



BW OFFSHORE



BW OFFSHORE LIMITED 2011

BW OFFSHORE UNITS



1 SENDJE BERGE FPSO, SINOPEC



2 BERGE HELENE FPSO, PETRONAS



3 YÙUM K'AK'NÁAB FPSO, PEMEX



4 BW CIDADE DE SÃO VICENTE FPSO, PETROBRAS



5 BELOKAMENKA FSO, SOVCOMFLOT



6 BW ATHENA FPSO, ITHACA ENERGY



7 BW JOKO TOLE FPSO, KEI



8 BW PIONEER FPSO, PETROBRAS



9 ESPOIR IVOIRIEN FPSO, CNR



10 POLVO FPSO, BP



11 UMUROA FPSO, AWE



12 ABO FPSO, ENI



13 PETRÓLEO NAUTIPA FPSO, VAALCO



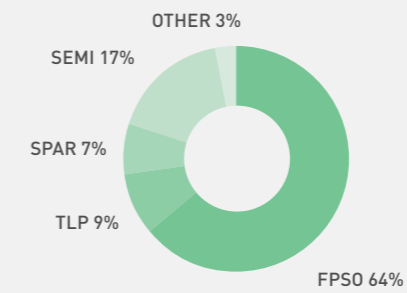
14 AZURITE FDPSO, MURPHY



15 CIDADE DE SÃO MATEUS FPSO, PETROBRAS

GLOBAL FLOATING PRODUCTION UNITS

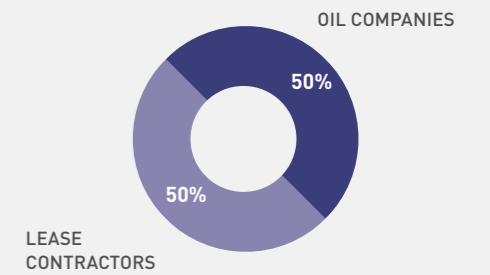
FPSO is the preferred solution for floating production



Source: IMA, based on a total number of 251 units

FPSO OWNERSHIP

Equally split between oil companies and lease contractors



Source: IMA

GLOBAL FOOTPRINT



BW OFFSHORE OFFICES

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

COMPETENCE

REFERENCES

- BW OFFSHORE HAS A CLASS LEADING PRODUCTION UPTIME – FIVE YEAR AVERAGE UPTIME IS 99.2%.
- 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.
- FDPSO AZURITE, THE WORLD'S ONLY COMBINED DRILLING AND PRODUCTION UNIT.
- FPSO BW CIDADE DE SÃO VICENTE, THE FIRST FPSO ON THE LULA (EX TUPI) FIELD.
- FPSO YÛUM 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 FPSOS AND FSOs. BW OFFSHORE'S TRACK RECORD INCLUDES 26 FPSO PROJECTS AND 10 FSO PROJECTS.

ADAPTING THROUGH COMPETENCE, 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, AMERICAS, AUSTRALIA, EUROPE AND WEST AFRICA. THE COMPANY CURRENTLY OPERATES FPSO AND FSO UNITS IN 13 DIFFERENT COUNTRIES, SUPPORTED BY LOCAL ONSHORE TEAMS AND AN ORGANIZATION WITH A GLOBAL PRESENCE.



FOR MORE INFORMATION, PLEASE VISIT www.bwoffshore.com

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IN BRIEF



KEY FIGURES

USD million, unless otherwise stated	2011	2010
Operating revenue	846.2	549.3
EBITDA	311.9	152.3
EBITDA margin	36.9%	27.7%
Net profit (loss)	(115.5)	20.5
Total assets	3,616.6	3,667.3
Total equity	1,171.9	1,372.7
Equity ratio	32.4%	37.6%
Net interest bearing debt	1,702.4	1,401.5
Net change in cash and cash equivalents	15.4	160.2
Cash and cash equivalents	243.6	228.2
Market cap	1,085.0	1,915.1
Enterprise value	2,787.4	3,316.5

EMPLOYEES 2,000

(March 2012)

Q1 Q2 Q3 Q4

- FPSO BW PIONEER ACCEPTED FOR START-UP IN THE US GULF OF MEXICO
- THE FPSO OSX 1 PROJECT SUCCESSFULLY COMPLETED
- CONTRACT EXTENSIONS FOR FPSO ABO, FPSO ESPOIR IVOIRIEN AND FSO ENDEAVOR
- SALE OF THE FPSO NINGALOO VISION (JANUARY 2012)
- SALE OF THE FSO ENDEAVOR (MARCH 2012)
- 2011 EBITDA OF USD 312 MILLION; UP 105% FROM 2010
- COMPLETED SEVEN YEAR USD 2.4 BILLION SENIOR SECURED CREDIT FACILITY FOR REFINANCING OF PREVIOUS FACILITIES AND GROWTH
- AVAILABLE LIQUIDITY OF USD 502 MILLION AT END 2011
- DIVIDEND POLICY APPROVED; QUARTERLY DIVIDEND PAYMENT INITIATED

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: 2006-2013 [2021]																
YUUM K'AK'NAAB	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: 2002-2013 [2022]																
PETROLEO NAUTIPA (50%)	FPSO	LEASE	VAALCO, GABON: 2002-2015 [2017]																
CIDADE DE SÃO MATEUS	FPSO	LEASE	PETROBRAS, BRAZIL: 2009-2018 [2024]																
AZURITE	FPSO	LEASE	MURPHY, CONGO: 2009-2016 [2024]																
BELOKAMENKA	FSO	LEASE	ROSNEFT/SOVCOMFLOT, RUSSIA: 2004-2019																
NINGALOO VISION	FPSO	OPERATE	APACHE, AUSTRALIA: 2012																
P-63/PAPA TERRA	FPSO	EPC/OPERATE	PETROBRAS, BRAZIL: 2013-2016																

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



“BW OFFSHORE REMAINS AN ATTRACTIVE PARTNER FOR CLIENTS AND AN IDEAL VEHICLE FOR INVESTORS AND LENDERS”

CEO'S REPORT

BW OFFSHORE, THE SPECIALIST FPSO BUILDING, LEASING AND OPERATING COMPANY

During 2011 BW Offshore consolidated the acquisition of Prosafe Production and secured its foothold in all major offshore provinces with the second largest fleet of owned units in the world.

The company's focus for the year has been on delivering world-class execution on the project portfolio and industry leading performance on the operating units. The macro environment has been favourable with a high level of market activity and an advantageous supply demand balance predicted for some time ahead.

2011 has been a year of consolidation for BW Offshore. With 2,000 colleagues and a fleet that stands at 15 FPSOs and FSOs around the world, we have made big strides in size, strength and capability. Following the Prosafe Production acquisition in 2010, the emphasis was on realising the benefits of scale and global footprint through integration. There was also considerable effort on organiza-

tional restructuring to improve efficiency, reduce duplication and increase cost effectiveness for the organization.

Market activity was on the rise through 2011. Although the number of awards remained below historical levels, the projects being progressed for development by clients saw a significant increase. We are looking

at a period of profitable growth ahead. The continuing strong oil prices and the significant increase in available offshore drilling facilities give us great confidence that the advantageous supply demand balance will continue to be very favourable for years to come.

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

Over the past two decades BW Offshore has earned a reputation for excellence in project execution, proving its capability with over 30 successfully completed projects. The company's track record boasts significant

'world firsts' including the deepest production facility ever, the largest in terms of oil throughput as well as the first ever combined drilling and production unit (FDP50). In an industry that is constantly asked to conquer new frontiers, BW Offshore has an uncontested competitive advantage.

With projects entered into in 2010 in final stages of completion, 2012 will see two new additions to the BW Offshore fleet:

- The gas FPSO for the Indonesian TSB project for Kangean Energy is a traditional conversion. Construction and commissioning are now complete and the unit is getting ready for start-up. Operational start-up is on schedule for the first half of 2012. The operating contract has a 10-year fixed term with options for four additional years. This unit represents a total investment of about USD 400 million.

- The FPSO BW Athena for the UK Athena project for Ithaca Energy is a conversion of the existing FPSO BW Carmen. The construction and commissioning phase is completed and the unit is currently en route to the North Sea for start-up in the first half of 2012. The contract has a three-year fixed term with options until the end of the field's producing life. This development represents a total investment of about USD 300 million.

In 2011 BW Offshore also successfully completed the FPSO OSX 1 conversion for Brazil's OSX. There was no investment for BW Offshore on this project and it involved management and assistance to OSX for the completion and adaptation of the existing OSX 1 unit for service in Brazilian waters.

Work is ongoing on the joint venture with QUIP for the EPCI (Engineering Procurement

MANAGEMENT

Construction and Installation) contract for the Brazilian Papa Terra project for Petrobras. The turnkey contract involves no investment for BW Offshore and includes milestone payments. BW Offshore is responsible for providing the conversion hull and carrying out the marine conversion including certain specified utility systems but excluding the topside. The marine conversion is being undertaken at the COSCO Dalian shipyard in China and in 2011 the JV decided to extend its stay in the yard and integrate topside

from the start of the year until repairs were completed in August. BW Offshore agreed to sell Ningaloo Vision to the client Apache in January 2012.

Contracted revenue visibility stands at an average of five years – ten including options – for the current fleet of operating units and the planned additions. The operating fleet of BW Offshore is generating an increasing cash flow in the time ahead providing a sound basis for dividend payments as well

BW Offshore continues to be ranked among best in class when it comes to health, safety, security and the environment (HSSE) in the operating fleet. 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 are acknowledged and appreciated by clients, partners, lenders, investors and staff.

In the year ahead we will look to improve our operational and project performance significantly by relentlessly focusing on consistency, planning, disciplined execution and financial control. We will continue our work on clarifying and harmonizing work methods internally, structuring the organization for maximum effectiveness 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 the entire team for the 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.

“ THE TALENT AT BW OFFSHORE REMAINS OUR BIGGEST ASSET – GIVING US A COMPETITIVE ADVANTAGE IN TERMS OF CAPABILITY AND ATTITUDE. ”

modules in China due to limited yard capacity in Brazil. The project is expected to be completed in early 2013.

Operational performance was at the expected standard on all vessels except the FPSO Ningaloo Vision during 2011.

Ningaloo Vision encountered problems with the mooring system, fluid transfer system as well as the processing facilities that resulted in frequent shutdowns and repair work

as for further investment in the company. We believe that the current oil price projections make it very valuable and logical for clients to extend operational periods on their units beyond even the optional periods on the current contracts. This theory is borne out in reality by the contemplated extensions for Abo, Espoir Ivoirien and Sendje Berge. Should such extensions fructify, they would represent a significant upside on the existing operating portfolio.



Carl K. Arnet
CEO



Knut R. Sæthre
CFO



Stuart Bannerman
COO



Thyl Kint
CTO



Magda Karim Vakil
Head of Legal



Claude Rouxel
Head of Business
Development



Rebekah France
Head of Human Capital



WE BUILD

PROVEN TRACK RECORD

CONCEPT DEVELOPMENT

With 36 FPSO and FSO conversion projects completed in nearly as many years, BW Offshore has a wealth of in-house experience to bring to conceptual design for FPSOs.

expertise to evaluate various development scenarios. Such early engagement ensures a better foundation for final concept selection, securing a better fit to financial and technical objectives.

neering activity and technical documentation, ensuring that lessons learned are incorporated from projects and operations. This approach makes continuous improvement a reality while bringing a high level of consistency to



WITH 36 FPSO AND FSO CONVERSION PROJECTS COMPLETED, BW OFFSHORE HAS A WEALTH OF IN-HOUSE EXPERIENCE TO BRING TO CONCEPTUAL DESIGN FOR FPSOS.

With a specialist team focused on concept development and technology, BW Offshore can ensure an optimal selection of technical concepts on projects in terms of cost benefit and technology. Concept development begins at the earliest stages of the business development process, helping clients combine their internal resources with BW Offshore

ENGINEERING DESIGN

BW Offshore has a strong core team of in-house engineering experts that work to establish optimised design criteria keeping in mind client requirements, prevailing regulation and past experience. With a rich experience bank, this team is constantly working to standardise and optimise engi-

project engineering. For oil companies, the incorporation of real life lessons from on-going operations translates into massive benefits in asset lifecycle costs.

PROJECT MANAGEMENT

BW Offshore has a strong bench of internal project and engineering resources. On the

project side, seasoned project and construction managers work closely with the engineering side, staffed by experienced engineering managers as well as discipline leads and senior engineers. Four key characteristics are the hallmark of BW Offshore's project management capability.

Proven Partnerships: Combining the best of competence and scalability, BW Offshore complements its core competence by building inorganic project specific teams, handpicking the specialist knowledge and competence needed in each case. Long term relationships with engineering contractors allow BW Offshore a nimble and economical business structure that delivers results. Ownership is still held closely by the BW Offshore team, as is the responsibility for supervising schedules and deliveries.





Professional Planning: In-house expertise in project planning, execution and control helps ensure clear visibility, timely anti-

Steady Supply Chain: A global supply chain team working for all areas of the business from bid development to projects and from

scale make it possible to optimise quality and cost.

Solid Start-up: Every phase of project execution is crucial, but perhaps none more so than project completion and start-up. BW Offshore has specialist in-house teams that work on mechanical completion and commissioning. Such teams are multi-skilled and multi-disciplined, combining the best of operations and project experience to ensure a smooth and steady start-up.

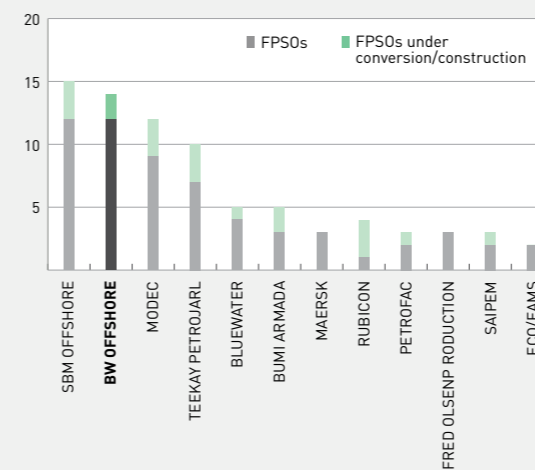
pation and rectification of problems as well as tight monitoring on all resource spending related to projects.

subsea installation to operations ensure a tried and tested supplier network. Familiarity with the various aspects of the FPSO business as well as BW Offshore's size and

“ MULTI-SKILLED AND MULTI-DISCIPLINED TEAMS COMBINING THE BEST OF OPERATIONS AND PROJECT EXPERIENCE TO ENSURE A SMOOTH AND STEADY START-UP.

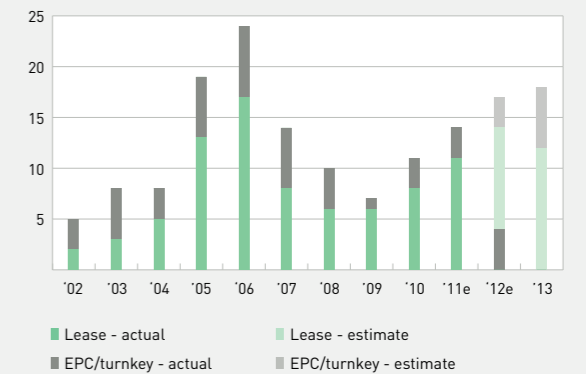
SUPPLY

Overview of the FPSO players



DEMAND

Large portfolio of FPSO prospects



Source: Fearnley Offshore



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.

with lending banks and close contact with the equity market through the Oslo Stock Exchange listing enable the structuring of attractive financial packages and to offer 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.

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.

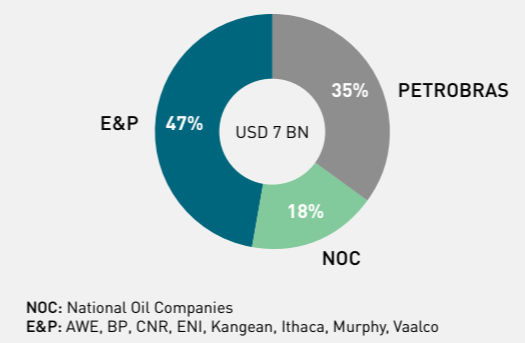
BW Offshore offers significant support in the form of management resources and staff to execute, arrange and manage the necessary funding.

“ LEASING THE PRODUCTION ASSET FREES UP OIL COMPANIES TO FOCUS ON WHAT THEY DO BEST, MAINLY RESERVOIR DEVELOPMENT AND MANAGEMENT. ”

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

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,

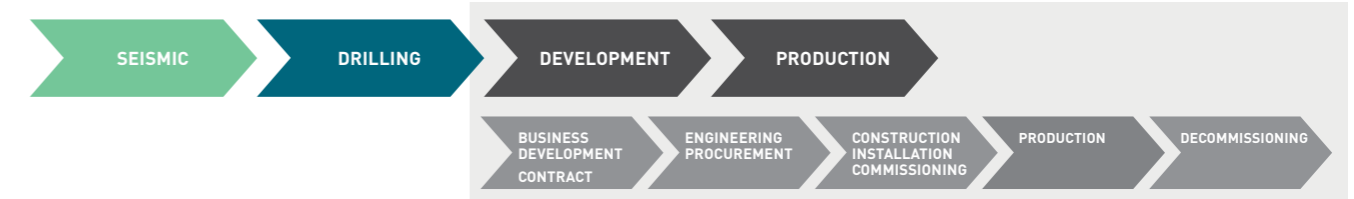
ROBUST REVENUE BACKLOG WITH SOLID CLIENTS



LONG TERM CONTRACTED CASHFLOW

- USD 7 billion revenue backlog
- USD 4 billion EBITDA backlog
- Weighted average contract length is 10 years including options (5 years firm, 5 years option)

BW OFFSHORE IN THE UPSTREAM VALUE CHAIN





WE OPERATE

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. In 2011 the company had no fatalities, serious injuries

FPSOs and 1 FSOs deployed on every continent in the world is assisted by highly qualified, competent and dedicated support and logistics service staff. The daily oil volumes processed and passed through BW Offshore's fleet averaged 550,000 barrels of oil per day in 2011, generating significant cash flow for

that this consistent high level performance has been achieved 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 fleet calls for the highest levels of skill and experience in Operations, with a profile ranging from FSOs serving as oil storage and export terminals to highly sophisticated dis-connectable FPSOs and test production

units that are frequently relocated at the client's request.

The BW Offshore fleet is supported by a strong network of onshore offices around



BW OFFSHORE UNITS PERFORM WITH CLASS LEADING PRODUCTION UPTIME.

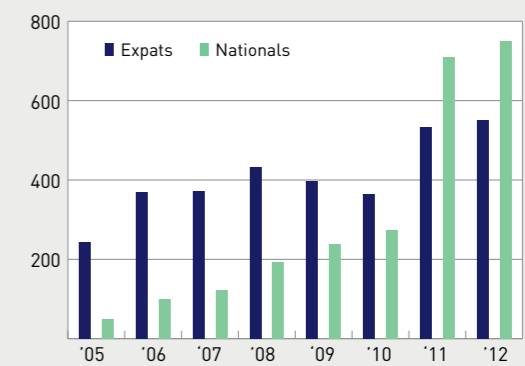
or harm to the environment and demonstrated industry leading performance on lost time injuries.

Talented Team: The BW Offshore fleet of 14

our clients. BW Offshore meets and exceeds client expectations on production uptime and is in the top tier for FPSO operations worldwide, with an average uptime of 99.2% over the past five years. It is to be noted

the world with the two principal centres being located in Singapore and Oslo. In a highly competitive and tight talent market, the company's work ethic and culture, high level of experience and competence, global work opportunities and challenging class leading assignments make BW Offshore an attractive employer. BW Offshore is committed to development and deployment of local employees, and is investing heavily to enhance the proportion of native personnel in the countries where the company operates. In addition, BW Offshore has global recruitment centres for expatriate employees in Latvia, Russia, India, Norway and in the Philippines.

BW OFFSHORE EMPLOYED OFFSHORE PERSONNEL
Expats and Nationals 2005-2012



As of March 2012



HSSEQ

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. The acquisition of Prosafe

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 did not experience any serious personnel injuries or significant environmental incidents in 2011. The majority of the FPSOs in the total fleet succeeded in operating for the full year with no Lost Time Injuries (LTIs).

“ 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.

Production has provided a unique opportunity to compare, identify and implement the best practices from each of the two former companies.

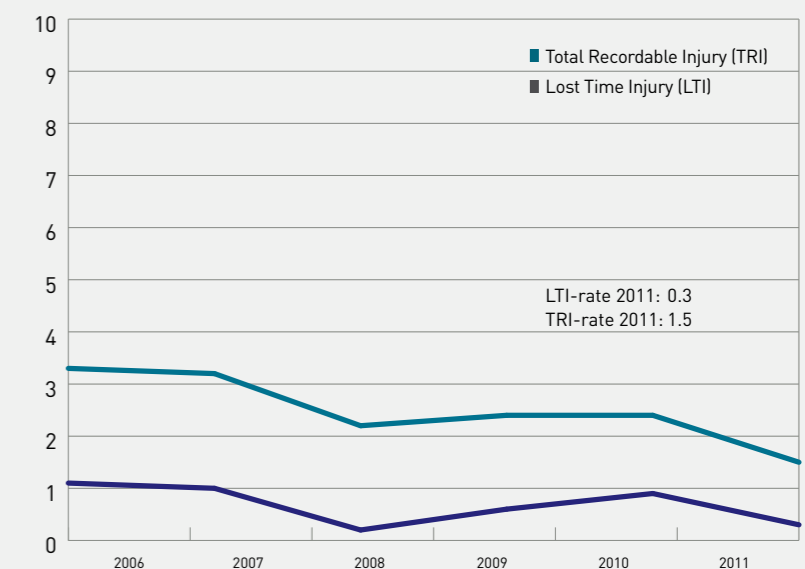
BW Offshore is certified in accordance with ISO 14001 on environment management, OHSAS 18001 on occupational health and safety management, and the International Safety Management (ISM) code.

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

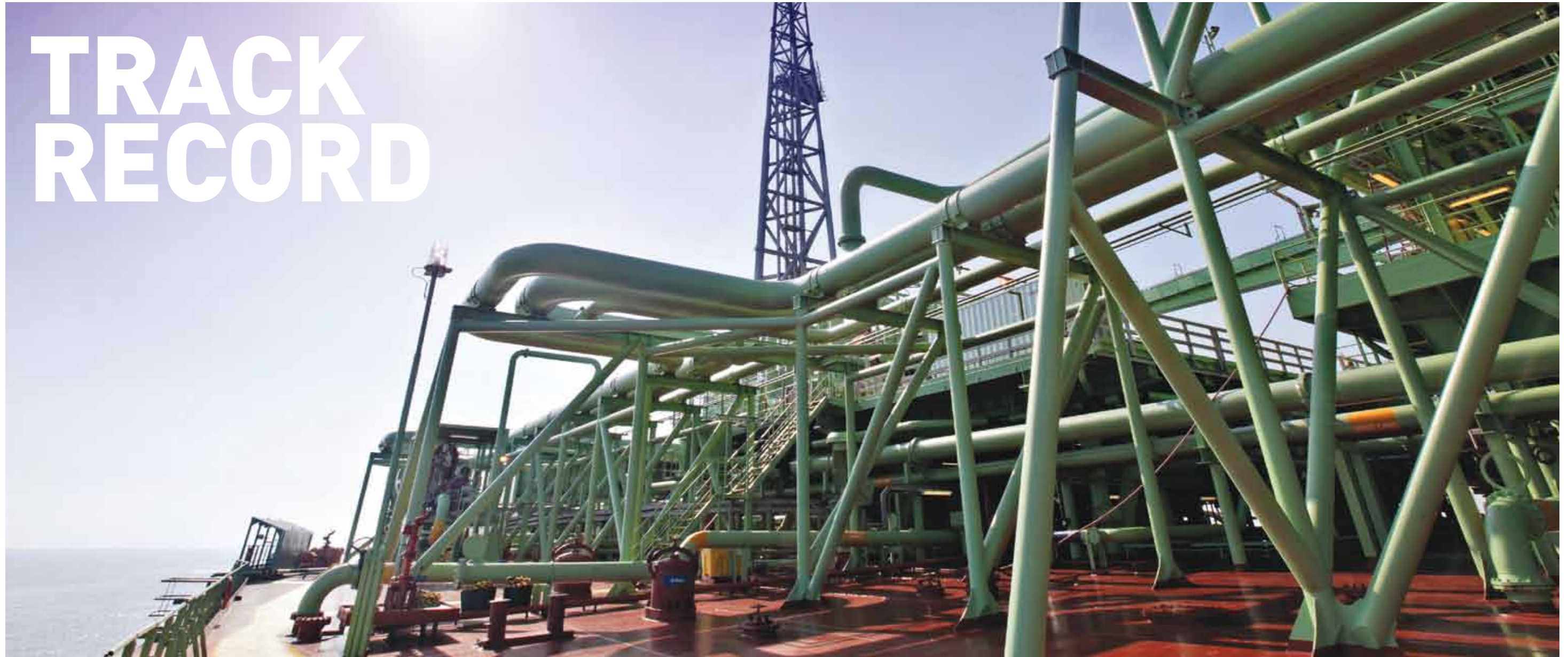
The graph 'BW Offshore HSE statistics' shows the rolling average injury trend for BW Offshore in 2011. The following terms are used:

- 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.

BW OFFSHORE HSE STATISTICS, ALL HOURS



TRACK RECORD



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, QATAR	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
YÜUM K'AK'NÁAB *	FPSO	KMZ, MEXICO	PEMEX
BW CARMEN	FPSO	NORTH SEA	STATOIL
BW CIDADE DE SÃO VICENTE *	FPSO	TUPI, BRAZIL	PETROBRAS
BW CARMEN	FPSO	NORTH SEA	SHELL
BW PIONEER *	FPSO	CASCADE CHINOOK, US	PETROBRAS
ASOKA NUSANTARA	FPSO	MADURA, INDONESIA	KODECO ENERGY

NAME	TYPE	LOCATION	CLIENT
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
PETRÓLERO 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
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 ATHENA *	FPSO	ATHENA, UK	ITHACA ENERGY
BW JOKO TOLE *	FPSO	TSB, INDONESIA	KANGEAN ENERGY

* UNITS CURRENTLY IN BW OFFSHORE'S FLEET



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 Bye-laws. 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 20, 2011 - 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 Mission and Values, 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 busi-

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

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

Currently, the Company has six Board members, with one female director. 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.

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

A currently updated 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 and on the Company's website www.bwoffshore.com.

Public investor presentations are arranged in connection with submission of annual and quarterly results for the Company. The presentations are 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.



CORE VALUES

/ COMMIT WITH OPENNESS

/ ADAPT THROUGH COMPETENCE

/ ENGAGE BY TEAM SPIRIT

/ ACT RELIABLY IN EVERYTHING WE DO

VISION

/ TO BECOME #1 FPSO OWNER AND PRODUCTION OPERATOR IN THE WORLD

MISSION

/ WE DELIVER BEST IN CLASS SHAREHOLDER VALUE

/ WE PROVIDE COST EFFICIENT OFFSHORE SOLUTIONS DRIVEN BY CUSTOMER NEEDS AND SEEK CONTINUOUS IMPROVEMENT THROUGH ADAPTATION AND USE OF TECHNOLOGY

/ WE UNDERSTAND AND MANAGE RISK WITH THE HIGHEST REGARD FOR HEALTH, SAFETY AND ENVIRONMENT

/ WE CONTRIBUTE TO LOCAL DEVELOPMENT THROUGH OUR BEHAVIOUR WHERE WE OPERATE

/ WE PROMOTE TALENT AND DIVERSITY AMONG OUR EMPLOYEES



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). In 2011, the Company had units operating offshore Brazil, India, Mauritania, Mexico, Nigeria, Ivory Coast, Gabon, Congo, Australia, New Zealand, USA and Russia. The Company will commence operations in the UK and in Indonesia in 2012.

The Company's core strengths are:

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

OPERATIONS AND PROJECTS

BW Offshore owns and operates twelve FPSOs, one FSOs and has two ongoing conversion projects. In addition, BW Offshore operates one additional FPSO.

1. The FPSO Yuum K'ak' Náab is in operation at the KMZ field for Pemex and com-

menced 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 the Equatorial Guinea in 2000 and was later modified, upgraded and relocated to Nigeria in 2005. In 2010, the client extended the contract for another two years. The current contract ends in April 2013.

3. The FPSO Berge Helene is in operation at the Chinguetti field offshore Mauritania

for Petronas. The duration of the contract is seven years fixed plus options for up to eight years. The vessel started operation in 2006.

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 Espírito 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 Ningaloo Vision is working in the Exmouth basin off the North-Western coast of Australia. The unit is employed

by Apache on a seven-year fixed term contract plus eight optional years. The vessel commenced operation in February 2010. The FPSO Ningaloo Vision was sold on 10 January 2012 to Apache. BW Offshore will operate the FPSO for a period of up to nine months on a cost-plus basis before final handover.

9. The FPSO Polvo is currently operating for BP offshore Brazil. The contract started in 2007. The contract has a firm seven year period with an eight-year extension option.

10. The FPSO Umuroa has been on a five-year contract with options for additional five years of operations for Australian Worldwide Exploration offshore New Zealand since August 2007. This con-

tract was adjusted in May 2008 to an eight-year firm period to 31 December 2015, with options for extension up to 31 December 2022.

11. The FPSO Abo is on a contract with Nigerian Agip Exploration offshore Nigeria until April 2013.

12. The FPSO Espoir Ivoirien is located on the Espoir field off the Ivory Coast for Canadian Natural Resources (CNR). The firm period of the contract lasted until 2012. In addition, CNR has the option to extend it by up to ten years. The contract has been extended until early 2013.

13. The FPSO Petr leo Nautipa is chartered to Vaalco on the Etame field off Gabon. The contract was extended in 2005 and in 2007 and currently runs until September 2015 with options for two additional years.

14. The FSO Endeavor was until May 2011 operating for Aban Loyd Chiles Offshore on the PY-3 field off India. An agreement has been entered into for the sale of the vessel.

15. The FPSO BW Pioneer has been on stand-by-rate since March 2011 and received first oil for Petrobras in the US Gulf of Mexico in February 2012. The contract is for a fixed term of five years and with an optional period of up to three years.

16. The FPSO BW Athena (former BW Carmen) is chartered to Ithaca Energy and partners and has in February 2012 sailed from the yard in Dubai. Operation in the UK is expected to commence in the first half of 2012. The contract is for a fixed term of three years, with an option period of up to five years.

17. The FPSO BW Joko Tole (former BW Genie) is chartered to Kangean Energy Indonesia and is currently undergoing conversion. The FPSO is expected to commence operation in Indonesia in the first half of 2012. The contract is for a fixed period of ten years, with an option to extend for four years.

18. BW Offshore, together with its Brazilian consortium partner QUIP, is converting a FPSO P-63 for the Papa Terra Joint

Venture (Petrobras and Chevron). BW Offshore's main responsibility will be to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The ULCC BW Nisa (323,000 dwt) has been utilised for this project. The project has been accounted for as a construction contract (EPC) applying the percentage of completion method. 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.

19. BW Offshore has performed project management and engineering services to OSX for the FPSO OSX 1. The project has been accounted for as a construction contract (EPC).

The order backlog for the Company represents a value of approximately USD 3.4 billion related to non-cancellable contracts and if including options, USD 7.1 billion.

FINANCIAL RESULT

The earnings before interest, taxes, depreciation and amortisation (EBITDA) for BW Offshore and its subsidiaries (the 'Group') for 2011 was USD 311.9 million compared to USD 152.3 million in 2010. Operating profit was USD 9.0 million, compared to a loss of USD 22.8 million in 2010. Operating profit included impairment of USD 138.5 million related to the operating vessels and vessels under conversion, compared to an impairment of USD 85.0 million in 2010, offset by a net gain on sale of fixed assets of USD 18.6 million. Net loss including discontinued operations of USD 0.7 million was a loss of USD 115.5 million compared to a net profit of USD 20.5 million in 2010.

The Group's revenue derived from charter hire was USD 619.8 million compared to USD 311.5 million in 2010. The increase is primarily attributable to increased activity resulting from the consolidation of Prosafe Production on 1 October 2010. Revenue derived from construction contracts was USD 184.2 million compared to USD 162.5 million in 2010. Revenue derived from lease interests was USD 18.3 million compared to USD 19.3 million in 2010. Lease interest revenue is derived from the operation of the FPSO Y um K'ak' N ab and of 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 534.1 million compared to USD 382.2 million in 2010. The increase in operating expenses was mainly attributable to the first full year of consolidation of Prosafe Production.

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 51.1 million compared to USD 66.0 million in 2010. The reduction is mainly due to restructuring costs in 2010.

Depreciation and amortisation amounted to USD 183.0 million, compared to USD 90.1 million in 2010. The increase is mainly attributable to the first full year of consolidation of the acquired Prosafe Production.

Net interest expense was USD 46.2 million compared to USD 26.2 million in 2010. The increase is due to net average higher interest bearing debt in 2011 mainly due to the acquisition of Prosafe.

Tax expense was USD 43.9 million compared to USD 16.4 million in 2010. The increase is mainly due to the expense of USD 21.3 million of the deferred tax asset recorded in Australia related to the sale of FPSO Ningaloo Vision. 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 3,616.6 million as at 31 December 2011 compared to USD 3,667.3 million in 2010. The net decrease of USD 50.7 million (1%) mainly relates to impairment and depreciation on assets, down payment of the CIRR facility offset by capex on new vessels and higher cash and deposits. Goodwill as at 31 December 2011 relates to the acquisition of Prosafe Production.

As at 31 December 2011, the Group had a net equity of USD 1,171.9 million compared to USD 1,372.7 million at 31 December 2010. The decrease is due to the negative comprehensive income and dividends in 2011. The net equity ratio as at 31 December 2011

was 32.4% compared to 41.9% as at 31 December 2010.

As at 31 December 2011, the Group had interest-bearing debt of USD 1,968.8 million compared to USD 1,728.9 million in 2010. On 15 March 2011 BW Offshore concluded a USD 2.4 billion seven year senior secured credit facility. The facility was split in term loans in an amount of USD 1,700 million and a USD 700 million revolving credit facility. The facility was substantially oversubscribed by a group of 15 leading international banks. The facility has been used to refinance BW Offshore and Prosafe Production's earlier main credit facilities, as well as to finance further growth for the Company. Net interest-bearing debt at 31 December 2011 was USD 1,702.4 million.

Net cash inflow from operating activities amounted to USD 236.0 million compared to net cash inflow of USD 357.5 million in 2010, a reduction of USD 121.7 million. Net cash outflow from investment activities amounted to USD 353.9 million, compared to a net cash inflow of USD 204.9 million in 2010. Investments in fixed assets amounted to USD 398.2 million, compared to USD 269.7 million in 2010. Cash outflow from investment activities in 2011 mainly relates to the conversion of the FPSO BW Joko Tole and the FPSO BW Athena, as well as additional investments on the FPSO Ningaloo Vision and the FPSO BW Pioneer.

HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY

Health, safety, security, environment and quality ('HSSEQ') have the highest priority in all parts of the Company's management, conversions and operations of FPSOs and FSOs, construction and support service processes. BW Offshore's management has established policies for safety, security, occupational health and 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 a 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 op-

eration 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 2011 were 0.3 (0.9) and 1.5 (2.4), respectively.

The Board considers that the working environment in the Company is good. In 2011, absence due to sickness amounted to 2.5% of total hours worked by the employees. During the year, several initiatives were taken to further improve the working environment. Offshore personnel conferences, including a cultural awareness program, as well as a leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while alignment of policies and procedures on a global scale is an example of an onshore initiative.

BW Offshore currently has approximately 2,000 employees. 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 2011.

The Company takes out insurance cover for injuries to crew, 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.

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

BOARD OF DIRECTORS

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

On 10 January 2012, the FPSO Ningaloo Vision was sold for USD 185.0 million of which USD 85.0 million was paid at completion of the sale on 10 January 2012, and USD 100.0 million is due within 6 months thereafter. Upon completion of the sale of the vessel, the USD 2.4 billion facility was reduced with an amount of USD 191.3 million split between USD 132.5 million in repayment of outstanding debt and USD 58.8 million in reduction of the limit of the revolving credit facility. The future loan repayments will be reduced with a total amount equal to the debt repaid at sale.

BW Offshore has entered into an operating and maintenance agreement for Ningaloo Vision, where BW Offshore will operate the

FPSO on behalf of the buyer during a transitional period of up to nine months before final handover.

BW Offshore's ongoing FPSO conversions BW Joko Tole and BW Athena are expected to commence operation in the first half of 2012. The EPC conversion project Papa Terra is under construction in China being readied for departure for final hookup and commissioning in Brazil.

On 15 March 2012 BW Offshore concluded a NOK 500 million five year senior unsecured bond issue.

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 profit of USD 127.7 million for 2011, compared to a net loss of USD 75.7 million in 2010. BW Offshore Limited is a holding company with no operating activities.

The profit for 2011 is primarily a result of gain on sale subsidiaries offset by write-down of shares in subsidiaries relating to impairment on operating vessels and management fees from BW Offshore Norway AS and BW Offshore Singapore Pte. Ltd.

Total assets were USD 1,407.9 million as at 31 December 2011 compared to USD 1,992.1 million in 2010. The net decrease mainly

relates to reduction of intercompany receivables.

Total shareholders' equity in BW Offshore Limited as of December 31, 2011 was USD 1,334.6 million, corresponding to 94.8 per cent of total assets.

As at 31 December 2011, BW Offshore Limited had no interest-bearing debt compared to USD 610.0 million in 2010.

OUTLOOK

The outlook for the energy market in general and BW Offshore's position in particular remains strong. Based on BW Offshore's diversification, presence, financial scale and competence, the Company's aim is to continue to play a significant role in the FPSO market with profitable growth.

BW Offshore's cash flow from the operating vessels is secure and based on long term contracts with large national oil companies and solid independent oil companies.

The commencement of operation of the FPSOs BW Athena and BW Joko Tole and the commencement of production from BW Pioneer will contribute significantly to the growth in EBITDA in 2012 and beyond.

BW Offshore is committed to increasing shareholder return, and is selectively pursuing projects that meet the Company's financial targets.

Bermuda, 22 March 2012



Mr. Christophe Pettenati-Auzière



Mr. Maarten R. Scholten



Mr. Andreas Sohmen-Pao



Mr. Ronny Johan Langeland
Vice Chairman



Mrs. Carine Smith Ihenacho



Dr. Helmut Sohmen
Chairman

Bermuda, 22 March 2012

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.

Quarterly dividend payments since introduction of dividend policy.

- Q1 2011: USD 0.04
- Q2 2011: USD 0.04
- Q3 2011: USD 0.04
- Q4 2011: USD 0.02

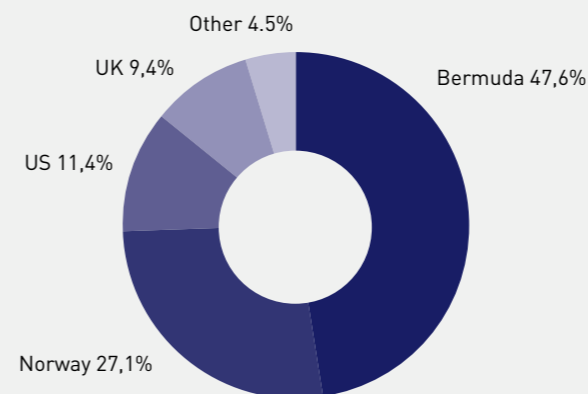
FINANCIAL CALENDAR 2012

- 14.02.2012 Q4 2011 results
- 09.05.2012 AGM
- 11.05.2012 Q1 2012 results
- 30.08.2012 Q2 2012 results
- 22.11.2012 Q3 2012 results

20 LARGEST SHAREHOLDERS AS OF 14 MARCH 2012

NAME	TYPE	COUNTRY	SHARES #	SHARES%
1 BW GROUP LIMITED C/O BW MARITIME PTE		BERMUDA	323,834,963	47.07%
2 RASMUSSENGRUPPEN AS		NORWAY	23,843,565	3.47%
3 JPMORGAN CHASE BANK OMNIBUS LENDING	NOM	UK	20,260,933	2.94%
4 ODIN OFFSHORE		NORWAY	14,625,805	2.13%
5 THE NORTHERN TRUST C USL NON-TREATY	NOM	UK	13,839,175	2.01%
6 STATE STREET BANK AN A/C CLIENT OMNIBUS F	NOM	USA	12,549,221	1.82%
7 ODIN NORDEN		NORWAY	11,156,375	1.62%
8 ODIN NORGE		NORWAY	9,666,798	1.41%
9 ORKLA ASA		NORWAY	9,300,394	1.35%
10 GOLDMAN SACHS & CO - SECURITY CLIENT SEGR	NOM	USA	8,720,994	1.27%
11 CREDIT SUISSE SECURI SPECIAL CUSTODY A/C	NOM	USA	8,286,888	1.20%
12 JPMORGAN CLEARING CO A/C CLEARING ACCOUNT	NOM	USA	8,286,000	1.20%
13 KLP AKSJE NORGE VPF		NORWAY	7,235,159	1.05%
14 FIDELITY DIV GR FUND C/O CITIBANK NA NEW		USA	6,236,281	0.91%
15 KOLBJØRN INVEST II A		NORWAY	6,120,000	0.89%
16 FIDELITY LOW-PR ST F C/O BROWN BROTHERS H		USA	5,000,000	0.73%
17 FIDELITY NORDIC FUND C/O BROWN BROTHERS H		USA	4,877,900	0.71%
18 KOMMUNAL LANDSPENSJO		NORWAY	4,823,426	0.70%
19 MORGAN STANLEY & CO S/A MSIL IPB CLIENT	NOM	UK	4,718,541	0.69%
20 SSTL AS DEP OF HSBC HSBC Bank Plc		UK	4,439,631	0.65%
Top 20 shareholders			507,822,049	73.82%
TOTAL SHARES OUTSTANDING			688,006,004	

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS



TOTAL NUMBER OF SHAREHOLDERS: 2.895

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 Offshores 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

FINANCIAL INFORMATION 2011 2010

P&L (MUSD)

Operating revenue	846.3	549.3
Operating expenses	(534.1)	(382.2)
Transactions related to associates	(0.3)	(14.8)
EBITDA	311.9	152.3
Depreciation and amortisation	(183.0)	(90.1)
Impairment	(138.5)	(85.0)
Net gain (loss) on sale of tangible fixed assets	18.6	-
Operating profit (EBIT)	9.0	(22.8)
Net financial items	(79.9)	(63.2)
Profit before tax	(70.9)	(86.0)
Income tax expense	(43.9)	(16.4)
Net profit (loss) from discontinued operations	(0.7)	122.9
Net profit (loss) for the period	(115.5)	20.5

BALANCE SHEET (MUSD)

Total assets	3,616.6	3,667.3
Interest bearing debt	1,968.8	1,728.9
Cash and cash equivalents	243.6	228.2
Other deposits	22.8	99.2
Net interest bearing debt (NIBD)	1,702.4	1,401.5
Total equity	1,171.9	1,372.7

CASH FLOW (MUSD)

Net cash flow from operating activities	236.0	357.5
Net cash flow from investing activities	(353.9)	204.9
Net cash flow from financing activities	133.3	(402.2)
Net change in cash and cash equivalents	15.4	160.2
Cash and cash equivalents at end of period	243.6	228.2

KEY FIGURES

Equity ratio	32.4%	37.6%
EBITDA margin	36.9%	27.7%
Return on equity (ROE)	(3.3%)	(3.9%)
Number of shares (mill)	688.0	688.0
Number of shares fully diluted	688.0	688.0
Shareprice (NOK)	9.45	16.30
Market cap (MNOK)	6,502.0	11,214.0
Market cap (MUSD)	1,085.0	1,915.0
Enterprise value (EV, MUSD)	2,787.4	3,316.5

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.

SHAREPRICE (NOK)



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Brazil: Rio de Janeiro, Cidade de Santos, Vitória
USA: Houston, New Orleans
Mexico: Ciudad del Carmen
Australia: Perth
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
United Kingdom: Aberdeen
Cyprus: Limassol
Netherlands: Amsterdam



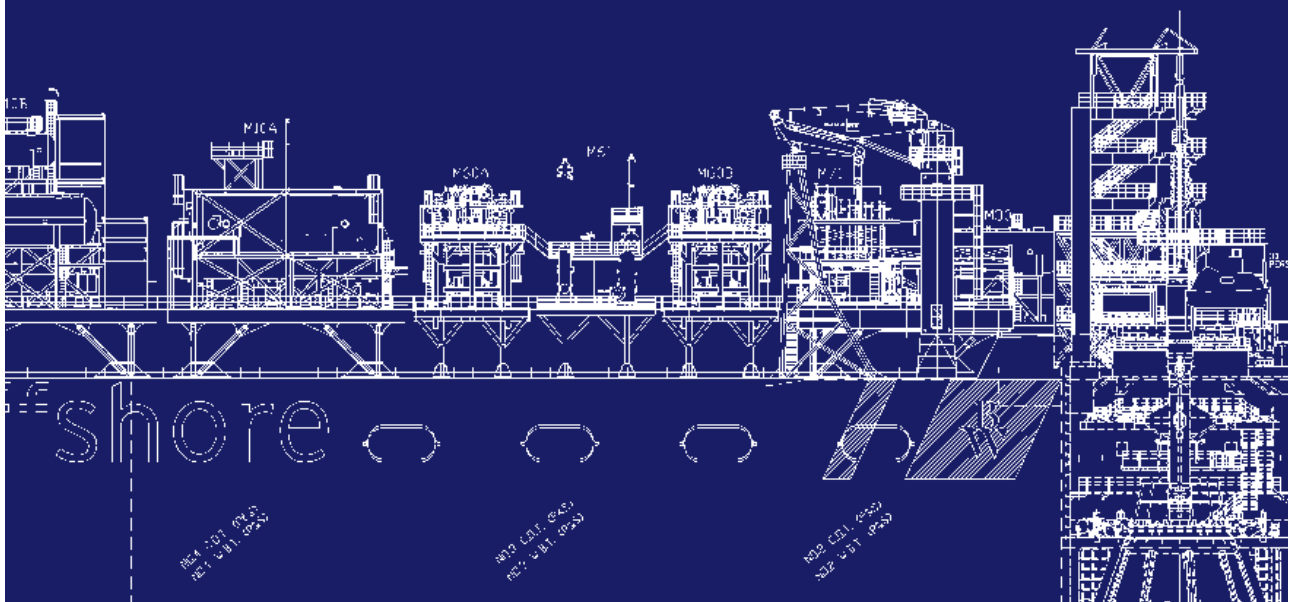
BW OFFSHORE





BW OFFSHORE

BW OFFSHORE LIMITED 2011



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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 '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). In 2011, the Company had units operating offshore Brazil, India, Mauritania, Mexico, Nigeria, Ivory Coast, Gabon, Congo, Australia, New Zealand, USA and Russia. The Company will commence operations in the UK and in Indonesia in 2012.

The Company's core strengths are:

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

OPERATIONS AND PROJECTS

BW Offshore owns and operates twelve FPSOs, one FSOs and has two ongoing conversion projects. In addition, BW Offshore operates one additional FPSO.

1. The FPSO Yuum K'ak' Naab is in operation at the KMZ field 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 the Equatorial Guinea in 2000 and was later modified, upgraded and relocated to Nigeria in 2005. In 2010, the client extended the contract for another two years. The current contract ends in April 2013.
3. The FPSO Berge Helene is in operation at the Chinguetti field offshore Mauritania for Petronas. The duration of the contract is seven years fixed plus options for up to eight years. The vessel started operation in 2006.
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 Ningaloo Vision is working in the Exmouth basin off the North-Western coast of Australia. The unit is employed by Apache on a seven-year fixed term contract plus eight optional years. The vessel commenced operation in February 2010. The FPSO Ningaloo Vision was sold on 10 January 2012 to Apache. BW Offshore will operate the FPSO for a period of up to nine months on a cost-plus basis before final handover.
9. The FPSO Polvo is currently operating for BP offshore Brazil. The contract started in 2007. The contract has a firm seven year period with an eight-year extension option.
10. The FPSO Umuroa has been on a five-year contract with options for additional five years of operations for Australian Worldwide Exploration offshore New Zealand since August 2007. This contract was adjusted in May 2008 to an eight-year firm period to 31 December 2015, with options for extension up to 31 December 2022.
11. The FPSO Abo is on a contract with Nigerian Agip Exploration offshore Nigeria until April 2013.
12. The FPSO Espoir Ivoirien is located on the Espoir field off the Ivory Coast for Canadian Natural Resources (CNR). The firm period of the contract lasted until 2012. In addition, CNR has the option to extend it by up to ten years. The contract has been extended until early 2013.
13. The FPSO Petrôleo Nautipa is chartered to Vaalco on the Etame field off Gabon. The contract was extended in 2005 and in 2007 and currently runs until September 2015 with options for two additional years.
14. The FSO Endeavor was until May 2011 operating for Aban Loyd Chiles Offshore on the PY-3 field off India. An agreement has been entered into for the sale of the vessel.
15. The FPSO BW Pioneer has been on stand-by-rate since March 2011 and received first oil for Petrobras in the US Gulf of Mexico in February 2012. The contract is for a fixed term of five years and with an optional period of up to three years.

16. The FPSO BW Athena (former BW Carmen) is chartered to Ithaca Energy and partners and has in February 2012 sailed from the yard in Dubai. Operation in the UK is expected to commence in the first half of 2012. The contract is for a fixed term of three years, with an option period of up to five years.
 17. The FPSO BW Joko Tole (former BW Genie) is chartered to Kangean Energy Indonesia and is currently undergoing conversion. The FPSO is expected to commence operation in Indonesia in the first half of 2012. The contract is for a fixed period of ten years, with an option to extend for four years.
 18. BW Offshore, together with its Brazilian consortium partner QUIP, is converting a FPSO P-63 for the Papa Terra Joint Venture (Petrobras and Chevron). BW Offshore's main responsibility will be to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The ULCC BW Nisa (323,000 dwt) has been utilised for this project. The project has been accounted for as a construction contract (EPC) applying the percentage of completion method. 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.
 19. BW Offshore has performed project management and engineering services to OSX for the FPSO OSX 1. The project has been accounted for as a construction contract (EPC).
- The order backlog for the Company represents a value of approximately USD 3.4 billion related to non-cancellable contracts and if including options, USD 7.1 billion.
- FINANCIAL RESULT**
- The earnings before interest, taxes, depreciation and amortisation (EBITDA) for BW Offshore and its subsidiaries (the 'Group') for 2011 was USD 311.9 million compared to USD 152.3 million in 2010. Operating profit was USD 9.0 million, compared to a loss of USD 22.8 million in 2010. Operating profit included impairment of USD 138.5 million related to the operating vessels and vessels under conversion, compared to an impairment of USD 85.0 million in 2010, offset by a net gain on sale of fixed assets of USD 18.6 million. Net loss including discontinued operations of USD 0.7 million was a loss of USD 115.5 million compared to a net profit of USD 20.5 million in 2010.
- The Group's revenue derived from charter hire was USD 619.8 million compared to USD 311.5 million in 2010. The increase is primarily attributable to increased activity resulting from the consolidation of Prosafe Production on 1 October 2010. Revenue derived from construction contracts was USD 184.2 million compared to USD 162.5 million in 2010. Revenue derived from lease interests was USD

18.3 million compared to USD 19.3 million in 2010. Lease interest revenue is derived from the operation of the FPSO Yuum K'ak' Naab and of 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 534.1 million compared to USD 382.2 million in 2010. The increase in operating expenses was mainly attributable to the first full year of consolidation of Prosafe Production.

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 51.1 million compared to USD 66.0 million in 2010. The reduction is mainly due to restructuring costs in 2010.

Depreciation and amortisation amounted to USD 183.0 million, compared to USD 90.1 million in 2010. The increase is mainly attributable to the first full year of consolidation of the acquired Prosafe Production.

Net interest expense was USD 46.2 million compared to USD 26.2 million in 2010. The increase is due to net average higher interest bearing debt in 2011 mainly due to the acquisition of Prosafe.

Tax expense was USD 43.9 million compared to USD 16.4 million in 2010. The increase is mainly due to the expense of USD 21.3 million of the deferred tax asset recorded in Australia related to the sale of FPSO Ningaloo Vision. 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 3,616.6 million as at 31 December 2011 compared to USD 3,667.3 million in 2010. The net decrease of USD 50.7 million (1%) mainly relates to impairment and depreciation on assets, down payment of the CIRR facility offset by capex on new vessels and higher cash and deposits. Goodwill as at 31 December 2011 relates to the acquisition of Prosafe Production.

As at 31 December 2011, the Group had a net equity of USD 1,171.9 million compared to USD 1,372.7 million at 31 December 2010. The decrease is due to the negative comprehensive income and dividends in 2011. The net equity ratio as at 31 December 2011 was 32.4% compared to 41.9% as at 31 December 2010.

As at 31 December 2011, the Group had interest-bearing debt of USD 1,968.8 million compared to USD 1,728.9 million in 2010. On 15 March 2011 BW Offshore concluded a USD 2.4 billion seven year senior secured credit facility. The facility was split in term loans in an amount of USD 1,700 million and a USD 700 million revolving credit facility. The facility was substantially oversubscribed by a group of 15 leading international banks. The facility has been

used to refinance BW Offshore and Prosafe Production's earlier main credit facilities, as well as to finance further growth for the Company. Net interest-bearing debt at 31 December 2011 was USD 1,702.4 million.

Net cash inflow from operating activities amounted to USD 236.0 million compared to net cash inflow of USD 357.5 million in 2010, a reduction of USD 121.7 million. Net cash outflow from investment activities amounted to USD 353.9 million, compared to a net cash inflow of USD 204.9 million in 2010. Investments in fixed assets amounted to USD 398.2 million, compared to USD 269.7 million in 2010. Cash outflow from investment activities in 2011 mainly relates to the conversion of the FPSO BW Joko Tole and the FPSO BW Athena, as well as additional investments on the FPSO Ningaloo Vision and the FPSO BW Pioneer.

HEALTH, SAFETY, SECURITY, ENVIRONMENT, QUALITY

Health, safety, security, environment and quality ('HSSEQ') have the highest priority in all parts of the Company's management, conversions and operations of FPSOs and FSOs, construction and support service processes. BW Offshore's management has established policies for safety, security, occupational health and 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 a 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 2011 were 0.3 (0.9) and 1.5 (2.4), respectively.

The Board considers that the working environment in the Company is good. In 2011, absence due to sickness amounted to 2.5% of total hours worked by the employees. During the year, several initiatives were taken to further improve the working environment. Offshore personnel conferences, including a cultural awareness program, as well as a leadership program for Offshore Installation Managers and supervisors are examples of initiatives relating to offshore personnel, while alignment of policies and procedures on a global scale is an example of an onshore initiative.

BW Offshore currently has approximately 2,000 employees. 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 2011.

The Company takes out insurance cover for injuries to crew, 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.

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

RESPONSIBILITY STATEMENT

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

On 10 January 2012, the FPSO Ningaloo Vision was sold for USD 185.0 million of which USD 85.0 million was paid at completion of the sale on 10 January 2012, and USD 100.0 million is due within 6 months thereafter. Upon completion of the sale of the vessel, the USD 2.4 billion facility was reduced with an amount of USD 191.3 million split between USD 132.5 million in repayment of outstanding debt and USD 58.8 million in reduction of the limit of the revolving credit facility. The future loan repayments will be reduced with a total amount equal to the debt repaid at sale.

BW Offshore has entered into an operating and maintenance agreement for Ningaloo Vision, where BW Offshore will operate the FPSO on behalf of the buyer during a transitional period of up to nine months before final handover.

BW Offshore's ongoing FPSO conversions BW Joko Tole and BW Athena are expected to commence operation in the first half of 2012. The EPC conversion project Papa Terra is under construction in China being readied for departure for final hookup and commissioning in Brazil.

On 15 March 2012 BW Offshore concluded a NOK 500 million five year senior unsecured bond issue.

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 profit of USD 127.7 million for 2011, compared to a net loss of USD 75.7 million in 2010. BW Offshore Limited is a holding company with no operating activities.

The profit for 2011 is primarily a result of gain on sale subsidiaries offset by writedown of shares in subsidiaries relating to impairment on operating vessels and management fees from BW Offshore Norway AS and BW Offshore Singapore Pte. Ltd.

Total assets were USD 1,407.9 million as at 31 December 2011 compared to USD 1,992.1 million in 2010. The net decrease mainly relates to reduction

of intercompany receivables.

Total shareholders' equity in BW Offshore Limited as of December 31, 2011 was USD 1,334.6 million, corresponding to 94.8 percent of total assets.

As at 31 December 2011, BW Offshore Limited had no interest-bearing debt compared to USD 610.0 million in 2010.

OUTLOOK

The outlook for the energy market in general and BW Offshore's position in particular remains strong. Based on BW Offshore's diversification, presence, financial scale and competence, the Company's aim is to continue to play a significant role in the FPSO market with profitable growth.

BW Offshore's cash flow from the operating vessels is secure and based on long term contracts with large national oil companies and solid independent oil companies.

The commencement of operation of the FPSOs BW Athena and BW Joko Tole and the commencement of production from BW Pioneer will contribute significantly to the growth in EBITDA in 2012 and beyond.

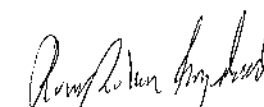
BW Offshore is committed to increasing shareholder return, and is selectively pursuing projects that meet the Company's financial targets.

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2011 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, 22 March 2012



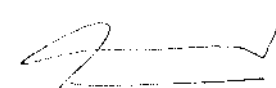
Dr. Helmut Sohmen
Chairman



Mr. Tonny Johan Langeland
Vice Chairman



Mrs. Carine Smith Ihenacho



Mr. Christophe Pettenati-Auzière

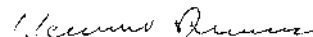


Mr. Maarten R. Scholten



Mr. Andreas Sohmen-Pao

Bermuda, 22 March 2012



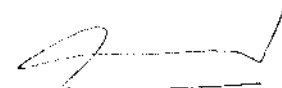
Dr. Helmut Sohmen
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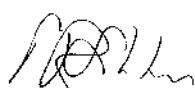
Mr. Tonny Johan Langeland
Vice Chairman



Mrs. Carine Smith Ihenacho



Mr. Christophe Pettenati-Auzière




Mr. Maarten R. Scholten



Mr. Andreas Sohmen-Pao

INDEPENDENT AUDITOR'S REPORT



To the Board of Directors and shareholders of
BW Offshore Limited

Statsautoriserte revisorer
Ernst & Young AS
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Oslo Atrium, P.O.Box 20, NO-0051 Oslo
Foretaksregisteret: NO 976 389 387 MVA
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Medlemmer av Den norske Revisorforening

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 December 31, 2011, the statements of income, 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 are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Directors and 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements of BW Offshore Limited present fairly, in all material respects, the financial position of the Parent Company and the Group as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Oslo, 22 March 2012
ERNST & YOUNG AS



Nicolai Homme
State Authorised Public Accountant (Norway)

CONSOLIDATED STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2011	2010
Charter hire	5,6	619.8	311.5
Construction contract revenue	7	184.2	162.5
Lease interest	6	18.3	19.3
Other income	6	24.0	56.0
Total revenues		846.3	549.3
OPERATING EXPENSES			
Operating expenses vessels	8,9	(311.9)	(186.0)
Construction contract expenses	7	(155.9)	(128.9)
Currency hedges and other currency effects	18	6.7	(1.3)
Other expenses		(21.9)	-
Administrative expenses	8,9,19	(51.1)	(66.0)
Total expenses		(534.1)	(382.2)
Share of loss of associated companies	14	(0.3)	(14.8)
Operating profit before depreciation, amortisation & sale of assets		311.9	152.3
Depreciation and amortisation	11,12,13	(183.0)	(90.1)
Impairment	11,22	(138.5)	(85.0)
Net gain (loss) on sale of tangible fixed assets	11,12	18.6	-
Operating profit (loss)		9.0	(22.8)
FINANCIAL INCOME AND FINANCIAL EXPENSE			
Net currency exchange gain (loss)		-	(8.7)
Interest income		2.3	5.8
Fair value loss on financial instruments		(30.6)	(9.5)
Interest expense		(48.5)	(32.0)
Other financial expenses		(3.1)	(18.8)
Net financial expenses		(79.9)	(63.2)
Profit (loss) before tax		(70.9)	(86.0)
Income tax expense	10	(43.9)	(16.4)
Net profit (loss) from discontinued operations		(0.7)	122.9
Net profit (loss) for the year		(115.5)	20.5
Profit (loss) attributable to equity shareholders		(115.5)	20.5
Basic/diluted earnings/per share (figures in USD) from continuing operations	23	(0.17)	(0.20)
Basic/diluted earnings/per share from discontinued operations (figures in USD)	23	-	0.24
Basic/diluted earnings/per share net profit (loss) (figures in USD)	23	(0.17)	0.04

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)	2011	2010
Profit (loss) for the year	(115.5)	20.5
Other comprehensive income		
Currency translation differences	0.3	14.2
Cash flow hedges	(3.2)	5.5
Share of other comprehensive income of associates	-	(6.7)
Total other comprehensive income for the period, net of tax	(2.9)	13.0
Total comprehensive income for the year	(118.4)	33.5
Attributable to		
Equity holders of the parent	(118.4)	33.5
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	2011	2010
ASSETS			
Vessels and vessels under construction	11	2,620.4	2,749.9
Property and other equipment	12	6.7	5.0
Goodwill	13	186.9	186.9
Other intangible assets	13	3.6	5.8
Finance lease receivable	6	188.6	203.9
Investments in associates	14	3.1	2.7
Non-current deposits	15	-	99.2
Deferred tax asset	10	0.2	21.3
Other non-current assets		0.1	-
Total non-current assets		3,009.6	3,274.8
Inventory		5.3	9.0
Trade and other receivables	17	159.8	136.1
Finance lease receivable	6	13.3	12.1
Cash and deposits	15	243.6	228.2
Assets classified as held for sale	11,29	185.0	7.1
Total current assets		607.0	392.5
TOTAL ASSETS		3,616.6	3,667.3
EQUITY			
Share capital	16	6.9	6.9
Share premium		1,085.0	1,334.9
Other equity		80.0	31.0
Total shareholder's equity		1,171.9	1,372.7
Long-term loan facilities	18,20	1,689.8	200.0
Retirement benefit obligations	19	6.9	6.2
Deferred tax liabilities	10	0.1	-
Other non-current liabilities		129.6	131.5
Derivatives	18	75.5	94.1
Total non-current liabilities		1,901.8	431.8
Trade and other payables	27	216.7	267.2
Derivatives	18	16.3	-
Interest-bearing short term debt	18,20	279.0	1,528.9
Provisions	26	14.0	44.4
Income tax liabilities	10	16.9	14.7
Liabilities of assets held for sale		-	7.1
Total current liabilities		542.9	1,862.8
Total liabilities		2,444.7	2,294.6
TOTAL EQUITY AND LIABILITIES		3,616.6	3,667.3

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
At 1 January 2010	4.6	918.8	(9.3)	(14.4)	(1.5)	22.6	920.9
Issued new shares 8 October 2010	2.2	382.6	-	-	-	-	384.8
Issued new shares 22 November 2010	0.1	33.5	-	-	-	-	33.6
Profit (loss) for the period	-	-	-	-	-	20.4	20.4
Other comprehensive income	-	-	-	14.2	5.5	(6.7)	13.0
At 31 December 2010	6.9	1,334.9	(9.3)	(0.2)	4.0	36.4	1,372.7
At 1 January 2011	6.9	1,334.9	(9.2)	(0.2)	4.0	36.4	1,372.7
Dividend distribution	-	-	-	-	-	(82.4)	(82.4)
Reduction of share premium	-	(249.9)	-	-	-	249.9	-
Profit (loss) for the period	-	-	-	-	-	(115.5)	(115.5)
Other comprehensive income	-	-	-	0.3	(3.2)	-	(2.9)
At 31 December 2011	6.9	1,334.9	(9.2)	0.1	0.8	(161.6)	1,171.9

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 2011 amounts to USD 82.4 million, at USD 0.12 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	2011	2010
Operating activities			
Profit (loss) before tax		(70.9)	(86.0)
Income tax paid	10	(25.5)	(13.2)
Loss (gain) on disposal of fixed assets	11,12	(18.6)	-
Fair value change on financial instruments	18	30.6	(4.5)
Share of loss of associated companies	14	0.3	14.8
Currency exchange differences		(6.7)	(11.8)
Depreciation and amortisation	11,12,13	183.0	90.1
Impairment charges		138.5	85.0
Add back of net interest expense		46.2	24.7
Other changes		12.9	11.2
Changes in inventories, receivables and accounts payable		(53.8)	215.5
Cash flows from operating activities discontinued operations		-	31.7
Net cash flows from operating activities		236.0	357.5
Investing activities			
Investments in operating fixed assets and other assets	11,12,13,15	(398.2)	(269.7)
Proceeds from disposal of fixed assets	11	42.8	-
Purchase of subsidiary, net of cash acquired	14,28	(0.8)	22.6
Interest received		2.3	5.8
Cash flows from investing activities discontinued operations		-	446.2
Net cash flows used in investing activities		(353.9)	204.9
Financing activities			
Received payments from raising new long-term debt	20	2,050.0	349.8
Repayment of long-term debt	20	(1,700.2)	(720.0)
Dividend paid		(82.4)	-
Interest paid		(134.1)	(30.5)
Cash flows from financing activities discontinued operations		-	(1.5)
Net cash flow from/(used in) financing activities		133.3	(402.2)
Net change in cash and cash equivalents		15.4	160.2
Cash and cash equivalents at 1 January		228.2	68.0
Cash and cash equivalents at 31 December	15	243.6	228.2

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 22 March 2012.

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 when the service is provided on a straight line basis over the firm period of the contracts.

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 based on contractual daily rates.

Finance lease

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

Fixed price construction contracts

When a contract to charter a vessel is considered to be a finance lease, this implies a fixed price construction contract in which the fixed price is the net investment in the lease. 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. When the outcome of construction contracts cannot be estimated reliably, no gain is recognised. When the project's results cannot be reliably estimated, only revenues equal to the accrued project costs are taken to revenue.

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

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

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 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 the 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

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. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Share of profit of associates is presented as part of operating profit when such investments are considered 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

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

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

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

All FPSOs and FSOs are classified as 'Vessels and vessels under construction' when the Company signs a conversion/lease agreement on the vessels.

Depreciation

Depreciation is calculated applying a straight-line method to allocate the depreciable amounts of vessels, conversion candidates and other tangible fixed assets, after taking into account the residual values of their estimated useful lives, of which both the residual values and estimated useful lives are subject to review at each balance sheet date.

Depreciation is charged from the point in time when the vessel is successfully installed on the oil field. Conversion candidates are only subject to depreciation if the vessels have entered into temporary revenue earning contracts awaiting conversion.

Subsequent cost and cost regarding repairs and maintenance

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

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.

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 the intangible assets. Goodwill on acquisitions of associates is included in 'Investments in associates' and is tested for impairment as part of the overall balance.

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

Goodwill is allocated to 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 from which the goodwill

arose. BW Offshore allocates goodwill to the cash generating unit.

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 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 back-log and tender portfolio are capitalised at their fair values identified at the date of the acquisition of the acquired subsidiary. The fair values identified are amortised over their estimated useful economic lives.

Intangible assets 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 when

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

ever 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 subject to impairment 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:

- a. 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
- b. 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 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.

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 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:

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

- (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 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. The 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 'revenue'. 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.

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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES cont.

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. The Group has adopted the following new and amended IFRSs as of 1 January 2011:

IAS 24-Amendment: Related party disclosures. IAS 24 has been amended in an effort to simplify the identification of related party relationships and re-balance the extent of disclosures of transactions between related parties based on the costs to preparers and the benefits to users in having this information available in financial statements.

Annual Improvements (May 2010) - IAS 1: Clarification of statement of changes in equity. This

improvement clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

Annual Improvements (May 2010) - IAS 34: Significant events and transactions. This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:

- The circumstances likely to affect fair values of financial instruments and their classification
- Transfers of financial instruments between different levels of the fair value hierarchy
- Changes in classification of financial assets
- Changes in contingent liabilities and assets

IFRIC 14 - Amendment:

Prepayments of a Minimum Funding Requirement Annual Improvements (May 2010) - IFRS 1: Accounting policy changes in the year of adoption

Annual Improvements (May 2010) - IFRS 1: Revaluation basis as deemed cost

Annual Improvements (May 2010) - IFRS 1:

Use of deemed cost for operations subject to rate regulation

Annual Improvements (May 2010) - IFRS 7:

Clarifications of disclosures

Annual Improvements (May 2010) - IFRIC 13:

Fair value of award credit

IFRS 7 - New disclosures for derecognition of financial instruments

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 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 2013. 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 would require the investment in Nexus Floating Production to be consolidated.

IFRS 11 - Joint Arrangements. It is not applicable

until 1 January 2013. 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. If the suggested amendment becomes effective, the Company will most likely have to account for its shareholding in joint ventures according to the equity method. Today it is accounted for as an associated company.

IFRS 12 - Disclosure of Interests in Other Entities.

It is not applicable until 1 January 2013. 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 1 - Amendment: Presentation of Items of Other Comprehensive Income. It is not applicable until 1 July 2012. The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the income statement.

IAS 12 - Amendment: Deferred tax- Recovery of underlying assets. It is not applicable until 1 January 2012. This amendment relates to investment properties.

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. If the suggested amendment becomes effective, the unrecognised actuarial losses will have to be booked against equity. As of 31 December 2011, the unrecognised actuarial losses amounted to USD 5.1 million.

IAS 27 - Revised: Separate Financial Statements. It is not applicable until 1 January 2013.

IAS 28 - Revised: Investments in Associates and Joint Ventures. It is not applicable until 1 January 2013.

IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities. It is not applicable until 1 January 2013.

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 previous experience and knowledge of the vessels owned by the Company and is normally equal to the design life of the vessel.

Assumptions about residual value are based on assumption of redeployment of the vessels and knowledge of scrap values which in turn depend on steel prices in the world market and demobilisation costs.

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 the highest of fair value less cost to sell and value-in-use calculations. The value-in-use calculations are based on contracted cash flows and estimates of uncontracted 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.

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 it retains all the significant risks and rewards of ownership of these assets and therefore accounts for the leases as operating leases.

NOTE 4 LIST OF SUBSIDIARIES

Name of companies	Country of incorporation	Ownership 2011	Ownership 2010
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 LPG FPSO I Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore (KL) Sdn Bhd	Malaysia	100%	100%
BW Offshore (M) 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	99%	99%
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	99%	99%
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%
Madura FSO Private Limited***	Singapore	0%	50%
OCS Services Limited	India	50%	50%
PPB do Brasil Servicos Maritimos Ltda	Brazil	100%	100%
Prosafe FPSO (D) Pte Ltd	Singapore	100%	100%
Prosafe FPSO (D) SARL	Congo	100%	100%
Prosafe GFPPO I BV	Netherlands	100%	100%
Prosafe GFPPO 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 Limited	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 Services Cote d'Ivoire Pte Ltd	Singapore	100%	100%
PT BW Offshore TSB Invest	Indonesia	100%	100%
Sendje Berge Limited	Bermuda	100%	100%
Tinworth Pte Ltd*	Singapore	50%	50%
Discontinued operations			
APL Property AS	Norway	100%	100%

* Tinworth Pte Ltd is 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.

** The shareholding of 23.9% in Prosafe Production Holding Limited in 2010 was accounted for as shares in associates up until 1 October 2010.

*** The shareholding of 50% in Madura FSO Private Limited was sold 28 November 2011 to Solstice Holdings Bermuda Limited.

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.

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

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

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

Period ending 31 December 2011	FPSO/FSO activity	Other	Consolidated
Revenues			
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
EBIT	53.3	(44.4)	8.9
Net financing cost	-	-	(79.9)
Income tax expense	-	-	(43.9)
Profit	-	-	(114.9)

EBITDA			
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
EBITDA	356.2	(44.4)	311.8

Other segment information

Impairment charges

Capital expenditure

Non-current assets (excl finance items)

Investments in associates

3.1

Geographical information

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

Americas

Europe/Africa

Asia

Total revenue

846.3

475.9

286.5

83.9

2,817.9

3.1

(138.5)

(398.2)

2,817.9

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Other segment information

Impairment charges

Capital expenditure

Non-current assets (excl finance items)

Investments in associates

3.1

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The FPSOs/FSOs by region can be analyzed as follows:

Americas

Africa and Europe

Asia (including asset held for sale)

Total non-current assets

2,805.5

1,473.2

846.5

485.8

2,805.5

1,473.2

846.5

485.8

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Revenue from one customer in the FPSO/FSO activity segment amounted to USD 227.4 million (USD 207.3 million).

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 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:

	2011	2010
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	149.2	181.7
Gross receivables from finance leases	301.3	333.8
Unearned future finance income on finance leases	(99.6)	(117.8)
Net investment in finance leases	201.7	216.0
Included in non-current assets (Financial lease receivables)	188.6	203.9
Included in current assets (Financial lease receivables)	13.3	12.1

Operating leases

BW Offshore has entered into contracts on operating leases on all other FPSO/FSOs owned by year end. These leases include a clause 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:

	2011	2010
Not later than one year	726.0	827.6
Later than one year and not later than five years	2,002.0	2,650.0
Later than five years	544.0	813.0
Total nominal amount	3,272.0	4,290.6

The future minimum lease payments on vessels payable under operational lease not later than one year amounts to USD 8.9 million while lease payment payable later than one year amounts to USD 0.0 million.

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 will be to deliver the marine scope of the FPSO conversion, including the hull, offloading system and mooring equipment for the vessel. The conversion vessel is being readied for departure for final hookup and commissioning in Brazil. BW Offshore

will, under a separate contract, be responsible for the operation of the vessel with the Brazilian Joint Venture partner Queiroz Galvao Oleo e Gas, for three years, gradually handing over the operation to the field owners.

	2011	2010
Contract revenue FPSO	184.2	162.5
Contract cost FPSO	(155.9)	(128.9)
Net profit recorded in the income statement	28.3	33.6
Due from customers for contract work	9.5	-
Advance payments	-	(43.5)
Net receivable at 31 December	9.5	(43.5)

At 31 December 2011, 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	2011	2010	Administrative expenses	2011	2010
Employee benefit expenses crew (Note 9)	116.3	54.8	Employee benefit expenses (Note 9)	18.7	28.1
Insurance	22.0	13.5	Travel expenses	5.3	1.0
Operation, maintenance, spare parts and repairs	173.6	113.1	Auditors	2.1	0.7
Charges for bad debt and other provisions	-	4.7	IT & communication	10.6	3.0
Total	311.9	186.0	Offices (rent etc)	5.1	2.8
			Other expenses including restructuring costs	9.5	30.4
			Total	51.1	66.0

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

Employee benefit expenses	2011	2010		2011	2010
Wages, crew	116.3	54.8	Loans to Top Management*	-	-
Wages, administrative personnel	16.4	26.4	Loans to other employees	339.2	539.1
Social security tax	2.3	3.4	Total	339.2	539.1
Pension costs defined benefit plans (Note 19)	4.8	3.5			
Total employee benefit expenses	139.8	88.1			

Total employee benefit expenses are included in the following accounts:

Operating expenses	121.1	60.0
Administrative expenses	18.7	28.1
Total employee benefit expenses	139.8	88.1

Number of man years employed	2,340	1,900
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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	2011	2,922,575	1,331,016	926,279	621,711	6,495,748	-
Top Management	2010	2,428,867	63,377	828,844	596,858	6,495,748	-

Board of Directors	Year	Directors fee	Share option
Board of Directors	2011	617,801	-
Board of Directors	2010	298,292	-

Companies affiliated with BW Offshore directors Dr. Helmut Sohmen and Mr. Andreas Sohmen-Pao owns 323,834,963 shares or approximately 47.1% (47.1% in 2010) of the shares in the Company. A Company affiliated with BW Offshore director Mr. Ronny Johan Langeland owns 25,000 shares of the company.

* The Top Management comprises the Chief Executive Officer, the Chief Financial Officer and the Executive Vice Presidents. The 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.

** The compensation for board services for the period May 2011 to May 2012 will be decided at the annual general meeting in May 2012.

VARIABLE PAYMENT SCHEME

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

FEES TO AUDITORS

(USD '000)	2011	2010
Statutory audit	779.4	511.0
Other attestation services	722.4	179.5
Tax related services	619.5	82.3
Total fees	2,121.3	772.8

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 30%. 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	2011	2010
Changes in temporary differences	20.9	(1.2)
Tax payable ex withholding tax	9.8	9.3
Withholding tax	13.2	8.3
Total	43.9	16.4
Effective income tax rate	2011	2010
Net result before income tax	(70.9)	(86.0)
Income tax at Bermuda statutory	-	-
Income tax rate of 0%	-	-
Non-deductible expenses	-	0.1
Withholding taxes	13.2	8.3
Effect of higher tax rates outside Bermuda	9.8	9.3
Expensed deferred tax assets	20.9	-
Income tax at the effective income tax rate	43.9	17.6
Effective tax rate	(61.9%)	(20.5%)
Tax liabilities at 31 December	2011	2010
Tax payable	16.9	14.7
Withholding taxes payable	-	-
Tax payable	16.9	14.7

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	2011	2010
Pensions	-	(0.7)
Vessels	(0.2)	(20.9)
Deferred tax assets - gross	(0.2)	(21.6)
Deferred tax liabilities		
Fixed assets	0.1	0.6
Deferred tax liabilities - gross	0.1	0.6
Net recognised deferred tax liabilities/Deferred tax assets (-)	(0.1)	(21.0)

The comparable figures have been adjusted to reflect that the deferred tax asset was reduced by USD 14.9 million from 36.2 to USD 21.3 million. Reference is made to note 22. The net deferred tax asset of USD 21.3 million was then expensed in 2011 as it was related to the sale in January 2012 of the FPSO Ningaloo Vision in Australia.

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 2011 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, Ningaloo Vision (sold 10 January 2012), Umuroa and Endeavor.

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.

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)
Cost at 31 December 2011	46.1	2,759.0	450.8	2.0	3,257.9
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
Accumulated depreciation and impairment charge at 31 December 2011	(46.1)	(594.8)	-	3.5	(637.5)
Book Value at 31 December 2011	-	2,164.2	450.8	5.5	2,620.4
Useful life	N/A	Up to 15 years		15 years	
Capitalised interest cost for vessels under construction.		17.3			

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

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

** In 2011, the USD 138.5 million impairment loss represent the write down of certain vessels to the recoverable amount. This has been recognized in the income statement in the line 'Impairment charges and write offs'. 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 uncontracted 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.

The cash flows were discounted at a rate of 7.4% (6.7%) for the firm period and 8.4% (7.7%) for the option period on a pre-tax basis. If the estimated pre-tax discount rate applied to the discounted cash flows for the vessels had been 1% higher than management's estimates (for example, 8.4% and 9.4% instead of 7.4% and 8.4%), the Group would have recognized a further impairment of the vessel of USD 30.0 million.

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 capitalisation was in average approximately 5.8% based on LIBOR + 2.00% margin and an interest swap rate.

2010	Uncommitted vessels	Vessels in operation	Under conversion vessels	FSO	Total
Cost at 1 January 2010	137.9	665.7	588.6	22.8	1,415.0
Additions	-	21.4	225.0	-	246.4
Additions PROD fleet (Note 28)	8.9	1,458.0	-	10.0	1,476.9
Disposals	-	-	-	(22.8)	(22.8)
Reclassification*	(78.8)	-	78.8	-	-
Cost at 31 December 2010	68.0	2,145.1	892.4	10.0	3,115.5
Accumulated depreciation and impairment charge at 1 January 2010	(56.0)	(144.5)	-	(8.6)	(209.1)
Current year depreciation	-	(80.1)	-	-	(80.1)
Impairment charge**	-	(10.0)	(75.0)	-	(85.0)
Disposals	-	-	-	8.6	8.6
Reclassification*	8.4	(8.4)	-	-	-
Accumulated depreciation at 31 December 2010	(47.6)	(243.0)	(75.0)	-	(365.6)
Book value at 31 December 2010	20.4	1,902.1	817.4	10.0	2,749.9
Useful life	N/A	Up to 15 years		15 years	
Capitalised interest cost for vessels under construction.				2.8	

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

* BW Athena was reclassified from uncommitted vessels to committed vessels. Additions include the Prosafe Production fleet measured at fair value identified per 1 October 2010.

** In 2010, the USD 85.0 million impairment loss represents the write down and reversal of previous impairments of certain vessels to the recoverable amount. This has been recognised in the income statement in the line 'Impairment charges and write offs'. The recoverable amount was based on value-in-use calculations and was determined at the level of cash generating unit. Each vessel is regarded as a cash generating unit. The calculations are based on contracted cash flows during firm and option periods for revenues, and estimates of uncontracted cash flows for the useful lives of each vessel, including residual values discounted by an estimated discount rate.

Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was on average approximately 1.6% based on LIBOR + 1.25% margin (excluding interest rate swaps).

NOTE 12 PROPERTY AND OTHER EQUIPMENT

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	-	-	-	-
Cost at 31 December 2011	6.4	5.5	0.6	12.5
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)
Balance at 31 December 2011	4.2	1.9	0.6	6.7
Useful life	5-11 years	3 years	50 years	

2010 In USD million	Vehicles and equipment	Computer hardware	Held for sale Land	Building	Discontinued operation machinery	Total
Cost at 1 January 2010	5.0	3.2	0.9	13.5	11.3	33.9
Additions	0.9	0.9	-	-	-	1.8
Disposals (impairment/discontinued operation)	(0.1)	-	-	-	(11.3)	(11.4)
Reclassified as held for sale	-	-	(0.9)	(13.5)	-	(14.4)
Exchange difference	-	-	-	-	-	-
Cost at 31 December 2010	5.8	4.1	-	-	11.3	9.9
Accumulated depreciation at 1 January 2010	(1.2)	(2.0)	-	(1.3)	(7.5)	(12.0)
Current year depreciation	(0.9)	(0.8)	-	-	-	(1.7)
Disposals	-	-	-	-	7.5	7.5
Reclassified as held for sale	-	-	-	1.3	-	1.3
Accumulated depreciation at 31 December 2010	(2.1)	(2.8)	-	-	-	(4.9)
Balance at 31 December 2010	3.7	1.3	-	-	-	5.0
Useful life	5-11 years	3 years	Indefinite	50 years	3-5 years	

NOTE 13 INTANGIBLE ASSETS

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

	Goodwill	Other intangible assets		Total intangible assets
	Goodwill	Internal development	Software	Total
Cost				
At 1 January 2011	186.9	5.4	13.7	206.0
Additions	-	-	2.0	2.0
Additions – internal development	-	0.3	-	0.3
Disposal	-	-	-	-
Carrying amount, 31 December 2011	186.9	5.7	15.7	208.3
Amortisation and impairment				
At 1 January 2011	-	(4.1)	(9.2)	(13.3)
Amortisation and impairment	-	(1.4)	(3.1)	(4.5)
Disposal	-	-	-	-
At 31 December 2011	-	(5.5)	(12.3)	(17.8)
Net book value				
At 31 December 2011	186.9	0.2	3.4	190.5
At 31 December 2010	186.9	1.3	4.5	192.7
Economic life	indefinite	3 years	3 years	
Amortisation method		linear	linear	

Internal development expense for 2011 amounts to USD 0.3 million (USD 0.0 million in 2010)

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:

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%	
Carrying value 1 January 2011	-	2.7	2.7
Share of net profit	-	(0.3)	(0.3)
Additional investment	-	0.7	0.7
Carrying amount 31 December 2011	-	3.1	3.1
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	67.6	(66.5)	-	(0.7)
OSC Services Ltd.	7.3	1.0	6.3	3.9	(0.7)

2010 Entity	Nexus Floating Production Limited (Nexus)	Total
Country	Norway	
Industry	Floating production	
Ownership interest	49.7%	
Carrying value 1 January 2010	-	-
Share of net profit*	-	-
Carrying amount 31 December 2010	-	-
Fair value	0.4	

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

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

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

Entity	Assets	Liabilities	Equity	Revenues	Result for the year
Nexus	3.5	69.2	(65.7)	-	(1.7)

NEXUS
BW Offshore has a 49.7% interest in Nexus, a company that sold its only FPSO vessel during 2009 with a loss. Nexus has an option to build a similar FPSO with the shipyard Samsung Heavy Industries in South Korea. According to Nexus quarterly report, the option expires 31 December 2012. The Group does not have power over more than half of the voting rights in Nexus. Further, the Group does not have the power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body. Nexus has been considered an associate since 8 May 2007.

During 2011, 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 updated estimated recoverable amount equals the book value of USD 0.0 million at 31 December 2010. The discount rate used to estimate the value in use was 10.0%. If the estimated pre-tax discount rate applied to the discounted cash flows had been 1% higher or lower than management's estimates, the Group would have recognised a further/reversal of impairment against the investment in Nexus of USD 0.0 million.

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. OCS is considered as an associate.

NOTE 15 CASH AND CASH DEPOSITS

Cash and cash equivalents are denominated primarily in USD and NOK. Restricted bank deposits at 31 December 2011 and 31 December 2010 amounted to USD 3.5 million and USD 3.0 million, respectively, and relate to taxes withheld from employees. In addition, the Group has a bank guarantee related to additional liabilities regarding taxes withheld from employees.

Other non-current assets include cash deposits of USD 0.0 million at year end compared to USD 99.2 million in 2010. During 2011, USD 76.4 million of the deposits was used to reduce the CIRR obligation to USD 22.8 million, which is classified as trade and other receivables under current assets at balance sheet date. The CIRR financing scheme is related to the FPSO Yuum K'ak'Naab (Note 20). The interest rates on the deposit are 4.8%.

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

Authorised share capital

At 1 January 2011: 700,000,000 ordinary shares at par value USD 0.01 each
At 31 December 2011: 700,000,000 ordinary shares at par value USD 0.01 each

Issued and fully paid

At 1 January 2011 6,880.0
At 31 December 2011 6,880.0

The Company held a total of 2,798,159 own shares at 31 December 2011 (2,798,159). These shares are held as 'treasury shares'. Book value of the treasury shares was USD 9.3 million at 31 December 2011 (USD 9.3 million).

The 20 largest shareholders at 31 December 2011 were:

Name	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%
Top 20 shareholders	493,011,883	71.7%

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 2010 were:

Shareholder	No of shares	Holding
1 BW GROUP LIMITED*	305,436,227	44.4%
2 MORGAN STANLEY & CO INTERNAT. PLC	24,232,612	3.5%
3 RASMUSSENGRUPPEN AS	23,843,565	3.5%
4 BW EUROHOLDINGS LTD*	18,398,736	2.7%
5 CREDIT SUISSE SECURITIES (USA) LLC	15,822,888	2.3%
6 ODIN OFFSHORE	14,718,400	2.1%
7 ODIN NORDEN	10,969,275	1.6%
8 ODIN NORGE	9,178,601	1.3%
9 UBS AG, LONDON BRANCH	7,828,169	1.1%
10 PARETO AKSJE NORGE	7,502,703	1.1%
11 RBC DEXIA INVESTOR SERVICES TRUST	7,269,126	1.1%
12 KLP AKSJE NORGE VPF	7,176,247	1.0%
13 ORKLA ASA	7,044,352	1.0%
14 JPMORGAN CHASE BANK	7,000,386	1.0%
15 BROWN BROTHERS HARRIMAN & CO	6,231,661	0.9%
16 HSBC BANK PLC	6,063,143	0.9%
17 KOLBJØRN INVEST II AS**	5,720,000	0.8%
18 KOMMUNAL LANDSPENSJONSKASSE	5,134,439	0.7%
19 SKANDINAVISKA ENSKILDA BANKEN	4,937,208	0.7%
20 STATE STREET BANK AND TRUST CO.	4,509,342	0.7%
Top 20 shareholders	499,017,080	72.5%

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	2010	2009
Trade and other receivables – gross	159.8	140.8
Provision for doubtful debt	-	(4.7)
Trade and other receivables – net	59.8	136.1
Current portion	159.8	136.1

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

	2011	2010
Trade and other receivables	159.8	136.1

As of 31 December 2011, trade receivables of USD 21.2 million (USD 19.0 million) were overdue but not impaired. These relate to customers whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2011	2010
Up to 3 months	16.2	7.1
3 - 6 months	2.2	1.3
6 - > months	2.8	10.6
Total	21.2	19.0

As of 31 December 2011, trade receivables of USD 0.0 million (USD 4.9 million) were impaired and provided for. The aging of these receivables is as follows:

	2011	2010
Up to 3 months	-	-
Over 3 months	-	4.9
Total	-	4.9

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

Trade receivables not invoiced relating to construction contracts are described to in Note 7.

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

	2011	2010
Provision at 1 January	4.9	0.2
Charge for doubtful debt during the period	-	4.7
Deductibles and other charges	-	-
relates to insurance claims	-	-
Realized losses for the year	4.9	-
Provision at 31 December	-	4.9

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 Company to a variety of financial risks: Price risk (including currency risk and market risk), credit risk, liquidity risk and interest rate risk. Historically, demand for offshore exploration, development and production has been volatile and closely linked to the oil price. Low oil prices typically lead to a reduction in exploration as the oil companies' scale down their own investment budgets. Most of the Company's units at 31 December 2011 are fixed on long-term contracts, and this, to some extent, reduces the Company's exposure against intermediate oil and gas price fluctuations. Nevertheless, a decrease in the oil prices may have an adverse impact on the financial position of the Company.

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

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

FOREIGN CURRENCY RISK

The functional currency of the Company and most of its subsidiaries is USD. In general, most of the operating revenue and operating expense as well as interest bearing debt are denominated in USD. The Group's vessels are also valued in USD when trading in the second-hand market. The Group is exposed to expenses incurred in currencies other than USD ('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, BRL, 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 related to ongoing conversions of FPSO's. The conversions of FPSOs give rise to capital expenditures in other currencies than USD. In order to reduce 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 2011 amounted to USD 0.8 million (USD 7.0 million) and USD -3.1 million (USD -0.5 million) (total nominal value USD 128.4 million) and are presented gross in the statement of financial position. Net effect of forward exchange contracts recognised in the income statement in 2011 is USD 5.6 million (USD 2.2 million) while the net effect recognised against equity amounts to USD -3.2 million (USD 5.5 million).

CREDIT RISK

Most of 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 inter-

nationally recognised financial institutions with a 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 from the Company undertaking to make available funds from the unutilised 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 2011	Period left					Total
	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	
USD 2,400 million facility (BWO & PROD)	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
Total	144.4	138.6	390.1	1,205.9	655.8	2,534.8

* 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.

Year ended 2010	Period left					Total
	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	
USD 1,500 million facility	-	611.6	-	-	-	611.6
USD 1,200 million facility (PROD)	-	901.9	-	-	-	901.9
CIRR financing schemes*	-	31.0	22.8	45.5	-	99.2
Umuroa facility	4.2	-	12.5	96.8	-	113.5
Nautipa facility	-	-	2.2	5.8	-	8.0
Pension liabilities	-	-	-	-	6.2	6.2
Interest rate swaps	4.5	8.9	39.2	56.6	-	109.2
Interest payments	2.3	4.4	13.2	61.9	1.1	80.7
Trade and other payables current	-	-	371.2	-	-	371.2
Total	11.0	1,557.8	461.1	266.6	7.3	2,301.5

* A total amount of USD 99.2 million has been placed as long term bank deposits securing full settlement of the total debt and interest expenses related to these financing schemes.

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

	2011	2010
Floating rate		
Expire within one year	-	1,190.0
Expire beyond one year	258.7	-
Fixed rate		
Expire within one year	-	-

The Group had no loans advanced to associates at 31 December 2011.

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:

	2011	2010
6 months or less	1,980.5	1,510.0
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	1,980.5	1,510.0

Average interest rate on cash deposits was 0.4% in 2011 (2.4%).

Effective 1 January 2010, the Group 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 -91.8 million (nominal value USD 1,532.0 million), of which USD 16.3 million is presented as current liabilities and USD 75.5 million is presented as non-current liabilities in the balance sheet.

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

	Carrying amount		Fair value	
	2011	2010	2011	2010
CIRR	22.8	99.2	22.8	99.2
BW Group facility	-	610.0	-	610.0
USD 1,200 facility	-	900.0	-	900.0
Umuroa facility	94.5	111.9	94.5	102.7
Nautipa facility	5.7	7.7	5.7	7.6
USD 2,400 million facility	1,845.9	-	1,878.1	-
	1,968.9	1,728.8	2,001.1	1,719.5

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

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

The Group holds interest derivatives of USD 1,532 million in total with maturity in 2012-2018. The weighted average interest swap rate was 3.53% at 31 December 2011. The swaps are held to hedge the quarterly cash flows from floating rate interest payments on the USD 2,400 million debt facility, the Umuroa facility and the Nautipa facility. The market value of the interest derivatives amounted to USD -91.8 million at 31 December 2011 (USD -94.1 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 before tax and equity*
2011	+/- 50	+/- 10.1
2010	+/- 50	+/- 7.8

* The effect on fair value of interest hedges as a result in changes in interest rates is not taken into account in this calculation.

The average interest rate on financial instruments was as follows:

	2011	2010
Loans secured by collateral	2.2%	2.0%
Bank loans - unsecured	1.5%	1.6%

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 were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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 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 118 members at 31 December 2011 and 121 members at 31 December 2010. 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 2011 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 a 10 year Norwegian government bond with the addition of a risk element.

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

	2011	2010
Discount rate	2.60%	4.00%
Expected return on plan assets	4.10%	5.40%
Future salary increases	3.50%	4.00%
Future pension increases	0.10%	1.30%
Increase in social security base amount related to Norwegian state pension	3.25%	3.75%
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:

	2011	2010
Male	16.5	16.5
Female	19.4	19.4

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

Figures in USD million	2011	2010
Present value of funded obligations	36.6	25.5
Fair value of plan assets	(26.7)	(19.5)
Present value of unfunded obligations	2.1	2.0
Unrecognised actuarial gains (losses)	(5.1)	(1.8)
Liability in the statement of financial position	6.9	6.2

The amounts recognised in the income statement are as follows:

Figures in USD million	2011	2010
Current service cost	3.8	2.9
Interest cost	1.1	0.9
Expected return on plan assets	(1.1)	(1.0)
Administrative cost	-	0.5
Net actuarial gain recognised during the financial period	0.5	0.2
Net periodic pension cost (Note 9)	4.3	3.5

Best estimate of net pension cost for 2012 amounts to USD 4.6 million (USD 4.1 million). Best estimate of premium payments in 2012 amounts to USD 2.8 million (USD 3.2 million).

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

Figures in USD million	2011	2010
At 1 January	(6.2)	(14.0)
Contributions paid	3.3	3.5
Termination of contracts	-	7.8
Exchange differences	0.3	-
Discontinued operations charge	-	-
Charged to income statement*	(4.3)	(3.5)
At 31 December	(6.9)	(6.2)

* Expenses related to defined contribution plans amounted to USD 0.5 million in 2011 (USD 0.04 million)

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

	2011	2010
Shares and equity instruments	15.0%	14.0%
Bonds - fixed yield	24.0%	26.0%
Bonds held to maturity	30.0%	25.0%
Properties and real estate	17.0%	16.0%
Money market funds	10.0%	14.0%
Other	4.0%	5.0%
Total	100.0%	100.0%

The actual return on plan assets amounted to 6.5% at 30 September 2011.

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	
			2011	2010
CIRR Y'uum K'ak' Naab (unsecured)	4.77%	9-Jul-12	-	91.0
CIRR Berge Helene (unsecured)	3.57%	17-Feb-11	-	8.2
Umuroa facility (secured)	3 month LIBOR + 2.00%	3-Nov-15	77.8	95.2
Petróleo Nautipa facility (secured)	3 month LIBOR + 0.70%	30-Dec-12	-	5.6
USD 2,400 million facility	3 month LIBOR + 2.00%	9-Mar-18	1,612.0	-
Total long-term debt			1,689.8	200.0
Short term debt				
USD 2,400 million facility	3 month LIBOR + 2.00%	9-Mar-18	233.9	-
CIRR Y'uum K'ak' Naab (unsecured)	4.77%	9-Jul-12	22.8	-
BW Group Limited USD 1,500 million facility (unsecured)	LIBOR + 1.25%	13-May-13	-	610.0
USD 1,200 million facility (secured)	3 month LIBOR + 0.65 - 0.95%	5-May-15	-	900.0
Umuroa facility current (secured)	3 month LIBOR + 3.25%	3-Nov-15	16.7	16.7
Petróleo Nautipa facility (secured)	3 month LIBOR + 0.70%	30-Dec-12	5.7	2.2
Total short term debt			279.1	1,528.9
Total interest bearing debt			1,968.9	1,728.9

USD 2,400 million facility

BW Offshore has during 2011 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 totaling USD 1.7 billion and a USD 0.7 billion revolving credit facility. 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 million available liquidity including undrawn amounts under the revolving part of the facility and interest coverage ratio of minimum 3.0. The Group is in compliance with these covenants at 31 December 2011.

USD CIRR financing

A total of USD 22.8 million has been drawn down on one loan facility (CIRR) entered into with Eksportfinans ASA related to the conversion of the FPSO Y'uum K'ak' Naab. The proceeds from the draw down have been placed as short term bank deposit to be used to amortise and service the loan. The bank deposit and the loan are according to IFRS presented as current assets and current liabilities, on a gross basis, in the balance sheet. The corresponding interest income and interest expenses are presented on a gross basis in the income statement. The loan is charged with a fixed interest of 4.8% over a period of 5 years.

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.

An arrangement fee on the credit facility is capitalised and amortised as part of the loan.

Petróleo Nautipa facility

Prosafte Nautipa AS is party to a USD 17.5 million credit facility. The amount was drawn in June 2006. The loan is subject to semi-annual installments of USD 1.1 million followed by a final payment of USD 3.5 million at maturity in December 2012.

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 Petróleo 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 in % 2011	Holding in % 2010
LLC 'Oil Terminal Belokamenka'	Russia	50%	50%
Tinworth Pte Ltd	Singapore	50%	50%
Madura FSO Pte Ltd	Singapore	0%	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:

	2011	2010
Revenue	18.8	25.5
Expenses	(16.9)	(16.0)
Net financial Items	-	(1.1)
Profit before tax	1.9	8.3
Income tax expense	(0.6)	(0.8)
Profit after tax	1.3	7.5
Non-current assets	21.7	6.8
Current assets	11.4	13.7
Total assets	33.1	20.5
Equity	24.4	18.9
Non-current liabilities	-	0.8
Current liabilities	8.7	0.8
Total Equity and liabilities	33.1	20.5

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 14,144).
- Average management services fee per month were USD 163,700 (USD 201,600). As of October 2011, the agreed management service fee amounts to USD 50,000 per month going forward.

No transaction was carried out between the Group and Tinworth Pte Ltd and Madura FSO 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 2011.

The Company has during 2011 finalized the fair value of net identifiable assets acquired (purchase price allocation), which resulted in USD 24.2 million in less value allocated to vessels, USD 14.9 million less value allocated to deferred tax asset and consequently an increase in goodwill by USD 39.1 million compared to the preliminary purchase price allocation as per 31 December 2010. All 2010 figures in this report have been adjusted to agree with the result of the finalization of the PPA.

	Preliminary allocated 2010	Final allocation 2011	Change
Goodwill	147.8	186.9	39.1
Vessels	1,505.5	1,481.3	(24.2)
Deferred tax asset	36.2	21.3	(14.9)

The deferred tax asset is related to the Group's activity in Australia, the FPSO Ningaloo Vision. The decrease in deferred tax asset was a direct consequence of the adjustment of the value on the FPSO in the final PPA. The FPSO, which was sold on 10 January 2012, was the Australian activities only asset and consequently the Group could not defend the deferred tax asset at year end 2011. The deferred tax asset of USD 21.3 million was therefore expensed in the 2011 accounts. Subsequent to the expense of the deferred tax asset in 2011 the Goodwill is USD 187.0 million and the Book value at 1 October 2010 of the acquired vessel was USD 1,481.3 million.

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 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 5 years.

The discount rate, based on Weighted Average Cost of Capital (WACC), used for calculating the net present value of the synergies is 7.4% (6.7%). The risk premium is based on empirical data of similar companies listed on the Oslo Stock Exchange.

If the Group is not able to materialize the cost savings or new projects in accordance with the assumptions made in the coming 5 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 2011, if applying an increase of 1% of the estimated pre-tax discount rate (from 7.4% to 8.4%) 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 2011.

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.

	2011	2010
Profit/(loss) attributable to equity holders of the Group (USD million)	(115.5)	20.5
Weighted average number of ordinary shares in issue (thousands)	688,006	507,836
Basic and diluted earnings per share continuing operations*	(0.17)	(0.20)
Basic and diluted earnings per share discontinued operations*	-	0.24
Basic and diluted earnings per share including discontinued operations*	(0.17)	0.04

* Excludes treasury shares of 2,798,159 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 47.1%, 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:

	2011	2010
Interest expenses and loan related fees to BW Group Limited	4.9	21.7
Loans	-	610.0

The non-trade amount due to the ultimate holding corporation at 31 December 2011 was 0.0 (USD 610.0 million in 2010).

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

Transactions with Nexus Floating Production Ltd and subsidiaries

	2011	2010
Trade receivable at 31 December	-	-
Total sales	-	-

NOTE 25 COMMITMENTS AND GUARANTEES

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

	2011	2010
Nominal amount	202.9	289.2
Net present value	202.9	271.0
Interest rate	7.4%	6.7%

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 2.4 million (USD 2.4 million).

The Group has issued bank guarantees in favour of various customers totaling USD 142.0 million (USD 450.3 million).

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

- a parent company mortgage guarantee from BW Offshore Limited;
- first priority mortgages over twelve FPSOs;
- first priority secured interest in all earnings and proceeds of insurance related to the same twelve 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 bank debt related to the Petróleo Nautipa facility, as referred to in Note 20, is secured by the shares in Tinworth Pte Ltd, Prosafe Nautipa AS, and mortgage over the FPSO Petróleo Nautipa.

The carrying value of vessels pledged as collateral per 31 December 2011 was USD 2,620.4 million (USD 1,465.7 million in 2010).

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'Náab. The Group and the respective client have not yet agreed 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 to USD 48.0 million. The Group made a provision of USD 14.0 million in 2010, which in addition to USD 34.0 million already paid and included in the 2007 income statement, is considered sufficient.

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:

	2011	2010
Provisions at beginning of period	44.4	15.3
Additions	-	-
Provisions for claims	-	26.0
Provision for restructuring	-	18.4
Reversals/payments	(30.4)	(7.2)
Offset against receivables	-	(8.1)
Provisions at end of period	14.0	44.4



NOTE 27 TRADE AND OTHER PAYABLES

	2011	2010
Trade payables	33.4	30.8
Accrued vessel expenses	29.9	16.2
Accrued construction contract expenses	81.9	61.8
Advance payments (Note 7)	-	43.5
Accrued other expenses	33.9	38.0
VAT etc	-	14.9
Deferred revenues	37.6	-
Other accruals	-	62.0
Total	216.7	267.2

NOTE 29 CHANGES IN THE GROUP'S STRUCTURE – DISPOSE OF APL DIVISION

BW Offshore sold all of its shares in APL in 2010. The transaction was concluded on 8 December 2010. The net cash inflow from the transaction was USD 426.8 million. The carrying amount of the APL division before the sale amounted to USD 397.0 million (including remaining goodwill and other intangible assets identified in the purchase price allocation performed at acquisition of APL in 2007).

The gain from the sale of the APL division amounted to USD 143.8 million. Furthermore, cumulative exchange differences historically recognised in other comprehensive income and accumulated in equity of USD 12.3 million, are recycled and are included in the calculation of net profit from the discontinued operation. The net result of the APL division in the period 1 January 2010 until 8 December 2010 amounted to USD 12.6 million. Net profit presented as discontinued operation amounts to USD 122.9 million as explained in the following table:

Cash received on 8 December 2010	531.5
Adjustments to sales price	9.3
Book value of APL	(397.0)
Gain on sale before provisions and contributed profit and other adjustments	143.8
Provision for possible claims	(21.2)
Recycling the currency exchange expense historically booked against equity	(12.3)
Gain on sale	110.3
Net profit for the discontinued operation for the period 1 January 2010 - 1 December 2010	12.6
Net profit for the discontinued operation in 2010	122.9

	2010
Operating revenues	141.1
Operating expenses	(115.0)
Share of profit of associates	-
Operating profit before depreciation (EBITDA)	26.0
Depreciation and amortisation	(11.9)
Operating profit	14.1
Net finance	-
Profit before tax	14.1
Income tax expense	(1.5)
Net profit from discontinued operation	12.6

Capital expenditures	16.7
Segment assets	-
Segment liabilities	-

At 31 December 2010, the office building in Arendal, owned by BW Offshore, was classified as held for sale. The book value of the asset was USD 7.1 million while the book value of the liabilities of this asset is USD 7.1 million. In 2011, the office building was sold with no effect on the Profit & loss statement.

NOTE 28 CHANGES IN THE GROUP'S STRUCTURE – ACQUISITION OF PROSAFE PRODUCTION LTD

BW Offshore obtained control in Prosafe Production as of 1 October 2010. The Prosafe Production acquisition, was financed by a combination of cash and shares with a total consideration of USD 520.0 million. BW Offshore issued 216.7 million shares valued at USD 384.7 million while the total cash consideration paid amounted to USD 135.3 million. The value of the holding of 23.88% prior to the acquisition was in the transaction valued at USD 161.1 million. Costs related to the acquisition in 2010 amounted to USD 34.7 million and was included in administrative expenses in the consolidated income statement.

The Company has as of 31 December 2011, finalized the fair value of net identifiable assets acquired (purchase price allocation), resulting in a goodwill of USD 187.0 million, a deferred tax asset of USD 21.3 million and vessels of USD 1,481.3 million.

	Preliminary 2010	Final 2011	Deviation
Vessels (Note 11)	1,505.5	1,481.3	(24.2)
Deferred tax asset (Note 10)	36.2	21.3	(14.9)
Other non-current assets	5.9	5.9	-
Cash and cash equivalents	125.5	125.5	-
Other current assets	90.9	90.9	-
Interest free long term liabilities	(67.1)	(67.1)	-
Other interest free current liabilities	(63.0)	(63.0)	-
Non-current borrowings	(932.2)	(932.2)	-
Current borrowings	(168.5)	(168.5)	-
Total identifiable net assets	523.5	494.1	-
Goodwill	147.9	187.0	39.1
Total	681.1	681.1	-

The goodwill and unallocated excess value arising from the acquisition is attributable to 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.

NOTE 30 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

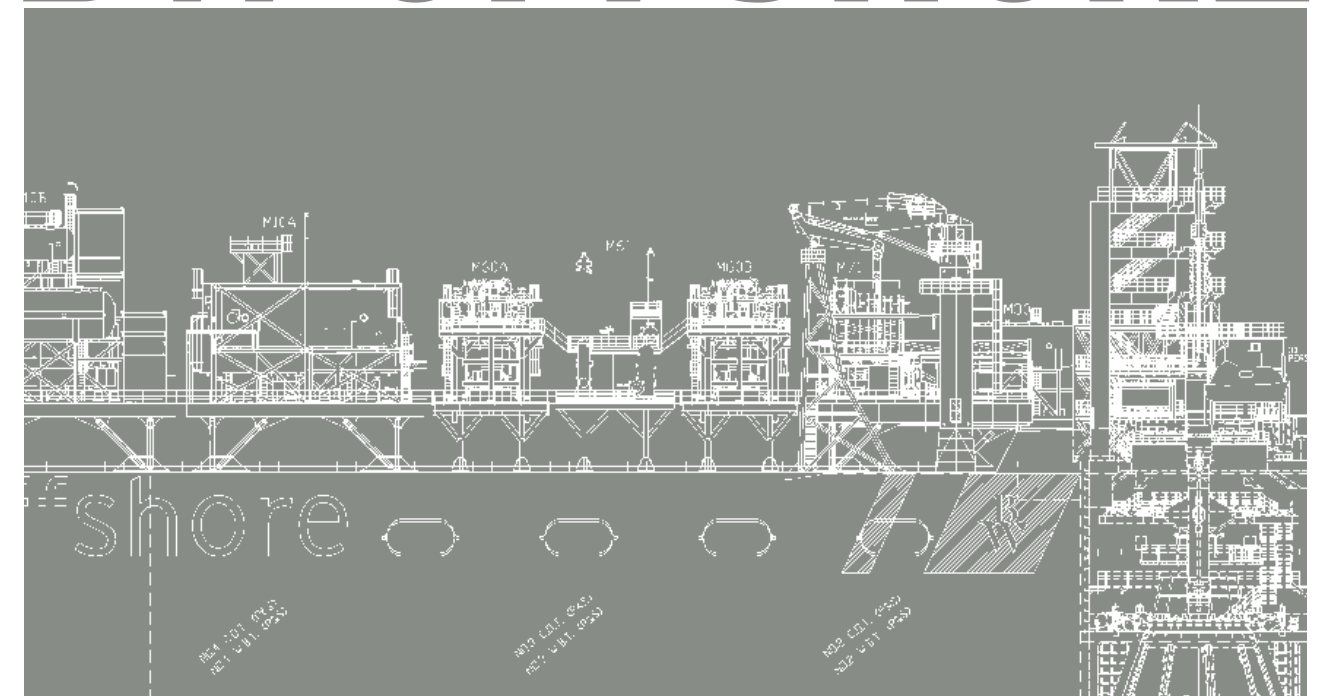
On 10 January 2012, the FPSO Ningaloo Vision was sold for USD 185.0 million of which USD 85.0 million was paid at completion of the sale on 10 January 2012, and USD 100.0 million is due within 6 months thereafter. Upon completion of the sale of the vessel, the USD 2.4 Billion facility was reduced with an amount of USD 191.3 million split between USD 132.5 million in repayment of outstanding debt and USD 58.8 million in reduction of the limit of the revolving credit facility. The future loan repayments will be reduced with a total amount equal to the debt repaid at sale.

BW Offshore has entered into an operating and maintenance agreement, where BW Offshore will operate the FPSO on behalf of the buyer during a transitional period of up to nine months before final handover.

BW Offshore's FPSO conversion BW Joko Tole and BW Athena has in March 2012 made departure from the conversion yard respectively in Singapore and Dubai. The EPC conversion project Papa Terra is under construction in China being readied for departure for final hookup and commissioning in Brazil.

On 15 March 2012 BW Offshore concluded a NOK 500 million five year senior unsecured bond issue.

BW OFFSHORE



PARENT COMPANY FINANCIAL STATEMENTS

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STATEMENTS OF INCOME

USD million (Year ended 31 December)	Note	2011	2010
OPERATING EXPENSES			
Operating expenses	3	(44.6)	(42.7)
Total operating expenses before amortisation		(44.6)	(42.7)
Operating loss before amortisation		(44.6)	(42.7)
Amortisation		(1.3)	(1.3)
Operating loss		(45.9)	(44.1)
FINANCIAL INCOME AND FINANCIAL EXPENSES			
Interest income		94.2	63.3
Interest expense		(97.1)	(70.5)
Net currency exchange gain (loss)		(2.2)	-
Gain on sale of subsidiaries	4	275.3	-
Write down in shares of subsidiaries	4	(101.1)	-
Other financial expenses		4.6	(24.5)
Net financial items		173.6	(31.6)
Gain (loss) before tax		127.7	(75.7)
Income tax expense		-	-
Net gain (loss) for the year		127.7	(75.7)
Loss attributable to equity shareholders		127.7	(75.7)

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

STATEMENTS OF COMPREHENSIVE INCOME

USD million (Year ended 31 December)	2011	2010
Gain (loss) for the year	127.7	(75.7)
Other comprehensive income		
Currency translation differences	-	-
Total other comprehensive income for the year	-	-
Total comprehensive income for the year	127.7	(75.7)
Attributable to		
Equity holders of the parent	127.7	(75.7)

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	2011	2010
ASSETS			
Other intangible assets		-	1.3
Shares in subsidiaries	4	1,275.7	1,154.0
Intragroup long term receivables	5,11	-	677.9
Total non-current assets		1,275.7	1,833.2
Trade and other receivables		2.4	14.0
Derivatives		0.2	4.9
Cash and deposits	8	129.6	140.1
Total current assets		132.2	159.0
TOTAL ASSETS		1,407.9	1,992.1
EQUITY			
Share capital	7	6.9	6.9
Share premium	7	1,085.0	1,334.9
Other equity		241.7	(52.6)
Total shareholder's equity		1,334.6	1,289.2
Long-term liabilities	9,11	-	610.0
Derivatives		30.1	44.3
Total short-term liabilities		30.1	654.3
Trade and other payables	10,11	1.2	48.6
Intercompany payables		32.1	-
Derivatives		9.9	-
Total current liabilities		43.2	48.6
Total liabilities		73.3	702.9
TOTAL EQUITY AND LIABILITIES		1,407.9	1,992.1

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

USD million (As at 31 December)	Share capital	Share Premium	Treasury shares	Other equity	Total
At 1 January 2010	4.6	918.8	(9.3)	32.4	946.5
Issued new shares 8 October 2010	2.2	382.6	-	-	384.8
Issued new shares 22 November 2010	0.1	33.5	-	-	33.6
Profit for the period	-	-	-	(75.7)	(75.7)
Other comprehensive income	-	-	-	-	-
At 31 December 2010	6.9	1,334.9	(9.3)	(43.3)	1,289.2
At 1 January 2011	6.9	1,334.9	(9.3)	(43.3)	1,289.2
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	-	-	-	-	-
At 31 December 2011	6.9	1,085.0	(9.3)	251.9	1,334.6

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

STATEMENTS OF CASH FLOW

USD million (Year ended 31 December)	2010	2009
Operating activities		
Loss before tax	127.7	(75.7)
Amortisation	1.3	1.3
Impairment shares in subsidiaries	101.1	-
Gain on sale of shares	(275.3)	-
Change in fair value derivatives	0.3	-
Changes in receivables and accounts payable	(35.7)	38.8
Other items from operating activities	13.5	-
Net cash flow used in operating activities	(67.1)	(35.6)
Investing activities		
Investments in subsidiaries	(322.9)	(549.9)
Interest received	94.2	63.3
Net proceeds from sale of subsidiaries	375.3	-
Net cash flow used in investing activities	146.6	(486.6)
Financing activities		
Changes in intercompany receivables/debt	710.0	976.1
Received payments from raising new long-term debt	-	(283.3)
Repayment of interest bearing debt	(610.0)	-
Dividend paid	(82.4)	-
Interest paid	(107.6)	(70.5)
Net cash flow from financing activities	(90.0)	622.3
Net change in cash and cash equivalents	(10.5)	100.1
Cash and cash equivalents at 1 January	140.1	40.0
Cash and cash equivalents at 31 December	129.6	140.1

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 its registered address
Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

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 22 March 2012.

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

NOTE 2 ACCOUNTING POLICIES cont.

on hand, short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and short term deposits with an original maturity of three months or less.

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. For consolidation purposes, the balance sheet figures for subsidiaries with a different functional currency are translated at the rate applicable at the balance sheet date and their income statements are translated at the exchange rate prevailing at the date of transaction. As an approximation, the monthly average exchange rates are applied in translating the income statements. Exchange differences are recognised in equity. When foreign subsidiaries are disposed of, the accumulated exchange differences relating to the subsidiary are recorded as income.

Transactions and balances

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

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

	2011	2010
Management fee	37.1	18.5
Lawyer's fee	2.2	2.5
Consultant's fee	(1.6)	10.7
Auditor's fee	0.5	0.5
Other operating expenses	7.1	10.5
Total operating expenses	44.6	42.7

NOTE 4 SHARES IN SUBSIDIARIES

Name of companies	Country of incorporation	Ownership 2011	Ownership 2010
Belokamenka Limited	Bermuda	100%	100%
Berge Carmen Singapore Pte Ltd	Singapore	100%	100%
Berge Helene Limited	Bermuda	0%	100%
Berge Okoloba Toru Limited	Bermuda	100%	100%
Bergesen Worldwide Limited	Bermuda	0%	100%
BW Ara Limited	Bermuda	100%	100%
BW Belokamenka (Cyprus) Limited	Cyprus	0%	100%
BW Carmen Limited	Bermuda	0%	100%
BW Cidade de São Vicente Limited	Bermuda	0%	100%
BW Endeavour Limited	Bermuda	100%	100%
BW KMZ Limited	Bermuda	100%	100%
BW LPG FPSO I Limited	Bermuda	100%	100%
BW Nisa Limited	Bermuda	100%	100%
BW Offshore do Brazil Ltda	Brazil	99%	99%
BW Offshore Global Manning Private Limited	Singapore	0%	100%
BW Offshore Nigeria Ltd	Nigeria	99%	99%
BW Offshore Norwegian Manning AS	Norway	100%	100%
BW Offshore Shipholding Ltd	Bermuda	100%	100%
BW Offshore TSB Invest Pte Ltd	Singapore	0%	100%
BW Offshore USA, Inc	USA	0%	100%
BW Pioneer Limited	Bermuda	100%	100%
Sendje Berge Limited	Bermuda	0%	100%
Prosafe Production Public Limited	Cyprus	78.1%	78.1%
BW Offshore Cyprus Limited	Cyprus	100%	0%

In 2011, the following 100% owned subsidiaries were sold from the Company to the 100% owned subsidiary BW Offshore Shipholding Ltd; Berge Helene Limited, Bergesen Worldwide Limited, BW Carmen Limited, BW Cidade de São Vicente Limited and Sendje Berge Limited. In addition several other subsidiaries were sold or acquired in 2011, as presented in the table above. All transactions were with 100% owned

Group Companies, and the net proceed from these transactions amounted to USD 375.6 million. The net gain on sale of subsidiaries amounted to USD 275.3 million in 2011.

At 31 December 2011, due to the impairment of FPSO Ningaloo Vision and FPSO Cidade de São Vicente at a consolidated level, an impairment charge of USD 101.1 million was required to

bring the book value of shares in subsidiaries down to the estimated fair value. Net increase in the book value of shares in subsidiaries amounted to USD 120.7 million as of 31 December 2011. The increase is a result of the purchase of BW Offshore Cyprus Limited and the share capital increase in BW Offshore do Brazil Ltda. The change in shareholding in subsidiaries is presented in the table above.

NOTE 5 INTRA-GROUP LOANS AND RECEIVABLES

	2011	2010
Loan to Group companies	32.1	-
Intra-group long-term receivables	32.1	-
Outstanding from subsidiaries	-	677.9
Intra-group short-term receivables	-	677.9

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 2011, the Company has not recorded any impairment related to receivables on amounts owed by group subsidiaries.

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 2016.

NOTE 7 SHARE CAPITAL

Share capital USD '000

Authorised share capital

At 31 December 2010:
700,000,000 ordinary shares at par value USD 0.01 each

At 31 December 2011:
700,000,000 ordinary shares at par value USD 0.01 each

Issued and fully paid

At 1 January 2011	6,880.0
At 31 December 2011	6,880.0

The Company held a total of 2,798,159 own shares at 31 December 2011.

NOTE 8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items

Amounts in USD thousand	2011	2010
Cash and cash deposits	129.6	140.1
Short-term interest bearing investment	-	-
Total cash and cash equivalents	129.6	140.1

NOTE 9 GUARANTEES AND INTEREST-BEARING LOANS AND BORROWINGS

In line with industry practice, BW Offshore Limited has issued bank and parent company guarantees (performance guarantees) to customers on behalf of its subsidiaries in connection with the award and performance of contracts and in connection with debt financing.

Total bank guarantees issued amounted to USD 142.0 million at year-end (USD 143.4 million).

(USD 1,000)	Eff. Interest rate	Maturity date	2011	2010
BW Group Limited USD 1,500 million facility	LIBOR + 1.25%	30 May 13	-	610.0
Total interest-bearing debt			-	610.0

The USD 1,500 million facility was settled during 2011 and BW Offshore Limited has no external financing per 31 December 2011.

NOTE 10 OTHER INTEREST FREE CURRENT LIABILITIES

(USD 1,000)	2011	2010
Other accruals	1.2	48.6
Total interest-free current liabilities	1.2	48.6

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 2011 (USD 1,000)	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
Total	43.2	129.6	172.8

Year ended 31 December 2010 (USD 1,000)	Financial assets liabilities measured at amortised cost	Loans and receivables	Fair value
Cash and deposits	-	140.1	140.1
Interest-bearing long-term debt	610.0	-	610.0
Intra-group short-term payables	313.5	-	313.5
Other current liabilities	48.6	-	48.6
Total	972.1	140.1	1,112.2

NOTE 12 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks. Overall risk management is handled by the BW Offshore Group and these processes and policies are described in 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.

(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.

(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.



BW OFFSHORE

BW OFFSHORE LIMITED 2011

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USA: Houston, New Orleans
Mexico: Ciudad del Carmen
Australia: Perth
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
United Kingdom: Aberdeen
Cyprus: Limassol
Netherlands: Amsterdam

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