

**Annual Report**



**1998**

## Contents

Introduction .....	3
Key Figures .....	4
Company Structure .....	5
Report of the Board of Directors 1998 .....	6-10
Income Statements .....	11
Balance Sheets .....	12-13
Cash Flow Statements .....	14
Notes to the Financial Statements .....	15-30
Auditor's Report .....	31
Shareholder Matters .....	32-33
Associated Companies .....	33
Report from the Management .....	34-49
• Offshore Drilling .....	36-37
• Floating Production .....	38-39
• Engineering and Fabrication .....	40-41
• Fleet Overview .....	42-43
• Our New State-Of-The-Art Rigs .....	44-47
• Serving the Offshore Market .....	48-49
Word and Expressions .....	50
Addresses .....	51

# Fred. Olsen Energy ASA

*Fred. Olsen Energy ASA is a leading supplier to the offshore industry. The strategy of the company is to obtain and implement major contracts within the offshore oil and gas industry, based on its world-wide experience in offshore drilling, floating production, engineering and fabrication, in order to provide a profitable return on investments in the Company.*

## Offshore Drilling



Fred. Olsen Energy's subsidiary Dolphin has 30 years experience in the drilling industry. Through its bases in Stavanger and Aberdeen, Dolphin operates a fleet of six semi-submersible rigs. In addition, Dolphin provides hydraulic workover service (snubbing).

## Floating Production

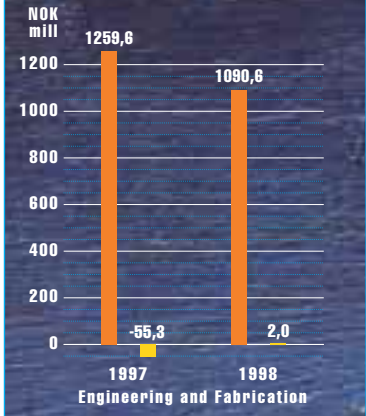
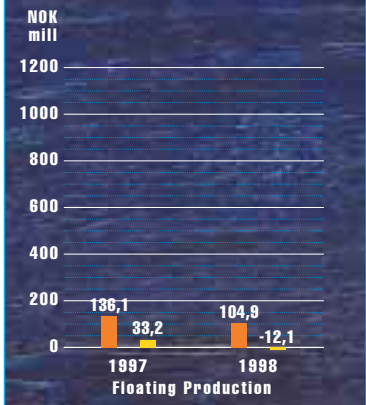
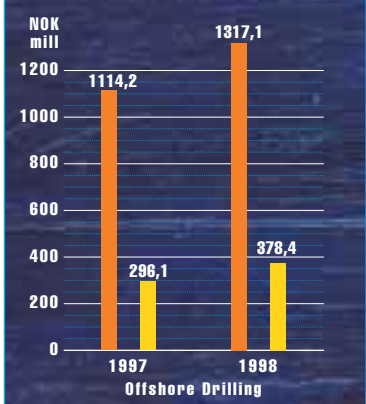
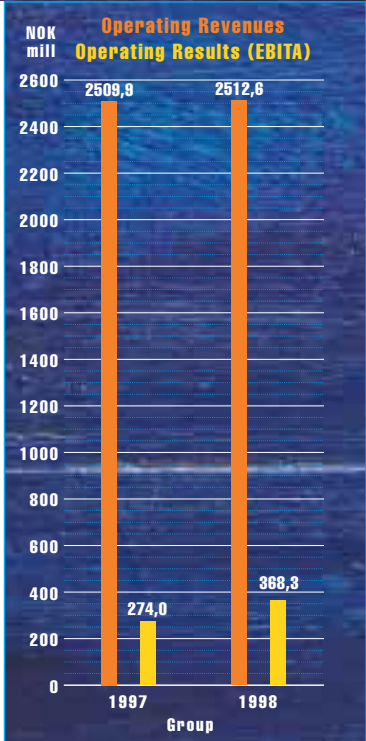


Fred. Olsen Energy's subsidiary Fred. Olsen Production is located in Oslo and currently manages a fleet of two FPSO vessels (one 49.975% owned), one FSO tanker and one production/accommodation jack-up rig, which are all located off the coast of West and South Africa.

## Engineering and Fabrication



Fred. Olsen Energy owns 70.8% of Harland & Wolff Holdings Plc. in Belfast. Over the last years the yard has refocused its activities from traditional shipbuilding to a modern offshore engineering and construction yard. Current work entails conversion of the semi-submersible rig Borgland Dolphin and construction of two deepwater drillships for Global Marine Inc.



# Key Figures

(in NOK 000's, except per share data)

## Income Statement Data

	Actual		Pro forma (1)		
	1998	1997	1996	1995	1994
Amounts in accordance with Norwegian GAAP:					
Revenues	2,512,586	2,509,951	1,940,507	1,403,349	1,377,220
Operating expenses	1,824,910	1,945,700	1,673,151	1,405,232	1,475,478
Depreciation and amortization	319,300	283,145	258,551	239,606	226,818
<b>Operating profit (loss)</b>	<b>368,376</b>	<b>281,106</b>	<b>8,805</b>	<b>(241,489)</b>	<b>(325,076)</b>
Share of equity in earnings (losses) of associated companies	(50,061)	1,455	4,419	7,645	7,629
Net financial items	66,132	76,621	46,342	5,024	11,251
Profit (loss) before income taxes and minority interests	384,447	359,182	59,566	(228,820)	(306,196)
Income tax expense (benefit)	59,908	39,432	14,695	424	(5,726)
Minority interests	22,834	2,406	8,381	(22,056)	(53,068)
<b>Net profit (loss)</b>	<b>301,705</b>	<b>317,344</b>	<b>36,490</b>	<b>(207,188)</b>	<b>(247,402)</b>
Net profit (loss) per weighted average common share (2)	5.00	6.79	0.81	(4.60)	(5.50)

Amounts in accordance with U.S. GAAP (5):

Net profit	299,412	312,410	85,323		
Net profit per weighed average common share (2)	4.97	6.55	1.90		

## Other Financial Data

Amounts in accordance with Norwegian GAAP:

Capital expenditures	2,696,691	1,954,563	520,296	167,315	339,577
EBITDA (3)	637,615	565,648	271,775	5,762	(90,629)
Net cash flow from operating activities	1,209,246	679,544	518,217	14,820	138,958
Net cash flow from investing activities	(1,736,568)	(2,777,059)	(538,234)	(117,921)	(103,948)
Net cash flow from financing activities	897,393	2,401,849	321,061	166,009	(25,932)

## Balance Sheet Data

Amounts in accordance with Norwegian GAAP:

Cash and cash equivalents and short term investments	1,623,744	2,039,829	863,401	541,742	603,209
Working capital	641,599	1,686,804	624,464	500,992	576,923
<b>Total assets</b>	<b>10,158,418</b>	<b>8,342,661</b>	<b>4,769,154</b>	<b>4,232,449</b>	<b>4,347,854</b>
Long term debt, net of current portion	1,749,640	947,159	750,338	665,206	592,307
Other long-term liabilities	273,249	213,328	617,468	657,167	692,179
<b>Equity (4)</b>	<b>6,299,627</b>	<b>6,015,646</b>	<b>2,451,732</b>	<b>2,331,696</b>	<b>2,447,493</b>

Amounts in accordance with U.S. GAAP (5):

Equity	4,025,903	3,730,883	1,111,053		
<b>Net profit/total assets</b>	<b>2.97%</b>	<b>3.80%</b>	<b>0.77%</b>	<b>(4.90%)</b>	<b>(5.69%)</b>

As of 31 December 1998, multiples for Fred. Olsen Energy showed a Price/Earnings ratio of 9.6 based on 1998 figures and the Company's equity ratio stood at 62%.

# Notes to Key Figures

- (1) Information is prepared on a pro forma basis for the period 1994- June 1997 and includes the results of operations of the Company and its subsidiaries as if the Company had been formed on 1 January 1994. Pro forma information is audited, however, not fully comparable to actual current period results, but is provided for information purposes. Pro forma information for the full year 1997 was prepared by combining the audited consolidated pro forma statement of profit and loss for the period from 1 January 1997 to 30 June 1997 with the consolidated statement of income for the period from 1 July 1997 to 31 December 1997.
- (2) Weighted average common share information on pro forma basis is presented solely for the convenience of the reader. For purposes of calculating pro forma net profit (loss) per weighted average common share, 45 million shares were used as outstanding for all periods.
- (3) EBITDA (net profit (loss) before net financial items, taxes, depreciation and amortization and minority interests) is a supplemental financial measure commonly used by investors in the oil services industry and is being presented to provide supplemental information about the Company's ability to meet its future requirements for debt service, capital expenditures and working capital. EBITA should be read in conjunction with all of the consolidated financial statements and the notes thereto. EBITA should not be considered as an alternative to net profit or net cash flow provided by operating activities, or as a measure of the Company's liquidity.
- (4) As a result using fair values for the formation of the company, equity in accordance with Norwegian GAAP is significantly higher as of each balance sheet date than would have been the case if recorded on a historical cost basis in accordance with U.S. GAAP.

# Group Structure



## Report of the Board of Directors 1998

*Fred. Olsen Energy commenced its business on 1 July 1997. 1998 is the first full year of operation. Following the Initial Public Offering ('IPO') in October 1997, the Company's shares are listed and traded on the Oslo Stock Exchange.*

*Following the decline in the oil price, the offshore markets weakened severely over the year. However, Fred. Olsen Energy's main operating assets were fully employed during 1998 secured on medium to long term contracts at rates negotiated in the previous market environment.*

*In addition to developing the business and the day-to-day operation, high focus during the year has been given to completing the two major conversion projects for the Company's two semi-submersible drilling rigs; Bideford Dolphin and Borgland Dolphin. Both projects have experienced significant delays and cost overruns.*

### Financial Result of the Year

Total revenues on a consolidated basis reached NOK 2,513 million for Fred. Olsen Energy in 1998 – the same level as pro forma revenues for 1997.

Earnings before interest, depreciation and taxes (EBIDTA) increased from NOK 566 million in 1997 to NOK 638 million in 1998.

After depreciation and writedowns of NOK 319 million, the operating result was NOK 368 million (NOK 281 million in 1997).

The associated US oil company Callon Petroleum (22.5% owned at year-end) wrote down its petroleum reserves in 1998, which resulted in an accounting loss of NOK 57 million for the Company.

Net financial income decreased from NOK 77 million to NOK 66 million. The result before tax and minority interests increased from NOK 359 million to NOK 384 million. After minority interests and provision for taxes, the net profit for the year was NOK 302 million, compared to the pro forma NOK 317 million net profit in 1997. Net profit of the mother company declined from NOK 23.4 million for the second half 1997 to NOK 21.0 million in 1998.

### The Offshore Drilling Division

consisting of Fred. Olsen Drilling AS, Dolphin Drilling Ltd. and Dolphin AS,



Semi-submersible Borgsten Dolphin

recorded revenues of NOK 1,317 million and an operating profit of NOK 378 million, after a gain of NOK 31 million on the sale of Dolphin's ROV business and after having allocated to expenses pre-operating costs of NOK 64 million relating to Bideford Dolphin. A 27-day maintenance and upgrade period for Byford Dolphin in the first quarter and a 17-day offhire in the third quarter reduced the results for the drilling division.

In the fourth quarter, the ROV (Remotely Operated Vehicle) activities were sold to Stolt Comex Seaway for a consideration of

NOK 128.8 million. The Company decided to divest of this part of the subsea business in order to concentrate Dolphin's resources and organisation on its core activities relating to drilling and snubbing.

### The Floating Production Division

managed by Fred. Olsen Production AS recorded revenues of NOK 105 million and an operating loss of NOK 12 million in the period (against a proforma profit of NOK 33 million for 1997). The loss reflected an extended offhire period for the Knock Taggart during its conversion to an FPSO, reduced employment for Borgen Dolphin and a NOK 6 million provision for possible losses on receivables.



FPSO Petróleo Nautipa

### The Engineering and Fabrication Division

which consists of Harland and Wolff (70.8% owned) recorded revenues of NOK 1,091



The building dock at Harland & Wolff

million and an operating profit of NOK 2 million for the year, against a NOK 55 million loss in 1997 (including a NOK 80 million provision relating to the Bideford Dolphin conversion contract). No further provisions for Bideford Dolphin were made in 1998. A guarantee compensation of USD 4 million relating to defective coating on a tanker delivered in 1996 was allocated to expenses.

### Liquidity, Investments and Capital Resources

The consolidated liquid assets (bank deposits, short term certificates and bonds) decreased from NOK 2,040 million at the beginning to NOK 1,624 million at the end of the year. Of this, NOK 580 million relates to Harland and Wolff, who maintained a sound liquidity position throughout the year. Net financial income of NOK 60 million in Harland and Wolff is included under financial items in the consolidated accounts. At year end, the Company had an undrawn USD 40 million revolving credit facility.

The Company's main investments in 1998 were the continuing rig conversion projects of Bideford Dolphin and Borgland Dolphin. A total of NOK 2,248 million was invested in the two rigs during the year. A new USD 150 million 5-year annuity loan on Borgland Dolphin was arranged with a bank syndicate led by Den norske Bank and ING

Barings, of which USD 95.5 million was drawn in December. The NOK 950 million Bideford Dolphin loan with a bank syndicate led by Citibank/Christiania Bank (CBK) was renegotiated and reduced to NOK 791 million. At year end NOK 733 million was drawn under this facility.

The USD 60 million revolving credit facility with CBK and Den Danske Bank has been renegotiated and in 1999 increased by USD 20 million on an annual renewal basis.

In connection with the conversion of Knock Taggart, a bank loan from Citibank/Midland Bank was increased from USD 17.5 million to USD 30 million.

Fred. Olsen Energy's long term debt of approximately NOK 2,200 million will primarily be serviced by earnings from existing contracts. The mortgage debt is denominated in the same currency as the underlying earnings. Thus, Fred. Olsen Energy has a limited exposure to currency fluctuations, given its present debt and earnings position. Existing facilities, cash and contracted income from operations are adequate to meet all the Company's present commitments.

Despite the negative impact of the conversion projects, the financial position of the Company remains sound.

### Dividends

The Board will recommend to the Annual General Meeting on 27 May 1999 that no dividend be distributed for 1998 and that the net profit of NOK 21.0 million (of the consolidated result of NOK 301.7 million) plus received group contribution of NOK 9.0 million be allocated to free reserves.

### Operations

During 1998, the Company's four operating semi-submersibles were employed under term contracts at satisfactory rates. Of the four units managed by the floating production division, the FPSO Petroleo Nautipa completed its conversion and commenced operations in the second quarter, and the FSO

Knock Taggart terminated its existing contract in Nigeria and entered into a new contract as FPSO, which commenced production in February 1999, also in Nigerian waters.

The employment situation appears from the Rig and Vessel Contract Summaries on page 42.

### Conversion Projects

The Company's objective, to have Bideford Dolphin and Borgland Dolphin on contract by the end of 1998, was not achieved. A substantial increase in costs has materialised in the rebuild of the rigs. At the end of 1998, the capitalised conversion costs of Bideford Dolphin and Borgland Dolphin totalled NOK 2,442 million and NOK 1,313 million, respectively.

The total conversion costs are now estimated at NOK 2,600 million for Bideford Dolphin and NOK 1,950 million for Borgland Dolphin.

### Bideford Dolphin



Semi-submersible Bideford Dolphin

In July 1996 Dolphin entered into an agreement with Saga Petroleum ASA, as field operator, for the conversion and subsequent long term use of the semi-submersible drilling rig Bideford Dolphin. The scheduled commencement date for operations was 5 July 1997, albeit subject to variation requests/orders made or initiated by Saga Petroleum. The original scope of work for the refurbishment of the Bideford Dolphin incorporated a novel drilling rig: "the RamRig". The RamRig is specified by Saga Petroleum in the

functional specification included in the Contract. Initially the project aimed at maintaining as much of the existing structure and equipment as possible.

In order to complete the conversion in 12 months it was imperative to freeze the design as early as possible. However, during the period of refurbishment, certain issues materialised and caused the completion of the refurbishment to be delayed from July 1997 to May 1999. The main reason for the delay is significant design changes after the effective date of the Contract. Critical among these were, in particular, additional power generation, the RamRig and structural strengthening. These design changes have increased the complexity of the refurbishment considerably and the assessment of time and cost involved. It is considered that the main cost growth is due to the extended construction period of 21 months and the disruption caused by the extensive change in the scope of work.

It is the Company's opinion that a majority of the design changes introduced are attributable to Saga Petroleum. Saga disputes this view and has demanded reductions in the day rate and the contract period based on certain alleged deficiencies. They have also advised that they will consider claiming damages. The Company has rejected these allegations as contractually unfounded. The interim day rate calculated by the parties, based upon the original base rate, agreed variation orders and escalations, presently amounts to a day rate of approximately NOK 950,000.

The Company, together with its subsidiaries, are party to agreements with the previous owner of the rig, Bideford Marine, relative to the cost of the upgrading. The final day rate and the final settlement with Saga Petroleum, as well as the value of the rig after the Saga Petroleum contract, are of relevance in this respect.

Discussions are ongoing between the parties involved in order to prepare the ground for settlements which, if required, may well

be achieved through binding arbitration. All issues involving related companies or persons with conflict of interest relative to the relationship between Bideford Marine and the Company will be handled by competent members of the Board.

The Company has retained outside legal assistance in contractual matters related to Bideford Dolphin.

### Borgland Dolphin



*Semi-submersible Borgland Dolphin*

In July 1997 Dolphin AS entered into an agreement with Den norske Stats Oljeselskap (Statoil), as field operator, for the conversion and subsequent long term use of the semi-submersible accommodation rig Borgland Dolphin, as a drilling rig. The scheduled delivery date was end of third quarter 1998. The original scope of work for the conversion of the Borgland Dolphin incorporated the installation of a RamRig and new associated drilling equipment. The initial objective was to maintain as much of the existing equipment and structure as possible.

A re-evaluation of available power on board to operate the new drilling equipment, together with third party equipment to be delivered by Statoil, resulted in a decision to renew the entire power generation package. Both design changes and late delivery of main equipment had a material impact on the whole project. In addition, lateness in design freeze and experience from the conversion of the Bideford Dolphin, regarding the complexity of the technical in-

stallations, the required level of documentation and the extensive testing, especially associated with the RamRig, have subsequently delayed the delivery further. Harland and Wolff is presently anticipating sea trials in May 1999, subject to finalisation of outstanding testing, commissioning and programming work associated with the RamRig.

The cost increases are subject to discussions with Statoil.

### Rigs for the Future

After completion, Bideford Dolphin and Borgland Dolphin will provide the Company and its clients with the most modern equipment on the Norwegian Continental Shelf, designed and constructed to last for a full life cycle of successful operation.

Once in service, these rigs will operate in the demanding North Sea environment as practically newbuilt drilling units with advanced systems and equipment to enhance safe and efficient drilling, testing, workover and completion operations.



*The RamRig*

For this reason and in view of the earnings potential beyond the rigs' present long term contracts, the Board has not proposed any writedowns of the value of the two rigs.



### Alternative Energy

Fred. Olsen Energy in December 1997 invested NOK 110 million in a 50% interest in Windy Standard Ltd. (in operation) and other windfarm projects in the UK. Due to less wind than anticipated, the Company's share of the net profit for the year, at NOK 1.69 million, was lower than expected.

### Shareholder Structure

The ten largest shareholders at year end are listed in the table on page 32. In the course of the year, the number of shareholders increased from 4,566 to 5,186. The non-Norwegian ownership was reduced from 22.4% at the beginning to 15.8% at the end of the year.

At year end, the ten largest shareholders held 80.0% (77.9% in 1997) and the 20 largest 85.6% (82.9% in 1997) of the shares of the Company. (See also Note 16 to the Annual Accounts.)

### Authority to Issue Shares

The shareholders on 8 June 1998 authorised the Board of Directors to issue up to 3 million new shares during a period of five years. The authorisation includes new investments, mergers and shares for a Management Share Option Plan.

### Management Share Option Plan

The Board decided on 15 July 1998 to grant options on 215,000 shares at the then prevailing share price of NOK 95 plus 1% per month until declaration of the options. The options may be declared between 15 July 2001 and 15 July 2003. Further details are presented in Note 16 and 22 to the Accounts.

### Share Buyback

The Board will seek shareholder approval on 27 May 1999 for authority to re-purchase up to 6,030,000 of the Company's shares (10%) for a period from 30 June 1999 to 31 December 2000. The authority may be used by the Board through purchases in the stock

market or through a bidding process following the publication of a prospectus.

### Board of Directors

At the annual shareholders meeting on 8 June 1998 Peter G. Sachs resigned from the Board. Sir David Fell, Belfast, was elected as a new Director with effect from 1 January 1999 and Mr. Stephen Knudtzon was elected as Alternate Director. At an Extraordinary General Meeting on 21 July 1998, Mr. Øivin Fjeldstad and Mr. Herman Foss Ramstad were elected as Alternate Directors.

### Organisation, Personnel and Remunerations

The working environment is considered good. At the end of 1998, Fred. Olsen Energy had nine employees and its subsidiaries 2,824 employees. The Board would like to express its thanks to the employees of all group companies for all good efforts and contributions made during a challenging period.

Compensation to the Managing Director totalled NOK 1,319,638 in 1998. Subject to the approval of the Annual General Meeting remuneration to the Board of Directors amounted to NOK 1,124,250.

Auditor's fees for the year totalled NOK 2,792,430 of which NOK 2,552,329 represented accounting work and consultancy fees.

### Health, Environment and Safety



*Safety is given high priority at Harland & Wolff*

Due to the nature of their business, the Fred. Olsen Energy group of companies emphasises the need to comply with all formal and other regulations that are issued with a view to ensure the highest standard of safety and pollution control. Safety and prevention of accidents is given the highest priority. The Company works toward constant improvement in operational practices and safety standards, and a strongly motivated organisation. The Company is of the opinion that its activities do not pollute the external environment more than is common in the industry.

Unfortunately, one fatal injury occurred at Harland and Wolff during 1998. Appropriate action has been taken to minimise the risk of any similar accident in future.

### Conversion of Computer Systems for the Year 2000

The Fred. Olsen Energy group of companies is actively engaged in identifying and preparing for the conversion of computer systems and routines for the turn of the millennium. The plan includes a thorough review of systems, hardware and related equipment, and updating at both the parent and subsidiary level. Also systems and hardware related to operations of all rigs and vessels are subject to review. The review also includes customers and suppliers.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

### Prospects

The 50% fall in the oil price, from USD 20 per barrel (Brent) in November 1997 to about USD 10 a year later has made a heavy impact on oil company strategy and behaviour.

The optimistic forecasts for increased de-

mand for services and equipment in all offshore segments at the beginning of 1998 changed into a scenario of cutbacks and significant demand/supply imbalances. This has led to a dramatic weakening of the market for drilling and offshore services.

The OPEC countries now seem to be addressing the oversupply situation through a substantial cutback in production. In addition, several of the major non-OPEC producers are voluntarily contributing to reduced production. At the same time, delays in and cancellation of new projects, the natural depletion of existing fields as well as the shut-in of unprofitable production lead to lower

oil supply. Although world oil demand grew only slowly in 1998, a balanced demand/supply side could develop during 1999 provided there is disciplined OPEC behaviour. However, the effects on the oil price remain uncertain in the short term, with probable high price volatility.

In view of the increasing demand for energy, and the continued focus on exploration for and development of petroleum reserves also in deep waters, the Company believes that the market for its services is likely to recover in the longer term.

In the meantime, great challenges are facing the offshore industry. Fred. Olsen Energy

has to a large extent secured its rigs and floating production units on longer term contracts. This should give the Company a comfortable cash flow through the current market downturn. It should, however, be noted that new orders are needed at Harland and Wolff during 1999 if satisfactory employment of the yard is to be maintained.

The Board is confident that the Company will continue to improve its results and emerge in a strengthened position by the end of 1999. This should leave the Company well positioned to exploit interesting opportunities that may arise in the years ahead.

*Oslo, 31 December 1998/14 April 1999*

**The Board of Directors  
Fred. Olsen Energy ASA**

*Anette S. Olsen*  
**Chairman**

*Sir David Fell KCB*

*Ivar J. Saunes*

*John C. Wallace*

*Fridtjov Haavardsson*

*Helge Haakonsen*  
**Chief Executive Officer  
Managing Director**

# Income Statements

<i>(in NOK 000s, except per share data)</i>	Note	<i>Six-months ended</i> <i>December 31, 1997</i>		<i>Year ended</i> <i>December 31, 1998</i>	
		FOE ASA	FOE ASA Consolidated	FOE ASA	FOE ASA Consolidated
Revenues	3, 20	-	1,072,135	-	2,512,586
<b>Operating expenses</b>					
Materials	4	-	319,349	-	752,301
Salaries and other personnel costs		1,226	206,057	10,787	649,220
Depreciation and amortisation	3, 12	13	149,952	402	319,300
Other	5, 11, 16	3,185	289,733	9,745	423,389
Total operating expenses	3, 20	4,424	965,091	20,934	2,144,210
<b>Operating profit (loss)</b>	<b>3</b>	<b>(4,424)</b>	<b>107,044</b>	<b>(20,934)</b>	<b>368,376</b>
Share of equity in earnings (losses) of associated companies	11	-	1,962	-	(50,061)
Net financial items	6, 20	43,945	42,562	54,203	66,132
Profit before income taxes and minority interests		39,521	151,568	33,269	384,447
Income tax expense	7	16,096	27,296	12,301	59,908
Minority interests		-	(13,038)	-	22,834
<b>Net profit</b>		<b>23,425</b>	<b>137,310</b>	<b>20,968</b>	<b>301,705</b>
Net profit per weighted average common share			2.60		5.00
<b>Proposed allocation of net profit:</b>					
Retained earnings		23,425		29,946	
Group contribution		-		(8,978)	
<b>Total</b>		<b>23,425</b>		<b>20,968</b>	

The notes represent an integral part of the financial statements.

## Balance Sheets

<i>(NOK 000s)</i>		<i>As of December 31, 1997</i>		<i>As of December 31, 1998</i>	
<b>Assets</b>		<b>FOE ASA</b>		<b>FOE ASA</b>	
<b>Current assets:</b>	<b>Note</b>	<b>FOE ASA</b>	<b>Consolidated</b>	<b>FOE ASA</b>	<b>Consolidated</b>
Cash and cash equivalents	8	217,440	1,048,361	462,520	1,444,348
Short-term investments	8	799,909	991,468	-	179,396
Accounts receivable	9, 10	3,308	436,825	83,932	504,227
Inventories		-	28,006	-	13,875
Other		81,949	143,254	43,949	97,896
<b>Total current assets</b>		<b>1,102,606</b>	<b>2,647,914</b>	<b>590,401</b>	<b>2,239,742</b>
<b>Long-term assets:</b>					
Investments in associated companies	11, 24	202,878	251,600	177,957	197,034
Goodwill	12	-	365,215	-	311,315
Rigs	12	-	4,360,088	-	6,426,274
Vessels	12	-	190,062	-	320,855
Snubbing and ROV equipment	12	-	51,332	-	70,237
Plant, buildings and land	12	-	173,740	-	180,149
Machinery and equipment	12	336	136,421	2,533	164,065
Deferred tax benefit	7	23,763	-	11,603	-
Other	16, 24	5,190,259	166,289	5,892,986	248,747
<b>Total long-term assets</b>		<b>5,417,236</b>	<b>5,694,747</b>	<b>6,085,079</b>	<b>7,918,676</b>
<b>Total assets</b>	<b>3</b>	<b>6,519,842</b>	<b>8,342,661</b>	<b>6,675,480</b>	<b>10,158,418</b>

The notes represent an integral part of the financial statements.

(NOK 000s)

**Liabilities and Equity**

**Short-term liabilities:**

	Note	As of December 31, 1997		As of December 31, 1998	
		FOE ASA	FOE ASA Consolidated	FOE ASA	FOE ASA Consolidated
Bank overdraft		-	-	-	32,094
Accounts payable	14	525	411,498	5,502	629,749
Current portion of long-term debt	15	106,849	77,933	-	172,179
Other accrued expenses and deferred revenue	10	17,971	471,679	6,635	764,121
<b>Total current liabilities</b>		<b>125,345</b>	<b>961,110</b>	<b>12,137</b>	<b>1,598,143</b>

**Long-term liabilities:**

Deferred tax liabilities	7	66,890	90,591	41,393	113,971
Long-term debt, net of current portion	15, 17	-	947,159	687,736	1,749,640
Other	15, 20	426,374	122,737	3,035	159,278
<b>Total long-term liabilities</b>		<b>493,264</b>	<b>1,160,487</b>	<b>732,164</b>	<b>2,022,889</b>
Minority interests		-	205,418	-	237,759
<b>Total equity</b>	<b>21</b>	<b>5,901,233</b>	<b>6,015,646</b>	<b>5,931,179</b>	<b>6,299,627</b>
<b>Total liabilities and equity</b>		<b>6,519,842</b>	<b>8,342,661</b>	<b>6,675,480</b>	<b>10,158,418</b>

The notes represent an integral part of the financial statements.

# Cash Flow Statements

(NOK 000s)	<i>Six-months ended</i>		<i>Year ended</i>	
	<i>December 31, 1997</i>		<i>December 31, 1998</i>	
	FOE ASA	FOE ASA Consolidated	FOE ASA	FOE ASA Consolidated
<b>Cash flows from operating activities:</b>				
Net profit	23,425	137,310	20,968	301,705
(Gain) loss on sales of fixed assets	-	893	(5)	(17,536)
Depreciation and amortisation	13	149,952	402	319,300
Deferred income taxes	16,096	18,091	12,301	23,380
Equity share in (earnings) losses of equity investees	-	(1,962)	-	50,061
Gain (loss) on equity investee's sale of common shares	-	(12,908)	-	(392)
Minority interests	-	(13,038)	-	22,834
Changes in accounts receivable	(3,308)	(60,798)	(60,595)	(51,105)
Changes in inventories	-	20,692	-	15,263
Changes in other current assets	-	53,600	-	(36,217)
Changes in accounts payable	525	262,155	4,977	228,236
Changes in other current liabilities	17,971	53,664	6,635	384,740
Changes in other balance sheet items	-	7,724	(14,514)	(31,023)
<b>Net cash flows from operating activities</b>	<b>54,722</b>	<b>615,375</b>	<b>(29,831)</b>	<b>1,209,246</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales of fixed assets	-	266	404	140,309
Investments in fixed assets	1	(349)	(2,599)	(2,696,691)
Proceeds from sales of short-term investments	-	66,780	799,909	819,814
Purchases of short-term investments	(799,909)	(800,219)	-	-
Purchases of businesses, net of cash acquired	-	(90,667)	-	-
Other, primarily collection of long-term receivables	-	136,147	-	-
Investments in, and net loans receivable from subsidiaries	(733,858)	-	(677,351)	-
<b>Net cash flows from investing activities</b>	<b>(1,534,116)</b>	<b>(1,846,780)</b>	<b>120,363</b>	<b>(1,736,568)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from short-term debt	-	14,184	-	-
Repayments of short-term debt	-	-	(106,849)	-
Proceeds from long-term debt	-	800,000	264,397	1,102,095
Repayments of long-term debt	(368,094)	(800,667)	-	(214,254)
Proceeds from sale of common shares	2,064,728	2,064,728	-	-
Repayment of other long-term liabilities	-	(359,399)	-	9,552
<b>Net cash flows from financing activities</b>	<b>1,696,634</b>	<b>1,718,846</b>	<b>157,548</b>	<b>897,393</b>
Foreign currency	-	480	-	25,916
Net change in cash and cash equivalents	217,240	487,921	248,080	395,987
Cash and cash equivalents at the beginning of period	200	560,440	217,440	1,048,361
<b>Cash and cash equivalents at the end of period</b>	<b>217,440</b>	<b>1 048,361</b>	<b>465,520</b>	<b>1,444,348</b>

The notes represent an integral part of the financial statements.

# Notes to the Financial Statements

(All amounts in NOK and 000s unless noted otherwise)

## Note 1 - Formation of Fred. Olsen Energy ASA and Basis of Presentation

Fred. Olsen Energy AS, a Norwegian company, was formed in April 1997 as a holding company to organise an integrated offshore group consisting of entities with whole and partial ownership interests in six semi-submersible drilling and accommodation rigs, one jack-up production rig, a shipbuilding and offshore production company, two converted Suezmax tankers, an equity investment in an oil and gas exploration company which is publicly traded on a stock exchange in the United States and certain other offshore production assets and management operations owned by companies related through common ownership. In June 1997, Fred. Olsen Energy AS changed its status to a public limited company "ASA" corporation, enabling it to become listed on the Oslo Stock Exchange in Norway.

All notes and accounting policies refer to the consolidated financial statements unless specified otherwise.

### Basis of presentation

The consolidated financial statements of Fred. Olsen Energy ASA and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles in Norway as if the Company had been formed effective July 1, 1997 based on fair values as of a date approximating the formation of the Company. Accordingly, the consolidated financial statements for 1997 are presented as of December 31, 1997 and for the six-month period then ended. Certain reclassifications have been made to the December 31, 1997 balance sheet to be consistent with December 31, 1998 presentation.

## Note 2 - Summary of Significant Accounting Policies

### Basis of Consolidation and Equity Investments

The accounts of all subsidiaries in which the Company's holdings exceed 50 per cent are included in the consolidated financial statements. All material intercompany transactions have been eliminated in consolidation.

The equity method of accounting is used for investments in associated companies in which the investment provides the Company with the ability to exercise significant influence over operating and financial policies of the investee. Such influence is presumed to exist for investments in companies in which the Company's direct ownership or indirect ownership is between 20 per cent and 50 per cent. Under the equity method, the Company's share of net profits and net losses of associated companies is included in the consolidated profit and loss account.

The cost method is used for investments in which the Company's ownership is less than 20 per cent. The cost method is also used as the basis for recording investments in subsidiaries and associated companies in the parent company financial statements.

### Revenue Recognition

Revenue derived from day-rate-based contracts or other service contracts is recognised in the period that services are rendered at rates established in the contracts.

### Long-term Shipbuilding and Offshore Production Contracts

Revenues on long-term projects are recognised using the percentage of completion method throughout the performance period of the contract. 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 Company 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 expenses and general and administrative expenses are charged to operations as incurred. The effect of changes in estimates of contract costs is recorded currently. Should the total estimated cost of a contract be expected to exceed the final contract price, the total estimated loss is charged to expense in that period.

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 Company attaining certain contract milestones. The Company typically does not require collateral from customers except in situations where warranted due to assessments of risk factors.

### Deferred Government Grant Revenue

Governmental grants related to capital expenditures are deferred and recognised as income over the useful lives of related capital expenditures. Grants related to specific contracts are recognised as income over the period contract work is performed.

### Foreign Currency

Revenue and expenses of the Company's subsidiaries outside Norway are translated into NOK at average rates of exchange during the period. Assets and liabilities are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are accumulated and charged or credited directly to equity. Gains and losses on transactions denominated in foreign currencies are included in net financial items.

### Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity date of ninety days or less.

## Note 2 - Summary of Significant Accounting Policies (cont)

### Short-term investments

The Company's short-term investments are comprised primarily of readily marketable debt securities and bank certificates of deposit with an original maturity of more than 90 days. The investments are carried at the lower of historic cost or current market value.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight line basis over the estimated remaining economic life of related assets as follows:

Buildings	5 to 50 years
Rigs	15 years
Equipment and fixtures	3 to 10 years

Floating Storage and Off-loading (FSO) and Floating Production, Storage and Off-loading (FPSO) vessels are depreciated over the fixed portion of related contracts, generally 5 years.

Modification and rebuilding costs on assets including interest paid on specific project financing debt, which extend the assets' useful lives, are capitalised and depreciated over the remaining useful lives of the modifications, up to 15 years.

### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and is amortised over periods of 5 and 20 years depending on the nature of the underlying business.

### Long-Lived Assets

The Company assesses the recoverability of long-lived assets including property, plant and equipment and goodwill by determining whether the assets can be recovered from undiscounted future cash flows. The amount of impairment, if any, is measured based on projected future cash flows using a discount rate reflecting the Company's average cost of funds.

### Maintenance and Repairs

Costs for special periodic surveys on vessels and rigs are capitalised and depreciated over the anticipated period between repairs, generally five years.

Other maintenance and repair costs are expensed as incurred.

### Derivative Financial Information

#### Forward Exchange Contracts

Unrealised losses on foreign exchange contracts used to offset the effect of anticipated transactions are normally marked to market and

recognised as financial expenses. Unrealised gains on such contracts are normally deferred and recognised in income when the contracts are settled. Contracts related to firm commitments are designated as effective hedges and unrealised gains and losses are deferred and included in the income statement as part of the underlying transactions.

#### Interest Rate Instruments

The Company enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. The swap agreements are contracts to exchange floating rate for fixed interest payments periodically over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of interest rate agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on interest rate agreements is recognised as an adjustment to interest expense to the extent interest rate swap agreements qualify as a hedge for accounting purposes. Gains on interest swap agreements not qualifying as a hedge for accounting purposes are recognised throughout the term of the related agreement as payments are settled. Unrealised gains are deferred until contract amounts are settled. Unrealised losses on interest swap agreements not qualifying as a hedge for accounting purposes are recognised immediately.

### 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. Except as described below, 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 only to the extent they offset the impact of deferred tax liabilities.

For entities qualifying under the Norwegian Tonnage Tax Rules for shipping and offshore companies (Tonnage Tax Rules), the bases for calculating deferred taxes includes untaxed profits. Due to the time-span until these profits will be distributed as dividends and thus become taxable, the effective tax rate related to these deferred tax liabilities has been estimated at 5 per cent. In addition, deferred tax have been provided on certain assets where the carrying value exceeds the tax bases using an effective tax rate of 5 per cent, as events which will result in future taxation are not currently anticipated. As a result, the Company has discounted its future tax liability.



## Earnings Per Share

Earnings per share is based upon net profit divided by the weighted average shares outstanding during the period. The dilutive impact of potentially issuable securities, if any, is included in determining fully diluted earnings per share using the treasury stock method, whereby the proceeds from the issuance of such securities are assumed to be used to repurchase shares at the average market price during the period.

## 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

Certain of the Company's 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 Company accounts for defined benefit pension plans in a manner substantially similar to the Norwegian standard for accounting for pensions. 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.

## Note 3 - Business Segment Information

### Industry Segment Data

The Company provides services in offshore drilling and related services, floating production and new-building and rebuilding of vessels and rigs for the offshore industry. The identification of segments is based on the individual products and services from which the Company derives its revenue.

Summarised financial information by industry segment is as follows::

	<i>Six-mth. ended</i>	<i>Year ended</i>
<b>Revenue</b>	<b>Dec. 31, 97</b>	<b>Dec. 31, 98</b>
Offshore drilling and related services	548,784	1,317,104
Offshore fabrication	445,314	1,090,569
Floating production	78,037	104,913
<b>Total</b>	<b>1,072,135</b>	<b>2,512,586</b>

### Operating Expenses Less Depreciation and Amortisation

Offshore drilling and related services	300,473	731,466
Offshore fabrication	493,428	1,041,482
Floating production	21,238	51,962
<b>Total</b>	<b>815,139</b>	<b>1,824,910</b>

### Depreciation and Amortisation

Offshore drilling and related services	95,371	207,229
Offshore fabrication	18,332	47,146
Floating production	36,249	64,925
<b>Total</b>	<b>149,952</b>	<b>319,300</b>

### Operating Profit (loss)

Offshore drilling and related services	152,940	378,409
Offshore fabrication	(66,446)	1,941
Floating production	20,550	(11,974)
<b>Total</b>	<b>107,044</b>	<b>368,376</b>

### Capital Expenditures

Offshore drilling and related services	1,095,846	2,498,734
Offshore fabrication	24,623	42,446
Floating production	42,844	155,511
<b>Total</b>	<b>1,163,313</b>	<b>2,696,691</b>

	<i>As of</i>	<i>As of</i>
<b>Assets</b>	<b>Dec. 31, 97</b>	<b>Dec. 31, 98</b>
Offshore drilling and related services	6,554,930	8,134,289
Offshore fabrication	1,401,033	1,462,773
Floating production	386,698	561,356
<b>Total</b>	<b>8,342,661</b>	<b>10,158,418</b>

### Geographic Segment Data

Summarised segment information by geographic area where revenue was earned is as follows:

	<i>Six-mth. ended</i>	<i>Year ended</i>
<b>Revenue</b>	<b>Dec. 31, 97</b>	<b>Dec. 31, 98</b>
Norway	256,794	636,368
United Kingdom	740,888	1,773,921
Other areas	74,453	102,297
<b>Total</b>	<b>1,072,135</b>	<b>2,512,586</b>

#### Note 4 - Materials

Materials expense relates primarily to offshore fabrication activities.

#### Note 5 - Other operating expenses

	<i>Six-mth. ended Dec, 31, 1997</i>		<i>Year ended Dec, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Cons.</b>	<b>FOE ASA</b>	<b>FOE ASA Cons.</b>
Repairs and maintenance	-	133,329	-	337,604
(Gain) loss on sale of assets	-		5	(17,536)
Other	3,185	156,404	9,740	103,321
<b>Total</b>	<b>3,185</b>	<b>289,733</b>	<b>9,745</b>	<b>423,389</b>

In November of 1998, the Company sold its Remotely Operated Vehicle (ROV) business for approximately 128,800. The gain resulting from the sale was approximately 31,400. The gain has been treated as a reduction of the operating expenses in the offshore drilling division.

During 1998, the Company's offshore fabrication unit recognised an additional loss of approximately 13,900 (Great Britain Pounds (GBP) 1,108) relating to its sale of Trassey Shipping Limited to a related company due to continuing adverse market conditions. Under the

terms of the sales contract, the final selling price will be adjusted with reference to the future market value of the vessel, up to a maximum 42,840 (GBP 3,400). As at December 31, 1998 the Company has provided for the entire contingent liability.

Included in other operating expenses for the six-month period and December 31, 1997 is a 100,000 provision related to specific cost overruns on the conversion of the Bideford Dolphin. As the conversion project is nearly complete, the provision has been released as a reduction of the capitalised value of the rig.

#### Note 6 - Net financial items

Net financial items are as follows:

	<i>Six-mth. ended Dec, 31, 1997</i>		<i>Year ended Dec, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Cons.</b>	<b>FOE ASA</b>	<b>FOE ASA Cons.</b>
<b>Financial income</b>				
Interest	43,746	56,102	99,553	87,173
Foreign exchange	1,527	6,403	19,552	27,250
Other	10	14,992	1,390	9,497
<b>Total</b>	<b>45,283</b>	<b>77,497</b>	<b>120,495</b>	<b>123,920</b>
<b>Financial expenses</b>				
Interest	1,141	24,817	34,703	24,414
Foreign exchange	166	7,190	31,007	26,330
Other	31	2,928	582	7,044
<b>Total</b>	<b>1,338</b>	<b>34,935</b>	<b>66,292</b>	<b>57,788</b>
<b>Net financial items</b>	<b>43,945</b>	<b>42,562</b>	<b>54,203</b>	<b>66,132</b>

## Note 7 - Income Taxes

Fred. Olsen Drilling AS and certain other subsidiaries of the Company have claimed taxation under the Tonnage Tax Rules. These rules provide qualifying entities, subject to certain conditions, deferral of corporate income taxes and alternatively levy a tax based on the net registered tonnage of applicable vessels. Dividends paid to shareholders by qualifying entities will, however, be taxed at Norwegian corporate income tax rates. As a result, the calculation of deferred taxes includes untaxed profits from entities taxed under the Tonnage Tax Rules. Due to the estimated time-span until these profits will be distributed as dividends and thus become taxable, the related deferred tax liabilities have been discounted by the company using a tax rate of 5 percent. Pursuant to certain provisions of the Norwegian Petroleum Tax Act, in order to qualify for the Tonnage Tax Rules, rig owning companies may not operate in Norwegian territorial waters or on the Norwegian Continental

Shelf on time charter agreements. As a result, bareboat agreements have been entered into between rig owning entities and management entities taxable under general corporate income tax rules.

In connection with the restructuring of Ganger Rolf and Bonheur's offshore activities prior to the establishment of the Company, certain transactions occurred that resulted in a transfer of deferred tax liabilities from Ganger Rolf and Bonheur to companies currently ultimately owned by the Company and taxed according to the Tonnage Tax Rules. These deferred tax liabilities are related to ownership of shares in subsidiaries. Due to the expected time-span until these subsidiaries might be sold and the related profits distributed as dividends and thereby become taxable, the related deferred tax liabilities have been discounted using a tax rate of 5 percent in the parent company financial statements.

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

	<i>As of December, 31, 1997</i>		<i>As of December, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>
Long-term differences decreasing future taxable income	(508)	(188,011)	(1,371)	(278,331)
Long-term differences increasing future taxable income	918,985	2,537,223	827,867	2,859,377
<b>Net temporary difference</b>	<b>918,477</b>	<b>2,349,212</b>	<b>826,496</b>	<b>2,581,046</b>
Losses carried forward	(84,922)	(1,062,978)	(40,070)	(1,022,418)
Limitation of deferred tax assets	-	987,330	-	974,848
<b>Basis for deferred tax liabilities</b>	<b>833,555</b>	<b>2,273,564</b>	<b>786,426</b>	<b>2,533,476</b>
<b>Net deferred tax liabilities</b>	<b>43,127</b>	<b>90,591</b>	<b>29,790</b>	<b>113,971</b>

### Note 7 - Income Taxes (continued)

Temporary differences relate primarily to differences between the book and tax basis of rigs and deferred taxation of the operating results from rigs and vessels subject to tonnage taxation in Norway. The majority of the deferred tax liabilities have been determined using an income tax rate of 5 percent.

Tax losses carried forward are primarily from the United Kingdom (UK). The losses are not available to offset taxable income from other Group companies, and are consequently not recorded as a deferred

tax asset in the accompanying consolidated financial statements.

Income tax rates used to determine deferred taxes range from 0 to 31 percent. Current income tax expense is determined using rates ranging from 28 to 31 percent.

Current tax expense has not been recorded for the company's operations qualifying under the Tonnage Tax Rules, which accounts for the majority of the company's profit before taxes and minority interests, as related income is not expected to be taxable in the near future.

The provision for income taxes is as follows:

	<i>Six-mth. ended Dec. 31, 97</i>		<i>Year ended Dec. 31, 98</i>	
	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>
Income taxes payable for the period, incl. in other current liabilities	-	10,512	-	30,955
Income taxes payable (refundable) from previous years	-	(1,307)	-	5,573
Deferred income tax expense	16,096	18,091	12,301	23,380
<b>Income tax expense</b>	<b>16,096</b>	<b>27,296</b>	<b>12,301</b>	<b>59,908</b>
<b>Net income tax expense outside Norway</b>	<b>-</b>	<b>8,312</b>	<b>-</b>	<b>18,703</b>

Taxes payable for the parent company as of Dec. 31, 1998 are as follows:

Profit before income tax and minority interests.	33,269
Change in temporary differences	(43,289)
Permanent differences	10,621
<b>Basis taxes payable</b>	<b>-</b>
<b>Tax rate</b>	<b>28 per cent</b>

At December 31, 1998, the Company had net operating tax loss carryforwards in the UK, expiring after 2010, of approximately 852,590, substantially all of which are available only to offset the taxable income, if any, of a certain subsidiary of Harland & Wolff Holdings PLC (Harland and Wolff).

Harland and Wolff is currently involved in discussions with au-

thorities in Northern Ireland concerning the availability of certain net operating tax loss carryforwards. If these discussions are not resolved in Harland and Wolff's favour, net operating tax loss carryforwards available to offset future taxable income could be reduced by up to NOK 642 mill (GBP 53 mill).

### Note 8 - Cash and Short-term Investments

Restricted cash included in cash and cash equivalents is as follows:

	<i>As of December, 31, 1997</i>		<i>As of December, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>
Payroll taxes		8,880	614	13,025
Security for bank guarantees	-	9,614	-	363,460
<b>Total</b>		<b>18,494</b>	<b>614</b>	<b>376,485</b>

Short-term investments consist of the following:

	<i>As of December, 31, 1997</i>		<i>As of December, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>
Eurobonds	-	191,559	-	179,396
Bank certificates of deposit	799,909	799,909	-	-
<b>Total</b>	<b>799,909</b>	<b>991,468</b>	<b>-</b>	<b>179,396</b>

Eurobonds earn interest ranging from 7.3 to 10.5 per cent per annum and mature on various dates through 2006.

### Note 9 - Accounts receivable

Accounts receivable consists of the following:

	<i>As of December, 31, 1997</i>		<i>As of December, 31, 1998</i>	
	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>	<b>FOE ASA</b>	<b>FOE ASA Consolidated</b>
Trade	3,308	436,542	72,443	466,727
Related parties	-	283	11,489	37,500
<b>Sum</b>	<b>3,308</b>	<b>436,825</b>	<b>83,932</b>	<b>504,227</b>

Receivables from third parties are primarily from major international oil and gas companies. The Company continually evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees. Related companies consist primarily of

shareholders or companies associated through common ownership.

Due to the nature of the Company's operations, revenue and related receivables are typically concentrated amongst a relatively small customer base.

### Note 10 - Uncompleted Contracts

At December 31, 1998 the Company's main uncompleted offshore construction activities are related to the rebuilding of the Borgland Dolphin and the Global Marine drillships.

Costs, estimated earnings, and billings to date on these contracts (with unrelated entities) are as follows:

	<i>As of</i>	<i>As of</i>		<i>As of</i>	<i>As of</i>
	<i>Dec. 31, 97</i>	<i>Dec. 31, 98</i>		<i>Dec. 31, 97</i>	<i>Dec. 31, 98</i>
Cost incurred on uncompleted contracts	4,510	980,776	Incl. in the accompanying balance sheet under the following captions:		
Estimated profits	-	-	Accounts receivable	4,510	9,852
Less billings to date	-	1,432,572	Other short-term liabilities	-	(461,648)
<b>Accrued and (deferred) revenue, net</b>	<b>4,510</b>	<b>(451,796)</b>	<b>Accrued (deferred) revenue, net</b>	<b>4,510</b>	<b>(451,796)</b>

### Note 11 - Investments Accounted for Under the Equity Method

The Company's investments accounted for under the equity method in the consolidated financial statements are as follows:

	<i>Percentage of holding</i>	<i>As of Dec. 31, 97</i>	<i>As of Dec. 31, 98</i>
Callon Petroleum Company	22.5 %	194,052	133,906
Knock 1735 Ltd.	20.0 %	32,650	35,142
Tinworth Ltd.	49.9 %	177	4,272
Windy Standard Ltd.	50.0 %	24,721	23,714
<b>Total</b>		<b>251,600</b>	<b>197,034</b>

Callon Petroleum Company (Callon) is a publicly traded oil and gas company on the New York Stock Exchange (ticker symbol CPE).

The fair market value of the Company's investment in Callon based on market prices as of December 31, 1998 was 162,510. Subsequent to December 31, 1998, certain Callon preferred stockholders, converted preferred stock into common stock, thereby reducing the Company's investment in Callon to 20.5 per cent. Callon has other preferred shares outstanding, convertible into common shares and employee share option plans, which may further dilute the Company's ownership interest in Callon in the future.

During the fourth quarter of 1998, Callon recorded a noncash charge related to oil and gas properties of approximately 218,000 after tax (USD 28,700) primarily due to significant declines in oil and gas prices. Under full-cost accounting rules, the capitalised costs of proved oil and gas properties are subject to a "ceiling test" which limits such costs to the estimated present value net of related tax effects, discounted at 10 percent per annum of future net cash flows, based on current economic and operating conditions. If capitalised costs exceed this limit, the excess is charged to expense. The Company's share of Callon's net loss in 1998 was approximately 57,000. The book value of the investment in the consolidated accounts at December 31, 1998 includes goodwill net of accumulated amortisation totalling 38,541.

The Company, through Harland & Wolff owns 20 per cent of Knock 1735 Ltd., a company registered on the Isle of Man which is engaged in shipping activities and owns the shuttle tanker Knock An. A related company controls Knock 1735 Ltd.

The Company also owns slightly less than 50 per cent of Tinworth Ltd., a company registered in Bermuda which owns the Suezmax tanker Petroléo Nautipa, and 50 per cent of Windy Standard Ltd., a windpower company based in the United Kingdom.

Summarised financial information from each of the entities is as follows:

<b>Callon Petroleum Company</b>	<i>As of Dec. 31, 97</i>	<i>As of Dec. 31, 98</i>
Current assets	208,418	108,285
Non-current assets	1,184,702	1,272,270
Current liabilities	115,366	99,606
Non-current liabilities	445,918	638,871
Equity	831,836	642,078

#### **Knock 1735 Ltd.**

Current assets	39,741	74,510
Non-current assets	447,688	424,916
Current liabilities	49,434	65,314
Non-current liabilities	417,641	407,664
Equity	20,354	26,448

#### **Tinworth Ltd.**

Current assets	43,918	23,803
Non-current assets	118,965	226,153
Current liabilities	16,212	55,138
Non-current liabilities	146,320	186,200
Equity	351	8,618

#### **Windy Standard Ltd.**

Current assets	20,865	29,960
Non-current assets	194,530	190,585
Current liabilities	12,500	17,430
Non-current liabilities	161,346	155,625
Equity	41,549	47,490

<b>Callon Petroleum Company</b>	<i>Six mth. ended Dec. 31, 97</i>	<i>Year ended Dec. 31, 98</i>
Revenue	161,367	284,997
Net profit (loss) avail. to common shareholders	15,692	(232,372)
Company's share of equity in earnings (losses)	4,802	(57,009)

#### **Knock 1735 Ltd.**

Revenue	71,567	84,499
Net profit (loss)	(13,866)	5,820
Company's share of equity in earnings (losses)	(2,773)	1,164

#### **Tinworth Ltd.**

Revenue	-	48,638
Net profit	263	8,206
Company's share of equity in earnings	133	4,094

<b>Windy Standard Ltd.</b>	<i>One mth. ended Dec. 31, 97</i>	<i>Year ended Dec. 31, 98.</i>
Revenue	2,495	35,983
Net profit (loss)	(400)	3,380
Company's share of equity in earnings (losses)	(200)	1,690

## Note 12 - Fixed Assets, Goodwill, Depreciation and Amortisation

Fixed assets, depreciation expense and accumulated depreciation as of and for the year ended December 31, 1998 is as follows:

Cost	Rigs	Vessels	Snubbing and ROV	Plant, build. and land	Machinery and equip.	Total
Cost as of Dec. 31, 97	4,442,731	209,111	63,775	177,323	149,855	5,042,795
Currency adjustments	5,545	7,552	-	6,476	4,690	24,263
Additions during the period	2,233,547	155,389	129,506	7,653	70,596	2,596,691
Disposals during the period	-	-	(115,620)	-	(4,006)	(119,626)
<b>Cost as of Dec. 31, 98</b>	<b>6,681,823</b>	<b>372,052</b>	<b>77,661</b>	<b>191,452</b>	<b>221,135</b>	<b>7,544,123</b>

### Depreciation

Accumulated depreciation as of Dec. 31, 97	82,643	19,049	12,443	3,583	13,434	131,152
Depreciation during the period	172,906	32,148	22,322	7,720	46,260	281,356
Disposals during the period	-	-	(27,341)	-	(2,624)	(29,965)
<b>Accumulated depreciation as of Dec. 31, 98</b>	<b>255,549</b>	<b>51,197</b>	<b>7,424</b>	<b>11,303</b>	<b>57,070</b>	<b>382,543</b>
<b>Net book value as of Dec. 31, 98</b>	<b>6,426,274</b>	<b>320,855</b>	<b>70,237</b>	<b>180,149</b>	<b>164,065</b>	<b>7,161,580</b>

The net book values of rigs are as follows:

Rigs	As of Dec. 31, 97	As of Dec. 31, 98
Byford Dolphin	575,529	590,941
Borgny Dolphin	619,138	583,373
Borgsten Dolphin	552,369	520,718
Borgila Dolphin	311,910	290,492
Borgen Dolphin	116,160	107,352
Bideford Dolphin	1,571,329	2,743,832
Borgland Dolphin	613,653	1,589,566
<b>Total</b>	<b>4,360,088</b>	<b>6,426,274</b>

### Vessels

Knock Taggart	137,211	278,558
Knock Dee	52,851	42,297
<b>Total</b>	<b>190,062</b>	<b>320,855</b>

Included in the cost of the rigs and vessels as of December 31, 1998 is capitalised interest relating to specific borrowings for the conversion of the Bideford and Borgland drilling rigs and the Knock Taggart FPSO vessel of approximately 58,400 and 1,100 respectively.

Purchase and sales of fixed assets	Six-mth. ended Dec. 31, 97		Year-ended Dec. 31, 98	
	Purchase	Sale	Purchase	Sale
Rigs	1,038,002	-	2,333,547	-
Vessels	42,295	-	155,389	-
Snubbing and ROV	39,593	266	129,506	138,781
Plant, build. and land	9,823	-	7,653	-
Machinery and equip.	33,600	-	70,596	1,528
<b>Total</b>	<b>1,159,087</b>	<b>266</b>	<b>2,696,691</b>	<b>140,309</b>

### Goodwill

Goodwill relates to Taggart Shipping Ltd., Dee Shipping Ltd., Harland and Wolff, and Dolphin AS and its subsidiaries and is as follows:

#### Cost

Cost as of December 31, 1997	381,063
Additions during the period	-
Disposals during the period	(20,549)
<b>Cost as of December 31, 1998</b>	<b>360,514</b>

#### Amortisation

Accumulated amortisation as of December 31, 1997	15,848
Amortisation during the period	34,807
Disposals during the period	(1,456)
Accumulated amortisation as of December 31, 1998	49,199
<b>Net book value as of December 31, 1998</b>	<b>311,315</b>

Amortisation related to goodwill included in the investment in Callon was 3,137 in 1998.

## Note 13 - Loans to Directors, Employees and Members of the Boards of Directors of Subsidiaries

The following loans are outstanding to directors, employees, and members of the Board of Directors:

	As of Dec. 31, 97	As of Dec. 31, 98
Members of the Board of Directors	-	-
Directors and employees	3,162	1,298
<b>Total</b>	<b>3,162</b>	<b>1,298</b>

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

### Note 14 - Accounts Payable

Accounts payable consists of the following:

	<i>As of December, 31, 1997</i>		<i>As of December, 31, 1998</i>	
	FOE ASA	FOE ASA Consolidated	FOE ASA	FOE ASA Consolidated
Related parties	-	-	3,889	4,342
Third parties	525	411,498	1,613	625,407
<b>Total</b>	<b>525</b>	<b>411,498</b>	<b>5,502</b>	<b>629,749</b>

### Note 15 - Long-term Debt and Other Long-term Liabilities

Long-term interest bearing debt as of December 31, 1998 by loan classification and the related repayment schedule is as follows:

	Dec. 31, 1998	1999	2000	2001	2002	2003	Thereafter
Revolving credit facility	152,000	-	-	-	152,000	-	-
Secured bank loans	1,551,851	163,854	268,122	282,381	297,621	313,523	390,204
Government loan stock	45,789	8,325	8,325	8,325	8,325	8,325	12,489
<b>Total interest bearing debt</b>	<b>1,749,640</b>	<b>172,179</b>	<b>276,447</b>	<b>290,706</b>	<b>457,946</b>	<b>321,848</b>	<b>402,693</b>
<b>Undrawn amounts</b>	<b>439,745</b>	<b>32,721</b>	<b>68,734</b>	<b>73,557</b>	<b>78,724</b>	<b>84,233</b>	<b>134,497</b>

Revolving credit facilities and secured bank loans bear interest in the range of LIBOR/NIBOR plus .35 per cent to LIBOR/NIBOR plus .60 per cent. The government loan stock relates to long-term financing of Harland & Wolff and bears interest at 8% per annum.

The Company's construction financing related to Bideford Dolphin of 733,333 at December 31, 1998 converts to a long-term loan upon delivery of the rig to the customer. As a result the Company has included the amount as a long-term obligation as de-

livery is anticipated no later than May 1999. The repayment schedule reflected above approximates the anticipated repayment schedule upon delivery.

The Company was in compliance or has obtained necessary waivers, with all debt agreements.

Other long-term liabilities consist primarily of pension obligations, deferred tax liabilities, and long-term guarantee provision related to offshore fabrication.

### Note 16 - Pension and Stock Option Plans

#### Pension Plans

Certain subsidiaries have pension plans providing employees 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 funded status of the defined pension plans is as follows:

	<i>As of Dec. 31, 97</i>	<i>As of Dec. 31, 98</i>
Accumulated benefit obligation	1,137,005	1,539,677
Effect of projected future compensation levels	61,092	50,253
<b>Projected benefit obligation</b>	<b>1,198,097</b>	<b>1,589,930</b>
Plan assets at market value	1,304,793	1,590,549
<b>Funded status</b>	<b>106,696</b>	<b>619</b>
Unrecognised net experience loss	3,191	132,244
Unrecognised prior service costs	47,417	43,897
Unrecognised net implementation asset	(22,497)	(19,993)
<b>Prepaid pension costs</b>	<b>134,807</b>	<b>156,767</b>

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

	<i>As of Dec. 31, 97</i>	<i>As of Dec. 31, 98</i>
Assumed salary increases	3.0-5.9 %	3.0-5.0%
Discount rates	6.0-7.3 %	6.0-7.0%
Interest rates	6.0-7.3 %	7.0-7.0%
Exp. rates of return on pension plan assets	2.0-8.3 %	3.0-8.3%

The total number of employees involved in the pension plans as of December 31, 1998 was approximately 1,830. The pension plan assets consist primarily of bank deposits, investments in fixed income and equity securities, and real estate.

Net periodic pension costs are as follows:

	<i>Six-mth. ended Dec. 31, 97</i>	<i>Year ended Dec. 31, 1998</i>
Present value of this period's earned pensions	32,317	39,561
Interest expense on pension liabilities	87,021	92,603
Earnings on pension funds	(95,420)	(246,739)
Amortisation expense	2,130	138,458
<b>Net pension cost</b>	<b>26,048</b>	<b>23,883</b>



## Stock Option Plan

On June 8, 1998 the Company's shareholders voted to grant the Board of Directors authority to issue up to 285,000 shares to be used for an employee stock option plan (the plan). As of December 31, 1998, options for 215,000 shares had been granted to management. Under the terms of the plan, options are not exercisable until three years after the date of grant but before July 15, 2003. The options may be exercised immediately in the event of a change of control of the Company. The strike price of the option is NOK 95.00 plus 1% per month from the inception of the plan. As of December 31, 1998, the strike price of the options was significantly higher than the market value of the shares.

## Note 17 - Mortgages and guarantees

The following liabilities are secured by certain assets:

	As of Dec. 31,97	As of Dec. 31,98
Long-term liabilities	875,799	1,736,895
Guarantees given for group liabilities	18,477	322,275
Other guaranties and liabilities	23,133	120,305
<b>Total</b>	<b>917,409</b>	<b>2,179,475</b>

The net book value of assets pledged as security:

Rigs and vessels	1,958,540	4,611,956
Others	88,481	483,588
<b>Total</b>	<b>2,047,021</b>	<b>5,095,544</b>

## Note 18 - Financial Instruments

As of December 31, 1998, the Company had an interest swap agreement intended to fix the interest paid on the floating interest loan on the Bideford Dolphin project, with a nominal amount of 886,400 at 5.3 per cent. As of December 31, 1998 the fair value of the contract was approximately 16,100 (USD 2,100). The unrealised gain related to the fair value of the contract has not been recognised as income in 1998.

The Company has entered into forward currency contracts throughout the year to reduce the currency exposure on the day-rate income in Great Britain pounds and United States dollars. As of December 31, 1998 open foreign currency forward contracts included GBP of 9,000 to NOK of 112,419 in the aggregate. Unrealised losses on these contracts at December 31, 1998 are not material to the consolidated and parent company financial statements.

## Note 19 - Leases

The Company leases certain property, and buildings under long-term operating leases expiring on various dates through 2004, some of

which contain renewal options. In addition, at Dec. 31, 1998 the Company had certain snubbing equipment under capital lease through 2003. Rental expense under these leases for the six-month period ended Dec. 31, 1997 and the year ended Dec. 31, 1998 was 13,357 and 14,425 respectively. Rental income under operating leases was 15,119 and 17,823 for the six-month period ended Dec. 31, 1997 and the year ended Dec. 31, 1998 respectively.

Minimum aggregate future rentals as of Dec. 31, 1998 are as follows:

Year	Operating Leases		Capital Leases
	Future rental payments	Future rental paym. receivable	Future rental payments
1999	18,237	12,403	2,880
2000	17,780	11,930	2,880
2001	16,822	11,457	2,880
2002	16,822	11,457	2,880
2003	16,520	11,457	2,880
Thereafter	26,266	11,457	-
<b>Total</b>	<b>112,447</b>	<b>70,161</b>	<b>14,400</b>

Less amounts representing interest at 8.909 per cent	2,781
Pres. value of future min. rental paym. under capital lease	11,019
Less: current portion included in other short-term liabilities	2,601
Long-term capital lease obligation incl. in other long-term debt	9,018

## Note 20 - Related parties

In the ordinary course of business, the Company recognises revenue and expenses with related companies, which may have a significant impact on the Company's consolidated financial statements. Revenue, purchases and interest income and expense from such companies were as follows:

	Six-mth. ended Dec. 31, 97	Year ended Dec. 31, 1998
Revenue	2,767	1,027
Expenses	1,537	2,873
Interest income	6,330	99
Interest expense	6,952	2,912

Due to the continued weakening of shipping day rates, the Company's offshore fabrication unit recognised a loss of approximately 13,400 (GBP 1,108) related to a sales contract previously entered into with a related party for Trassey Shipping Limited in which the subsidiary guaranteed a certain fair value of the bulk carrier Lowlands Trassey.

During the period, the Company paid a related party 2,873 for legal, finance and accounting services.

## Note 21 - Equity and Share Capital

The following is a reconciliation of equity in the consolidated financial statements:

Activity	Share capital	Additional paid-in capital	Retained earnings	Cumulative foreign currency translation and other adjustments	Total
Balance at July 1, 1997	900,000	2,878,682	-	-	3,778,682
Net proceeds from sale of shares	306,000	1,758,728	-	-	2,064,728
Tax benefit of deductible share offering costs	-	34,398	-	-	34,398
Net profit for the six months ended Dec. 31, 1997	-	-	137,310	-	137,310
Foreign currency translation adjustment	-	-	-	528	528
<b>Balance as of December 31, 1997</b>	<b>1,206,000</b>	<b>4,671,808</b>	<b>137,310</b>	<b>528</b>	<b>6,015,646</b>
Net profit for the year ended Dec. 31, 1998	-	-	301,705	-	301,705
Foreign currency transl. and other adjustments	-	-	-	(17,723)	(17,723)
<b>Balance as of December 31, 1998</b>	<b>1,206,000</b>	<b>4,671,808</b>	<b>4,390,158</b>	<b>(17,195)</b>	<b>6,299,627</b>

A subsidiary has equity of approximately NOK 378,000 (GBP 30,000) which is restricted as to distribution to shareholders through 2005.

Following is a reconciliation of equity in the parent company financial statements:

Activity	Share capital	Additional paid-in capital	Retained earnings	Total
Balance at July 1, 1997	900,000	2,878,682	-	3,778,682
Net proceeds from sale of shares	306,000	1,758,728	-	2,064,728
Tax benefit of deductible share offering costs	-	34,398	-	34,398
Net profit for the six months ended Dec. 31, 1997	-	-	23,425	23,425
<b>Balance as of December 31, 1997</b>	<b>1,206,000</b>	<b>4,671,808</b>	<b>23,425</b>	<b>5,901,233</b>
Net profit for the year ended Dec. 31, 1998	-	-	20,968	20,968
Group contribution	-	-	8,978	8,978
<b>Balance as of December 31, 1998</b>	<b>1,206,000</b>	<b>4,671,808</b>	<b>53,371</b>	<b>5,931,179</b>

Additional paid-in capital and retained earnings are comprised of a reserve fund of 241,200 and free equity of 4,483,979.

## Share Capital

The company has the following share capital (amounts presented are nominal amounts):

	Number of shares	Par value	Share capital
<b>Balance at December 31, 1998</b>	<b>60,300,000</b>	<b>20</b>	<b>1,206,000,000</b>

## Note 22 - Shares Held by Directors

Shares and options owned by the Company's directors and CEO at March 1, 1999:

Name	Title	Shares	Options	Name	Title	Shares	Options
Sir David Fell	Director	-	-	Herman Foss Ramstad (Dep.)	Director	2,000	-
Øivin Fjeldstad (Dep.)	Director	1,800	-	Ivar Saunes	Director	-	-
Fridthjov Haavardsson	Director	10,000	-	John C Wallace	Director	1,000	-
Stephen Knudtzon (Dep.)	Director	-	-	Helge Haakonsen	CEO/Managing Director	100	40,000
Anette S. Olsen	Chairman	100	-				

## Note 23 - Commitments and Contingencies

### FOBOX

Harland and Wolff has a license agreement with FOBOX AS providing for a license of the intellectual property rights for the FOBOX with the skirt design. Harland and Wolff has agreed to pay FOBOX AS royalties equal to 5 per cent of substantially all of the basic construction costs of the first unit it constructs incorporating FOBOX technology, decreasing by 0.5 per cent for each subsequently constructed unit but not less than 3 per cent. The royalty rate on units constructed subsequently may increase to 5 per cent depending on the frequency of construction.

### Capital Expenditures

The Company has been upgrading two of the Company's semi-submersible rigs, the Bideford Dolphin and Borgland Dolphin, which will result in total capital expenditures estimated at approximately 4,550,000 upon completion. A substantial amount of the estimated re-building costs had been incurred at December 31, 1998.

## Note 24 - Shares in Subsidiaries and Equity Investments

The following summarises the direct shareholdings of the parent company as of December 31, 1998:

Subsidiaries	Currency	% of holding	Number of shares	Share Capital	Historical Cost
Fred. Olsen Drilling AS	NOK	100	3,000,000	3,000,000	3,000,000
Dolphin AS	NOK	100	6,230	6,230	274,755
Dolphin Drilling Ltd	GBP	100	100,000	100	4,380
Fred. Olsen Production AS	NOK	100	50,000	5,000	9,322
Fred. Olsen Production Ltd.	GBP	100	5,660	5,660	66,795
AS Borgila Offshore	NOK	100	288,160	4,000	234,265
Aztlan Shipping Co. Ltd	USD	91.5	10,953,500	5,477	259,547
Atlan Shipping Co. Ltd	USD	91.5	10,953,500	5,477	259,547
Taggart AS	NOK	100	110,745	110,745	110,745
Knock Dee AS	NOK	100	56,134	56,134	56,134
Byford Dolphin AS	NOK	100	25,000	2,500	28,794
Byford Dolphin II AS	NOK	100	25,000	2,500	28,819
Byford Dolphin KS	NOK	100	-	-	140,225
Byford Dolphin II KS	NOK	100	-	-	128,323
Emfri Holdings Inc.	USD	100	-	-	-
<b>Total</b>					<b>4,601,650</b>
<b>Equity Investments</b>					
Callon Petroleum Co	USD	22.5	1,839,386	92	177,915
Tinworth	USD	49.9	5,997	88	42
<b>Total</b>					<b>177,957</b>

Atlan Shipping Co. Ltd. (Atlan) and Aztlan Shipping Co. Ltd. (Aztlan) collectively own 75.8 per cent of Harland and Wolff. Generally, related companies and their employees own minority interests in

Atlan an Aztlan. Minority interests in Harland and Wolff are generally owned by Harland and Wolff's management, its employees and certain interests in Northern Ireland.

### Note 25 - Legal Matters

The Company has received a claim relating to the repudiated/cancelled order for the Blow Out Preventer (BOP) for Borgland Dolphin. Damages up to an amount of approximately 47,000 (USD 6,200) have been claimed. The Company does not foresee any significant adverse effect on its financial position due to the claim.

The Company's subsidiary Harland & Wolff, has given a secured bank guarantee of 19,035 (GBP 1,509) in favour of a third party in relation to an ongoing dispute with a related party which is to be resolved by arbitration. The Company is of the opinion that the outcome of this claim is unlikely to give rise to a significant loss and will not have an adverse effect on its financial position.

### Note 26 - Reconciliation of Norwegian GAAP to U.S. GAAP

Generally accepted accounting principles in Norway (Norwegian GAAP) differ in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). Differences that have a significant impact on the Company's consolidated net profit for the six month period ending December 31, 1997 and year ended December 31, 1998 and on consolidated equity as of December 31, 1997 and 1998 are described below. Other differences exist which impact the presentation, including financial amounts and note disclosures, in the consolidated balance sheet as of December 31, 1997 and 1998 and the related consolidated profit and loss accounts and statements of cash flows for the year then ended. Discussions of these differences, and additional information required by the Securities and Exchange Commission in the United States are beyond the scope of this reconciliation of Norwegian GAAP to U.S. GAAP.

#### Formation of Fred. Olsen Energy ASA and subsidiaries

In the consolidated financial statements prepared under Norwegian GAAP, all entities comprising the Fred. Olsen Energy Group were assumed to have been combined effective July 1, 1997 using fair values determined in 1997 which were significantly in excess of historical book values. The majority of the assets and liabilities included upon formation of the Fred. Olsen Energy Group were contributed by entities under common control.

Generally, common control requires ownership, either directly or indirectly, of over 50 per cent of the outstanding voting shares. However, control may also be achieved through common management. Under U.S. GAAP, assets and liabilities transferred between entities under common control should continue to be accounted for at historical cost in a manner similar to a pooling of interests. This difference between accounting for the formation of the Fred. Olsen Energy Group results in the following differences between Norwegian GAAP and U.S. GAAP.

#### Fixed Assets and Related Depreciation and Amortisation Expense (a)

In accounting for the formation of the Fred. Olsen Energy Group under Norwegian GAAP, the excess of fair value over the book value of assets contributed was generally assigned to the major operating assets. In certain entities, the excess of fair values over the book value of assets was assigned to goodwill to be amortised over future periods as the book values of the net assets acquired approximated fair value.

In the consolidated financial statements prepared using fair values under Norwegian GAAP, rigs, vessels, certain equipment, and upgrades and goodwill, are depreciated or amortised over periods of up to 20 years using the straight-line method effective July 1, 1997. Under U.S. GAAP, certain of these assets are depreciated and amortised using historical costs beginning from the date of acquisition of the assets by entities under common control for periods up to 25 years using the straight-line method.

The tax bases of the majority of the net assets contributed upon formation of the Fred. Olsen Energy Group remained unchanged and, accordingly, increasing the carrying values of these assets to fair value significantly influenced related deferred income tax liabilities and the reconciling item for deferred income taxes between Norwegian and U.S. GAAP described below.

#### Sale of ROV Business (b)

In the consolidated financial statements prepared under Norwegian GAAP, the gain resulting from the sale of the ROV business was reduced by the goodwill allocated to the ROV business upon formation of the Company. Under U.S. GAAP, the historical basis of the ROV business would be used to determine the gain.

#### Negative Goodwill (c)

An acquisition of one of the subsidiaries of the Fred. Olsen Energy Group in previous years by entities under common control resulted in negative goodwill as the fair value of assets acquired exceeded the purchase price. Under both Norwegian and U.S. GAAP, negative goodwill is first used to reduce the value of long-term assets to nil. Negative goodwill balances remaining after long-term assets are reduced to nil are recorded as a long-term liability and recognised as other income in future periods. Accounting for the formation of the Fred. Olsen Energy Group at fair values eliminated the long-term liability for negative goodwill. Under U.S. GAAP, using the historical basis of accounting, negative goodwill is reflected as a long-term liability and is recognised as other income on a straight-line bases over 5 to 15 years.

### Gain on Sale of Equity Investee's Sale of Common Shares (d)

As a result of the formation of the Fred. Olsen Energy Group, the basis in the investment in Callon is higher under Norwegian GAAP than under U.S. GAAP. As a result, the gains recognised upon Callon's sale of common shares are higher under U.S. GAAP than under Norwegian GAAP. Deferred income taxes have not been provided on this gain under U.S. GAAP as Callon represents a foreign investment to the Company.

### Unrealised Gain on Interest Swap and Foreign Currency Contracts (e)

As of December 31, 1998 the Company has certain interest rate swap and foreign currency contracts that do not qualify as hedges for accounting purposes. Under Norwegian GAAP, unrealised gains and losses for contracts not qualifying for hedge accounting are netted and net unrealised losses are recognised while net unrealised gains are deferred and recognised when related contracts are settled. Under U.S. GAAP, unrealised gains and losses on contracts not qualifying as hedges for accounting purposes are recorded as other financial income or expense as appropriate.

### Capitalised Interest (f)

Under Norwegian GAAP, the Company has elected that interest on specific project financing debt for the modification and rebuilding

costs on assets be capitalised. Under U.S. GAAP, the interest to be capitalised is determined based upon average construction costs, not to exceed consolidated interest expense.

### Other Differences

#### Deferred Income Taxes (g)

For Norwegian GAAP purposes, in certain cases, the Company has chosen to discount deferred income tax liabilities using an income tax rate of 5 per cent which represents the Company's best estimate of taxes on tonnage tax income which will be distributed as dividends in the future and thus become taxable in Norway. In addition, under Norwegian GAAP, management has chosen to discount other future tax liabilities, related primarily to differences between the book and tax bases of certain fixed assets, using an income tax rate of 5 per cent. Under U.S. GAAP, these future tax liabilities have not been discounted and have been established, where appropriate, using the statutory income tax rates for the applicable tax jurisdiction to the extent differences exist between the book and tax bases of assets and liabilities determined in accordance with U.S. GAAP which range from 28 to 33 per cent.

#### Net Profit Per Share (h)

Basic net profit per share is determined using the weighted average common shares outstanding during the period. Diluted net profit per share includes also the potentially dilutive impact of stock options, if any, after consideration of the treasury stock method.

The approximate effect on consolidated net profit of significant differences between Norwegian GAAP and U.S. GAAP is as follows:

		<i>Six-months ended December 31, 1997</i>	<i>Year ended December 31, 1998</i>
Net profit in accordance with Norwegian GAAP		137,310	301,705
<b>Adjustments for U.S. GAAP</b>			
Depreciation and amortisation expense for assets at fair value	(a)	20,344	47,328
Gain on sale of ROV business	(b)	-	19,093
Amortisation of negative goodwill	(c)	1,853	3,706
Gain on equity investee's sale of common shares	(d)	13,328	3,331
Unrealised gains on interest rate swap contract	(e)	-	2,783
Capitalised interest	(f)		24,414
Deferred income tax expense	(g)	(27,080)	(102,948)
<b>Approximate net profit in accordance with U.S. GAAP</b>		<b>145,755</b>	<b>299,412</b>
<b>Net profit per share under U.S. GAAP:</b>			
Basic	(h)	2.84	4.97
Diluted	(h)	2.84	4.97

**Note 26 - Reconciliation of Norwegian GAAP to U.S. GAAP  
(continued)**

The approximate effect on consolidated equity of significant differences between Norwegian GAAP and U.S. GAAP is as follows:

		<i>As of December 31, 1997</i>	<i>As of December 31, 1998</i>
Equity in accordance with Norwegian GAAP		6,015,646	6,299,627
<b>Adjustments for U.S. GAAP</b>			
Formation of Fred. Olsen Energy group using fair values net of depreciation and amortisation	(a)	(2,078,499)	(1,995,415)
Negative goodwill net of accumulated amortisation	(c)	(23,822)	(20,116)
Unrealised gain on interest rate swap contract	(e)	-	2,783
Capitalised interest	(f)	-	24,414
Deferred income taxes	(f)	(182,442)	(285,390)
<b>Approximate equity in accordance with U.S.GAAP</b>		<b>3,730,883</b>	<b>4,025,903</b>

# Auditors Report



**KPMG as**

P.O. Box 150 Bryn  
N-0811 Oslo

Brynsveien 12  
N-0867 Oslo

Telephone +47 22 07 22 07  
Telefax +47 22 72 42 82  
Enterprise NO 935 174 827

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

## Audit report for 1998

We have audited the board of director's report and financial statements of Fred. Olsen Energy ASA for 1998, showing a profit for the year of NOK 20,968,000 for the parent company and a consolidated profit of NOK 301,705,000. The board of director's report and financial statements of the parent company and group, which comprise the board of director's report proper, income statements, balance sheets, cash flow statements, and notes to the financial statements are presented by the company's Board of Directors.

Our responsibility is to examine the company's board of director's report and financial statements, its accounting records and other related matters.

We have conducted our audits in accordance with relevant laws, regulations and generally accepted auditing standards. We have performed those audit procedures which we considered necessary to confirm that the board of director's report and financial statements are free of material misstatements. We have examined selected parts of the evidence supporting the financial statements and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the board of director's report and financial statements. To the extent required by generally accepted auditing standards we have reviewed the company's internal control and the management of its financial affairs.

The Board of Directors' proposal for the application of the profit for the period is in accordance with the requirements of the Public Limited Liabilities Companies Act.

In our opinion, the board of director's report and financial statements have been prepared in accordance with the requirements of the Companies Act and present fairly the financial position of the company and of the group as of December 31, 1998 and the result of its operations for the year then ended, in accordance with generally accepted accounting principles.

Oslo, Norway, 15. April, 1999  
KPMG as

Arve Gevoll  
State Authorised Public Accountant (Norway)

Note: Translation from Norwegian for convenience purposes only.



KPMG as is a member of KPMG International,  
a Swiss association.

Statteforberede revisor-  
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Reviserforening

Kontorer i

Dalø  
Årendal  
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Molde  
Oslo  
Sandefjord  
Sandvika  
Stavanger

Stord  
Trondheim  
Tromsø  
Ålesund

# Shareholder Matters

## Fred. Olsen Energy Shareholders

Fred. Olsen Energy is listed on the Oslo Stock Exchange and SEAQ (Stock Exchange's Automated Quotations System) in London. The list of the ten largest shareholders has remained quite stable throughout the year.

### The ten largest shareholders at 31 December 1998:

Shareholder	No. of shares	(%)
Bonheur ASA	17,371,500	28.81
Ganger Rolf ASA	17,371,500	28.81
Fred.Olsen Ltd.	6,060,000	10.05
Borgå A/S	1,480,000	2.45
Storebrand Livsforsikring	1,435,650	2.38
Odin Norge	1,386,550	2.30
Folketrygdfondet	1,215,400	2.02
Gjensidige Liv	841,780	1.40
Vital Forsikring	652,650	1.08
Postbanken Aksjespar	416,100	0.69

## Harland and Wolff Shareholders

Through its subsidiaries Atlan and Aztlan Shipping Ltd. (91.5% owned), Fred. Olsen Energy is indirectly holding 70.8% of the

shares in Harland and Wolff. The following owned shares in Harland and Wolff as per 31 December 1998:

### The ten largest shareholders in Harland and Wolff at 31 December 1998:

Shareholder	No. of shares	(%)
Aztlan and Atlan Shipping Ltd.*	12,000,000	77.49
Outside Investors	1,224,000	7.90
Employee Market Making Trust	777,974	5.02
Ex Employees	689,567	4.45
Employees	326,506	2.11
Ex Directors	255,850	1.65
Executive Directors	204,103	1.32
Non-Executive Directors	7,000	0.05

\* Fred. Olsen Energy ASA owns 91.5% of Aztlan and Atlan Shipping Ltd.

## Shareholder Policy & Financial Calendar

The Company issues quarterly interim financial reports which together with other relevant information are communicated through Oslo Stock Exchange. This, and additional relevant information, is available at Fred. Olsen Energy's web site ([www.fredolsen-energy.no](http://www.fredolsen-energy.no)) and HUGIN ([www.hugin.no](http://www.hugin.no)).

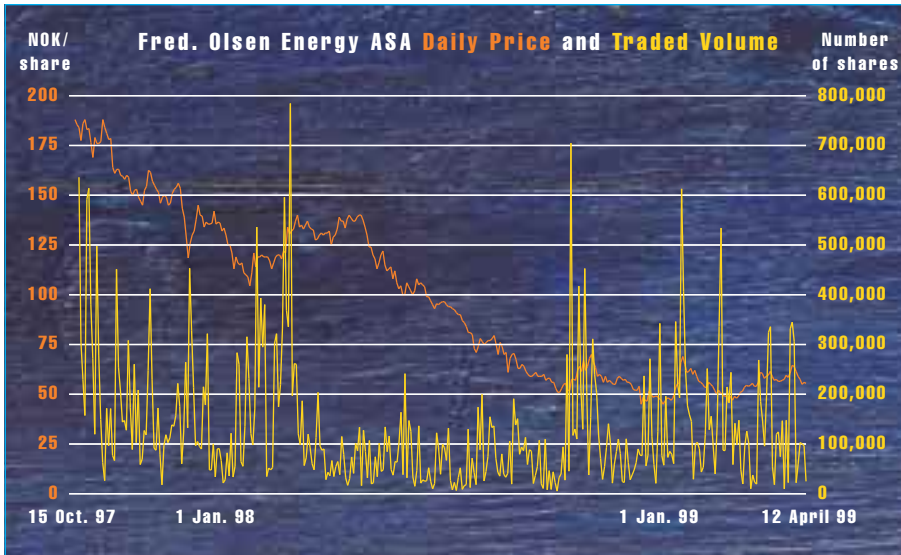
Fred. Olsen Energy also provides shareholders, investors and analysts with Company presentations domestically and internationally.

The tentative Financial Calendar for 1999 is as follows (subject to change):

1st quarter results	End May
2nd quarter results	End September
3rd quarter results	End November

The Preliminary Annual Report 1999 is planned to be issued in February 2000.





- 1998 High 156.00 on 5 January
- 1998 Low 46.50 on 10 December and 23 December
- 1 January 1998, opening 154.00
- 31 December 1998, closing 47.00
- Average Daily Volume 113,000 shares

**Investor Relations**

Ola T. Gjørtz, Chief Financial Officer,  
 Phone: +47 22 34 12 41  
 Per Sølberg, Financial Manager,  
 Phone: +47 22 34 12 49  
 e-mail: adm@fredolsen-energy.no

## Associated Companies

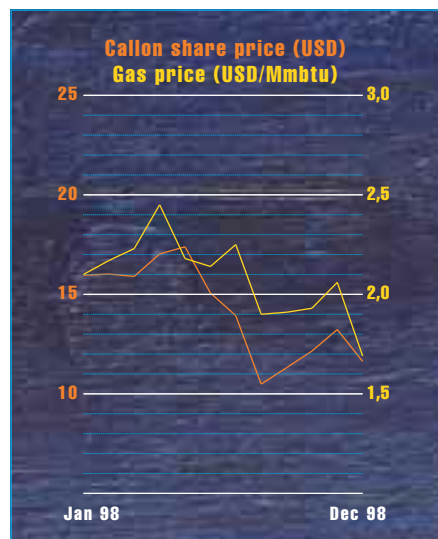
**Callon Petroleum Company**

Callon Petroleum is a US independent exploration and production company traded on the New York Stock Exchange. Total market capitalisation as of 22 March 1999 amounted to USD 88 million. At the end of 1998, Fred. Olsen Energy held 22.5 % of the common shares of Callon Petroleum.

Callon Petroleum's strategy is based on a risk-balanced exploration and development programme in the US Gulf of Mexico, which encompasses lower risk bright spot drilling in the shallow waters, medium risk exploration and development on the shelf and high-risk and high-reward exploration in the deep waters.

Recent drilling successes in all areas of operation led to a positive assessment of Callon from the investing community. However, low oil and gas prices necessitated a write-down

of approximately USD 30 million (20%) on its reserves assets as of 31 December 1998. Fred. Olsen Energy incorporates its part of the write-down in the accounts for 1998.

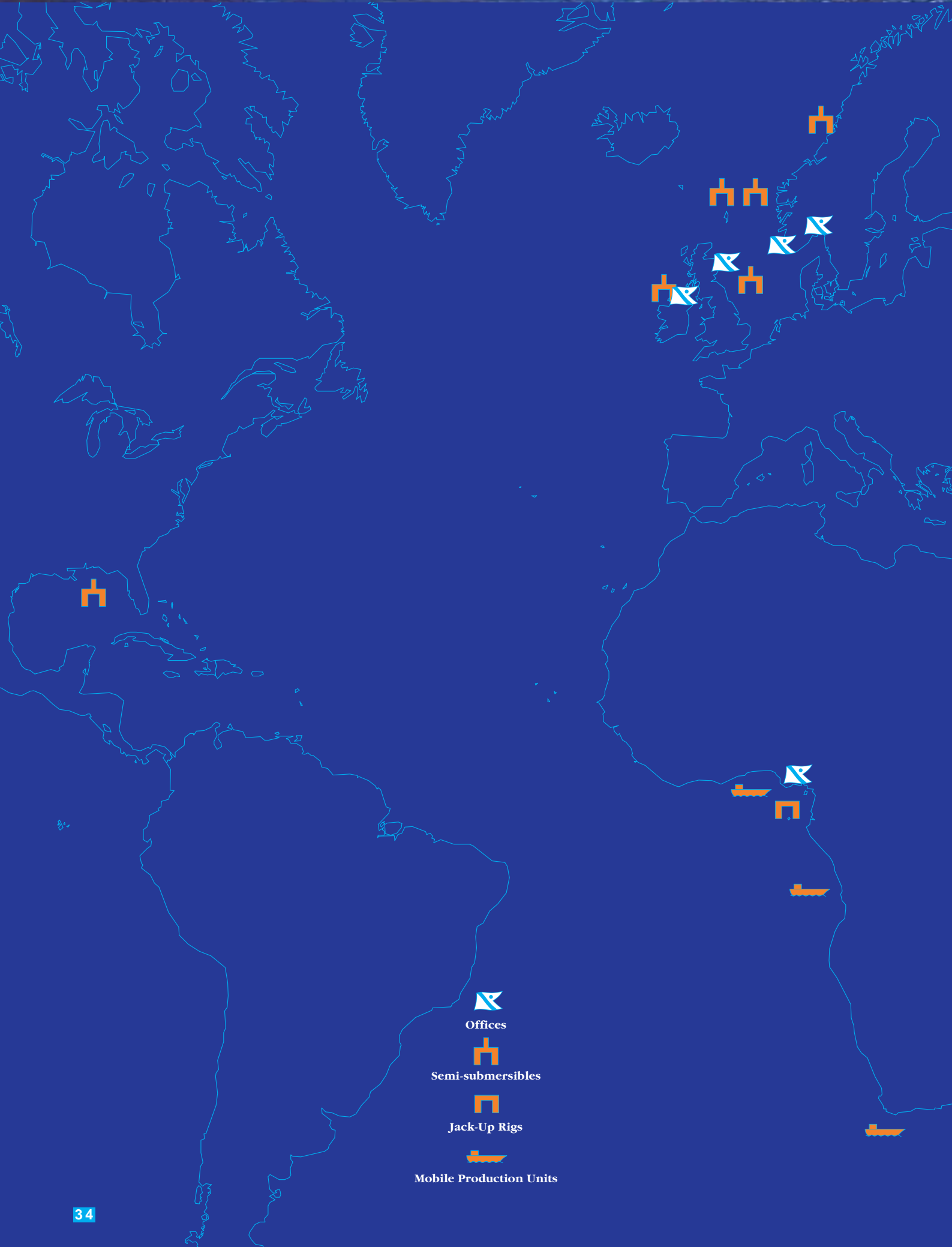


**Wind farms**

Fred. Olsen Energy has a 50% ownership interest in Windy Standard Limited, a wind farm in Scotland, with an installed output of 20 MW. Windy Standard is owned on a 50/50 basis with National Windpower Ltd., which has the operational responsibility. The wind farm is now in its second year of operation. Technically the operation continues to be satisfactory.

The Company also has a 50% interest in the Bears Down Wind farm project, a 10 MW wind farm in Cornwall. The project is awaiting planning consent.

Harland and Wolff will continue to position itself to offer competitive design, fabrication and installation of the turbine foundations, as well as installation of the turbines for offshore wind farms.



  
Offices

  
Semi-submersibles

  
Jack-Up Rigs

  
Mobile Production Units

## Report from the Management

*Fred. Olsen Energy comprises long-established business activities in offshore drilling, floating production and fabrication services. The Company primarily focuses on the Atlantic Basin, with most of its present operations in the North Sea and West African waters. At year end the Company employed 2,833 people onshore and offshore.*



Fred. Olsen headquarters, Oslo

Fred. Olsen Energy has the industrial experience, technical expertise and financial strength to compete for, and execute major offshore service contracts within drilling, floating production, and engineering and fabrication. Such contracts are offered on a separate basis as well as on an integrated Build, Own and Operate basis to the oil industry.

The Corporate management of Fred. Olsen Energy has key functions related to the overall management and co-ordination of Group companies and presently employs nine people. Additional legal and administrative assistance is obtained through service agreements with Fred. Olsen & Co, as well as other external companies, when called for.

### Management focus

In addition to developing the business and day-to-day operation, a significant part of the management's attention has during the last year been given to the rebuilding and conversion of the Company's two semi-submersibles, Bideford Dolphin and Borgland Dolphin, into modern, new drilling rigs certified for operations in Norwegian waters. These conversions have proven to be considerably more complicated, time consuming and costly than anticipated when originally contracted for. After completion these rigs will be operated under long-term contracts with Saga Petroleum and Statoil for seven years and six years, respectively.

The long-term ambitions and goals of the Company remain unchanged. Fred. Olsen Energy is offering its worldwide experience in offshore drilling, floating production, engineering and fabrication to the offshore oil and gas industry. A strong balance sheet and a wide spectrum of services are providing the Company with a competitive edge in the ongoing restructuring of our industry and will continue to ensure Fred. Olsen Energy as an attractive premier supplier to the oil industry.

The Company's management is being further strengthened in order to define, coordinate and control larger offshore projects.

The uncertainty of the developments of the oil price and exploration activities have called for a need to focus on cost efficiency and product development in order to stay at the forefront as a preferred service supplier.

# Offshore Drilling



*Semi-submersible Byford Dolphin*

## Rig Operations

With its long experience in drilling operations and the focus on its core businesses of rig and well service operations, Dolphin is well prepared to continue providing services to the oil companies, including the operation of Bideford Dolphin and Borgland Dolphin.

## Borgny Dolphin

In early 1998, Borgny Dolphin mobilised from the North Sea to the South Atlantic to drill in the remote waters off the Falkland Islands. Four operators, Amerada Hess, Shell, Lasmo and IPC, entered a sharing agreement to facilitate the Falkland's exploration programme. Amerada Hess took a lead role and contracted the Borgny Dolphin for a three-year period.

Many challenges were faced during this operation including water depths in excess



*Semi-submersible Borgny Dolphin*

of 1,500 feet, a lack of local oil field infrastructure, difficult support logistics and the harsh environment of the South Atlantic. Despite these difficulties the six-well work programme was completed successfully and ahead of schedule. The rig thereafter carried out a one-well programme off Argentina for Total. Borgny Dolphin is currently working for Amerada Hess in the United States' Gulf of Mexico.

## Borgsten Dolphin

The rig worked all of 1998 for Kerr McGee in the central North Sea UK sector, undertaking a varied drilling and subsea completions programme. A major part of this programme has been on the Janice Field. Investments over recent years have made the rig ideally suited for exploration and development drilling in conventional water depth areas of the North Sea.



*Semi-submersible Borgsten Dolphin*

In April 1999 agreement was reached with Kerr McGee for continued operation in the central North Sea, at renegotiated lower rates.



*Semi-submersible Byford Dolphin*

**Byford Dolphin**

In October, Byford Dolphin began a four-year contract with Statoil, having previously worked for a consortium headed by Statoil and comprising Mobil, Conoco, Amerada Hess and Deminex. The rig was further upgraded and modified in 1998. Two new operator cabins were installed on the 40-ton deck cranes. An additional accommodation module and a closed drain system were also installed.

**Borgila Dolphin**

Borgila Dolphin is an Aker H-3 semi-submersible rig specially modified for use as a Tender Support Vessel and is contracted long term to Norsk Hydro. The rig serves as a mud and cement processing and accommodation unit. It is currently working alongside the Oseberg East platform, having also been hooked up to the Oseberg-C and

Brage platforms. Further modification work was carried out on the rig in 1998, including the addition of a new accommodation unit increasing the bed capacity to 106 persons, a new helicopter deck and a temporary cement unit which can pump cement via a pipeline system over the gangway to the platform. These enhancements further strengthen Borgila Dolphin's status with Norsk Hydro as a long-term support unit.

**Well Service Operations**

Dolphin has actively participated in and been a major player in developing the specialist hydraulic workover (commonly referred to as 'snubbing') market in Norway since the mid-1980's. The equipment is typically used for the workover or repair of existing production wells and offers a number of specialist advantages over conventional workover equipment. Statoil, Saga Petroleum, Norsk Hydro, Shell, Phillips Petroleum and BP all feature as clients in 1998.

The appreciation of new technology plays an important role in Dolphin's strategy for the future of its well services activity. In 1998, Dolphin took delivery of two new technically advanced Snubbing Units increasing the number of units to five, thus consolidating Dolphin's position as the leading contractor for hydraulic workover snubbing services in the North Sea.

Dolsnub 4 was developed to perform drilling operations, completion and other heavy workovers on fixed installations, normally performed by a full-size drilling rig. The unit was built in accordance with the

latest rules and regulations for operating on the Norwegian Continental Shelf. This includes full remote control and automatic pipe-handling. Dolsnub 4 is at present performing plug and abandonment operations for Phillips Petroleum in the Norwegian sector of the North Sea.



*Snubbing unit Dolsnub 4 before starting work in the Norwegian sector*

Dolsnub 7, a rig assist hydraulic Snubbing unit, was specifically developed and built to support underbalanced drilling (UBD) operations. Dolsnub 7 is remotely controlled and is operated in conjunction with the main drilling facility when the drillstring enters the pressurised production zone. Dolsnub 7 is currently operating for Shell UK in the southern sector. UBD is still in its infancy in the North Sea and is seen as an area with considerable growth potential.



*Semi-submersible Borgila Dolphin*

# Floating Production



*FSO and shuttle tanker Knock Dee in operation at the Oribi field offshore South Africa*

## Angola

In June, first oil was produced from the Floating Production Storage and Offloading (FPSO) vessel *Petróleo Nautipa*. This FPSO is owned and operated jointly with Nortrans Offshore Ltd., Singapore, and is under a 4-year charter with Ranger Angola Ltd. on Block 4 offshore Angola. The conversion project was successfully completed within



*FPSO Petróleo Nautipa offshore Angola*

time and on budget. Export offloading of oil is carried out in tandem from the spread-moored fixed heading vessel. The FPSO has a production capacity of 30,000 barrels of oil per day and an oil storage capacity of approximately 1 million barrels.

## South Africa

The *Knock Dee*, chartered to SOEKOR under a 4-year bareboat contract as an FSO/Shuttle tanker for the Oribi Field, is operating in accordance with financial and technical expectations. Export of oil is done by the FSO disconnecting from the single point mooring buoy and shuttling to the nearby refinery for offloading. *Knock Dee's* operational regularity since commencement in March 1997 has been higher than expected.



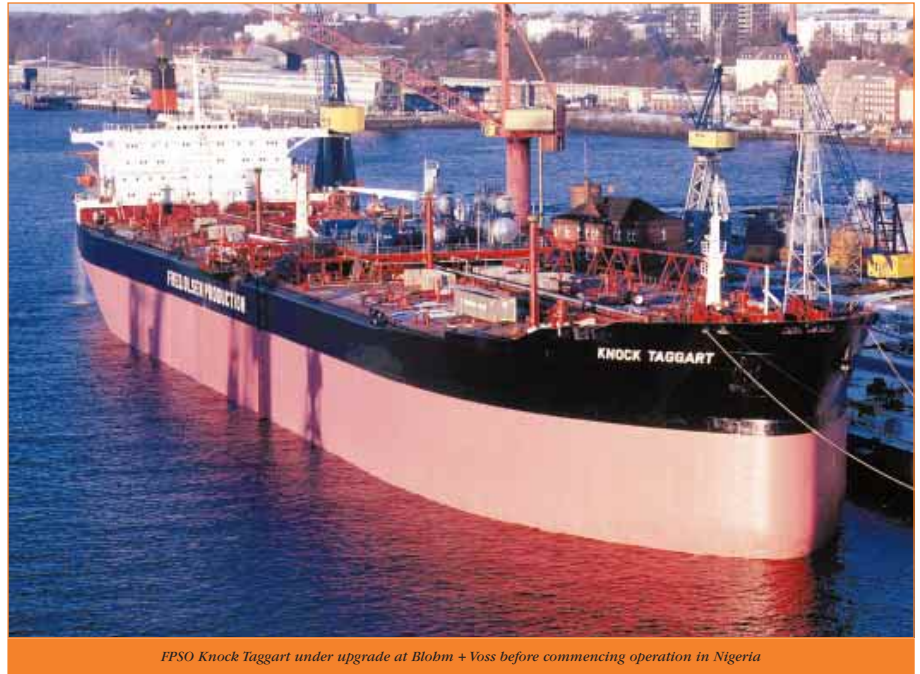
*FSO and shuttle tanker Knock Dee*

## Nigeria

Due to a faster than expected decline in production from the Ima field, the 5-year charter for *Knock Taggart* was terminated by mutual agreement with Abacan Resource Corporation in August. At the same time FOP entered into a minimum five-year contract with Addax Petroleum for the use of *Knock Taggart* as an FPSO. The modification of the

vessel including installation of a new processing facility, took place at Blohm + Voss Repair GmbH, Hamburg during a 3-month yard stay. Knock Taggart was back in Nigerian waters and commenced production in February 1999.

The processing plant onboard Knock Taggart are acquired under an operating lease with Expro Gulf Limited. In addition to its role as a production unit for Addax Petroleum, Knock Taggart receives, stores and offloads oil from another nearby field operated by Brass Petroleum. Knock Taggart is spread moored with a fixed heading and the offloading of oil is done to export tankers in a tandem configuration through a floating hose. The FPSO has a production capacity of 30,000 barrels of oil and 30,000 barrels of water per day with storage capacity of 1.0 million barrels.



*FPSO Knock Taggart under upgrade at Blohm + Voss before commencing operation in Nigeria*



*Jack-up Borgen Dolphin offshore Nigeria*

The jack-up Mobile Offshore Production Unit – (MOPU) Borgen Dolphin was partially idle during 1998. The goal is to secure a long-term production charter for the MOPU. The unit is jointly operated with Schlumberger, who owns the 40,000-bpd capacity oil processing facility on board. In lieu of a production contract, FOP secured a number of short-term accommodation and field support assignments which provided a small profit during the year.

### **The North Sea**

FOP was awarded and executed a Front End Engineering Design (FEED) study for Croft Offshore Oil Ltd. in respect of the Dolphin project in the UK. During the course of this engineering study, a low-cost FPSO solution for a southern North Sea application involving several fields was developed. However, due to decreasing oil prices a possible development remains to be approved.

### **Outlook**

Since its start-up in 1994, FOP has successfully developed five projects with four units now located offshore South- and West Africa. This places the Company in a good position in this steadily growing market. Further, FOP is actively promoting new lease proposals in various water depths, including the use of dynamically positioned tankers. Through direct access to a variety of suitable second-hand and new-built vessels, FOP is prepared to customise floating

production solutions at short notice and on a competitive lease basis. FPSO/FSOs are offered either with integrated turrets or conventional spread mooring.

Extensive knowledge and contacts/relationships throughout the equipment industry, as well as established contract partners in the supply industry, underline the preparedness and flexibility of Fred. Olsen Production, which should be well positioned for future developments and further commitments within this growing segment of the offshore service industry.

# Engineering and Fabrication

# H & W



*Semi-submersible Borgland Dolphin and deepwater drillsip C.R.Lugis under construction in the Building dock at H&W*

### Highlights

In 1998, Harland and Wolff (H&W) continued its restructuring into an offshore fabrication yard and maintained full employment throughout the year. The Bideford Dolphin left the yard in August. The conversion of the sister rig Borgland Dolphin progressed alongside work on two deepwater drillsips for Global Marine International Service Corporation, a subsidiary of Global Marine Inc.

Further developments of the yard infrastructure will support the concept of creating an industrial hub that will benefit the offshore capabilities.

It should, however, be noted that new orders are needed at Harland and Wolff during 1999 if satisfactory employment of the yard is to be maintained.



*FPSO Schiehallion before leaving H&W*

### Schiehallion

1998 started with Schiehallion, the world's largest new built FPSO vessel, leaving the yard. The vessel is constructed to meet some of the most demanding offshore environments on the Schiehallion field west of Shetland. With impressive dimensions including a daily production capacity of 180,000 barrels of oil, storage capability of 950,000 barrels and a wide range of engineering fea-

tures for reducing emissions and conserving energy, Harland and Wolff is proud to have participated in the execution of the timely delivery of the Schiehallion project.

The complete FPSO was designed and constructed by a partnership of the companies Brown and Root Energy Services Ltd., SBM



*Semi-submersible Borgland Dolphin under conversion at H&W*



and Harland and Wolff. Harland and Wolff was responsible for FPSO hull design and fabrication and outfitting and completion at the yard.



Semi-submersible Bideford Dolphin before leaving H&W

### Rig Conversions

Over the year, substantial resources were devoted to the finalisation of the Bideford Dolphin, which left Harland and Wolff in August, and Borgland Dolphin, planned for sea trials in May 1999. Both conversion contracts involved substantially more work and time than originally envisaged. This was a mainly caused by continued third party design development and changes to the original scope of work.

### Global Marine Drillships

In February and March, Harland and Wolff was awarded two prestigious deepwater drillship contracts from Global Marine Inc., each valued at more than USD 300 million, of which more than 75% is the responsibility of H&W. Together these represent the

largest order ever won by the yard.

Following keel lay of the first drillship in September; substantial activity was focused on the building dock to support hull erection. Work also progressed on the second drillship for which keel lay took place in March 1999.



Glomar 456 dypvannsboreskip blir bygget på Harland & Wolff

The two sophisticated, double-hulled vessels are designed to operate in up to 12,000 feet water depth and are equipped with innovative drilling solutions. The design encompasses the highest standards of safety and efficiency. Deliveries are scheduled for the 4th quarter of 1999 and the 1st quarter of 2000.

### Ship Repair Work

Harland and Wolff has secured a contract from the major French offshore company, ETPM, to convert the Derrick Lay Barge Polaris, for operations in deepwater locations. Polaris arrived at the yard in February 1999 and is expected to remain until mid-year 1999. An order was also obtained from VSEL Ltd. for the fabrication of steel weldments, totalling 5,600 tonnes, for incorporation into two Auxiliary Oiler (AO)

tankers being constructed for the Ministry of Defence (MOD). Delivery of all units for the first vessel was completed during 1998, whilst deliveries of the second vessel weldments are to be phased through 1999.

Contracts were won for the drydocking and refit of the two innovative HSS high-speed ferries. This is the first occasion that such work had been awarded to any yard other than the original builder.

### Alternative Energy







As part of Fred. Olsen Energy's engagement in renewable energy projects, Harland and Wolff started preparations for design, installation and operation of offshore wind farms. An initial contract was secured for the design and installation of two anemometer masts to be erected off the UK coast to record wind data. Harland and Wolff's facilities and location are also being marketed as a possible hub for turbine fabrication and assembly. This new industry may, if the UK Government's ambitions are achieved, be substantial in the long term.

### Events





Harland and Wolff was named the overall winner in the United Kingdom NatWest/Financial Times Export Excellence Awards for 1998, and it also won the regional category for Scotland and Northern Ireland. Awards are presented to those companies that clearly demonstrate a commitment to exporting and show excellence and professionalism in their approach to it.

Contract Survey (1996 – To Date)			
Name	Type	Customer	Completion
Knock Muir	Oil Tanker	First Olsen Tankers Ltd.	Feb 1996
Knock An	Shuttle Tanker	First Olsen Tankers Ltd.	Oct 1996
Glas Dour	FPSO Conversion	Bluewater	Dec 1996
Schiehallion	FPSO Newbuilding	BP Exploration & Partners	Jan 1998
Bideford Dolphin	Semi – Submersible Upgrade	Fred. Olsen Energy (Saga Petroleum)	3q 1998
Borgland Dolphin	Semi – Submersible Conversion	Fred. Olsen Energy (Statoll)	2q 1999
Glomar C.R. Luigs	Deepwater Drillship	Global Marine (Bhp Petroleum)	4q 1999
Glomar Jack Ryan	Deepwater Drillship	Global Marine (Exxon International)	1q 2000

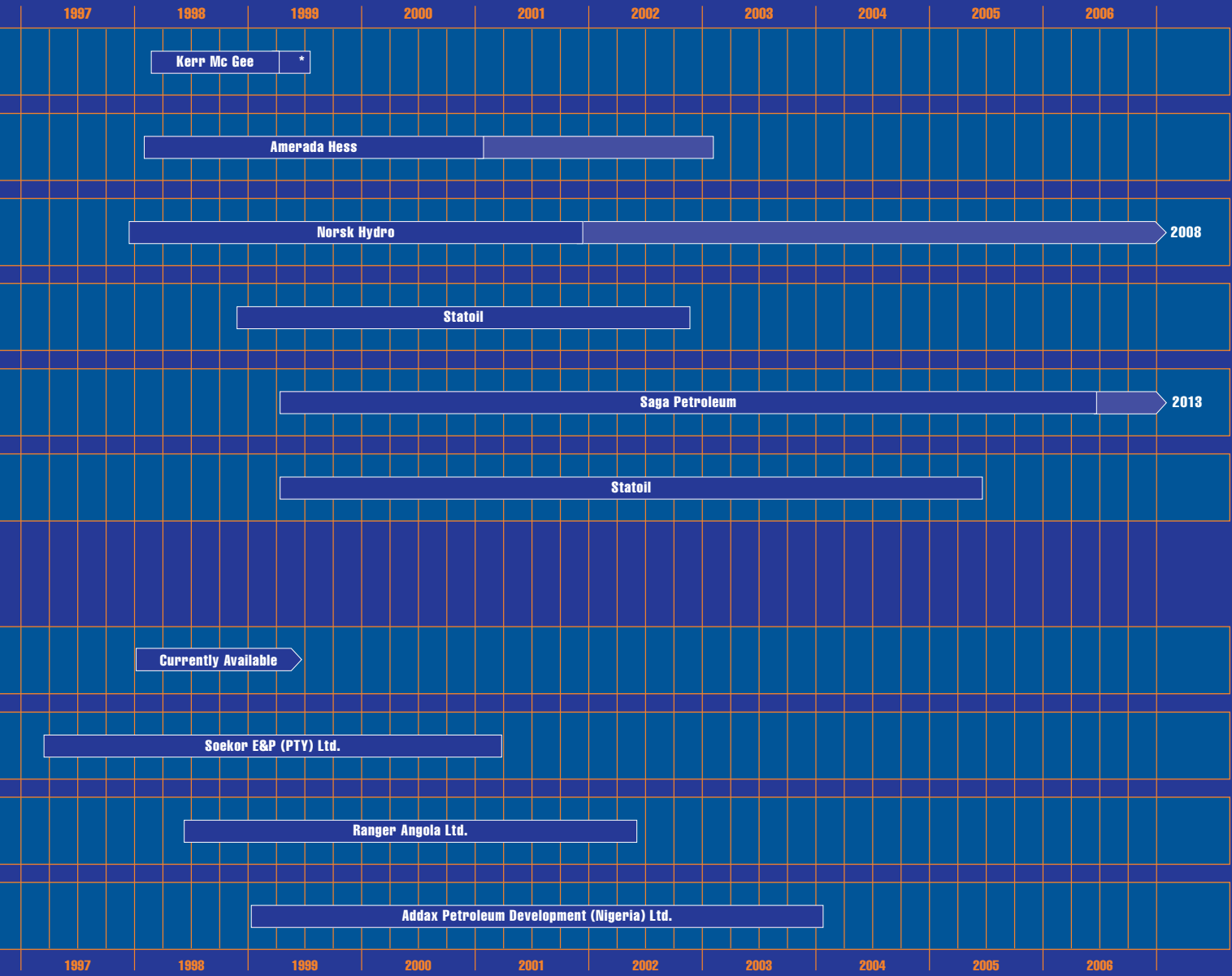
# Fleet Overview

Semi-submersibles	Type	Operation	Built year / upgrade	Water depth	Features	Drilling unit	Dayrate	
	<b>Borgsten Dolphin</b>	Aker H-3	UK, North Sea	1975 /-85/-95	1,500 feet	1x50 + 1x40 deck cranes 10,000 psi	MH 160 ft	GBP 74,000 GBP 31,000*
	<b>Borgny Dolphin</b>	Aker H-3	US, Gulf of Mexico	1977 /-85/-91/-92/-97	1,650 feet	2x50 tons deck cranes 10,000 psi	Continental Emsco 170 ft	GBP 76,000
	<b>Borgila Dolphin*</b>	Aker H-3	Norway, North Sea	1977 /-91/-98	1,500 feet	1x50 tons + 1x25 tons	-	NOK 328,000
	<b>Byford Dolphin*</b>	Aker H-3	Norway, North Sea	1979 /-85/-90/-96/-98	1,500 feet	2x40 tons deck cranes 15,000 psi	Continental Emsco 160 ft	USD 150,000
	<b>Bideford Dolphin*</b>	Aker H-3	Norway, North Sea	1975 /-98	1,500 feet	1x40 tons + 1x70 tons 10,000 psi	RamRig	
	<b>Borgland Dolphin*</b>	Aker H-3	Norway, North Sea	1976 /-99	1,500 feet	1x40 tons + 1x70 tons 15,000 psi	RamRig	USD 145,000

## Mobile Production and Storage Units

	<b>Borgen Dolphin</b>	MOPU, Jack-Up	Offshore Nigeria	1979 /-95	200 feet	40,000 BOPD production		
	<b>Knock Dee</b>	FSO/Shuttle	Offshore South Africa	1974 /-97		0.95 mill. barrels storage	-	USD 14,100 (Bareboat)
	<b>Petróleo Nautipa</b> (49.9%)	FPSO	Offshore Angola	1974 /-98		1.08 mill. barrels storage 30,000 BOPD production	-	USD 33,350
	<b>Knock Taggart</b>	FPSO	Offshore Nigeria	1974 /-98		1.04 mill. barrels storage 30,000 BOPD production	-	n/a

\* Rates are subject to escalation. Bideford Dolphin rate is subject to discussion with Saga.



Firm Contract
  Options

## Our New State-of-the-art Rigs



*Semi-submersible Bideford Dolphin  
with the new RamRig installed*

### Bideford Dolphin and Borgland Dolphin

The number of semi-submersible drilling rigs worldwide totals some 140, of which 47 are currently located in the North Sea. The conversion of the Bideford Dolphin and Borgland Dolphin into new, modern rigs equipped with the latest technology represents the first new equipment being commissioned for work in Norwegian waters since 1983.



*Commissioning work on board Bideford Dolphin*

The Bideford Dolphin and Borgland Dolphin semi-submersibles are designed to operate in the demanding environment of the Norwegian sector and will comply with the latest Norwegian rules and regulations, regarded as the most stringent in the world.

State-of-the-art technology has been employed throughout the rigs and ergonomics have played a major role in design and layout. The new layout has the advantage of creating large deck areas well protected from harsh environmental conditions. Both rigs are equipped with RamRig drilling units, an innovative and completely new design for safe and automated drilling operations.



*RamRig viewed from the deck at Bideford Dolphin*

The Bideford Dolphin and Borgland Dolphin rebuilds are based on Aker H-3 semi-submersible hulls. The rigs have been complete-

ly stripped down to the main deck and rebuilt with new drilling equipment, accommodation, deck and column extensions, resulting in a totally new layout compared with conventional Aker H-3 design drilling rigs.



*New mud room at Bideford Dolphin*

Equipped with new power generation, cables, piping, electrical systems, accommodation unit, etc., the rigs are well prepared for servicing oil companies' drilling requirements for decades to come.



*New mud pumps at Bideford Dolphin*

Both rigs feature three 1,600 hp mud pumps, Maritime Hydraulics topdrive and advanced subsea tree handling capability. The Bideford Dolphin has a 10,000 psi BOP while Borgland Dolphin is equipped with a 15,000 psi BOP. The rigs are both specified to undertake lengthy subsea field development programmes and their design features are aimed at increasing efficiency during the drilling phase and also when running subsea trees and completing wells for production. The drilling of subsea wells has grown rapidly in recent years and is expected to form an increasing part of the future workload of all mobile rigs. The Borgland Dolphin's 15,000 psi BOP will also give it the added versatility of being able to undertake activity on high-pressure wells.



*New, modern mess room on board Bideford Dolphin*

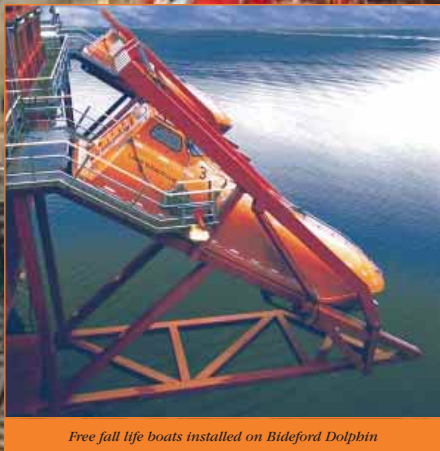
A safe working environment has been paramount in the design, selection and layout of the drilling and drilling-related equipment. The drillfloor equipment is fully automated, keeping the number of personnel required at any one time to a minimum. The drillfloor area is open with a good overview from the drilling control module.

A high standard of quality has been built into the accommodation and control, (Bridge) module, which also houses the sick bay; mess rooms and exercise room. The bridge is outfitted with the latest in navigation equipment, communications, ballast control, emergency shutdown, propulsion and helicopter control. The accommodation is outfitted with modern comfortable cabins and functional spacious lounges. These comply with the latest regulations and will ensure that the Bideford Dolphin and Borgland Dolphin crews have access to 'hotel standard' facilities that are the best available.

Environmental considerations have resulted in the specification of a closed drain system whereby all potentially polluting liquids are collected for transport by supply boat to shore. Waste oil, chemicals, galley waste and general refuse will all be handled by storage and shipping to shore.

The complexity of these rigs, in combination with the innovative specification and demanding Norwegian regulations, have all contributed to the delays that the Bideford Dolphin and Borgland Dolphin projects have experienced. However, once in service, we are confident that these rigs will quickly be recognised as offering considerable advan-

## Our New State-of-the-art Rigs (cont.)



Free fall life boats installed on Bideford Dolphin

Semi-submersible Borgland Dolphin under conversion at H&W



*Main control room/bridge on board Bideford Dolphin*



*The RamRig control room.*

tages ensuring a strong future on the Norwegian Continental Shelf, both with their existing clients and contracts and beyond.

### **The RamRig Concept**

This flexible and highly automated drilling concept was introduced by Maritime Hydraulics (an Aker Maritime subsidiary) in

1987. A number of studies made in cooperation with British Petroleum and Saga Petroleum, among others, led to the RamRig concept that is known today. Maritime Hydraulics' innovative RamRig drilling package has been specified for the two upgraded rigs. The Bideford Dolphin is the first semi-submersible to operate with this sys-



*The RamRig viewed from Deck*

tem, which is currently drilling on the fixed platform, Oseberg East.

Instead of a conventional drawworks, derrick and compensation system, the RamRig features twin hydraulic load bearing rams attached to hoisting wires and a travelling yoke held within a guide tower. Active motion compensation is integrated into the system. Riser and tubulars are racked vertically on setback areas below the drill floor and the system features automated handling throughout.

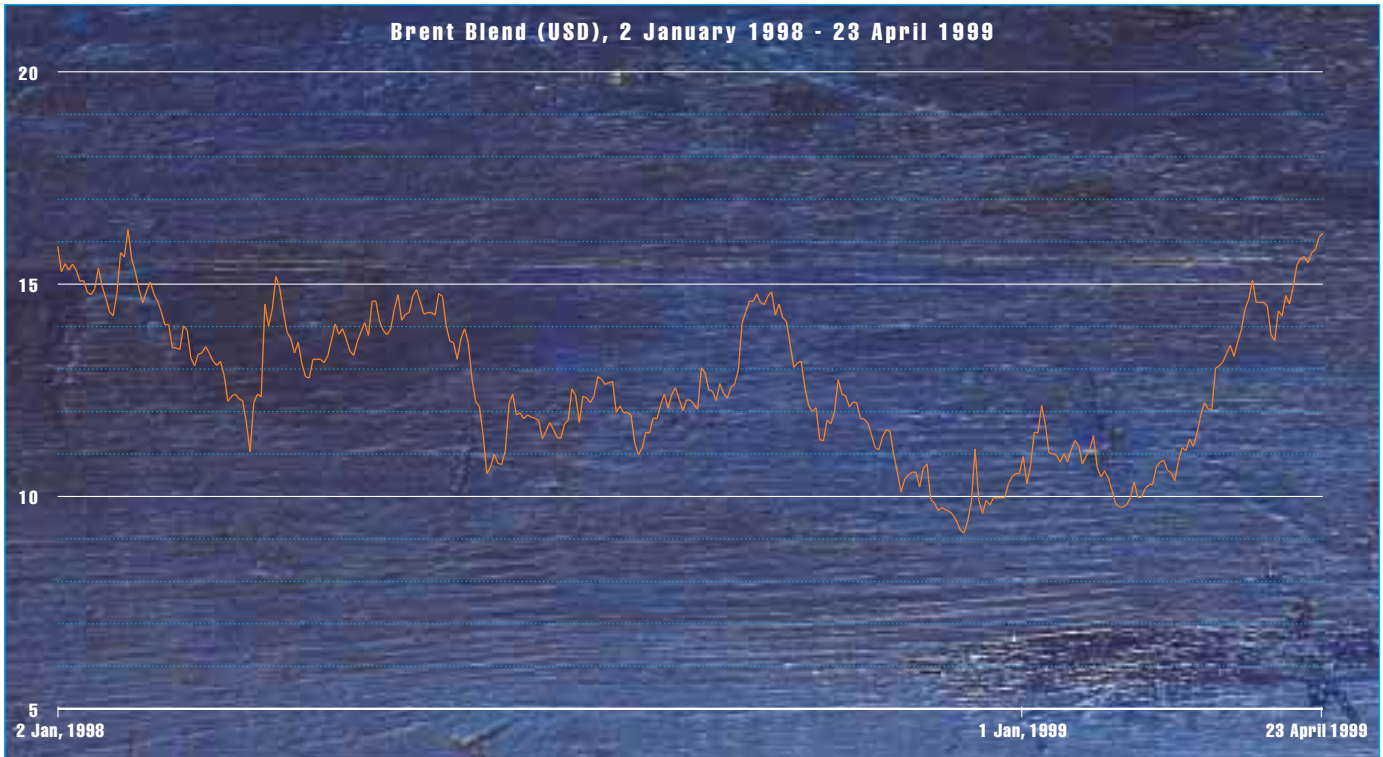
The hydraulic system incorporates a piston accumulator that can be charged while lowering load. The charged energy can be used during the next hoisting sequence, thus helping to reduce energy consumption and environmentally harmful emissions.

The RamRig concept has decreased the number of critical mechanical components in the hoisting system to a minimum. A dedicated mode is provided for long-term passive compensation, in order to improve safety during operations where the drill string is connected to the wellhead or downhole.



*The hydraulic RamRig unit.*

# Serving the Offshore Market



## General Market Outlook

The recent downturn in the oil price has led to cash constraints and reduced profitability for the oil companies. The oil companies are streamlining their core activities, implementing cost-reducing measures and focusing on cash-generating activities. This has again severely affected the activity level in the offshore service industry, with few newbuilding contracts, reduced capacity utilisation and pressure on day rates as a result. The whole



FOBOX (new design): Combining drilling and production capabilities with storage and offloading capabilities

industry is thus again going through a major change. This environment presents new and important challenges to the first line service providers in the oil industry.

The changes in all of the offshore industry also lead to shifts in work patterns and division of work between the oil companies, large contractors and their sub-contractors. Clear definitions of responsibilities and performance requirements, as well as balanced risk/reward schemes, will have to be successfully implemented. This is necessary in order to create an environment in which technological innovations may be developed and implemented. It is also imperative for the cost-effective use of human, technical and financial resources in the search for and development of the offshore resources for the benefit of host countries, the oil industry and the consumers.

Although short-term considerations for the time being seem to be dictating the agenda of all players in our industry, the long-term perspectives must not be forgotten. The world's demand for petroleum is steadily increasing in spite of the economic slowdown in certain

parts of the world. Technological improvements and new developments will continue to shape the future of the offshore industry.

The search for oil and gas is moving into deeper waters where prospects continue to be good for making larger discoveries that should allow for profitable exploitation in the years to come. Recent technological advances in this area have opened up for the full and cost effective use of floating production systems. As a consequence, a large number of production wells will be drilled from mobile units capable of operating in deep water in the future. This will significantly increase the demand for specialised drilling and completion services.

## The Long-term Offshore Provider for the Future

For a successful offshore company it is first and foremost a matter of providing top-quality operating performance to the oil companies and adhering to the highest quality and safety standards.

Continuous adaptation to industrial changes demands flexibility and financial strength,





Fred. Olsen Energy is offering the market a state-of-the-art deep-water drillship design capable of operating at 10,000 feet.



New design, GVA 5800 for deepwater semi-submersible drilling rigs.

while at the same time allowing for efficient operation and execution of present contracts, as well as further development of competence.

As a large and diversified offshore contractor, Fred. Olsen Energy is well situated to service the offshore oil and gas operators now and in the years to come. Focus is maintained on being a significant player within each of the Company's three operating divisions: Drilling, Floating Production and Engineering and Fabrication.

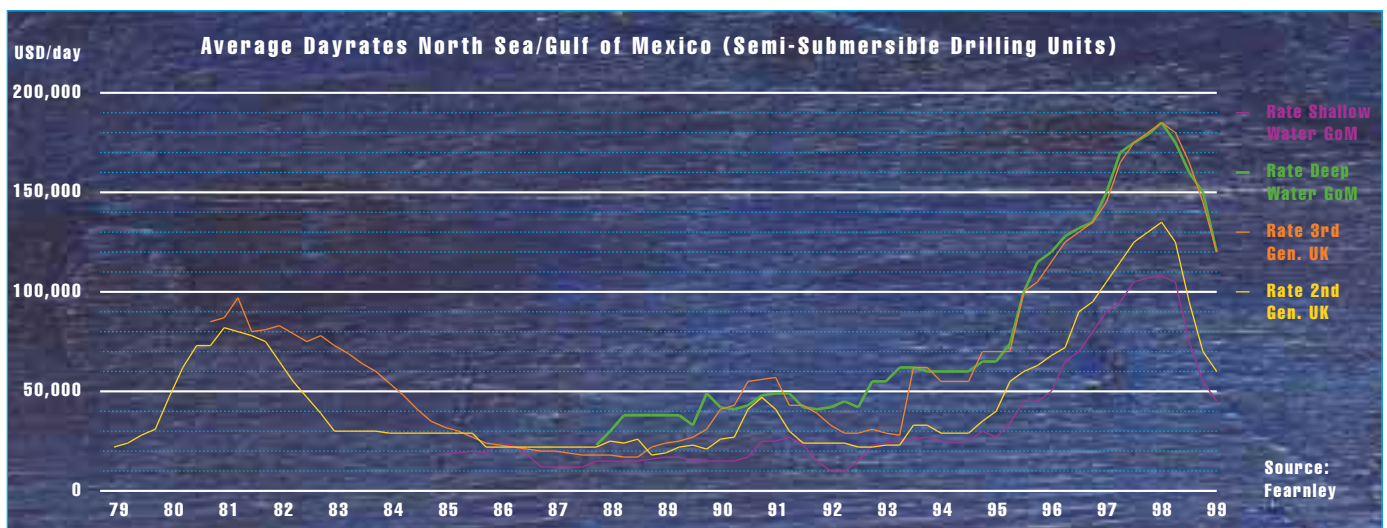
In particular, Fred. Olsen Energy is following the oil companies' requirements related to present and future offshore discoveries and

developments in deeper waters off West Africa, Brazil and in the US Gulf. It is expected that new drilling and production units will be required to bring these reserves to the world markets. The Company's efforts in developing new, innovative solutions for floating production will be continued. The FOBOX exemplifies a proprietary concept combining the abilities of semi-submersible rigs with those of production vessels with storage capacity.

The Company also has its own state-of-the-art design for a deepwater drillship capable of operation in 10,000 feet of water. In addition, the Company has entered into a

licence agreement with GVA Consultants AB giving access to a range of well respected designs for deep water semi-submersible drilling rigs.

The unique combination of offshore service and fabrication gives Fred. Olsen Energy the ability to compete for and successfully execute major offshore service and fabrication contracts on a separate, as well as integrated Build, Own and Operate basis. The Company aims to stay at the technological forefront in the industry and will continue to service the offshore industry as a premier supplier and first line provider in the years ahead.



## Words and Expressions

*For the convenience of the reader, a glossary of certain technical and other terms contained in this Annual Report, is included below:*

**"Aker H-3 "**: A semi-submersible design developed by the then Aker-Group in the early 1970's.

**"Bareboat Charter"**: Rental or lease of a vessel where the lessee is responsible for the crew, stores, provisions and all technical operating costs.

**"Barrel"**: A trading unit for oil producers. One barrel equals 42 US gallons or approximately 159 litres.

**"Christmas Tree"**: An oil well control device consisting of an assembly of fittings placed at the top of the well.

**"Dead-weight"**: A measure for the carrying capacity of a tanker, including cargo, bunkers stores and fresh water, when loaded to the permitted load marks. The capacity is measured in metric tons.

**"Deckload capacity"**: Capacity for loading of equipment on board.

**"Dynamic positioning"**: Automatic station keeping system using thrusters allowing a vessel to stay in position without anchors.

**"Exploration Drilling"**: Drilling wells to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil and gas in another reservoir or to extend a known reservoir.

**"Floating Production"**: An oil and gas production technique whereby a vessel substitutes for a fixed platform in terms of receiving,

processing, storing and onward transportation of oil and gas. Floating production involves subsea installations connected to a moored vessel, which can be either a traditional monohull vessel, a semi-submersible rig or, in shallower water, a jack-up rig.

**"FOBOX"**: New combined vessel for offshore drilling, production and storage. Under development.

**"FPSO"**: Floating production, storage and offloading (FPSO) vessels are equipped for oil production, processing and storage. The oil produced is discharged to shuttle tankers by means of an offloading facility on the FPSO.

**"FSO"**: Floating storage and offloading (FSO) vessels are equipped for the storage of processed crude oil that is transported through a pipeline or produced into the FSO from another vessel equipped for oil production and processing. The oil stored is discharged to shuttle tankers by means of an offloading facility on the FSO.

**"Jack-up Rig"**: Jack-up rigs are mobile, self-elevating platforms equipped with legs that are lowered to the ocean floor to support the platform. A jack-up rig is towed by tugboats to the site with its hull riding in the sea as a vessel and its legs raised. At the site, the legs are lowered until they rest on the seabed, and jacking continues until the hull is elevated above the surface of the water. After completion of operations, the hull is lowered until it rests in the water, and the legs are then raised for the rig to be relocated to another site.

**"Production Drilling"**: The drilling of production wells into a proven oil or gas reservoir.

**"RamRig"**: The registered trademark of a new type of drilling equipment using advanced technologies to perform ordinary drilling more safely. See page 47.

**"ROV – Remotely Operated Vehicle"**: An unmanned robotic vehicle used at depths for tasks where the use of divers is uncompetitive or impossible.

**"Reservoir"**: A porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers.

**"Semi-submersible Rig"**: Semi-submersible rigs consist of an upper working and living deck resting on vertical columns connected to submerged pontoons. Such rigs operate in a "semi-submerged" position, remaining afloat, off bottom in a position in which the pontoon is below the water line and the upper deck protrudes high above the surface. The rig is typically anchored in position or maintained in position by means of a dynamic positioning system, and remains stable of drilling in a semisubmerged floating position due in part to its wave transparency characteristics at the water line.

**"Snubbing"**: The process of injecting a string of tubular goods into an oil or gas well while such well is under pressure at the surface.

**"Suezmax Tanker"**: A tanker able to transit fully laden through the Suez Canal. Often defined between a dead weight of 120,000 and 175,000 metric tons, with a carrying capacity of approximately 1.0 million barrels of oil.

Consultancy & design:

REPORTER

Print:

Gronlands Grafiske



*The oldest ideogram in the symbol history of the western world adorns Fred. Olsen Energy's quarterly reports and the Annual Report for 1998. The sun symbol - a circle with a centred point - is several thousands of years old and figured already in Stone Age rock carvings. The ideogram has the same meaning in all cultures - The Sun - the ultimate source of energy.*

Cover-illustration:

Trond Nordahl

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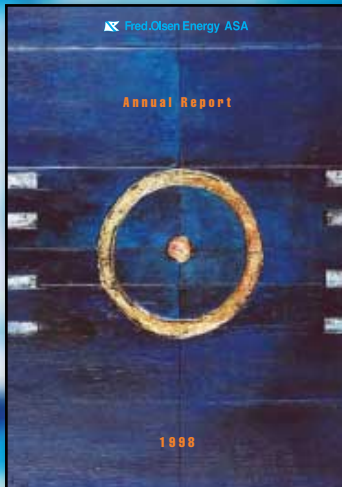


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# Fred. Olsen Energy

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- Table of Contents
- Overview
- Summary 1998
- Key figures
- Report of the Board of Directors
- Income Statement
- Balance Sheet
- Cash Flow Analysis
- Notes
- Shareholders Policy

