



Annual Report 2012



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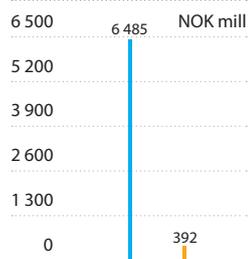
A Brief Presentation

Fred. Olsen Energy ASA is listed on Oslo Stock Exchange and is a leading provider of exploration and development services to the oil and gas industry. The Company is based on more than 160 years experience within shipping and more than 40 years in offshore drilling, and provides competitive solutions to the benefit of its customers, employees and shareholders.

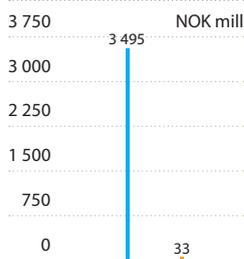


The Company is headquartered in Oslo with offices in Norway, the UK, Singapore, Brazil, Mozambique and South Africa.

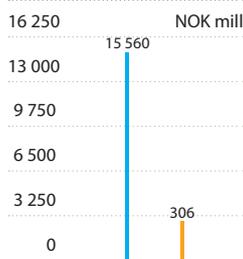
Revenues 2012



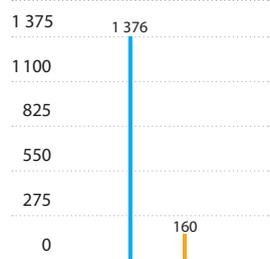
EBITDA 2012



Assets per 31.12.2012

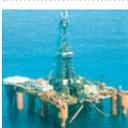


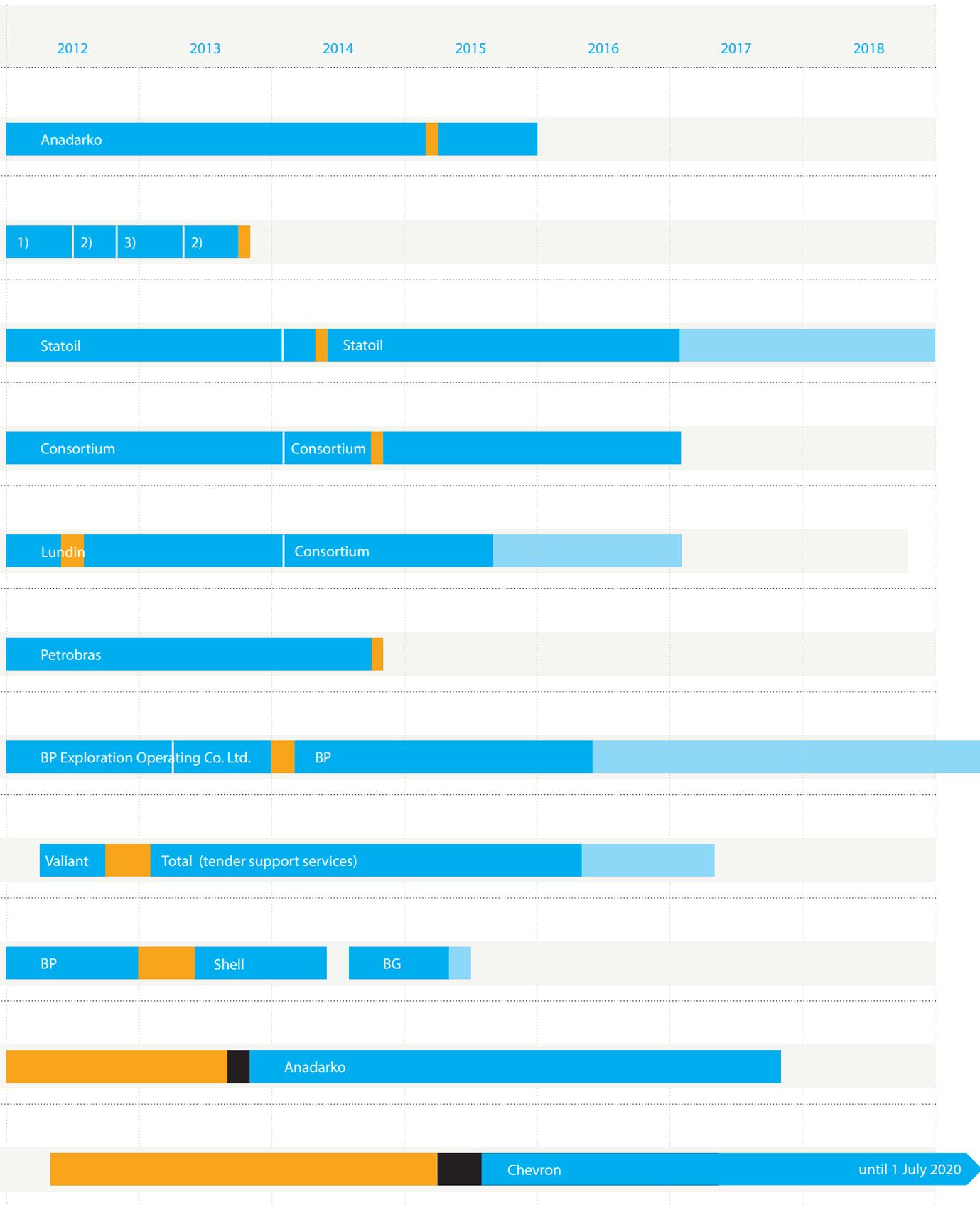
Employees per 31.12.2012



Offshore drilling ■
Engineering and fabrication ■

Contract Overview

	Name/ (Ownership)	Type	Location	Built year/ upgrade	Water depth	Features
	Belford Dolphin (100%)	Drill ship	Mozambique	2000	10 000 ft	80 000 barrels storage 2*80 t deck cranes, 15 000 psi
	Blackford Dolphin (100%)	Aker H-3 Enhanced	Brazil	1974/-08	7 000 ft	2*85 t deck cranes 15 000 psi
	Bideford Dolphin (100%)	Aker H-3 Enhanced	Norway, North Sea	1975/-99	1 500 ft	1*45 t + 1*50 t deck cranes 10 000 psi
	Borgland Dolphin (100%)	Aker H-3 Enhanced	Norway, North Sea	1976/-99	1 500 ft	1*45 t + 1*70 t deck cranes 15 000 psi
	Bredford Dolphin (100%)	Aker H-3	Norway, North Sea	1976 /-81/-97/-01/-07	1 500 ft	2*50 t deck cranes 10 000 psi
	Borgny Dolphin (100%)	Aker H-3	Brazil	1977 /-85/-91/-92/-97/-02 /-10	2 300 ft	2*50 t deck cranes 10 000 psi
	Byford Dolphin (100%)	Aker H-3	UK, North Sea	1973 /-85/-90/-96/-98 /-10	1 500 ft	1*42 t + 1*53 t deck cranes 15 000 psi
	Borgsten Dolphin (100%)	Aker H-3 Tender support vessel	UK, North Sea	1975 /-85/-95/-00/-13	1 500 ft	1*55 t + 1*50 t deck cranes
	Borgholm Dolphin (100%)	Aker H-3 Accommodation	UK, North Sea	1975/-02		1*37.5 t deck crane 314 beds in double cabins
	Bolette Dolphin (100%)	Gusto P 10 000	Under construction at Hyundai Heavy Industries Co., Ltd.		12 000 ft	2*85 t, 1*100 t and 1*165 t deck cranes, 15 000 psi
	Bollsta Dolphin (100%)	Moss maritime CS 60E	Under construction at Hyundai Heavy Industries Co., Ltd.		10 000 ft	2*100 t deck cranes, 15 000 psi



1) Sonangol Starfish 2) Anadarko 3) Karoon ■ Class Renewal Survey / yard ■ Option ■ Mobilization

Financial Summary 2008-2012

Income Statement Data	All amounts in NOK million	2012	2011	2010	2009	2008
Revenues		6 876.8	6 470.9	6 018.6	6 600.0	5 786.8
Operating profit before depreciation (EBITDA)		3 528.2	3 540.7	3 400.6	3 981.2	3 336.7
Net result after tax (hereof majority interests)		1 818.1	2 086.3	1 938.3	2 749.0	2 092.6
Minority interests		2.0	1.4	-3.3	5.1	4.0

Assets

Current assets	2 971.1	4 255.2	3 269.7	3 736.0	6 129.5
Long term assets	12 840.8	10 609.2	10 252.0	10 133.5	10 556.0
Total assets	15 811.9	14 864.4	13 521.7	13 869.5	16 685.5

Liabilities and equity

Interest bearing debt	4 927.2	5 747.9	5 539.0	6 721.7	9 963.0
Total liabilities	7 915.8	6 876.3	6 582.4	8 189.9	11 152.8
Equity of majority	7 887.5	7 981.2	6 934.0	5 671.0	5 528.7
Minority interests	8.6	6.9	5.3	8.7	4.0
Total liabilities and equity	15 811.9	14 864.4	13 521.7	13 869.5	16 685.5

Key Figures	Definitions	2012	2011	2010	2009	2008
Market capitalization	1	16 126.7	13 405.5	17 193.8	14 806.1	12 271.7
Net interest bearing debt	2	3 540.4	3 565.6	4 040.7	4 707.6	6 289.2
Enterprise value	3	19 667.1	16 971.1	21 234.6	19 513.7	18 560.9
Debt/Book equity ratio		0.62	0.72	0.80	1.19	1.80
Debt/Market capital ratio		0.31	0.43	0.32	0.45	0.81
Current ratio	4	0.88	2.05	1.66	1.52	2.33
EBITDA margin	5	51.3 %	54.7 %	56.5 %	60.3 %	57.7 %
Average number of shares outstanding		66.7 mill				
Share price at year end	6	241.8	201.0	257.8	222.0	184.0
Earnings per share (EPS)	7	27.5	31.5	29.3	41.5	31.4
Diluted earnings per share		27.5	31.5	29.3	41.5	31.4
Capital expenditures per share		-64.1	-22.0	-17.8	-34.1	-30.9
Price/Earnings	8	8.9	6.4	8.9	5.4	5.9
Price/Book	9	2.0	1.7	2.5	2.6	2.2
EV/EBITDA		5.6	4.8	6.2	4.9	5.6

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

Board of Director's Report 2012

The operating activities of Fred. Olsen Energy ASA and its subsidiaries ("the Group") consist of offshore drilling as well as engineering and fabrication services. The parent company of the Group is Fred. Olsen Energy ASA ("the Company"), with its corporate headquarters located in Oslo, Norway. The Group manages its activities from offices in Norway, the UK, Singapore, South Africa, Mozambique and Brazil. Operation of the Group's offshore units is managed through Dolphin Drilling AS (100% owned) in Stavanger and Dolphin Drilling Ltd. (100% owned) in Aberdeen. The Harland & Wolff (H&W) shipyard (92.2% owned), located in Belfast, Northern Ireland, and related activities form the Group's engineering and fabrication division.

Gross revenues in 2012 were NOK 6 877 million, an increase of NOK 406 million from the previous year. The Group achieved earnings before depreciation and amortization, financial expenses and taxes (EBITDA) of NOK 3 528 million compared to EBITDA of NOK 3 541 million in 2011. The cash flow from operations amounted to NOK 3 876 million compared to NOK 3 294 million for 2011. Net interest bearing debt at 31 December 2012 for the Group was NOK 3 540 million.

Markets and prospects

The offshore drilling markets continued to improve in 2012, however, after an active period up to fourth quarter the market activity has consolidated towards the end of the year and into 2013. In 2012 we have seen an increased activity in the high end segment, including harsh environment in Norway and UK. The effects have been increased contract length and lead-times during 2012, which has resulted in limited available capacity in 2013 and 2014, especially within the harsh environment segment.

The Group operates two deepwater units and five mid-water semi-submersible drilling rigs in addition to one tender support vessel and one accommodation unit. Three of the semi-submersible drilling rigs are operating on the Norwegian Continental Shelf. A new ultra deepwater drillship is scheduled to be delivered in 3Q 2013 and a new semi submersible drilling rig for harsh environment is scheduled to be delivered in 1Q 2015. Both units will be delivered from Hyundai Heavy Industries Co., Ltd., Korea.

Geographically, the Group currently operates in Norway, the UK, Mozambique and Brazil. At year-end, the Group's offshore units had an average contract length of 36 months (27 months in 2011). The secured contract value for the fleet as per 31 December 2012 was approximately USD 5.1 billion (USD 3.0 billion in 2011).

Offshore Drilling

The drilling activities generated revenues of NOK 6 485 million compared to NOK 6 250 million in 2011. Within this segment, the Group achieved EBITDA of NOK 3 495 million. In 2011, the corresponding result was NOK 3 518 million.

Bideford Dolphin continued operations in 2012 under a three-year drilling contract for Statoil ASA. The contract will expire in January 2014. In October 2012, a three-year extension of the current drilling contract was entered into with Statoil ASA. The extension is in direct continuation with the current contract, with estimated commencement in January 2014. An option exists for a further two years contract extension. The unit is scheduled to undertake its five-year Class Renewal Survey second quarter 2014.

Borgland Dolphin continued operations in 2012 under the four-year drilling contract with a consortium consisting of several oil companies, managed by Rig Management Norway AS. The contract will expire in February 2014. In September 2012 a new 15 well drilling contract, estimated to three years, was entered into with a Rig Management Norway consortium consisting of four oil companies. The unit is scheduled to undertake its five-year Class Renewal Survey fourth quarter 2014.

Bredford Dolphin continued operations in 2012 under a 10 well drilling program for Lundin Norge, with estimated completion in first quarter 2014. In September 2012, a new drilling contract was entered into for an eight well drilling campaign, estimated to 570 days, with an AGR coordinated group of four oil companies for operation on the Norwegian Continental Shelf. The operators have the right to extend the contract period with four additional wells within 30th of June 2013. Subject to execution of the first four optional wells, the operators have the right to extend the contract with minimum additional five wells within contract commencement. The unit completed its five-year Class Renewal Survey in August 2012.

Belford Dolphin continued operations under the four-year drilling contract with Anadarko Petroleum Corporation. The contract will expire end 2015. The unit is currently operating offshore Mozambique. The unit is scheduled to undertake its five-year Class Renewal Survey first quarter 2015.

Blackford Dolphin completed operations for Sonangol Starfish and Anadarko during the year, and in December 2012 the rig commenced a three-well drilling contract with Karoon Petroleum & Gas S.A. The Karoon contract will be followed by an additional

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one well-contract with Anadarko, for operations in Brazil. The unit is scheduled to undertake its five-year Class Renewal Survey second half 2013.

Borgny Dolphin continued operations under a five-year drilling contract with Petrobras. In January 2013 the contract with Petrobras was extended with approximately one year and is now estimated to expire in September 2014. The unit is scheduled to undertake its five-year Class Renewal Survey second half 2014.

Byford Dolphin continued operations under a three-year drilling contract with BP Exploration Operating Co. Ltd. The contract is estimated to expire April 2013. In June 2012, a new three-year drilling contract was entered into with BP in direct continuation with current contract. The unit is scheduled to undertake an early Class Renewal Survey, including installation of a new BOP, in first half 2014.

Borgsten Dolphin completed in September 2012 its drilling operations for Valiant and demobilized to the Nigg yard to undertake an upgrade, conversion and an early five-year Class Renewal Survey. In February 2013 the unit commenced a 40 months contract for Tender Support service at the Dunbar platform with Total E&P UK Ltd. Options exist for a contract extension of two six month periods.

Borgholm Dolphin continued its accommodation contract with BP at the Andrew field during 2012, and in February 2013 demobilized to the Fayard yard in Denmark to undertake its five year Class Renewal. In November 2012 a new one year accommodation contract was entered into with Shell U.K. Limited with commencement in June 2013. In December 2012 a new 9 months accommodation contract was entered into with BG with estimated commencement in August 2014.

The ultra deepwater drillship, Bolette Dolphin, currently under construction at Hyundai Heavy Industries in Korea, is scheduled to be delivered in 3Q 2013 and commence a four-year drilling contract with Anadarko Petroleum Corporation in 4Q 2013.

The harsh environment ultra-deepwater semi submersible drilling rig Bollsta Dolphin, currently under construction at Hyundai Heavy Industries in Korea, is scheduled to be delivered end of first quarter 2015 and commence a five-year drilling contract with Chevron North Sea Limited in third quarter 2015.

Engineering and Fabrication

Total revenues within the engineering and fabrication division

amounted to NOK 392 million and EBITDA was NOK 34 million. In 2011, total revenues were NOK 220 million and EBITDA was NOK 23 million. The H&W yard continued its operations in engineering, ship repair and shipbuilding. The yard completed the two offshore wind substations for Siemens. The yard undertook a Class Renewal Survey on the FPSO Searose for Husky Oil Operations Ltd. In addition the yard has provided services for some 29 vessels ranging from emergency repairs to planned maintenance repair dockings.

The core workforce increased by 20 persons in 2012 to a total of 160 employees. The company will continue to seek to secure contracts within renewal and offshore projects, in addition to shipbuilding, ship repair and engineering in the years to come.

Financial result and balance sheet at year end

Consolidated revenues of NOK 6 877 million represent an increase of 6% compared to 2011, reflecting increased revenues from offshore drilling services and engineering and fabrication. EBITDA for the Group was NOK 3 528 million, a decrease of NOK 13 million compared to 2011. After depreciation, amortization and impairment of NOK 1 351 million, the operating profit was NOK 2 178 million, compared to an operating profit of NOK 2 265 million in 2011. Net financial expenses were NOK 276 million, an increase of 118 million from the previous year. Profit before taxes was NOK 1 901 million compared to NOK 2 107 million in 2011. The net profit for the year was NOK 1 820 million against NOK 2 088 million in 2011. At year-end, the Group had consolidated assets of NOK 15 812 million. The ratio of net interest bearing debt to total assets was 22% compared to 24% at the beginning of the year. The book value of the equity was NOK 7 896 million. Net cash from operating activities was NOK 3 581 million against NOK 3 104 million in 2011. Cash and cash equivalents decreased by NOK 797 million during the year, from NOK 2 184 million to NOK 1 387 million at the end of the year.

Fred. Olsen Energy ASA is a holding company and provides management services to the subsidiaries within the Group. The Company had revenues of NOK 7 million in 2012, the same level as in 2011. EBITDA for the year was negative NOK 45 million compared with negative NOK 42 million in 2011. Net profit was NOK 1 597 million compared to NOK 1 016 million in 2011. The increase of NOK 581 million is mainly due to a group contribution of NOK 1 759 million compared to a group contribution of NOK 1 100 million in 2011. The annual accounts of the Company and the consolidated accounts are based on the assumption of continued operation.

Board of Director's Report 2012

International Financial Reporting Standards (IFRS)

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

Investment and capital resources

Capital expenditures amounted to NOK 4 274 million in the year compared to NOK 1 465 million in 2011. The capital expenditures were mainly related to the Group's investment in two newbuilds, which will be delivered in third quarter 2013 and first quarter 2015, as well as Class Renewal Survey and upgrades for Bredford Dolphin and Borgsten Dolphin.

The Group's debt consists of one credit facility with a consortium of banks and one bond loan. The facility is a combined term loan and revolving credit facility of initially USD 1 500 million, established in June 2012, with final maturity in 2017. The purpose of the facility was to refinance all of the Company's bank loans at that time. The outstanding amount under the credit facility at year-end was USD 659 million. The bond loan of NOK 1 400 million was raised in the Norwegian bond market in May 2011 and has final maturity in May 2016. As per year-end and the date of this report, the Group is in compliance with all covenants in its loan agreements.

Research and development activities

The Group's research and development activities are an integrated part of the ongoing operations and are being carried out through cooperation with various engineering- and equipment supply vendors. The Group constantly monitors and evaluates new drilling rig related technology, including those materializing through the operations and project developments. Expenditures on research activities, undertaken with the prospect of gaining technical know-how and understanding, are recognized in the income statement as incurred expenses.

Financial risks

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

Liquidity risk

The outstanding under the bank facility at year-end USD 659 million. The Company is in compliance with all covenants in its loan agreements. See also note 12 for further details.

Foreign exchange

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

Interest rate

The Group is exposed to fluctuations in interest rates for USD. At 31 December 2012 approximately 40% of the Group's interest expense was based on fixed interest rate swap agreements. The remaining portion of the debt was based on floating interest rates (USD LIBOR and NIBOR) plus a margin.

Credit risk

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

Corporate Governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Code of Practice for Corporate Governance. A description of the Company's compliance with the above recommended corporate governance principles is presented on pages 59 to 63.

The Board of Directors consists of five board members who are elected for a two-year period. All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholders Ganger Rolf ASA and Bonheur ASA. 40% of the Board of Directors are women. During 2012 the Board of Directors had 8 meetings.

The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main

Board of Director's Report 2012

shareholders of the Company. The charter of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process and the Group's process for monitoring compliance with applicable laws and regulations.

The Board of Directors has appointed a Compensation Committee comprising four Directors, including the Chairman of the Board. The Compensation Committee discusses and recommends to the Board of Directors salary and benefits for the Chief Executive Officer and senior management, as well as the management incentive schemes for the Group. The compensation to the Chief Executive Officer comprises salary, pension scheme, company car and performance bonus.

Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy and approval by the shareholders. In addition, the Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting. In 2007 the Company distributed dividends for the first time since the listing in 1997. The Company paid a dividend of NOK 10 per share for 2006 and stated that the Company will pursue the strategy to pay a dividend of NOK 10 per share. The Board has decided to propose to the Annual General Meeting in May 2013 a dividend payment of NOK 10 per share and an additional NOK 10 per share as an extraordinary dividend for the year 2012.

Share Capital Issues

The Annual General Meeting in May 2012 authorized the Board of Directors to issue up to 6 700 000 new shares in the Company through an equity issue and to issue up to 6 700 000 new shares by raising loans with the right to subscribe for new shares for a period of up to one year. At the time of approving final accounts, these authorizations have not been used. At year-end the Company owned 430 100 own shares (2011: 430 100). At 31 December 2012 the Company's share capital amounted to NOK 1 334 million, corresponding to 66 694 229 shares at par value NOK 20 each.

Safety, work environment, organization and equal opportunities

The Group has a strong focus on health, safety and environment (HSE) for its employees, subcontractors and customers. Continuous efforts involve planning, training of personnel and careful selection of subcontractors. The Group maintains a "zero accident" objective and is closely monitoring its established procedures for operations, projects and work sites both onshore and

offshore. The Total Recordable Incident (TRI) rate for offshore drilling and related services in 2012 was improved to 4.64 per one million working hours, compared to 7.17 per one million working hours in 2011. TRI includes personnel injuries of the categories lost time incidents and medical treatment incidents.

The Group has performed several HSE activities in 2012 in order to continuously improve the HSE culture. A common database and a common structure for the management system have been developed in 2012. Further co-operation and experience transfer between the operational regions have been systemized and improved by regular meetings and workshops within each disciplines and on management level. Leadership training for offshore personnel has been performed with focus on planning and debriefs of work processes. The observation technique program has been further developed and good results have been obtained with respect to a high standard of housekeeping and reduced number of incidents. HSE Trend Analyses and Working Environment Mapping have been performed in order to compare results with the HSE goals. Implementation of the environmental standard ISO 14000 has been followed up and an ISO 14001 certificate has been obtained for the international rigs. Internal audits have been carried out in order to verify knowledge and implementation of the management system and the result from these audits confirm that the management system is well known and accessible. Planning of daily work operations offshore have been improved by implementing a mandatory last minute risk assessment prior to all work operations and is now implemented in the management system. This is a measure to increase each individual's understanding of risk and hence prevent incidents to occur. A common project to improve the existing emergency preparedness procedures and routines was started in 2012.

It is the Group's policy to conduct business in accordance with the letter and spirit of the law and with the overriding ethical standards of good business conduct. The HSE both offshore and onshore is considered to be good which is documented in regular mappings.

Sick leave was 3.94% (2011: 3.23%), for the Group and 1.17% (2011: 0.64%) for the Company. The Group continues to focus on reducing sick leave. The Group aims to be a workplace with equal opportunities, offering challenging and motivating jobs to all personnel, regardless of nationality, culture, religion or gender. The composition of genders within the Group reflects the available recruitment base for offshore work, which tradi-

Board of Director's Report 2012

tionally has a higher proportion of men, being the nature of the offshore industry worldwide. However, the Group's policy is to offer equal opportunities for male and female and efforts are made to attract female employees. Two out of five members of the Board of Directors are women, including the Chairman of the Board. At year-end 2012 the Group had 1 536 employees, including 13 in the parent company. 142 of the employees were women and 11 percent of leading onshore personnel within the Group are women.

Significant legal matters

During 2012 the Group had one legal disputes with business counterparts. See also note 18.

External Environment

The Group's operations involve activities that entail potential risks to the external environment. The Group is careful in its approach to the environment and continuously strives to reduce the use of hazardous chemicals and materials to minimize nega-

tive effects and seeks alternative products to safeguard the environment. The parent company acts as a holding company to the Group and has no activities that entail potential significant risks to the external environment.

Allocation of profit

The Board of Directors proposes an ordinary dividend of NOK 10 per share and an additional NOK 10 per share as an extraordinary dividend for the year 2012. Net profit after tax for the parent company was NOK 1 597 million, which is proposed allocated as follows:

For dividend	1 325 million
To free reserves	272 million
Total allocated	1 597 million

Annual General Meeting

The date of the Annual General Meeting is scheduled for 28 May 2013.

Oslo, 31 December 2012 / 20 March 2013

Fred. Olsen Energy ASA

Anette S. Olsen
Chairman

Jan Peter Valheim

Cecilie B. Heuch

Øivin Fjeldstad

Agnar Gravdal

Ivar Brandvold
Chief Executive Officer

Directors' Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Fred. Olsen Energy ASA, for the year ending and as of 31 December 2012 (annual report 2012). Fred. Olsen Energy ASA's consolidated financial statements have been prepared in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2012. The separate financial statements for Fred. Olsen Energy ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2012. The Board of Directors' Report for the Group and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16, as of 31 December 2012.

To the best of our knowledge:

- the consolidated and separate annual financial statements for 2012 have been prepared in accordance with applicable accounting standards
- the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit (or loss) as a whole as of 31 December 2012 for the Group and the Company.
- the Board of Directors' report for the group and the parent company includes a true and fair review of
 - the development and performance of the business and the position of the Group and the Company.
 - the principal risks and uncertainties the Group and the Company face.

Oslo, 31 December 2012 / 20 March 2013

Fred. Olsen Energy ASA

Anette S. Olsen
Chairman

Jan Peter Valheim

Cecilie B. Heuch

Øivin Fjeldstad

Agnar Gravdal

Ivar Brandvold
Chief Executive Officer

Fred. Olsen Energy – Group

Consolidated Statement of Separate Income

For the years ended 31 December

Amounts in NOK 000's	Note	2012	2011
Revenues	2,17,19	6 876 823	6 470 856
Materials		-185 686	-76 787
Salaries and other personnel costs	3,17	-1 659 536	-1 401 566
Other operating expenses	4,17	-1 503 421	-1 451 807
Operating profit before depreciation, amortisation, impairment and net financial expenses		3 528 180	3 540 696
Depreciation and amortisation	7	-1 350 657	-1 260 764
Impairment	7	0	-15 284
Operating profit before net financial expenses		2 177 523	2 264 648
Financial income		160 250	390 068
Financial expenses		-436 402	-547 530
Net financial expenses	5,13,17	-276 152	-157 462
Profit before tax		1 901 371	2 107 186
Income tax expenses	6	-81 264	-19 450
Profit for the year		1 820 107	2 087 736
Attributable to:			
Equity holders of the parent		1 818 107	2 086 308
Non-controlling interest		2 000	1 428
Profit for the year	11	1 820 107	2 087 736
Basic earnings per share	21	27.44	31.48
Diluted earnings per share	21	27.44	31.48

The notes represent an integral part of the financial statements.

Fred. Olsen Energy – Group

Group Consolidated Statement of Comprehensive Income

For the years ended 31 December

Amounts in NOK 000's	Note	2012	2011
Profit for the year		1 820 107	2 087 736
Exchange differences on translation of foreign operations		-586 752	286 338
Total comprehensive income for the year		1 233 355	2 374 074
Attributable to:			
Equity holders of the parent		1 231 662	2 372 455
Non-controlling interests		1 693	1 619
Total comprehensive income for the year	11	1 233 355	2 374 074

The notes represent an integral part of the financial statements.

Consolidated Statement of Financial Position

As at 31 December

Amounts in NOK 000's	Note	2012	2011
Assets			
Property, plant and equipment	7	12 684 546	10 449 194
Intangible assets	8	98 577	98 577
Other non-current assets	15,17	1 310	3 235
Deferred tax assets	9	56 365	58 209
Total non-current assets		12 840 798	10 609 215
Consumable spare parts		430 965	466 407
Prepayments and tax refunds		188 878	405 364
Trade and other receivables	13,17	964 502	1 199 774
Cash and cash equivalents	10	1 386 764	2 183 628
Total current assets		2 971 109	4 255 173
Total assets		15 811 907	14 864 388

The notes represent an integral part of the financial statements.

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Consolidated Statement of Financial Position

As at 31 December

Amounts in NOK 000's	Note	2012	2011
Equity			
Share capital		1 333 884	1 333 884
Share premium		548 125	548 125
Translation reserves		-936 782	-350 337
Reserve for own shares		-8 602	-8 602
Retained earnings		6 950 977	6 458 153
Share of equity attributable to shareholders of the parent	11	7 887 602	7 981 223
Non-controlling interests		8 567	6 874
Total equity		7 896 169	7 988 097
Liabilities			
Interest-bearing loans and borrowings	12,13,17	4 196 873	4 429 469
Employee benefits	15	263 221	248 288
Financial instruments	13	36 567	124 408
Total non-current liabilities		4 496 661	4 802 165
Interest-bearing loans and borrowings	12,13,17	730 312	1 318 394
Trade and other payables	17	206 274	220 557
Financial instruments	13	47 746	9 842
Tax payable		17 648	13 043
Other accrued expenses and deferred revenue	7	2 417 097	512 290
Total current liabilities		3 419 077	2 074 126
Total liabilities		7 915 738	6 876 291
Total equity and liabilities		15 811 907	14 864 388

The notes represent an integral part of the financial statements.

Oslo, 31 December 2012 / 20 March 2013

Fred. Olsen Energy ASA

Anette S. Olsen Chairman	Jan Peter Valheim	Cecilie B. Heuch	Øivin Fjeldstad	Agnar Gravdal	Ivar Brandvold Chief Executive Officer
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Fred. Olsen Energy – Group

Consolidated Statement of Changes in Equity

Amounts in NOK 000's	Share capital	Share premium	Translation reserves	Reserve for own shares	Retained earnings	Total	Non-controll. interests	Total equity
Balance at 1 January 2011	1 333 884	548 125	-636 484	-8 602	5 697 128	6 934 051	5 255	6 939 306
Total comprehensive income for the period	0	0	286 147	0	2 086 308	2 372 455	1 619	2 374 074
Dividends	0	0	0	0	-1 325 283	-1 325 283	0	-1 325 283
Balance at 31 December 2011	1 333 884	548 125	-350 337	-8 602	6 458 153	7 981 223	6 874	7 988 097
Balance at 1 January 2012	1 333 884	548 125	-350 337	-8 602	6 458 153	7 981 223	6 874	7 988 097
Total comprehensive income for the period	0	0	-586 445	0	1 818 107	1 231 662	1 693	1 233 355
Dividends	0	0	0	0	-1 325 283	-1 325 283	0	-1 325 283
Balance at 31 December 2012	1 333 884	548 125	-936 782	-8 602	6 950 977	7 887 602	8 567	7 896 169

Consolidated Statement of Cash Flows

For the year ended 31 December

Amounts in NOK 000's	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		1 901 371	2 107 186
<i>Adjustment for:</i>			
Depreciation, amortisation and impairment	7	1 350 657	1 276 048
Interest expenses	5	135 425	103 081
Loss on sale of property, plant and equipment		4 880	74
Unrealised gain on financial instruments		-46 226	-9 634
Changes in trade and other receivables		245 594	-242 761
Changes in trade and other payables		381 930	4 980
Changes in other balance sheet items		-98 094	54 858
Cash generated from operations		3 875 537	3 293 832
Interest paid		-203 418	-114 745
Income taxes paid		-91 197	-74 870
Net cash from operating activities		3 580 922	3 104 217
Cash flows from investing activities			
Purchases of property, plant and equipment		-2 551 039	-1 300 632
Proceeds from sale of equipment		5 773	1 253
Net cash used in investing activities		-2 545 266	-1 299 379
Cash flows from financing activities			
Proceeds from interest bearing loans		4 530 825	1 400 000
Repayments of interest bearing loans		-4 898 692	-1 249 072
Dividends paid	11	-1 325 283	-1 325 283
Net cash used in financing activities		-1 693 150	-1 174 355
Net increase/(decrease) in cash and cash equivalents		-657 494	630 483
Cash and cash equivalents at 1 January		2 183 628	1 498 274
Effect of exchange rate fluctuations on cash held		-139 370	54 871
Cash and cash equivalents at 31 December	10	1 386 764	2 183 628

The notes represent an integral part of the financial statements.

Notes to the Consolidated Financial Statements

Note 1 - Significant accounting policies

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

The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the “Group”).

The financial statements were authorised for issue by the directors on 20 March 2013.

Statement of compliance

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

Basis of preparation

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

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

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

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

The accounting policies have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

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

Transactions eliminated in consolidation

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

Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

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

Financial Instruments

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

Derivative financial instruments

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

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

Notes

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

Trade and other receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Interest-bearing borrowings

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

Trade and other payables

Trade and other payables are stated at cost.

Equity instruments

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

Property, plant and equipment

Owned assets

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

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

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

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

Depreciation

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

The estimated useful lives are as follows:

Rigs	20 to 25 years
Deepwater Drillship	25 years
Major components	5 to 15 years
Plant and Buildings	5 to 50 years
Machinery and Equipment	3 to 10 years

Repairs and maintenance

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

Intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, and is the difference between the cost of the acquisition and the fair value of identifiable net asset acquired.

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

Research and development

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

Consumable spare parts

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

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication

Notes

exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analyzed by reviewing dayrates and broker valuations. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The value in use is calculated as the present value of the expected future cash flows for the individual units.

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

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

Employee benefits

Pensions

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

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

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

Provisions

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

Revenue

Charter rate contracts

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

Long-term engineering and fabrication contracts

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

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

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

Expenses

Operating lease expenses

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

Net financing costs

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

Notes

Income tax

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

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

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

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

Segment reporting

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

Earnings per share

Basic

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

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares outstanding. Potential ordinary shares that are anti-dilutive are excluded from the calculation when applicable.

New accounting pronouncements applied

There were no new standards and interpretations applicable to the Group during 2012 which had a significant impact on the consolidated financial statements.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial state-

ments. These standards, amendments and interpretations are not expected to have any effect on the consolidated financial statements of the Group although they could effect prospective transactions, except for:

IAS 19 Employee Benefits (amended)

IAS 19 amended will change the measurement principles of expected return on plan assets and remove the accounting policy choice for recognition of actuarial gains and losses using the corridor method. Actuarial gains and losses will be recognized immediately in other comprehensive income correspondingly affecting the net benefit liability or asset in the statement of financial position. The expected impact on the Group is quantified below. The effective period is for annual periods beginning on or after 1 January 2013. The following table summarizes the financial effects of IAS 19 restated, if the Group had early adopted the standard:

Restated Consolidated Statement of Financial Position

Amounts in NOK 000's	31.12.2012	31.12.2011
Pension assets	1 767	105
Deferred tax assets	156 441	154 362
Employee benefit liability	654 597	613 175
Equity	7 605 514	7 716 455
Changes:		
Pension assets	646	-2 907
Employee benefit liability	-391 376	-364 888
Deferred tax assets	100 076	96 153
Net decrease in retained earnings	-290 654	-271 642
Decrease in pension cost	-5 291	
Expense in Comprehensive income	32 910	

The pension cost for defined benefit plans are estimated to be NOK 113 million in 2013 (2012: NOK 111 million).

Accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

l) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues

Notes

based on best estimate of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

II) Pension obligations

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

III) Estimates of fair value for rigs and drill ship

At each balance sheet date judgement is used to determine whether there is any indication of impairment of the Group fleet of rigs and the drill ship. If any such indication exists, the asset's recoverable amount is

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

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

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

Notes

Note 2 - Segment reporting

Segment information is presented in respect of the Group's operating segments and is based on the Group's management and internal reporting structure. For each of the strategic business units, internal management reports are reviewed on a monthly basis.

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

Operating segments

The Group comprises the following operating segments:

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

Operating segments

Amounts in NOK 000's	Offshore drilling		Engineering and fabrication		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenues from external customers	6 485 109	6 250 390	391 714	220 466	0	0	6 876 823	6 470 856
Inter-segment revenues	0	0	0	0	0	0	0	0
Total revenues	6 485 109	6 250 390	391 714	220 466	0	0	6 876 823	6 470 856
							0	0
Operating expenses	-2 990 504	-2 732 868	-358 139	-197 292	0	0	-3 348 643	-2 930 160
Segment result before depreciation, amortisation and impairment	3 494 605	3 517 522	33 575	23 174	0	0	3 528 180	3 540 696
Depreciation and amortisation	-1 342 920	-1 254 327	-7 737	-6 437	0	0	-1 350 657	-1 260 764
Impairment	0	-15 284	0	0	0	0	0	-15 284
Segment result	2 151 685	2 247 911	25 838	16 737	0	0	2 177 523	2 264 648
Net financing costs	-279 063	-159 695	2 911	2 233	0	0	-276 152	-157 462
Income tax expenses	-76 522	-17 761	-4 742	-1 689	0	0	-81 264	-19 450
Profit for the period	1 796 100	2 070 455	24 007	17 281	0	0	1 820 107	2 087 736
Segments assets	15 560 095	14 632 488	306 092	284 846	-54 280	-52 946	15 811 907	14 864 388
Segments liabilities	7 719 620	6 679 344	196 118	249 893	0	-52 946	7 915 738	6 876 291
Capital expenditures	4 256 034	1 454 621	18 055	9 942	0	0	4 274 089	1 464 563
Net cash from operating activities	3 572 881	3 070 743	8 041	33 474	0	0	3 580 922	3 104 217
Net cash used in investing activities	-2 527 211	-1 289 437	-18 055	-9 942	0	0	-2 545 266	-1 299 379
Net cash from financing activities	-1 693 150	-1 174 355	0	1 145	0	-1 145	-1 693 150	-1 174 355

Geographical information

	Europe		Asia		Americas		Africa		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenues from external customers ¹⁾	4 639 068	4 174 826	1 490	1 045	1 184 818	1 237 723	1 051 447	1 057 262	6 876 823	6 470 856
Capital expenditure	58 319	21 297	4 215 770	1 443 266	0	0	0	0	4 274 089	1 464 563

Of the total revenue in 2012, Norway and UK contributed 41% and 26% respectively (2011: 41% and 24%). Revenues from Statoil in 2012 constituted 14% (2011: 13%), revenues from BP constituted 16% (2011: 10%) and revenues from Anadarko constituted 15% (2011: 16%).

¹⁾ Based on location of units. Revenues in Asia are of administrative nature.

Notes

Note 3 - Salaries and other personnel costs

Amounts in NOK 000's	2012	2011
Salaries	1 174 260	993 663
Social security costs and employee taxes	185 262	132 913
Pension costs	143 154	94 490
Training	53 883	47 351
Temporary staff	99 905	60 849
Other	71 467	76 176
Capitalised personnel expenses	-68 395	-3 876
Total	1 659 536	1 401 566
Average number of employees	1 452	1 331
Number of employees at year end	1 536	1 389
Average man-labour year	1 795	1 539

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

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

Note 4 - Other operating expenses

Amounts in NOK 000's	2012	2011
Repairs and maintenance on offshore units	526 655	481 112
Recharged expenses	228 123	200 986
Rig overheads	290 410	281 566
Travel	125 324	118 882
General operating expenses	51 047	45 583
Insurance	74 719	66 674
Provision for bad debt	9 785	25 781
Professional and operational fees	86 164	133 749
Catering costs	83 468	77 986
Property rental expenses	24 815	19 188
Loss on sale of assets	2 911	300
Total	1 503 421	1 451 807

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

Amounts in NOK 000's	2012	2011
Audit	5 183	4 960
Tax advisory services	874	561
Other non-audit services	23	229
Total	6 080	5 750

Notes

Note 5 - Net financial expenses

Amounts in NOK 000's	2012	2011
Financial income		
Interest income	14 670	17 787
Gain on financial instruments	37 720	33 797
Foreign exchange gain	107 860	338 484
Total	160 250	390 068
Financial expense		
Interest expenses	135 425	103 081
Amortised borrowing cost	21 830	11 660
Loss on financial instruments	74 407	93 454
Other financial expenses	55 879	10 900
Foreign exchange loss	148 861	328 435
Total	436 402	547 530
Net financial expenses	-276 152	-157 462

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

Gain on financial instruments in 2012 includes unrealised gain of NOK 38 million related to fixed interest contracts. (2011: unrealised gain of NOK 30 million related to fixed interest contracts and realised gain on currency contracts of NOK 3 million).

Loss on financial instruments in 2012 relates to realised loss on fixed interest contracts of NOK 63 million and loss on currency contracts of NOK 11 million. (2011: unrealised loss of NOK 20 million and realised of NOK 73 million related to interest contracts).

The interest cost is net of capitalised interest costs of NOK 68 million (2011: NOK 23 million).

Note 6 - Income tax expenses

Amounts in NOK 000's	2012	2011
Current tax expenses	80 414	42 047
Deferred tax expenses/(benefits)	850	-22 597
Total income tax expenses in income statement	81 264	19 450

Reconciliation of effective tax rate	2012	
Profit before tax		1 901 371
Income tax using the domestic corporation tax rate	28.0 %	532 384
Permanent differences	0.1 %	1 419
Effect of foreign subsidiaries	-29.0 %	-551 148
Change in limitation of deferred tax assets related to tax loss carryforward	5.2 %	98 609
Effective tax rate	4.3 %	81 264

Reconciliation of effective tax rate	2011	
Profit before tax		2 107 186
Income tax using the domestic corporation tax rate	28.0 %	590 012
Permanent differences	0.3 %	5 386
Effect of foreign subsidiaries	-27.3 %	-576 107
Change in limitation of deferred tax assets related to tax loss carryforward	0.0 %	159
Effective tax rate	0.9 %	19 450

Notes

Note 7 - Property, plant and equipment

Amounts in NOK 000's	Rigs and drillships	Machinery and equipment	Plant, building and land	Total
Cost				
Balance at 1 January 2011	14 093 526	501 897	105 017	14 700 440
Reclassification	4 968	-4 968	0	0
Acquisitions	1 440 369	21 380	2 814	1 464 563
Disposals	-21 388	-99 452	-959	-121 799
Effect of movements in foreign exchange	328 005	9 793	1 653	339 451
Balance at 31 December 2011	15 845 480	428 650	108 525	16 382 655
Balance at 1 January 2012	15 845 480	428 650	108 525	16 382 655
Acquisitions	4 215 262	52 210	6 617	4 274 089
Disposals	-93 160	-2 497	0	-95 657
Effect of movements in foreign exchange	-1 127 196	-11 895	-3 224	-1 142 315
Balance at 31 December 2012	18 840 386	466 468	111 918	19 418 772
Accumulated depreciation				
Balance at 1 January 2011	4 111 907	413 804	61 121	4 586 832
Reclassification	4 589	-4 481	-108	0
Depreciation charge for the year	1 233 437	26 050	1 277	1 260 764
Impairment	0	15 284	0	15 284
Disposals	-20 621	-98 916	-935	-120 472
Effect of movements in foreign exchange	180 323	9 652	1 078	191 053
Balance at 31 December 2011	5 509 635	361 393	62 433	5 933 461
Balance at 1 January 2012	5 509 635	361 393	62 433	5 933 461
Depreciation charge for the year	1 327 961	21 519	1 177	1 350 657
Disposals	-89 308	-1 469	0	-90 777
Effect of movements in foreign exchange	-446 945	-10 203	-1 967	-459 115
Balance at 31 December 2012	6 301 343	371 240	61 643	6 734 226
Carrying amounts				
At 1 January 2011	9 981 619	88 093	43 896	10 113 608
At 31 December 2011	10 335 845	67 257	46 092	10 449 194
At 1 January 2012	10 335 845	67 257	46 092	10 449 194
At 31 December 2012	12 539 043	95 228	50 275	12 684 546

Interest cost of NOK 68 million (2011: NOK 23 million) has been capitalized to Bolette Dolphin and Bollsta Dolphin under construction. The Group's weighted average interest rate on current borrowings has been applied for the calculation.

The acquisitions include accruals of NOK 1.7 billion based on % of completion of Bolette Dolphin under construction. The accruals are recorded under Other accrued expenses and deferred revenue.

Decommissioning costs

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

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Notes

Residual values

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

The most common method to estimate residual values for ships is to use scrap price which is publicly noted by brokers in USD per LDWT of a complete vessel with all normal machinery and equipment on board. This method is used to determine the residual value for the drillship Belford Dolphin. The estimated residual value for Belford Dolphin as at 31 December 2012 is USD 13.8 million (2011: USD 13.3 million).

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

Useful lives

The useful lives of the assets are reviewed at each year end. Management has reviewed each of the rigs by expected usage and considered the scheduled 5 years Class Renewal Survey going forward. Borgland Dolphin and Bideford Dolphin completed their Class Renewal Survey in 2009 while Borgny Dolphin, Byford Dolphin and Borgsten Dolphin completed their Class Renewal Survey in 2010.

Borgsten Dolphin has been at yard stay for conversion into a tender support vessel and an early Class Renewal Survey. This was completed early February 2013.

Estimates of the lifetimes for 2nd generation rigs are based on the assumption that they will carry out their next forthcoming Class Renewal Survey and continue to operate five years thereafter. Belford Dolphin, Blackford Dolphin, Bideford Dolphin, Borgland Dolphin are either new or substantially upgraded, and have longer expected useful lifetimes than the 2nd generation rigs. Two more scheduled Class Renewal Surveys have been assumed followed by five years operation for Bideford Dolphin and Borgland Dolphin. Three more scheduled Class Renewal Surveys are assumed for Belford Dolphin. Blackford Dolphin completed its upgrade and refurbishment in August 2008 with an estimated lifetime of 25 years.

In million of NOK	Estimates		
	Remaining lifetime as at 31 December 2012	Net book value as at 31 December	
		2012	2011
Belford Dolphin	17	1 048	1 227
Bideford Dolphin	12	568	708
Borgland Dolphin	12	755	929
Byford Dolphin	7	570	607
Borgny Dolphin	7	709	958
Borgsten Dolphin	5	636	405
Bredford Dolphin	10	1 140	803
Borgholm Dolphin	6	177	215
Blackford Dolphin	21	3 112	3 459
Bolette Dolphin (under construction)		2 748	1 025
Bollsta Dolphin (under construction)		1 076	0
Total rigs and drillship		12 539	10 336

Impairment

The Group recognised an impairment loss of NOK 15 million in 2011 on specialised equipment included in Machinery and Equipment. No impairment loss was recorded in 2012.

Commitments

Commitments related to investments are approximately USD 678 million as at 31 December 2012 including USD 476 million related to Bollsta Dolphin and USD 147 million related to Bolette Dolphin under construction, which were ordered in 2012 and 2011 respectively. Total project cost for Bollsta Dolphin is estimated to USD 740 million (including spare parts, owner furnished equipment and yard project team).

Notes

Note 8 - Intangible assets

Goodwill

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

Impairment

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

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

- Cash flows were projected based on operating cash flows from firm contract day rates and expected day rates less budgeted operating expenses for the rigs being operated by Dolphin Drilling AS which was extrapolated over the remaining assets lives of the rigs. A zero growth rate was applied.
- A discount rate of 7.1% was applied in determining the recoverable amount of the unit.

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

Sensitivity

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

Note 9 - Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Amounts in NOK 000's	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	-13 678	-13 404	32 449	41 051	18 771	27 647
Provisions	-21 691	-30 469	0	0	-21 691	-30 469
Other items	-57 963	-56 983	4 588	1 672	-53 375	-55 311
Tax value of loss carry-forward recognised	-70	-76	0	0	-70	-76
Tax (assets)/liabilities	-93 402	-100 932	37 037	42 723	-56 365	-58 209
Set off ¹⁾	37 037	42 723	-37 037	-42 723	0	0
Net tax (assets)/liabilities	-56 365	-58 209	0	0	-56 365	-58 209

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

Unrecognised deferred tax assets:

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

Amounts in NOK 000's	2012	2011
Deductible temporary differences	62 913	80 959
Tax losses	804 637	718 275
Other	35 722	29 752
Total unrecognised deferred tax assets	903 272	828 986

As at 31 December 2012, approximately NOK 0.9 billion of the tax losses carried forward are available to offset the taxable income for subsidiaries in UK and NOK 2.1 billion for subsidiaries in Norway, in total NOK 3.0 billion in tax losses carried forward for the Group. The major part of these losses is not recorded as a deferred tax asset due to uncertainty of the level of the future suitable taxable profits in taxable jurisdictions.

The Norwegian tax authorities have filed a decision against the Group. The Group has appealed the decision, however the effect was included in the 2009 accounts.

The tax losses carried forward have no expiry date.

Notes

Note 10 - Cash and cash equivalents

Amounts in NOK 000's	2012	2011
Cash related to payroll tax withholdings	32 778	32 118
Other restricted cash	33 664	0
Total restricted cash	66 442	32 118
Unrestricted cash	1 320 322	2 151 510
Total cash and cash equivalents	1 386 764	2 183 628

Note 11 - Capital and reserves

Share capital and share premium

Par value per share	NOK 20
Number of shares authorized	73 363 651
Number of shares issued	66 694 229

Outstanding shares

	2012	2011
As at 31 December	66 264 129	66 264 129

Translation reserves

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

Reserve for own shares

The Company held 430 100 shares as at 31 December 2012 (unchanged from 2011).

Dividend

The Board has decided to propose to the Annual General Meeting in May 2013 an ordinary dividend payment of NOK 10 per share and an extraordinary dividend payment of NOK 10 per share for the year 2012. This will amount to NOK 1 325.3 million based on outstanding shares as at 31 December 2012.

The Annual General Meeting in May 2012 approved the Board's proposal of an ordinary dividend payment of NOK 10 and an extraordinary dividend of NOK 10 per share for the year 2011. The payment was made in June 2012 and amounted to NOK 1 325.3 million (2011: 1 325.3 million).

Notes

Note 12 - Interest-bearing loans and borrowings

Amounts in NOK 000's				31.12.12		31.12.11	
	Currency	Interest rate	Maturity	Nominal value	Balance	Nominal value	Balance
Bond loan	NOK	3M Nibor + 4.25%	2016	1 400 000	1 387 633	1 400 000	1 387 633
Fleet loan USD 1 500 million facility	USD	Libor + margin ¹⁾	2017	3 670 484	3 539 552	0	0
Fleet loan USD 1 500 million facility (repaid)	USD	Libor + margin	2014	0	0	4 374 671	4 360 230
Total interest bearing loans and borrowings				5 070 484	4 927 185	5 774 671	5 747 863
Current interest bearing loans and borrowings					730 312		1 318 394
Non-current interest bearing loans and borrowings					4 196 873		4 429 469
Total interest bearing loans and borrowings					4 927 185		5 747 863

¹⁾ The fleet loan is based on USD Libor (1,3 or 6 months) plus a margin.

Of the interest bearing debt of the Group at 31 December 2012, NOK 3 670 million or USD 659 million is denominated in US dollars (2011: NOK 4 375 million or USD 730 million), and NOK 1 400 million is denominated in NOK (2011: 1 400 million).

In June 2012, the Group signed a new five year bank credit facility of USD 1 500 million. During 2012 the Group borrowed USD 750 million under the new facility and repaid the existing bank loans by USD 620 million. USD 450 million will be used to full-finance the newbuild Bolette Dolphin. Per 31 December 2012 USD 325 million is undrawn and available under the credit facility for general corporate purposes.

Notes

Note 13 - Financial risk management

Capital management

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

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

The Group has the following financial covenants in its loan agreements:

- Net debt/EBITDA to be less than 4.5x
- Interest coverage to be higher than 2.5x
- Minimum free cash of USD 30-50 million

The Group is in compliance with the covenants in all agreements.

Market risk

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

Credit risk

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

At 31 December 2012 there was no significant concentration of credit risk. Maximum exposure to credit risk is reflected in the carrying value of each financial asset, including derivative financial instruments, in the balance sheet.

Amounts in NOK 000's	2012	2011
Loans and receivables	964 688	1 199 985
Cash and cash equivalents	1 386 764	2 183 628
Total	2 351 452	3 383 613

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

Amounts in NOK 000's	2012	2011
Loans to employees ¹⁾	186	211
Customers	964 502	1 199 774
Total	964 688	1 199 985

¹⁾ Average interest rate for loans to employees was 2.6% in 2012 and 2.8% for 2011. Part of the amount contains rolling travel advances.

The ageing of trade receivables at the reporting date was:

	2012			2011		
	Nominal value	Provision	Balance	Nominal value	Provision	Balance
Not due	779 435	0	779 435	1 009 082	0	1 009 082
Overdue 0-30 days	97 901	0	97 901	4 446	0	4 446
Overdue 30-90 days	2 546	0	2 546	11 251	-5 205	6 046
Overdue 90-180 days	76	0	76	30 801	0	30 801
Overdue 180-360 days	0	0	0	55 175	0	55 175
Overdue > 360 days ¹⁾	131 514	-46 970	84 544	242 567	-148 343	94 224
Total	1 011 472	-46 970	964 502	1 353 322	-153 548	1 199 774

¹⁾ see note 18

Notes

Liquidity risk

In June 2012, a credit facility with an original amount of USD 1.5 billion was established and refinanced the previous credit facility from 2008. The new facility has final maturity in 2017 with quarterly instalments of USD 44.1 million, when fully drawn. In May 2011, the Group established a bond loan of NOK 1.4 billion with maturity in May 2016. The Group is in compliance with covenants in all loan agreements. The Group continuously evaluates the refinancing need and will carry out refinancing transactions from time to time. The overview of the Group's loans is further detailed in note 12. The following are the contractual maturities of financial liabilities including interest payments.

Amounts in NOK 000's			Due in				
	Carrying value	Contractual cash flows	2013	2014	2015	2016	2017
31 December 2012							
Bond loan (NOK)	1 400 000	1 690 144	86 240	86 240	86 240	1 431 424	0
Fleet loan (USD)	3 670 484	4 087 755	575 526	559 432	543 339	664 204	1 745 254
Total interest-bearing loans and borrowings	5 070 484	5 777 899	661 766	645 672	629 579	2 095 628	1 745 254

Amounts in NOK 000's			Due in				
	Carrying value	Contractual cash flows	2012	2013	2014	2015	2016
31 December 2011							
Bond loan (NOK)	1 400 000	1 836 770	99 960	99 960	99 960	99 960	1 436 930
Fleet loan (USD)	4 374 671	4 488 184	1 373 393	771 755	2 343 036	0	0
Total interest-bearing loans and borrowings	5 774 671	6 324 954	1 473 353	871 715	2 442 996	99 960	1 436 930

Interest rate risk

The Group is exposed to fluctuations in interest rates for USD and NOK. The Group has historically used interest rate derivatives to achieve a mix of exposure to fixed and floating interest rate on its debt instruments. During the recent years, the Group has had up to approximately 50% of its interest expenses based on fixed rates, either as fixed rate loans or through interest rate derivatives. As per 31 December 2012 approximately 40 % of outstanding debt was at fixed rate. At 31 December 2012 the Group's USD denominated debt amounted to USD 659 million, while the NOK denominated debt amounted to NOK 1 400 million. The debt with floating interest rate is based on US Libor or Nibor plus a margin. USD 350 million is based on fixed rates plus a margin, whereof USD 50 million was fixed for 10 years and USD 300 million was fixed for 5 years. The average interest rate for the fixed rate agreements is 3.52%.

The following table summarizes the interest rate swaps held by the Group:

Currency	Amount	Fixed rate%	Expiry date
USD	300 000 000	3.58	2013
USD	50 000 000	3.16	2019

Net unrealized gain of NOK 38 million (2011: NOK 10 million) and realized loss of NOK 63 million (2011: NOK 73 million) was recorded as net financial expenses in 2012 related to fixed rate agreements. The mark-to-market value of the interest rate swaps are measured as the difference between the agreed fixed rate and the current market interest rate with the corresponding maturity as the remaining fixed rate maturity.

Foreign currency risk

The Group is exposed to foreign currency risks related to its operations and debt instruments. The Group's financial statements are denominated in Norwegian kroner (NOK) and most of the subsidiaries use US dollar (USD) as their functional currency. Some subsidiaries also use the British Pound (GBP) as their functional currency. The Group's revenues consist primarily of NOK, GBP and USD with USD as the main currency. The Group's expenses are primarily in NOK, GBP and USD. As such, the Group's earnings are exposed to fluctuations in the foreign currency market. The Group's future foreign currency exposure is dependent upon the currency denomination of future operating contracts and denomination of operating expenses. In 2012, approximately 77% of revenues and 11% of operating expenses are in USD. In the longer term, parts of the USD/NOK exposure is neutralised due to a majority share of the Group's debt being denominated in USD. 72% of total debt is denominated in USD, while 28% is denominated in NOK.

At 31 December 2012, the Group had outstanding currency derivative contracts for forward sale of USD 40 million against GBP and USD 10 million against NOK.

The hedging is structured as convertible forwards as follows on an average basis:

Currency	Total outstanding	Avg. forward rate	Avg. knock in rate	Expiry dates
GBP/USD	40 000 000	1.61	1.42	31.01-15.08.13
USD/NOK	10 000 000	5.88	6.77	05.02-19.08.13

USD will be sold at spot between forward price and knock-out level. If the spot rate touches the knock-out level the contract becomes a standard forward contract at forward rate, similarly one will receive forward rate if the spot rate is less favourable than the forward rate.

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Notes

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2012 was NOK 5.8 million recorded as current assets (2011: NOK 2.7 million as current liabilities). A net loss of NOK 11 million related to foreign exchange contracts was recorded as financial expenses in 2012 (2011: gain of NOK 3 million).

Sensitivity analysis

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

Interest rate sensitivity

At 31 December 2012 it is estimated that 1 – one percent incremental change in USD LIBOR and NIBOR is estimated to have an effect on the net result of approximately NOK 16.0 million (2011: NOK 14.9 million), taken into account the fixed rate portion of the net debt.

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

Amounts in NOK 000's	2012	2011
Fixed rate instruments		
Financial liabilities	-1 982 400	-2 097 445
Variable rate instruments		
Bank deposits	1 386 764	2 183 628
Financial liabilities	-3 088 084	-3 677 226
Total variable rate instruments	-1 701 320	-1 493 598

Exchange rate sensitivity from operations

For the year 2012 a 10% increase in USD/NOK would increase the Group's profit by NOK 343 million while a 10% increase in GBP/NOK would decrease the profit by NOK 75 million.

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

At December 2012, an incremental change in the GBP/USD and the USD/NOK exchange rate will have the following impact on profit before tax due to the currency derivatives of USD 40 million which is sold against GBP and USD 10 million sold against NOK (please see section on foreign currency risk), accounts payable denominated in GBP, accounts receivables in USD and currency deposits where currencies differ from the various functional currencies:

Impact on profit in NOK	GBP/USD				USD/NOK			
	2012		2011		2012		2011	
% change in exchange rates	10%	-10%	10%	-10%	10%	-10%	10%	-10%
Through outstanding currency derivatives	37.2	-11.0	16.1	-34.7	0	8.7	0	0
Through accounts payable	-4.0	4.0	-1.7	1.7	1.3	-1.3	0.2	-0.2
Through accounts receivable	0	0	0	0	2.9	-2.9	6.6	-6.6
Through currency deposit accounts	2.8	-2.8	3.2	-3.2	31.7	-31.7	49.8	-49.8
Total impact in NOK million	36.0	-9.8	17.5	-36.1	35.9	-27.7	56.2	-56.2

Fair values

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

Amounts in NOK 000's	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Currency contracts	5 758	5 758	0	0
Assets carried at amortised cost				
Loans and receivables	964 688	964 688	1 199 985	1 199 985
Cash and cash equivalents	1 386 764	1 386 764	2 183 628	2 183 628
Total	2 351 452	2 351 452	3 383 613	3 383 613

Notes

Amounts in NOK 000's	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities carried at fair value				
Non-current liabilities				
Interest rate swaps	36 567	36 567	124 408	124 408
Current liabilities				
Interest rate swaps	47 747	47 747	7 094	7 094
Currency contracts	0	0	2 748	2 748
Total	84 314	84 314	134 250	134 250
Liabilities carried at amortised cost				
Secured bank loans	3 539 552	3 670 484	4 360 230	4 374 671
Bond loan	1 387 633	1 400 000	1 387 633	1 400 000
Trade and other payables	206 274	206 274	220 557	220 557
Total	5 133 459	5 276 758	5 968 420	5 995 228

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

The mark to market value on the interest swaps is derived from the difference between the fixed rate and the relevant market interest rate for the remaining maturity of the interest rate swap.

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

	Level 1	Level 2	Level 3	Total
31 December 2012				
Currency contracts	0	5 758	0	5 758
Interest rate swaps	0	-84 314	0	-84 314
Total	0	-78 556	0	-78 556
31 December 2011				
Currency contracts	0	-2 748	0	-2 748
Interest rate swaps	0	-131 502	0	-131 502
Total	0	-134 250	0	-134 250

Note 14 - Mortgages and guarantees

Amounts in NOK 000's	2012	2011
Interest bearing debt	3 670 484	4 374 671
Other guarantees and liabilities	33 664	255 882
Total	3 704 148	4 630 553

The net book value of assets pledged as security:

Rigs and drillship	10 577 730	10 335 845
Total	10 577 730	10 335 845

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

Note 15 - Employee benefits

Pension plans

Fred. Olsen Energy ASA including its subsidiaries Dolphin Drilling AS and Harland & Wolff Group Ltd/Harland & Wolff Heavy Industries Ltd have independent pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement. The total number of employees involved in the pension plans as of 31 December 2012 was 662 and the number of pensioners was 2 069, of which the majority is related to Harland & Wolff. Each of these pension plans are operated independently of each other and have no recourse in case of underfunding to either other pension plans or other companies within the Group.

Employees not eligible for coverage under the defined benefit plans in the UK are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans. The Company's contributions to defined contribution plans for year ended December 31, 2012 and 2011 were NOK 11.7 million and NOK 7.1 million respectively. The Company's contribution to Norwegian seamen pension was NOK 15.4 million in 2012 and NOK 14.6 million in 2011.

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

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

The status of the defined benefit obligations is as follows:

Amounts in NOK 000's	2012	2011
Present value of unfunded obligations	52 057	48 572
Present value of funded obligations	2 001 502	1 904 897
Total present value of obligations	2 053 559	1 953 469
Plan assets at market value	1 400 729	1 340 397
Present value of net obligations	-652 830	-613 072
Unrecognised net experience loss	390 730	367 794
Net liability for defined benefit obligations	-262 100	-245 278
Hereof unfunded pension plans (net liability)	-45 857	-38 931
Hereof funded pension plans	-216 243	-206 347
Net liability for defined benefit obligations	-262 100	-245 278
Other investments	1 121	3 010
Employee benefits	-263 221	-248 288
Net liability at 31 December	-262 100	-245 278

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

Funded	2012	2011
Net liability at 1 January	-206 347	-200 514
Pension contribution (incl. social security)	93 435	61 794
Expenses recognised in the income statement	-107 619	-64 446
Foreign currency translation	4 288	-3 181
Net liability at 31 December	-216 243	-206 347
Unfunded	2012	2011
Net liability at 1 January	-38 931	-33 305
Payments during the year to pensioners (incl. social security)	1 513	1 417
Expenses recognised in the income statement	-8 439	-7 043
Net liability at 31 December	-45 857	-38 931

Notes

Movements in plan assets:

Amounts in NOK 000's	2012	2011
Fair value of plan assets at 1 January	1 340 397	1 295 978
Contributions paid into the plan	85 263	55 880
Benefits paid by the plan	-70 305	-77 368
Expected return of plan assets	64 141	72 653
Actuarial gain/(loss)	15 058	-33 052
Foreign currency translation	-33 825	26 306
Fair value of plan assets at 31 December	1 400 729	1 340 397

Major categories of plan assets:

	2012	2011
Equity instruments	31 %	32 %
Bonds	54 %	50 %
Annuities	11 %	12 %
Other assets	4 %	6 %
Plan assets	100 %	100 %

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

Funded	2012	2011
Gross liability for defined benefit obligations at 1 January	1 904 897	1 590 630
Benefits paid by the plan	-69 441	-77 368
Current service costs	82 436	53 759
Interest on pension liability	77 184	79 440
Actuarial loss	57 295	234 778
Paid social security	-9 034	-6 825
Foreign currency translation	-41 835	30 483
Gross liability at 31 December	2 001 502	1 904 897
Unfunded	2012	2011
Gross liability for defined benefit obligations at 1 January	48 572	35 689
Benefits paid by the plan	-1 513	-1 418
Current service costs	6 319	5 173
Interest on pension liability	1 622	1 547
Actuarial losses	-2 943	7 581
Gross liability at 31 December	52 057	48 572

Expense recognised in the income statement for defined benefit plans:

Amounts in NOK 000's	2012	2011
Current service costs	88 755	58 932
Interest on obligations	78 806	80 987
Expected return of plan assets	-64 141	-72 653
Amortisation expense	12 639	4 223
Net pension cost for defined benefit plans	116 059	71 489

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Notes

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

	2012	2011
Assumed salary increases	2.7-5.0%	2.4-5.0%
Discount rates	3.9-4.4%	3.0-4.7%
Expected rates of return on pension plan assets	3.9-5.0%	4.0-5.9%

Sensitivity analysis:

Funded Pension Plans: 0.25% change in future salary increase and the official pension index (G), gives a 4% change in Service cost and 1% change in the projected benefit obligations. A 0.25% change in the discount rate gives a change in Service Cost of 6% and 4% change in the projected benefit obligations.

Unfunded Pension Plans: 0.25% change in future salary increase and the official pension index (G), gives a 2% change in Service cost and 1% change in projected benefit obligations. A 0.25% change in the discount rate gives a change in Service Cost and projected benefit obligation of 5% and 4% respectively.

Expected contributions to funded defined benefit plans in 2013 are NOK 86 million. Expected payments of benefits for the unfunded plans are in 2013 estimated at NOK 1.4 million.

Amounts in NOK 000's	2012	2011	2010	2009	2008
Present value of the defined benefit obligation - funded	-2 001 502	-1 904 897	-1 590 630	-1 528 796	-1 460 568
Present value of the defined benefit obligation - unfunded	-52 057	-48 572	-35 689	-9 727	-6 375
Fair value of plan assets	1 400 729	1 340 397	1 295 978	1 248 595	1 217 955
Deficit in the plan (-)	-652 830	-613 072	-330 341	-289 928	-248 988
Experience adjustments arising on plan liabilities - funded	57 295	234 778	33 742	89 782	-79 458
Experience adjustments arising on plan liabilities - unfunded	-2 943	7 581	2 991	287	1 764
Experience adjustments arising on plan assets	15 058	-33 052	31 227	49 255	-219 464

[Note 16 - Rental & Leases](#)

[Leases](#)

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

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

Amounts in NOK 000's	2012	2011
Less than one year	7 529	8 572
Between one and five years	17 232	14 542
More than five years	260 977	272 899
Total	285 738	296 013

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

Notes

Note 17 - Related parties

In the ordinary course of business, the Group recognises revenues and expenses with related companies, which may have a significant impact on the Group's consolidated financial statements. The Group receives certain administrative, financial, and legal advisory services from Fred. Olsen & Co. The agreements are on arms-length terms and are subject to ordinary termination provisions. Other related parties relate entirely to Ganger Rolf ASA and Bonheur ASA which are the owners of a combined 51.92 % of the Group, and their subsidiaries and Fred. Olsen & Co. Revenues and purchases from such companies were as follows:

Amounts in NOK 000's	2012	2011
Revenues		
Others	42 745	1 491
Total	42 745	1 491
Operating expense		
Bonheur ASA/Ganger Rolf ASA	797	797
Fred. Olsen & Co.	6 212	5 332
Total	7 009	6 129
Accounts receivables		
Other	20 528	0
Total	20 528	0
Accounts payable		
Fred. Olsen & Co.	613	86
Other	105	13 194
Total	718	13 280
Loan to employees		
Loan to employees	186	211
Total	186	211

¹⁾ Average interest rate for loans to employees was 2.6% for 2012 and 2.8% for 2011. Part of the amount contains rolling travel advances.

There are no loans to Senior Management.

..the note continues on the next page

Notes

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

Amounts in NOK 000's	Board of Directors	
	2012	2011
Remuneration	1 080	1 080
Total	1 080	1 080

Amounts in NOK 000's	Senior Management	
	2012	2011
Salary	14 563	14 309
Bonus	3 347	1 848
Pension costs	6 032	5 880
Other	2 518	2 358
Total	26 460	24 395

2012

Amounts in NOK 000's	Board					
	remuneration	Salary	Bonus	Other	Pension	Total
Senior management						
Ivar Brandvold, Chief Executive Officer	138	4 154	1 110	552	2 659	8 613
Hjalmar Krogseth Moe, Chief Financial Officer	65	1 890	494	144	1 180	3 773
Total parent company	203	6 044	1 604	696	3 839	12 386
Per Johansson, Managing Director		2 972	878	1 210	1 283	6 343
Joakim Kleppe, Managing Director		2 186	598	114	823	3 721
Robert Cooper, Managing Director		1 825	267	184	0	2 276
Graeme Murray, Managing Director (from 1st April 2012)		1 536	0	111	87	1 734
Total	203	14 563	3 347	2 315	6 032	26 460
Board of Directors						
Anette S. Olsen	250					250
Øivin Fjeldstad	200					200
Jan Peter Valheim	200					200
Agnar Gravdahl	200					200
Cecilie B. Heuch	200					200
Stephen Knutzon	30					30
Total	1 080					1 080

Notes

2011

Amounts in NOK 000's	Board					Total
	remuneration	Salary	Bonus	Other	Pension	
Senior management						
Ivar Brandvold, Chief Executive Officer	135	3 805	543	558	2 291	7 332
Hjalmar Krogseth Moe, Chief Financial Officer	63	1 766	232	117	766	2 944
Total parent company	198	5 571	775	675	3 057	10 276
Per Johansson, Managing Director		2 724	448	1 177	1 090	5 439
Joakim Kleppe, Managing Director		2 026	300	60	727	3 113
Robert Cooper, Managing Director		1 716	0	0	180	1 896
Johan Finnestad, Managing Director		2 272	325	248	826	3 671
Total	198	14 309	1 848	2 160	5 880	24 395
Board of Directors						
Anette S. Olsen	250					250
Øivin Fjeldstad	200					200
Jan Peter Valheim	200					200
Agnar Gravidahl	200					200
Cecilie B. Heuch	200					200
Stephen Knutzon	30					30
Total	1 080					1 080

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

The management has a management cash bonus scheme. The beneficiaries of the scheme are senior management and certain key personnel. Annual payments under the scheme, maximised to one year's salary, are subject to the Group achieving certain predefined financial criteria, including achieved budget goals and development of the Company's share price. The Group has not any share based remuneration scheme.

Guidelines for 2012

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

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

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

The remuneration for 2012 has been in accordance with the statement presented at the Annual General Meeting in May 2012.

Notes

Note 18 - Contingencies

Outstanding receivables from customers

As per 31 December 2012 the Group was involved in legal disputes with one specific customer with the claims in dispute amounted to USD 18.3 million.

The Group had a further legal dispute of USD 12.5 million which was settled in 2012. The settlement resulted in an agreed payment plan whereby USD 2.5 million remains to be paid in 2013, and which is secured by a mortgage.

In addition to the above the Group was as per 31 December 2012 involved in discussions with one specific customers regarding contractual issues with a claim of totally USD 5.4 million. The customer has a counterclaim of 4.1 million which is being disputed.

The Group has made provisions of USD 8.4 million based on evaluations of the status of the outstanding receivables.

Outstanding issues from suppliers

A Group Company is involved in a customs issue in one of the countries of operation. This is not expected to have an effect on the accounts.

Note 19 - Uncompleted contracts

At 31 December 2012 the Group's engineering and fabrication division had uncompleted activities on various ship repair, manufacturing and offshore wind farm logistics base activities at Harland & Wolff.

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

Amounts in NOK 000's	2012	2011
Contract revenue during the period, external	391 714	220 466
Contract revenue during the period, internal	0	0
Contract cost incurred plus recognised profit on uncompleted contracts	242 258	125 690
Less progress billings to date	-259 244	-131 260
Deferred revenue, net	-16 986	-5 570

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

Amounts in NOK 000's	2012	2011
Accounts receivable	2 471	111
Deferred revenue	19 457	5 681
Deferred revenue, net	-16 986	-5 570

Notes

Note 20 - Shareholder information

Shareholders holding more than 1% of the shares at 31 December 2012 are as follows:

Shareholder	Percent of shares	Number of shares
Bonheur ASA	25.96 %	17 314 382
Ganger Rolf ASA	25.96 %	17 314 382
Folketrygdfondet	3.88 %	2 588 123
State Street Bank and Trust Co.	2.64 %	1 757 596
JP Morgan Chase bank	2.31 %	1 541 112
Clearstream Banking S.A	2.23 %	1 485 995
JP Morgan Chase bank	2.11 %	1 407 465
Bank of New York Mellon	1.42 %	949 672
Others	33.49 %	22 335 502
Total	100.00 %	66 694 229

Shares owned directly by the Company's directors and senior management at 31 December 2012:

Name	Title	Shares
Anette S. Olsen	Chairman	100 *)
Øivin Fjeldstad	Director	3 220
Agnar Gravdal	Director	10 000

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

Note 21 - Earnings per share

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

Earnings		
Amounts in NOK 000's	2012	2011
Earnings for the purpose of basic earnings per share	1 818 107	2 086 308
Effect of dilutive potential ordinary shares	0	0
Earnings for the purpose of diluted earnings per share	1 818 107	2 086 308
Number of shares		
In 1000's	2012	2011
Weighted average number of ordinary shares for the purposes of basic earnings per share	66 264	66 264
Effect of dilutive potential ordinary shares	0	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	66 264	66 264
Earnings per share		
	2012	2011
Basic	27.44	31.48
Diluted	27.44	31.48

Notes

Note 22 - Subsidiaries

The ownership percentage in subsidiaries companies as of 31 December 2012 was as follows:

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

Fred. Olsen Energy ASA

Income Statement

For the years ended 31 December

Amounts in NOK 000's	Note	2012	2011
Revenues	15	6 826	6 752
Salaries and other personnel costs	3	-36 353	-32 306
Other operating expenses	4	-15 603	-15 970
Operating loss before depreciation and net financial income		-45 130	-41 524
Depreciation and amortisation	7	-6 060	-5 723
Operating loss before financial income		-51 190	-47 247
Financial income		1 805 277	1 146 631
Financial expenses		-156 966	-83 630
Net financial income	5	1 648 311	1 063 000
Profit before tax		1 597 121	1 015 753
Income tax expense	6	0	0
Profit for the year		1 597 121	1 015 753
Proposed allocations:			
Dividends		1 325 283	1 325 283
To/(from) free reserves		271 838	-309 529
Total allocations		1 597 121	1 015 753

The notes represent an integral part of the financial statements.

Fred. Olsen Energy ASA

Balance Sheet

As at 31 December

Amounts in NOK 000's	Note	2012	2011
Assets			
Property, plant and equipment	7	12 105	17 656
Investments in subsidiary companies	16	3 136 534	3 084 533
Other non-current assets	8, 15	510 636	78 303
Deferred tax assets	6	0	0
Total non-current assets		3 659 275	3 180 492
Other current assets		1 776	2 270
Trade and other receivables	9, 15	1 782 168	1 757 810
Currency derivatives	17	5 758	0
Cash and cash equivalents	10	93 199	127 810
Total current assets		1 882 901	1 887 890
Total assets		5 542 176	5 068 382
Equity			
Share capital		1 333 884	1 333 884
Treasury shares		-8 602	-8 602
Share premium		548 125	548 125
Other equity		672 047	400 208
Total equity	11	2 545 454	2 273 615
Liabilities			
Interest-bearing loans and borrowings	12	1 400 000	1 400 000
Other non-current liabilities	3	45 760	38 705
Total non-current liabilities		1 445 760	1 438 705
Trade and other payables	13, 15	204 156	3 953
Dividends	11	1 325 283	1 325 283
Currency derivatives	17	0	2 748
Other accrued expenses	14	21 524	24 078
Total current liabilities		1 550 963	1 356 062
Total liabilities		2 996 723	2 794 767
Total equity and liabilities		5 542 176	5 068 382

The notes represent an integral part of the financial statements.

Oslo, 31 December 2012 / 20 March 2013

Fred. Olsen Energy ASA

Anette S. Olsen
Chairman

Jan Peter Valheim

Cecilie B. Heuch

Øivin Fjeldstad

Agnar Gravdal

Ivar Brandvold
Chief Executive Officer

Statement of Cash Flows

For the years ended 31 December

Amounts in NOK 000's	2012	2011
Cash flows from operating activities		
Profit before income taxes	1 597 121	1 015 753
<i>Adjustment for:</i>		
Group contribution	-659 380	-580 000
Depreciation and amortization	6 060	5 723
Interest expenses	95 027	65 476
Unrealised currency loss / (gain)	24 042	-2 857
Changes in trade and other receivables	14 354	-36 049
Changes in trade and other payables	1 600	2 846
Changes in other balance sheet items	9 000	-6 104
Cash generated from operations	1 087 824	464 788
Interest paid	-96 586	-51 736
Net cash from operating activities	991 238	413 052
Cash flows from investing activities		
Purchase of property, plant and equipment	-509	-1 171
Repaid equity from subsidiary	0	0
Net cash used to investing activities	-509	-1 171
Cash flows from financing activities		
Proceeds from interest-bearing loans	0	1 400 000
Intercompany interest-bearing loans	299 943	-482 790
Dividend paid	-1 325 283	-1 325 283
Net cash used to financing activities	-1 025 340	-408 073
Net increase in cash and cash equivalents	-34 611	3 808
Cash and cash equivalents at 1 January	127 810	124 002
Cash and cash equivalents at 31 December	93 199	127 810

The notes represent an integral part of the financial statements.

Fred. Olsen Energy ASA

Notes to the Financial Statements

Note 1 - Basis of presentation

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

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

Fred. Olsen Energy ASA is a company being consolidated into the Bonheur group of companies. Bonheur ASA has prepared consolidated financial statement and have business address Fred. Olsensgt. 2, Oslo.

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

Note 2 - Summary of significant accounting policies

Foreign currency

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

Property, plant and equipment

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

Investments in subsidiaries

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

Classification and valuation of other balance-sheet items

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

Cash and cash equivalents

The cashflow statement is prepared in accordance with the indirect method.

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

Non-current assets

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

Financial instruments

Interest rate derivatives

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

Notes

Forward exchange contracts

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

Income taxes

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

Use of estimates

In the preparation of the financial statements, management is required to make estimates and assumptions affecting reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

The Company's pension plans for employees provide for a defined pension benefit upon retirement. The benefit to be received by employees generally depends on many factors including length of service, retirement date and future salary increases. The Company accounts for defined benefit pension plans in accordance with NRS 6A, which means that the company can elect to present pension liabilities in NGAAP accounts in accordance with IAS 19. Costs related to these plans are expensed as incurred. Amendments have been issued to IAS 19, which change the measurement principles of expected return on plan assets and remove the accounting policy choice for recognition of actuarial gains and losses using the corridor mechanism. The expected impact on the Company is quantified below. The effective period is for annual periods beginning on or after 1 January 2013. The following table summarizes the financial effects on implementation of the new accounting policy:

Restated Consolidated Statement of Financial Position

Amounts in NOK 000's	31.12.2012	31.12.2011
Pension assets	1 767	105
Employee benefit liability	-51 991	-48 372
Equity	2 539 868	2 261 041
Changes:		
Pension assets	646	-2 907
Employee benefit liability	-6 232	-9 667
Deferred tax assets	0	0
Net decrease in retained earnings	-5 586	-12 574
Decrease in pension cost	-441	
Income in Comprehensive income	-6 548	

The pension cost for defined benefit plans are estimated to be NOK 12 million in 2013 (2012: NOK 11.5 million).

Note 3 - Salaries and other personnel costs

Amounts in NOK 000's	2012	2011
Salaries	18 421	14 349
Social security expenses	2 955	2 620
Pension costs	11 948	9 080
Travel expenses	2 493	2 766
Other	535	3 491
Total	36 353	32 306
Average number of employees	13	12

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

Pension Plans

Fred. Olsen Energy ASA has pension plans that provide employees with a defined benefit upon retirement. The employees participating in these plans are entitled to future pension payments based on length of service and salary upon retirement. The total number of employees involved in the pension plans as of 31 December 2012 was 13. The pension plan assets consist primarily of bank deposits, investments in fixed income and equity securities. The pension plan for the Company is in accordance with the Norwegian law concerning mandatory occupational pension (OTP).

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

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

Amounts in NOK 000's	2012	2011
Projected benefit obligation	72 064	68 848
Plan assets at market value	21 839	20 581
Funded status	-50 225	-48 267
Unrecognised net experience loss	5 586	12 574
Net pension liability	-44 639	-35 693

At 31 December 2012 the net pension assets are presented in the balance sheet as a pension asset of NOK 1.1 million and as a pension liability of NOK 45.8 million.

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

	2012	2011
Assumed salary increases	4.0 %	4.0 %
Discount rates	3.9 %	3.0 %
Expected rates of return on pension plan assets	4.5 %	4.0 %

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

Amounts in NOK 000's	2012	2011
This period's earned pensions	9 817	7 728
Interest expense on pension liabilities	2 332	2 230
Earnings on pension funds	-855	-895
Amortisation expense	654	17
Net pension cost for defined benefit plans	11 948	9 080

Social security cost of pension cost is included in the calculation from the actuar, and is expensed in net pension cost.

Notes

The following loans were outstanding to employees of the Company:

Amounts in NOK 000's	2012	2011
Loan to employees	85	106
Total	85	106

The loans comply with Company law requirements and are adequately secured, when required.

Note 4 - Other operating expenses

Amounts in NOK 000's	2012	2011
General operating overheads	14 806	15 173
Property rental expenses	797	797
Total	15 603	15 970

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

Amounts in NOK 000's	2012	2011
Audit fees	1 371	1 490
Tax advisory services	23	10
Other non-audit services	294	326
Total	1 688	1 826

Note 5 - Financial income and expenses

Amounts in NOK 000's	2012	2011
Financial income		
Interest income	12 189	12 486
Group contribution	1 759 380	1 100 000
Gain on foreign currency contracts	0	3 462
Other financial expenses	14 455	0
Foreign exchange gains	19 253	30 683
Total	1 805 277	1 146 631
Financial expenses		
Interest expenses	95 920	65 477
Loss on foreign currency contracts	11 187	0
Other financial expenses	3 630	2 806
Foreign exchange losses	46 230	15 348
Total	156 966	83 630
Net financial income	1 648 311	1 063 000

The Board of Directors of the subsidiary Dolphin International AS has proposed a Group contribution to Fred. Olsen Energy ASA of NOK 1.6 billion. The Board of Directors of the subsidiary Dolphin Drilling AS has proposed a Group contribution to Fred. Olsen Energy ASA of NOK 159.3 million.

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

Other financial expenses is primarily fee to Oslo Stock Exchange and amortised borrowing costs.

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

Notes

Note 6 - Taxes

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

Amounts in NOK 000's	2012	2011
Temporary difference	-35 135	-32 010
Losses carried forward	-966 004	-966 287
Limitation of deferred tax assets	1 001 139	998 297
Net basis for deferred tax (assets)/liabilities	0	0

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

The provisions for income taxes are as follows:

Amounts in NOK 000's	2012	2011
Profit before income tax	1 597 121	1 015 753
Change in temporary differences	3 125	7 220
Permanent differences	-1 599 964	-1 041 806
Basis taxes payable	282	-18 833
Tax rate	28 %	28 %

Effective tax rate:

Amounts in NOK 000's	2012	2011
Expected income tax expense according to statutory tax rate (28%)	447 194 28 %	284 411 28 %
Permanent differences	-447 990	-291 706
Tax losses not recognised	796	7 295
Income tax	0 0 %	0 0 %

Note 7 - Property, plant and equipment

Amounts in NOK 000's	2012	2011
Cost		
Balance at 1 January	30 981	30 987
Additions during the period	509	1 171
Disposals during the period	0	-1 177
Balance at 31 December	31 490	30 981
Accumulated depreciation		
Balance at 1 January	13 325	8 779
Depreciation during the period	6 060	5 723
Disposals during the period	0	-1 177
Balance at 31 December	19 385	13 325
Net book value at 31 December	12 105	17 656

Notes

Note 8 - Other non-current assets

Amounts in NOK 000's	2012	2011
Pension assets (see note 3)	1 121	3 012
Capitalized borrowing costs	9 567	12 367
Long-term receivables (see note 15)	499 948	62 924
Total	510 636	78 303

Note 9 - Trade and other receivables

Amounts in NOK 000's	2012	2011
Trade	15	1 442
Related parties (note 15)	1 782 153	1 756 368
Total	1 782 168	1 757 810

Note 10 - Cash and cash equivalents

Amounts in NOK 000's	2012	2011
Payroll taxes	1 087	898
Total restricted cash	1 087	898
Unrestricted cash	92 112	126 912
Total cash and cash equivalents	93 199	127 810

Note 11 - Capital and reserves

Amounts in NOK 000's	Share capital	Treasury shares	Share premium	Paid in other equity	Other equity	Total
Balance at 1 January 2011	1 333 884	-8 602	548 125	154 801	554 937	2 583 145
Net profit for the year	0	0	0	0	1 015 753	1 015 753
Proposed dividend	0	0	0	0	-1 325 283	-1 325 283
Balance at 31 December 2011	1 333 884	-8 602	548 125	154 801	245 407	2 273 615
Balance at 1 January 2012	1 333 884	-8 602	548 125	154 801	245 407	2 273 615
Net profit for the year	0	0	0	0	1 597 121	1 597 121
Proposed dividend	0	0	0	0	-1 325 283	-1 325 283
Balance at 31 December 2012	1 333 884	-8 602	548 125	154 801	517 246	2 545 454

Treasury shares

The Company has not purchased any own shares in 2012 and at 31 December 2012 the Company holds 430 100 of its own shares.

Par value

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

Notes

Dividend

The Annual General Meeting in May 2012 approved the Board's proposal of an ordinary dividend payment of NOK 10 per share and an extraordinary dividend of NOK 10 per share for the year 2011. The payment was made in June 2012 and amounted to NOK 1 325.3 million.

The Board has decided to propose to the Annual General Meeting in May 2013 an ordinary dividend payment of NOK 10 and an extraordinary dividend payment of NOK 10 per share for the year 2012. This will amount to NOK 1 325.3 million based on outstanding shares as at 31 December 2012.

Unrestricted equity

The unrestricted equity of the parent Company is as follows:

Amounts in NOK 000's

Other equity	517 246
Paid in other equity	154 801
Treasury Shares	-8 602
Total	663 445

Note 12 - Interest-bearing loans and borrowing

Amounts in NOK 000's	Balance at 31.12.12	Interest rate at 31.12.12	Principal and interest payments				2017 & Thereafter
			2013	2014	2015	2016	
FOE Bonds (NOK)	1 400 000	6.16 %	86 240	86 240	86 240	1 431 861	0
Total parent company facilities	1 400 000		86 240	86 240	86 240	1 431 861	0

In May 2011 the Company completed a senior unsecured bond issue of NOK 1 400 million, with a coupon of 3 months NIBOR + 4.25%. The maturity date for the bond is 12th of May 2016.

Note 13 - Trade and other payables

Amounts in NOK 000's	2012	2011
Trade	74	2 091
Related parties (note 15)	204 082	1 862
Total	204 156	3 953

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

Note 14 - Other accrued expenses

Amounts in NOK 000's	2012	2011
Accrued wages	9 345	3 425
Accrued interest	12 179	13 740
Other	0	6 913
Total	21 524	24 078

Note 15 - Related parties

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

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

Amounts in NOK 000's	2012	2011
Revenues		
Subsidiaries	6 826	6 752
Total	6 826	6 752
Operating expenses		
Subsidiaries	224	421
Other related parties	7 009	6 119
Total	7 233	6 540
Interest income		
Subsidiaries	10 707	3 829
Total	10 707	3 829

Revenues from subsidiaries are recharge of personnel expenses.

Amounts in NOK 000's	2012	2011
Other non-current assets		
Subsidiaries	499 863	62 818
Other related parties	85	106
Total	499 948	62 924
Trade and other receivables		
Subsidiaries	1 782 153	1 756 368
Total	1 782 153	1 756 368

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

Trade and other payables		
Subsidiaries	203 469	1 430
Other related parties	613	432
Total	204 082	1 862

See note 5, 8, 9 and 13 for further information on transactions with related parties.

Note 16 - Shares in subsidiaries and other equity investments

Subsidiaries	Business Offices	% of holding & voting shares	Amounts in NOK 000's						
			Equity	Net profit (loss)	Historical cost	Accumulated write downs	Reversal of write downs	Repaid equity	Book value
Dolphin Drilling AS	Tananger, Norway	100 %	214 128	104 155	850 611	-555 693	140 000	-70 000	364 918
Dolphin International AS	Oslo, Norway	100 %	6 689 477	1 769 673	2 717 264	0	0	0	2 717 264
Atlan Shipping Co. Ltd.	Hamilton, Bermuda	100 %	53 026	-1 592	907 492	-853 212	0	0	54 280
Dolphin Drilling									
Perfuracao Brasil Ltda	Macaé, Brazil	2 %	-103 044	-84 998	72	0	0	0	72
Total					4 475 439	-1 408 905	140 000	-70 000	3 136 534

Note 17 - Financial instruments

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

Interest rate risk

The Company may be exposed to interest rate risk and may use interest rate derivatives or fixed rate loans to achieve a satisfactory mix of exposure to fixed and floating interest rate on the Company's debt instruments. The Company had no interest derivatives at 31 December 2012 or 2011.

Foreign currency risk

At 31 December 2012, the Company had outstanding currency derivative contracts for forward sale of USD 40 million (2011: USD 33 million) against GBP and USD 10 million against NOK (2011: 0).

The hedging is structured as convertible forwards as follows on an average basis:

	Total outstanding	Avg. forward rate	Avg. knock in rate	Expiry dates
GBP/USD	40 000 000	1.61	1.42	31.01-15.08.13
USD/NOK	10 000 000	5.88	6.77	05.02-19.08.13

USD will be sold at spot between forward price and knock-out level. If the spot rate touches the knock-out level the contract becomes a standard forward contract at forward rate, similarly one will receive forward rate if the spot rate is less favourable than the forward rate.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Net fair market value of currency forward contracts as per 31 December 2012 was NOK 5.8 million recorded as current asset (2011: NOK 2.7 million as current liability). A net loss of NOK 11.2 million related to foreign exchange contracts was recorded as financial expense in 2012 (2011: gain of NOK 3.0 million).

Auditor's Report



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Fred. Olsen Energy ASA, which comprise the financial statements of the parent company Fred. Olsen Energy ASA and the consolidated financial statements of Fred. Olsen Energy ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2012, the income statement and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position as at 31 December 2012, and the statement of separate income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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.

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

Auditor's Report



Independent auditor's report 2012

Fred. Olsen Energy ASA

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Fred. Olsen Energy ASA as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Fred. Olsen Energy ASA and its subsidiaries as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and Report on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and Report on corporate governance concerning the financial statements, and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 17 April 2013

KPMG AS

Asbjørn Næss

State Authorized Public Accountant

Corporate Governance

Implementation and reporting on corporate governance

High standards of Corporate Governance is a cornerstone of Fred. Olsen Energy. A strong Corporate Governance framework provides the guide to our overall approach to business operations, dealings and providing services to customers and adding shareholder value.

The Board of Directors in Fred. Olsen Energy continually develop and refine its Corporate Governance policy and strive to be in compliance with the Norwegian Code of Practice for Corporate Governance. The corporate governance is subject to an annual assessment of the Board of Directors. Corporate Governance instituted throughout our Company reflects the economy and industry we operate in.

The Corporate Governance chapter is structured in the same order as the Norwegian Code of Practice (NUES). In the Board of Directors Report, Fred. Olsen Energy is required to report our Corporate Governance in accordance with the Norwegian Accounting Act section 3-3b. We refer to this report in the Board of Directors report.

Business

According to the Articles of Association, the Company's purpose is to carry on shipping business, including the ownership and leasing of floating platforms and everything related thereto, including owning shares and interests in companies with similar or related businesses. In carrying out their duties, assignments or appointments for the Company, all employees are expected to follow high standards of ethical and nondiscrimination behaviour. The objectives of the company, as defined in its articles of association, are to own or carry out industrial and other associated businesses, management of capital, and other functions for the Group, and to participate in or acquire other businesses. The principal strategies of the group are presented in the Annual Report. Each year, the Board of Directors evaluates the strategy, goals and guidelines of the Company through designated strategy processes. Information concerning the financial position and principal strategies of the Company, and any changes thereto is disclosed to the market in the context of the Company's quarterly reporting and in designated market presentations.

Equity and dividends

To the extent it is considered desirable; the Company may raise new equity in the capital market to strengthen its business within the offshore segment. In this regard the Board of Directors received an authorization from the Annual General Meeting in 2012 to increase the share capital by 6 700 000 shares through

an equity issue and to increase the share capital by another 6 700 000 shares through convertible loans. This mandate expires at the next Annual General Meeting. When the General Meeting of shareholders considers whether or not to authorize the Board of Directors to carry out share capital increases for multiple purposes, each purpose must be considered separately by the meeting. At 31 December 2012, consolidated equity is 7 896 million (7 988 million), which is equivalent to 49.9% (53.7%) of total assets. The Board of Directors considers this satisfactory. The Company's need for financial strength is considered at any given time in the light of its objectives, strategy and risk profile.

The Annual General Meeting authorized the Board in 2012 to purchase up to 10% of the company's own share capital, pursuant to Sections 9-2 onwards of the Public Limited Companies Act, in order to allow greater flexibility around managing the Company's capital structure. This mandate expires at the next Annual General Meeting. As at 31 December 2012 the Company held 430 100 shares of its own shares.

Dividends will be distributed subject to earnings, the Company's investment plans, financial strategy and approval by the shareholders. The Company may consider share buy-backs in accordance with the authorization to the Board of Directors from the Annual General Meeting. In 2007 the Company distributed dividends for the first time since the listing in 1997. The Company paid dividends of NOK 10 per share and stated that the Company will pursue the strategy to pay a dividend of NOK 10 per share subject to earnings, investment plans and financial strategy. The Board of Directors has decided to propose to the Annual General Meeting in May 2013 a dividend payment of NOK 10 per share as ordinary dividend plus an extraordinary dividend of NOK 10 per share for the year 2012.

Treatment of shareholders, transactions with close associates

The Company's shares are listed on Oslo Stock Exchange. Shares have been issued in only one share class. The Company's transactions in own shares will be carried out in the market at market price. All shares in the Company have equal rights and all shareholders have the right to participate in General Meetings.

There have been no share capital increases in the Company since the listing in 1997 except conversion of the convertible bond loan FOE 02 in the period 2005 to 2008. In a case where the preemptive right of existing shareholders is waived in connection with a capital increase a stock notice with the reasoning behind the proposal will be issued to the Oslo Stock Exchange.

Corporate Governance

In connection with transactions that are not immaterial between the Company and related parties (see note 17), a competent Board of Directors consisting of Board members independent of the Company's main shareholders, Bonheur ASA and Ganger Rolf ASA, will deal with any possible conflicts of interest. In such cases the Board will ensure that an independent valuation is presented to the Board.

The Company has established routines to ensure that the Board is notified if Directors or management directly or indirectly have material interest in agreements entered into by the Company.

Freely negotiable shares

The Company has no restrictions on ownership and voting rights.

General Meetings

The Annual General Meeting (AGM) is normally held in May each year. Invitations together with all supporting documents and resolution proposals are sent to shareholders and will also be available on the Company's website 21 days prior to the AGM. The supporting documents must contain all the documentation necessary to enable the shareholders to decide on the matters to be decided. The registration to participate in the AGM is set as close to the AGM date as possible.

The auditor is present at the AGM. The Chairman for the AGM is elected at the AGM. One shareholder together with the Chairman will sign the minutes and approval of the Notice of the Meeting and the Agenda. It is intended for the Board of Directors and the Company's auditor to attend the general meeting.

Shareholders registered in the Norwegian Registry of Securities (VPS) can vote in person or by proxy. Shareholders who cannot attend the meeting are urged to authorize a proxy, and the system facilitates the use of proxies on each individual item on the agenda. Shareholders, who are not able to attend the Annual General Meeting in person, may execute a proxy in the name of another person attending the meeting. Such proxy may be issued to the Chairman Anette S. Olsen, CEO Ivar Brandvold or any other person. If no name is stated the proxy will be considered given to the Chairman of the meeting. Proxy for the Chairman or other representatives of the Company may only be given to the extent such proxy supports a vote fully consistent with the Board's proposals.

The Annual General Meeting of shareholders elects individually the members to the Board of Directors, nominates the external

auditor, determines the auditor's remuneration, approves the annual result and dividend proposed by the Board of Directors and determines the remuneration to the Board of Directors. The summons and registration form are distributed to all shareholders according to the address list in VPS, at least 21 days before the Annual General Meeting.

Nomination committee

Fred. Olsen Energy ASA has for the time being no Nomination Committee. Due to the owner structure of the company, the company has not found a need to establish an independent Nomination Committee. The Board will appoint a Nomination Committee as a sub-committee of the Board on an ad hoc basis if required.

Corporate Assembly and Board of Directors, composition and independence

In accordance with Norwegian law, the Board of Directors is responsible for managing the Company and for ensuring that the Company's operations are organized in a satisfactory manner. The Company's Articles of Association provides that the Board of Directors shall have no less than three and no more than seven members. In accordance with Norwegian law, the CEO and at least half of the members of the Board of Directors must either be resident in Norway, or be citizens of and resident in an EU/EEA country. The Annual General Meeting of the shareholders elects each member of the Board of Directors individually. The Board of Directors consists of five Board members who are elected for a two-year period. The Chairman of the Board is elected annually by the Board of Directors.

All of the Directors are independent of the Company's management and three of them are independent also in relation to the Company's main shareholders, Ganger Rolf ASA and Bonheur ASA. 40% of the Members of the Board are women. In 2012 the Board of Directors had eight meetings. Board members are elected based on need for expertise, capacity and ability to make balanced decisions in the best interests of the shareholders in general. The Board shall operate independently of any special interests and function effectively as a collegiate body in the best interests of the shareholders in general. Three Directors attended all Board meetings, while two directors were excused from one meeting each. The Board of Directors are encouraged to own shares in the Company. The Company has no Corporate Assembly.

The Board of Directors consists of:

Anette S. Olsen (b. 1956), Chairman. Ms. Olsen has been the Chairman of the Board since the inception of the Company in

Corporate Governance

1997. Since 1994 Ms. Olsen has been the sole proprietor of Fred. Olsen & Co. – which is in charge of the management of the stock listed companies Bonheur ASA and Ganger Rolf ASA, where Ms. Olsen holds the position as Managing Director. Ms. Olsen holds chairman and ordinary board positions with a number of companies, amongst others with First Olsen Ltd., Fred. Olsen Renewables Ltd., Fred. Olsen Cruise Lines Ltd., Timex Corporation and NHST Media Group AS. Ms. Olsen holds a BA in Business Organization and an MBA. Ms. Olsen is a Norwegian citizen, resident in Oslo, Norway.

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

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

Cecilie B. Heuch (b. 1965), Director, independent of main shareholders. Ms. Heuch became a Director of the Board in 2007. She is presently Chief Human Resource Officer in Det norske Veritas. Ms Heuch has previously worked for Norsk Hydro in the fertilizer division (now Yara), in Hydro Aluminium and in Corporate staff. She has had several positions within economic and market analysis, strategy and business development. Ms. Heuch gradu-

ated from Institutd'Etudes Politiques de Paris. She has a MSc from London School of Economics and a Business diploma from Henley Management College. Ms. Heuch is a Norwegian citizen, resident in Bærum, Norway.

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

The work of the Board of Directors

The Company has implemented guidelines for the work of the Board of Directors. The purpose of these guidelines is to establish a practical tool for the Board's annual plan for exercising of good Corporate Governance. The Board has prepared special instructions for the CEO. The current composition of Directors reflects adequate competence relative to the main business areas of the Group. The Board of Directors has appointed an Audit Committee consisting of two Directors, of which one is independent of the main shareholders of the Company. The charter of the Audit Committee is to assist the Board in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process, and the Company's process for monitoring compliance with applicable laws and regulations. The Audit Committee has regular meetings with the management and the external auditor. Parts of the meetings with the external auditor are without participation of the management. The Board of Directors has appointed a Compensation Committee comprising four Directors including the Chairman of the Board and two of the independent Directors. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer and senior management as well as the management incentive schemes for the Group. Meetings of the Board of Directors are chaired by the Chairman of the Board. If the Chairman of the Board is absent, the Board must select a member to chair the meeting.

The Board evaluates its own work and work methods annually, and the evaluation forms the basis for adjustments and measures. In addition, the Board's competencies, overall and those of each Board member, are evaluated.

Corporate Governance

Risk management and internal control

Board of Directors holds responsibility that proper guidelines and internal control processes are instituted and operated. The Company's risk management, financial reporting and internal control procedures are reviewed by the Audit Committee in accordance with its charter. The risk management process of the Group is carried out in accordance with the Group's Risk Management Manual. The process ensures identification and treatment of all relevant risks in order to support the organization in achieving defined corporate objectives, enable explicit consideration of risks in decision-making and maintain the risk exposure of the Group at an acceptable level. The operational risk management, financial reporting and internal controls are carried out within each subsidiary business segment in accordance with the nature of the operations and the government legislation in the relevant jurisdiction. In addition, the Company carries out internal audits related to specific projects and to the ongoing business. Risk management related to foreign exchange, interest rate management and short-term investments is handled by the parent company on behalf of the subsidiaries, in accordance with listed authorizations, policies and procedures. The Company receives reports on the financial development of each business segment and subsidiary on a monthly basis. The Audit Committee will raise issues to the Board of Directors if deemed necessary and a review of the Group's risks is part of an annual review.

Corporate Social Responsibility

It is the Group's policy to conduct business in accordance with the letter and spirit of the law and with the overriding ethical standards of good business conduct including nondiscrimination behaviour. This is described in the company's code of conduct, which is available on the Company's web site.

The Group has a strong focus on health, safety and working environment (HSE) for its employees, subcontractors and its customers. Continuous efforts involve planning and training of personnel and careful selection of subcontractors. The Group maintains a zero accident objective and is closely monitoring its established procedures for operations, projects and worksites both onshore and offshore. Planning of daily work operations offshore includes a mandatory last minute risk assessment prior to all work operations. This is a measure to increase each individual's understanding of risk and hence prevent incidents from occurring.

Remuneration of the Board of Directors

The Board's remuneration reflects the Board's responsibility, ex-

pertise, time commitment and the complexity of the Company. All Directors are remunerated with a fixed fee and the remuneration is not linked to the Group's bonus scheme and there is no option program for Directors. If any additional remuneration is given to Board members it will be specified in the annual report. The remuneration to the Board of Directors is fully disclosed in note 17. In 2012 none of the Board of directors have worked for the company outside of their directorships

Executive Management

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

The executive management consists of:

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

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

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

Graeme Murray, Managing Director Dolphin Drilling Limited since April 2012. Prior to his appointment Mr. Murray was General Counsel of Subsea 7 for 10 years. Beginning his career as a

solicitor in private practice, Mr. Murray has also held legal positions with Halliburton and Coflexip Stena. A member of the Law Society of Scotland, Mr. Murray has an LLB degree and postgraduate Diploma in Legal Practice from Aberdeen University and is a Notary Public. Mr. Murray is British citizen and resides in Aberdeen, Scotland.

Per Johansson, Managing Director Dolphin Drilling Pte. Ltd. since May 2007. Per Johansson was Managing Director for Dolphin Drilling Ltd from 2002 to 2007. Mr. Johansson has worked in the oil industry since 1977. He joined Dolphin Drilling Ltd. in 1990 and has been a member of the management in Dolphin Drilling Ltd. since 1995. Mr. Johansson is a graduate from Technical School and holds all drilling related certificates. Mr. Johansson is a Norwegian citizen and resides in Singapore.

Robert J Cooper, Chief Executive Officer, Harland and Wolff Group Plc. Mr. Cooper was appointed CEO of Harland and Wolff Group PLC in February 2003. Prior to that he held the position as financial director in the Harland and Wolff Group from 1993. Mr. Cooper joined the Company in 1983 as a trainee accountant, and after completing his ICMA professional examinations he held a number of positions within the finance department. Mr. Cooper is a UK citizen and resides in Belfast, Northern Ireland.

Remuneration of the executive management

The Board has adopted guidelines for remuneration of executive management in accordance with section 6-16a of the Norwegian Public limited Liability Companies Act. These guidelines are communicated to the Annual General Meeting.

The Board's Compensation Committee present and recommends to the Board of Directors salary and benefits for the Chief Executive Officer and leading personnel as well as management incentive schemes for the Group.

Management has had a cash bonus scheme since 2005. The beneficiaries of the scheme are the executive management and certain key personnel. Annual awards under the scheme, maximized to one year's salary, are subject to the Group achieving certain predefined financial criteria, including achieved budget goals and development of the Company's share price. See also note 17 on page 37.

Information and communications

The Company provides information to the market through quarterly and annual reports; investor- and analyst presentations open to the media and by making operational and financial information available on the Company's website. Events of importance are made available to the stock market through notification to the

Oslo Stock Exchange in accordance with the Stock Exchange regulations. Information is provided in English.

Takeovers

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

Auditor

The auditor is appointed by the Annual General Meeting, The remuneration of the auditor is stated in the Annual Report and approved by the general meeting of shareholders. The same firm of auditors should also as a general rule be appointed for all subsidiaries. The auditor should not perform any work for the Company which could lead to conflicts of interest. The Audit Committee is responsible for ensuring that the auditor's independent role is maintained and, on a annual basis, the auditor presents a review of the Company's internal control procedure to the committee. A summary annual audit plan shall be presented to the Audit Committee once a year. In accordance with the auditor's independence requirement, the Company is cautious when using the elected external auditor for tasks other than the financial audit required by law. Nevertheless, the auditor may be used for tasks that are naturally related to the audit, such as technical assistance with tax returns, annual accounts, understanding of accounting and tax rules and confirmation of financial information in various contexts. Information about fees paid by the Company to the auditor is provided in the Annual Report. The Audit Committee is kept informed, on a regular basis, of all work undertaken by the auditor. The auditor provides the Board with an annual written confirmation that a number of requirements, including independence and objectivity are met. The auditor attends meetings of the Audit Committee that deal with the financial statements and that review the report on the auditor's view of the Company's accounting principles, risk areas and internal control routines. The external auditor also takes part in the Board's discussions on the final annual financial statements. Both the Audit Committee and Board of Directors ensures that it is able to discuss relevant matters with the auditor without the presence of the management.

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