2011	+/- 50	+/- 10.1

\* The effect on fair value of interest hedges as a result in changes in interest rates is not taken into account in this calculation. Of total interest bearing debt USD 1,776.3 million, USD 1,390 is hedged. The changes in fair value on these hedges will to a large extent eliminate the effect on profit & loss from changes in floating interest rates.

The average interest rate on financial instruments was as follows:

	2012	2011
Loans secured by collateral	2.4%	2.2%
Loans - unsecured	5.8%	1.5%

## CAPITAL STRUCTURE AND EQUITY

Capital structure is monitored by the Group. The primary focus of the Group's financial strategy is to ensure a healthy capital structure to support its business, fulfill all financial obligations and maximise shareholder values.

The Group also monitors and manages its capital structure in light of changes in the economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to its shareholders, return capital to shareholders or issue new shares. In May 2011, the Group initiated quarterly payments of dividend limited to 20-25% of EBITDA. No other changes have been made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

Conversion projects will be funded through current loan facilities and/or specific project loan facilities equaling 70-80% of the cost of the project. Project loan facilities can be established either before a contract for the conversion project is signed, during the conversion phase of a project or when the FPSO commence operation.

The Company has no specific targeted equity ratio. However, the loan facilities of the Group have certain covenants related to equity and equity ratio, both closely monitored by the Company (Note 20).

## NOTE 19 RETIREMENT BENEFIT OBLIGATIONS

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

The abovementioned pension plans had 90 members at 31 December 2012 and 118 members at 31 December 2011. No other post-retirement benefits are provided.

The most recent actuarial valuations of the plan assets and the defined benefit obligation were carried out at 31 December 2012 by Nordic Insurance Administrators.

The pension liabilities are presented under liabilities in the balance sheet and any change is charged to the income statement. The impact of changed actuarial estimates is amortised over the estimated remaining time to retirement to the extent that it exceeds 10% of the pension liabilities or pension funds, whichever is the larger 'corridor'. The discount rate is based on the OMF rate.

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

	2012	2011
Discount rate	3.70%	2.60%
Expected return on plan assets	3.60%	4.10%
Future salary increases	3.25%	3.50%
Future pension increases	0.00%	0.10%
Increase in social security base amount related to Norwegian state pension	3.00%	3.25%
Social security tax	14.10%	14.10%

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

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

	2012	2011
Male	16.5	16.5
Female	19.4	19.4

The reconciliation of fair value of plan assets is as follows:

Figures in USD million	2012	2011
Fair value of Plan Assets - beginning of year	26.7	22.2
Expected return on Plan Assets	1.1	1.1
Employer Contributions excluding administrative expenses	4.2	3.3
Benefits paid - funded plans	(0.4)	(0.8)
Asset gain	(8.6)	1.5
Exchange differences	0.0	(0.6)
<b>Fair value of plan assets - end of year</b>	<b>23.3</b>	<b>26.7</b>

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

Figures in USD million	2012	2011
Present value of funded obligations	26.0	36.6
Fair value of plan assets	(23.3)	(26.7)
Present value of unfunded obligations	1.9	2.1
Unrecognised actuarial gains/(losses)	3.4	(5.1)
<b>Liability in the statement of financial position</b>	<b>8.0</b>	<b>6.9</b>

The amounts recognised in the income statement are as follows:

Figures in USD million	2012	2011
Current service cost	3.7	3.8
Interest cost	1.0	1.1
Expected return on plan assets	(1.1)	(1.1)
Administrative cost	0.1	-
Net actuarial gain recognised during the financial period	1.3	0.5
<b>Net periodic pension cost (Note 9)</b>	<b>5.0</b>	<b>4.3</b>

Best estimate of net pension cost for 2013 amounts to USD 2.3 million (USD 4.6 million). Best estimate of premium payments in 2013 amounts to USD 3.4 million (USD 2.8 million).

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

Figures in USD million	2012	2011
At 1 January	(6.9)	(6.2)
Contributions paid	4.2	3.3
Termination of contracts	-	-
Exchange differences	(0.3)	0.3
Discontinued operations charge	-	-
Charged to income statement	(5.0)	(4.3)
<b>At 31 December</b>	<b>(8.0)</b>	<b>(6.9)</b>

Expenses related to defined contribution plans amounted to USD 0.8 million in 2012 (USD 0.5 million).

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

	2012	2011
Shares and equity instruments	10.0%	15.0%
Bonds - fixed yield	18.0%	24.0%
Bonds held to maturity	38.0%	30.0%
Properties and real estate	14.0%	17.0%
Money market funds	14.0%	10.0%
Other	6.0%	4.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The actual return on plan assets amounted to 6.5% at 30 September 2012.

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

## NOTE 20 LOAN FACILITIES

	Effective interest rate	Maturity date	Carrying amount	
			2012	2011
USD 2,400 million facility	3 month LIBOR + 2.00%	9-Mar-18	1,397.2	1,612.0
Umuroa facility (secured)	3 month LIBOR + 2.00%	3-Nov-15	61.6	77.8
NOK 500 million (USD 90 million) Bond loan	3 month NIBOR + 4.25%	15-Mar-17	89.2	-
<b>Total long-term debt</b>			<b>1,548.0</b>	<b>1,689.8</b>
<b>Short term debt</b>				
USD 2,400 million facility	3 month LIBOR + 2.00%	9-Mar-18	214.0	233.9
CIRR Y'uum K'ak' Naab (unsecured)	4.77%	9-Jul-12	-	22.8
Umuroa facility current (secured)	3 month LIBOR + 2.00%	3-Nov-15	16.7	16.7
Petróleo Nautipa facility (secured)	3 month LIBOR + 0.70%	30-Dec-12	-	5.7
<b>Total short term debt</b>			<b>230.7</b>	<b>279.1</b>
<b>Total interest bearing debt</b>			<b>1,778.7</b>	<b>1,968.9</b>

**USD 2,400 million facility**

In 2011 BW Offshore entered into a USD 2.4 billion seven year senior secured credit facility at a margin of 200 basis points above USD LIBOR. The facility is split into term loans and a revolving credit facility, initially totaling USD 1.7 billion and a USD 0.7 billion respectively.

The facility agreement is subject to certain covenants, including minimum book equity of at least 30% of total assets, annualised debt to EBITDA of maximum 5.5, minimum USD 75.0 million available liquidity including undrawn amounts under the revolving part of the facility and interest coverage ratio of minimum 3.0.

In third quarter of 2012 BW Offshore agreed with the lending banks for the USD 2,400 million credit facility and the Umuroa facility on a waiver to carve out the second quarter 2012 USD 50.0 million loss on Papa Terra, as well as an additional Papa Terra loss of maximum USD 75.0 million in the second half of 2012. The adjustments apply for as long as the respective financial quarter is included in the calculation of the Financial Covenants (i.e. three quarters after the respective quarter). The waiver applies for the equity ratio covenant, the leverage ratio covenant and the interest cover ratio. The waiver has not changed any other terms and conditions in the facilities.

The Group is in compliance with the waiver adjusted covenants at 31 December 2012.

**USD CIRR financing**

The USD 22.8 million drawn down on the loan facility (CIRR)

entered into with Eksportfinans ASA, related to the conversion of the FPSO Y'uum K'ak' Naab was repaid in March 2012. The loan was repaid with proceeds that were placed as short term bank deposit used to amortise and service the loan.

**Umuroa facility**

The Umuroa facility is a senior secured reducing revolving credit facility agreement entered into on 30 October 2009, with a total initial availability of USD 130 million. The loan period is six years with the final maturity date 3 November 2015. The revolving credit facility has financial covenants similar to the covenants under the USD 2,400 million facility. The availability on the facility is reduced by USD 4.2 million four times a year, followed by a balloon payment of USD 30.0 million in 2015.

**Petróleo Nautipa facility**

Prosafte Nautipa AS was since June 2006 party to a USD 17.5 million credit facility. The loan matured in December 2012 with a final payment of USD 3.5 million.

**NOK 500 million (USD 90 million) Bond Loan**

During first quarter of 2012, BW Offshore Ltd successfully completed the placement of a new NOK 500 million (USD 90 million) senior unsecured bond with maturity date on 15th March 2017. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 25% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

**NOTE 21 INVESTMENT IN JOINT VENTURES**

The Group has the following investments in joint ventures:

- LLC 'Oil Terminal Belokamenka', operating the Arctic FSO Belokamenka.
- Tinworth Pte Ltd, which is the owner of FPSO Petrleo Nautipa operating in Gabon.
- Madura Pte Ltd, which was the owner of FSO Madura Jaya operating in Indonesia (the FSO was sold in February 2011 and the company was sold in December 2011).

Company	Registered office	Holding 2012	Holding 2011
LLC 'Oil Terminal Belokamenka'	Russia	50%	50%
Tinworth Pte. Ltd.	Singapore	50%	50%

Voting rights equal the ownership share.

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

	2012	2011
Revenue	20.9	18.8
Expenses	(14.1)	(16.9)
Net financial Items	-	-
Profit before tax	6.8	1.9
Income tax expense	(1.0)	(0.6)
<b>Profit after tax</b>	<b>5.8</b>	<b>1.3</b>
Non-current assets	18.0	21.7
Current assets	14.8	11.4
<b>Total assets</b>	<b>32.8</b>	<b>33.1</b>
Equity	25.6	24.4
Non-current liabilities	-	-
Current liabilities	7.2	8.7
<b>Total Equity and liabilities</b>	<b>32.8</b>	<b>33.1</b>

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

- Lease of the FSO Belokamenka (Note 6), USD 15,385 per day (USD 15,385).
- Average management services fee per month were USD 15,148 (USD 163,700). As of April 2012, the agreed management service fee amounts to USD 3,531 per month going forward.

No transactions were carried out between the Group and Tinworth Pte. Ltd.

**NOTE 22 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES**

Goodwill acquired through the business combination with Prosafe Production in 2010, has been allocated to one cash-generating unit which is the combined Group.

Carrying amount of goodwill and intangibles related to combination with Prosafe Production amounts to USD 186.9 million at year end 2012 (USD 186.9 million at year end 2011).

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

The Group has performed an annual impairment test on Goodwill as at 31 December 2012. The Group has identified a number of key long term assumptions relevant to impairment review in the combined cash generating unit. The recoverable amount of Goodwill has been determined based on a value in use calculation using cash flows from an estimated reduction in corporate management cost as a result of the merger with Prosafe Production, as well as cash flow projections calculated from the ability for the combined company to take on larger

projects with increased return in the future. Management expects and has assumed that the ability to take on larger projects with improved margins will materialize within the next five years. The projected cash flows have been updated since 2011 to reflect new contracts achieved in 2012, as well as updated expectations for new projects within the next five years based on current and future tenders and market conditions.

The discount rate, based on Weighted Average Cost of Capital (WACC), used for calculating the net present value of the synergies is 7.1% (7.4%).

If the Group is not able to materialize the cost savings or new projects in accordance with the assumptions made in the coming five year period and/or the return on these projects do not turn out favorably compared to historic return levels, it may cause impairment of the carrying goodwill.

At year-end 2012, if applying an increase of 1% of the estimated pre-tax discount rate (from 7.1% to 8.1%) there will be no requirement to impair the goodwill.

As a result of this analysis in accordance with IAS 36, management has concluded that no impairment is required as of 31 December 2012.

**NOTE 23 EARNINGS PER SHARE**

**Basic**

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

**Diluted**

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

	2012	2011
Profit/(loss) attributable to equity holders of the Group (USD million)	-	(115.5)
Weighted average number of ordinary shares in issue (thousands)	688,006	688,006
Basic and diluted earnings per share continuing operations *	-	(0.17)
Basic and diluted earnings per share discontinued operations *	-	-
Basic and diluted earnings per share including discontinued operations *	-	(0.17)

\* Excludes treasury shares of 2,609,535 held by the Company.

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

**NOTE 24 RELATED PARTIES TRANSACTIONS**

The largest individual shareholder, BW Group Limited owning 48.6%, is incorporated in Bermuda and is controlled by Sohmen family interests.

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

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

The following transactions were carried out with related parties:

	2012	2011
Interest expenses and loan related fees to BW Group Limited	-	4.9
Shareholders loan to OCS	0.9	-

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

Transactions with Nexus Floating Production Ltd and subsidiaries:

	2012	2011
Trade receivable at 31 December	-	-
Total sales	-	-

**NOTE 25 COMMITMENTS AND GUARANTEES**

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

	2012	2011
Nominal amount	93.8	202.9
Net present value	87.6	188.9
Interest rate	7.1%	7.4%

The Group has entered into lease agreements (classified as operating leases) for offices in various countries with durations varying from 3 to 15 years. The total annual rent for the head offices amounts to USD 4.9 million (USD 2.4 million).

The Group has issued bank guarantees in favor of various customers totaling USD 102.1 million (USD 142.0 million).

The bank debt related to the USD 2,400 million facility, as referred to in Note 20, is secured by:

- a parent company guarantee from BW Offshore Limited;
- first priority mortgages over eleven FPSOs;
- first priority secured interest in all earnings and proceeds of insurance related to the same eleven FPSOs.

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

- a parent company guarantee from BW Offshore Limited;
- a first priority mortgage over the FPSO Umuroa owned by Prosafe Production Services Pte Ltd, New Zealand Branch;
- first priority secured interest in all earnings and proceeds of insurance related to the FPSO Umuroa.

The carrying value of vessels pledged as collateral per 31 December 2012 was USD 2443.0 million (USD 2,620.4 million in 2011).

**NOTE 26 PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES**

In 2006 and 2007, there have been changes in Mexican laws with potential effect for the prices stated in the contract for the delivery and operation of the FPSO Yuum K'ak'Naab. The Group and the respective client disagreed on how to calculate and allocate the financial effects of these changes. The original amount disputed was USD 83.8 million but according to an arbitration award made in 2011, the client prevailed in respect of USD 48.0 million. The Group made a provision of USD 14.0 million in 2010, which was in addition to USD 34.0 million already paid and included in the 2007 income statement. In January 2013, an agreement was reached with Pemex to effect the payment. The Group also has provisions for certain penalties and liquidated damages.

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

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

	2012	2011
Provisions at beginning of period	14.0	44.4
Additions	-	-
Provisions for claims	-	-
Provision for restructuring	-	-
Reversals/payments	-	(30.4)
Offset against receivables	-	-
<b>Provisions at end of period</b>	<b>14.0</b>	<b>14.0</b>

**NOTE 27 TRADE AND OTHER PAYABLES**

	2012	2011
Trade payables	36.5	33.4
Accrued vessel expenses	32.5	29.9
Accrued construction contract expenses *	87.7	81.9
Accrued other expenses	18.6	33.9
Accrued conversion expenses	9.2	-
VAT etc	6.5	-
Deferred revenues	40.7	37.6
<b>Total</b>	<b>231.7</b>	<b>216.7</b>

\* This is related to the construction contract for P-63 and represents largely committed cost. See also note 7.

**NOTE 28 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE**

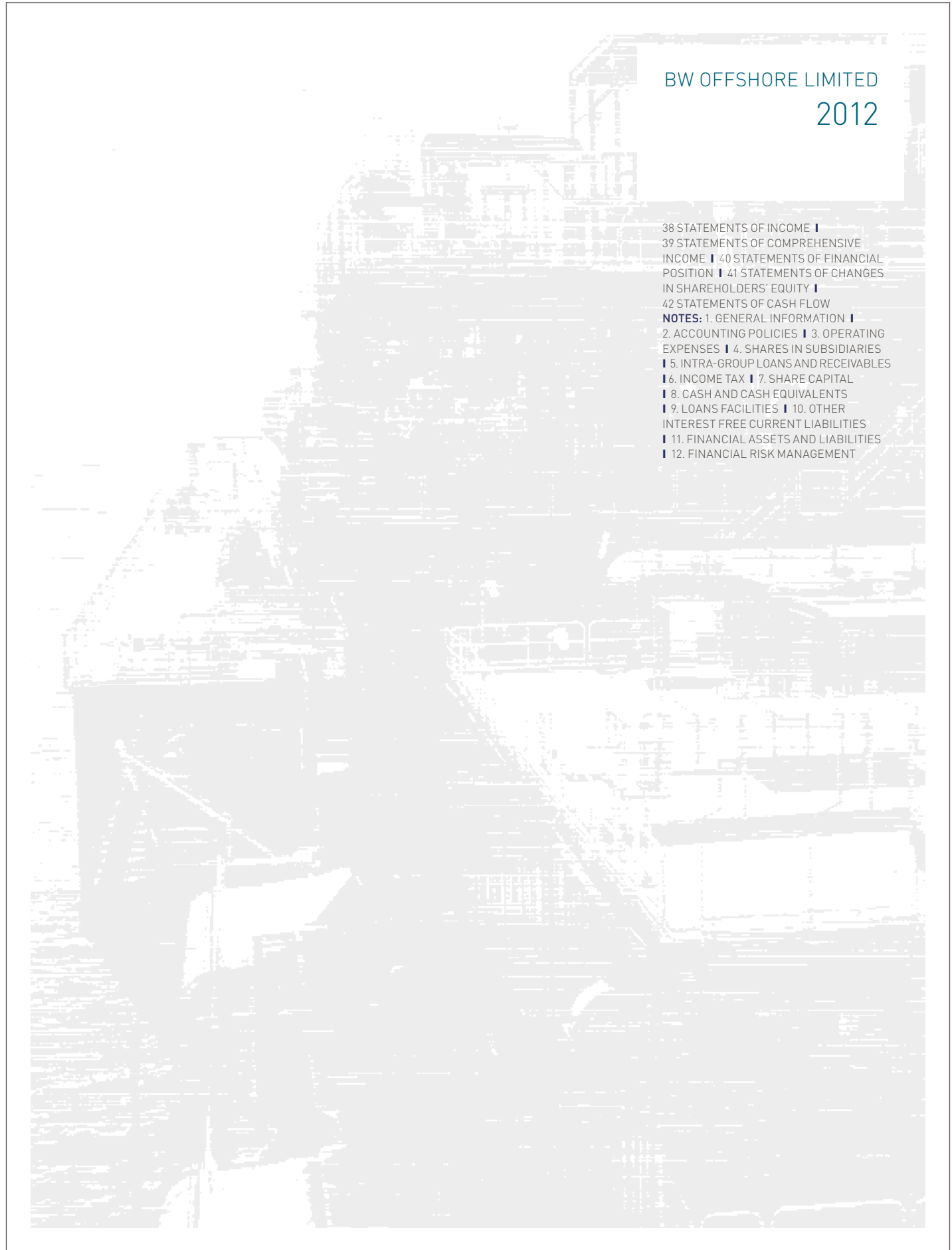
The Group are currently negotiating with the clients for long term extension of the contracts for FPSO Sendje Berge and FPSO Abo.

On 14 March 2013 BW Offshore successfully completed a NOK 500 million senior unsecured bond issue with maturity in March 2018. The proceeds will be used for general corporate purposes.

**BW OFFSHORE LIMITED**  
**2012**

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## STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2012	2011
<b>Revenue</b>		-	-
<b>OPERATING EXPENSES</b>			
Operating expenses	3	(51.8)	(44.6)
<b>Total operating expenses before amortisation</b>		<b>(51.8)</b>	<b>(44.6)</b>
Operating loss before amortisation		(51.8)	(44.6)
Amortisation		-	(1.3)
<b>Operating profit/(loss)</b>		<b>(51.8)</b>	<b>(45.9)</b>
<b>FINANCIAL INCOME AND FINANCIAL EXPENSES</b>			
Interest income		136.4	94.2
Interest expense		(116.1)	(97.1)
Net currency exchange gain/(loss)		7.6	(2.2)
Gain on sale of subsidiaries		-	275.3
Write down of shares in subsidiaries and intercompany receivables	5	(122.8)	(101.1)
Other financial expenses		(0.3)	4.6
<b>Net financial items</b>		<b>(95.2)</b>	<b>173.6</b>
Profit/(loss) before tax		(147.0)	127.7
Income tax expense		-	-
<b>Net profit/(loss) for the year</b>		<b>(147.0)</b>	<b>127.7</b>
Net profit/(loss) attributable to equity shareholders		(147.0)	127.7

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

## STATEMENTS OF COMPREHENSIVE INCOME

USD million (Year ended 31 December)	2012	2011
Profit /(loss) for the year	(147.0)	127.7
<b>Other comprehensive income</b>		
Total other comprehensive income for the year	(3.9)	-
<b>Total comprehensive income for the year</b>	<b>(150.9)</b>	<b>127.7</b>
<b>Attributable to:</b>		
Equity holders of the parent	(150.9)	127.7

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

## STATEMENTS OF FINANCIAL POSITION

USD million (As at 31 December)	Note	2012	2011
<b>ASSETS</b>			
Shares in subsidiaries	4	1,245.5	1,275.7
Derivatives		0.4	-
<b>Total non-current assets</b>		<b>1,245.9</b>	<b>1,275.7</b>
Trade and other receivables		0.2	2.4
Intercompany receivables		1,305.9	-
Derivatives		0.7	0.2
Cash and deposits	8	6.2	129.6
<b>Total current assets</b>		<b>1,313.0</b>	<b>132.2</b>
<b>TOTAL ASSETS</b>		<b>2,558.9</b>	<b>1,407.9</b>
<b>EQUITY</b>			
Share capital	7	6.9	6.9
Share premium	7	1,085.0	1,085.0
Other equity		50.6	242.7
<b>Total shareholder's equity</b>		<b>1,142.5</b>	<b>1,334.6</b>
Long-term liabilities	9,11	89.2	-
Derivatives		16.0	30.1
<b>Total short-term liabilities</b>		<b>105.2</b>	<b>30.1</b>
Trade and other payables	10,11	3.1	1.2
Intercompany payables		1,299.6	32.1
Derivatives		8.5	9.9
<b>Total current liabilities</b>		<b>1,311.2</b>	<b>43.2</b>
<b>Total liabilities</b>		<b>1,416.3</b>	<b>73.3</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,558.9</b>	<b>1,407.9</b>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD million	Share capital	Share Premium	Treasury shares	Cash flow hedges	Other equity	Total
<b>At 1 January 2011</b>	<b>6.9</b>	<b>1,334.9</b>	<b>(9.3)</b>	<b>-</b>	<b>(43.3)</b>	<b>1,289.2</b>
Dividend distribution	-	-	-	-	(82.4)	(82.4)
Reduction of share premium	-	(250.0)	-	-	250.0	-
Profit/(loss) for the period	-	-	-	-	127.7	127.7
Total comprehensive income	-	-	-	-	-	-
<b>At 31 December 2011</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.3)</b>	<b>-</b>	<b>251.9</b>	<b>1,334.6</b>
<b>At 1 January 2012</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.3)</b>	<b>-</b>	<b>251.9</b>	<b>1,334.6</b>
Dividend distribution	-	-	-	-	(41.1)	(41.1)
Reduction of share premium	-	-	-	-	-	-
Profit/(loss) for the period	-	-	-	-	(147.0)	(147.0)
Total comprehensive income	-	-	0.1	(4.0)	-	(3.9)
<b>At 31 December 2012</b>	<b>6.9</b>	<b>1,085.0</b>	<b>(9.2)</b>	<b>(4.0)</b>	<b>63.8</b>	<b>1,142.5</b>

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

## STATEMENTS OF CASH FLOW

USD million (Year ended 31 December)	2012	2011
<b>Operating activities</b>		
Profit/(loss) before tax	(147.0)	127.7
Amortisation	-	1.3
Write down of shares in subsidiaries and intercompany receivables	122.8	101.1
Gain on sale of shares	-	(275.3)
Fair value change on financial derivatives	(20.4)	0.3
Changes in receivables and accounts payable	4.0	(35.7)
Other items from operating activities	(2.8)	13.5
<b>Net cash flow from/(used in) operating activities</b>	<b>(43.4)</b>	<b>(67.1)</b>
<b>Investing activities</b>		
Investments in subsidiaries	(9.5)	(322.9)
Interest received	136.4	94.2
Net proceeds from sale of subsidiaries	-	375.3
<b>Net cash flow from/(used in) investing activities</b>	<b>126.9</b>	<b>146.6</b>
<b>Financing activities</b>		
Changes in intercompany receivables/debt	(121.6)	710.0
Received payments from raising new long-term debt	90.0	-
Repayment of interest bearing debt	-	(610.0)
Dividend paid	(41.1)	(82.4)
Interest paid	(134.2)	(107.6)
<b>Net cash flow from/(used in) financing activities</b>	<b>(206.9)</b>	<b>(90.0)</b>
Net change in cash and cash equivalents	(123.4)	(10.5)
Cash and cash equivalents at 1 January	129.6	140.1
Cash and cash equivalents at 31 December	6.2	129.6

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

## NOTES

## NOTE 1 GENERAL INFORMATION

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

BW Offshore is the holding company.

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

All figures are in USD million if not otherwise stated.

The financial statements were approved by the Board of Directors on 21 March 2013.

## NOTE 2 ACCOUNTING POLICIES

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

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

**Revenue recognition**

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

**Dividend income**

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

**Other revenues**

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

**ACCOUNTING FOR SUBSIDIARIES****Subsidiaries**

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

**INTANGIBLE ASSETS****Research and development**

Expenses relating to research activities are recognised in the income statement as they are incurred.

Expenses relating to development activities are capitalised to the extent that the product or process is technically and commercially viable and the Company has sufficient resources to complete the development work. Expenses that are capitalised include

the costs of materials and external suppliers, direct wage costs and a share of the directly attributable common expenses. Capitalised development costs are recognised at their cost minus accumulated amortisation and impairment losses.

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

**BORROWINGS**

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

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

**TRADE AND OTHER RECEIVABLES**

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

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

**TRADE AND OTHER PAYABLES**

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

**CASH AND CASH EQUIVALENTS**

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

## NOTE 2 ACCOUNTING POLICIES cont.

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

**CURRENCY TRANSLATION**

**Functional and presentation currency**  
The Company's presentation currency is United States Dollars ('USD'). This is also the functional currency of the Company and most of its subsidiaries.

**Transactions and balances**

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

**Provisions for other liabilities and charges**

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

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

**SHARE CAPITAL**

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

deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best 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 following year's installments on long-term debt. This is presented as current interest bearing debt. Liabilities which fall due less than one year after they are incurred are classified as current liabilities.

**CHANGES IN ACCOUNTING POLICIES**

Changes in accounting policies are the same as can be found in the BW Offshore Limited consolidated Financial Statements.

## NOTE 3 OPERATING EXPENSES

	2012	2011
Management fee	38.4	37.1
Lawyer's fee	1.0	2.2
Consultant's fee	0.5	(1.6)
Auditor's fee	0.7	0.5
Other operating expenses	11.2	7.1
<b>Total operating expenses</b>	<b>51.8</b>	<b>44.6</b>

Management fee is fee for management services provided to the Company by the companies BW Offshore Norway AS and BW Offshore Singapore Pte Ltd.

## NOTE 4 SHARES IN SUBSIDIARIES

Name of companies	Country of incorporation	Ownership	
		2012	2011
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Pte. Ltd.	Singapore	100%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
BW Ara Limited	Bermuda	100%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore do Brazil Ltda	Brazil	100%	100%
BW Offshore Nigeria Ltd	Nigeria	100%	100%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Peregrino Limited *	Bermuda	100%	100%
BW Offshore Shipholding Ltd	Bermuda	100%	100%
BW Pioneer Limited	Bermuda	100%	100%
Prosafe Production Public Limited	Cyprus	78.1%	78.1%
BW Offshore Cyprus Limited	Cyprus	100%	100%

\*Company changed name from BW LPG FPSO I Limited.

## NOTE 5 INTRA-GROUP LOANS AND RECEIVABLES

	2012	2011
Loan to Group companies	1,305.9	-
<b>Intra-group long-term receivables</b>	<b>1,305.9</b>	<b>-</b>
Outstanding from subsidiaries	1,299.6	32.1
<b>Intra-group short-term receivables</b>	<b>1,299.6</b>	<b>32.1</b>

Intra-group loan agreements with subsidiaries are set up based on regular market rates. Outstanding balances at year-end are unsecured. For the year ended 31 December 2012, the Company has recorded an impairment of USD 122.8 million related to investments and receivables on amounts owed by group subsidiaries which has been evaluated and considered non-recoverable.

## NOTE 7 SHARE CAPITAL

**Share capital USD '000**  
**Authorised share capital**

At 31 December 2012:  
700,000,000 ordinary shares at par value USD 0.01 each  
At 31 December 2012:  
700,000,000 ordinary shares at par value USD 0.01 each

**Issued and fully paid**

At 1 January 2012 6,880.0  
At 31 December 2012 6,880.0

The Company held a total of 2,609,535 own shares at 31 December 2012 (2,798,159).

## NOTE 6 INCOME TAX

BW Offshore Limited is a Bermuda company. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, it will be exempt from taxation until 2036.

## NOTE 8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items

	2012	2011
Cash and cash deposits	6.2	129.6
Short-term interest bearing investment	-	-
<b>Total cash and cash equivalents</b>	<b>6.2</b>	<b>129.6</b>

**NOTE 9 LOANS FACILITIES**

	Eff. Interest rate	Maturity date	2012	2011
NOK 500 million (USD 90 million) Bond Loan	3 month NIBOR + 4,25%	15-Mar-17	89.2	-
<b>Total interest-bearing debt</b>			<b>89.2</b>	<b>-</b>

During first quarter of 2012, BW Offshore Ltd successfully completed the placement of a new NOK 500 million (USD 90 million) senior unsecured bond with maturity date on 15 March 2017. The proceeds from the Bond loan was used for general corporate purposes. The bond loan is subject to certain covenants, including minimum book equity of at least 25% of total assets and minimum USD 75 million available liquidity including undrawn amounts available for utilisation by the Group.

**NOTE 10 OTHER INTEREST FREE CURRENT LIABILITIES**

	2012	2011
Other accruals	3.1	2.1
<b>Total interest-free current liabilities</b>	<b>3.1</b>	<b>2.1</b>

**NOTE 11 FINANCIAL ASSETS AND LIABILITIES**

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

Year ended 31 December 2012	Financial assets and liabilities measured at amortised cost	Loans and receivables	Fair value
Cash and deposits	-	6.2	6.2
Interest-bearing long-term debt	89.2	-	89.2
Other current liabilities	11.5	-	11.5
<b>Total</b>	<b>100.7</b>	<b>6.2</b>	<b>106.9</b>

Year ended 31 December 2011	Financial assets liabilities measured at amortised cost	Loans and receivables	Fair value
Cash and deposits	-	129.6	129.6
Intra-group short-term payables	32.1	-	32.1
Other current liabilities	11.1	-	11.1
<b>Total</b>	<b>43.2</b>	<b>129.6</b>	<b>172.8</b>

**NOTE 12 FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks. Overall risk management follow and is handled by the BW Offshore Group. These processes and policies are described in more detail under note 18 of the consolidated financial statements of BW Offshore Limited.

**(a) Foreign currency exchange risk**

The Company's business is not exposed to significant foreign exchange risk as its operating expenses are mainly denominated in United States Dollars, which is the functional currency of the Company. The Company enters into forward/futures contracts in order to reduce the exchange-rate risk in cash flows nominated in foreign currencies related to administrative expenses. The exchange-rate risk is calculated for each foreign currency and takes into account assets and liabilities, liabilities not recognised in the

balance sheet and expected purchases and sales in the currency in question. Currency hedges and other currency effects include changes in fair value of currency hedges, effects or settlement of these hedges, and other currency effects related to operating cash flows.

**(b) Interest rate risk**

Except for the amount due to and from subsidiaries, the Company's operating cash flows are independent of changes in market interest rates.

The Company holds interest swaps with a nominal value of USD 690 million in total with maturity in 2013-2018. The swaps are held to hedge the quarterly cash flows from floating rate interest payments on the USD 2,400 million debt facility and the NOK 500 million (USD 90 million) Bond loan.

**(c) Credit risk**

The Company's credit risk is primarily attributable to the amount due to the subsidiaries (non-trade). At balance sheet date, this amount due to subsidiaries (non-trade) is neither past due nor impaired. The maximum exposure is represented by the carrying amount of this financial asset on the balance sheet.

**(d) Liquidity risk and Capital risk**

The funding requirements of the Company are met by the subsidiaries of the BW Offshore Group. The Company's objective when managing capital is to ensure that the Company is adequately capitalised and that funding requirements are met by the BW Offshore Group.

The Company is not subject to any externally imposed capital requirements.

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**GLOBAL PRESENCE**

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Singapore  
Norway: Oslo, Arendal  
Brazil: Rio de Janeiro, Cidade de Santos, Vitória  
USA: Houston, New Orleans  
Mexico: Ciudad del Carmen  
New Zealand: New Plymouth  
India: Mumbai  
Nigeria: Lagos  
Mauritania: Nouakchott  
Republic of Côte d'Ivoire: Abidjan  
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