



FLOATEL
INTERNATIONAL

ANNUAL REPORT



2010



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Directors' report 2010

2010 – Year of Transformation

2010 was a year of transformation for the Floatel International Group (Floatel). Our objective during the year was firmly set on nurturing Floatel from a “new build project” into a fully integrated operating company. In order to achieve this we focused our attention on the following areas:

- Monitoring and supervising the construction activities at KeppelFELS shipyard in Singapore.
- Securing long term financing for Floatel Reliance.
- Securing employment for both vessels.
- Building and preparing both the onshore and offshore organizations to operate our two vessels following the deliveries in March and October.

We have successfully achieved these objectives and have reached some important milestones in building our company. During the autumn, Floatel applied for listing on the Oslo Stock Exchange, and after a successful IPO the first day of trading took place on 1 December under the ticker “FLOAT”. However, we have not lost sight of the fact that the real measure of successful performance will be in our ability to meet and exceed client expectations when the vessels now have entered into operational mode.

Financial Review

Income statement

The consolidated revenues for 2010 came to USD 25.9 million (0.5 in 2009). Most of the revenue was earned during Q2 when Floatel Superior operated 100 days for ConocoPhillips. The generated EBITDA was USD 3.0 million (-1.2). The operating expenses of USD -23.0 million include mobilization costs for Floatel Superior from Timor Lesté (offshore Indonesia) to the North Sea, and part of the mobilization for Floatel Reliance from KeppelFELS yard in Singapore to Brazil. The mobilization fees earned under charter contracts will be recognised in the income statement during the respective charter periods. Net financials for the period amounted to USD -15.0 million (0.1) whereof USD -15.2 are interest expenses, including USD -0.4 million (0) related to the ineffective portion of the cash flow hedges. Net income came to USD -21.0 million (-1.1). Fair value adjustment of financial instruments came to USD -4.0 million (5.2).

Financial position

Total assets at 31 December amounted to USD 637.7 million (463.4). Total non-current assets amount to USD 584.2 million (443.2). The increase relates to the construction and

finalization of the company's two vessels as well as upgrades to meet contractual obligations.

The Group's cash and bank reserves by the end of the period amounted to USD 48.7 million (19.9) whereof USD 14.5 million are restricted under the Superior loan and bond agreements.

The total book equity at 31 December amounts to USD 230.5 million (175.0). During 2010 the equity was increased by a total of USD 77.5 million from issuance of new shares. The increase was partly offset by the net comprehensive income of USD -25.0 million. The equity portion of convertible debt to KeppelFELS amounts to USD 3.0 million and is booked under Retained earnings/other reserves.

Total interest-bearing debt amounts to USD 374.4 million. In the reported total interest-bearing debt, prepaid loan arrangement fees of USD 8.2 million have been deducted. The fees will be expensed over the loan terms.

Net interest-bearing debt as of 31 December amounts to USD 325.7 million.

Financing

Both vessels are fully funded through the rig owning subsidiaries. Floatel Reliance with a USD 130 million senior secured term loan facility with Natixis and Swedbank, and Floatel Superior with a senior loan and a 2nd lien bond loan. The main terms of the three loans are:

Floatel Reliance USD 130 million loan facility:

- Margin – 3,75%
- Duration – 5 years and 3 months
- 8 years amortization profile
- Quarterly amortizations of approximately USD 4 million, starting 6 months after draw down
- Customary covenants
- Parent guarantee

Floatel Superior senior facility:

- Outstanding balance – USD 177.6 million
- Guarantee facility – USD 10.0 million
- Duration – 5 years
- Margin – 2,25%
- Semi-annual amortization of USD 8.1 million (starting Q3 2012)

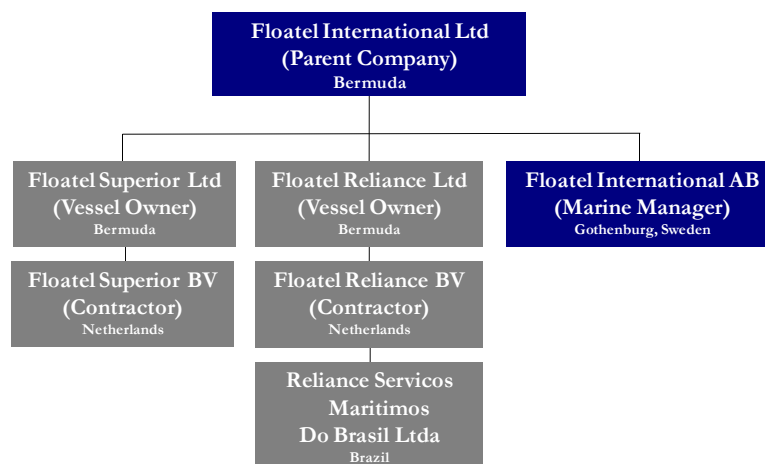
Floatel Superior bond (2nd lien):

- Amount – USD 75 million
- Duration – 5 years
- Coupon – 13%
- Call options:
 - 108,0% (2 years)
 - 106,0% (3 years)
 - 103,5% (4 years)

For more details see note 17.

Corporate Structure and Organization

Below is an overview of the legal and operational structure of the Group. All subsidiaries of the Company set out below are wholly owned by the Company.



FLOATEL INTERNATIONAL LTD.

Floatel International Ltd. is the holding company of the Group. The Company was incorporated under the laws of Bermuda as a private limited liability company on 15 September 2006 with registration number 38902.

FLOATEL INTERNATIONAL AB

Floatel International AB was incorporated under the laws of Sweden as a private limited liability company on 15 September 2006. The registration number of the company is 556711-1421. Floatel International AB has its main office in Mölndal (outside Gothenburg, Sweden) with registered address at Johannefredsgatan 4, 431 53 Mölndal, Sweden. Floatel International AB provides full onshore management support services under service agreements with the Company and its subsidiaries. The onshore

management services include, but are not limited to, marketing of the vessels, recruitment of marine crew and onshore administration services as required.

FLOATEL SUPERIOR LTD.

Floatel Superior Ltd. was incorporated under the laws of Bermuda as a private limited liability company on 26 October 2007 with registration number 40891. The company is the registered owner of Floatel Superior.

FLOATEL SUPERIOR B.V.

Floatel Superior B.V. was incorporated under the laws of the Netherlands on 14 June 2010 with registration number 50181041. The company is the charter contracting company for Floatel Superior Ltd.

FLOATEL RELIANCE LTD.

Floatel Reliance Ltd. was incorporated under the laws of Bermuda as a private limited liability company on 30 November 2007 with registration number 41165. The company is the registered owner of Floatel Reliance.

FLOATEL RELIANCE B.V.

Floatel Reliance B.V. was incorporated under the laws of the Netherlands on 14 June 2010 with registration number 50181556. The company is the charter contracting company for Floatel Reliance Ltd.

RELIANCE SERVICOS MARITIMOS DO BRASIL LTDA.

Reliance Servicos Maritimos do Brasil Ltda is a limited company incorporated under the laws of Brazil on 29 October 2010, with registration number 33.2.0880560-2. The purpose of the company is to provide local services for the execution of the charter contract with Petrobras for Floatel Reliance.

Organization

During 2010, Floatel has continued to develop its operating organization and now has a team of over 20 people working in the offices in Gothenburg (Sweden), Bergen (Norway) and Macae (Brazil).

Recruitment of offshore crew started already in 2009, and has been ongoing throughout 2010 and by the end of the year all key positions for both vessels were filled. Core crew members were employed in advance of the delivery of the vessels and posted in Singapore in order to ensure complete familiarization with the vessels prior to operational start-up. In addition, they have played an important role during the sea trials and commissioning phase. Their presence has also added valuable input to the finalization of many construction details.

All of Floatel's crew have solid previous experience throughout the offshore industry, and although Floatel is a relatively young company we are of the opinion that we are

very well prepared for operating our vessels in demanding environments, both from a contractual and regulatory point of view. We are totally committed to provide our clients with reliable services of the highest quality and we are dedicated to do so with an emphasis on safety and operational excellence.

Operations

Following a naming ceremony on 30 January 2010, "Floatel Superior" successfully completed sea-trials and was delivered on 18 March 2010. We are delighted that she was delivered 43 days ahead of schedule and within budget and we are pleased with the quality and standard of workmanship presented by KeppelFELS. Floatel Superior is the first new built accommodation vessel for North Sea environment in 22 years, specifically designed for harsh environment, and will compete with an existing accommodation fleet that is on average more than 26 years old.

The second vessel, "Floatel Reliance" was delivered on 29 October 2010, 63 days ahead of schedule and also within budget. Floatel Reliance is designed for medium harsh environments and deep waters.

In addition we are very pleased to be associated with two new building projects which were undertaken with safety as the key priority, and with no lost time incidents reported.

Contracts

In July 2009 the Company signed a contract with ConocoPhillips Pty Ltd, Australia for charter of Floatel Superior for the Bayu Undan shut down program in 2010. The charter period of 3 months commenced immediately upon delivery of the vessel and pursuant to a variation order the charter was extended to 100 days.

On 15 June 2010, Floatel Superior BV received a Letter of Intent from Statoil Petroleum AS for employment of Floatel Superior on the Oseberg field from 2011. The final contract was signed in August 2010. The estimated commencement date is early May 2011 and the initial charter period is 5 months firm with options to extend the charter in 2012 and 2013.

On 1 April 2011 Statoil exercised their option to extend the present contract from 5 to 19 months firm period commencing early May 2011. Statoil retains an option to extend this period by an additional 3 months. Statoil has declared the option for 6 months commencing early May 2013. Floatel Superior is now on firm contracts for Statoil from May 2011 until December 2012 and from May 2013 through October 2013. In addition Statoil has the option to declare a 28 months continuous firm period as from May 2011, this option to be declared latest 31 October 2011.

On 30 August 2010, Floatel Superior BV received a Letter of Intent from Talisman Energy Norge AS for employment of Floatel Superior on the Yme field. The final contract was signed on 12 October 2010. Floatel Superior has been on standby rate since early December 2010, in all respect ready to mobilize for Talisman Energy Norge AS to support the YME hook up and commissioning. Due to weather condition, Talisman decided to further delay the installation of the YME platform. As Floatel Superior needs to mobilize to Statoil early May 2011, Talisman decided to cancel the contract for Floatel Superior and the vessel will not be mobilised for the work.

On 23 September 2010, Floatel signed an agreement with Petrobras S.A. (Brazil) for the employment of Floatel Reliance for approximately 5 years. The vessel commenced the transit voyage to Brazil immediately after delivery from the yard and arrived in Rio de Janeiro on 7 January 2011. After custom clearance and final acceptance tests the charter contract commenced on 4 February 2011. Floatel Reliance was on standby rate as from 13 January up to charter commencement.

Corporate Governance

Floatel International Ltd (Floatel) is incorporated in Bermuda and therefore subject to Bermudan legislation. As a listed company on Oslo Stock Exchange, Floatel observes the Norwegian Code of Practice for Corporate Governance of 21 October 2010 (the Code).

Implementation and reporting on corporate governance

The sections of this report on corporate governance correspond to the sections in the Code. Floatel wishes to describe roles and procedures in a way that easily can be compared with the applicable rules and recommendations.

Corporate governance within Floatel is used as a tool by the directors to ensure that all shareholders are treated equally and that the Company develops to the benefit of all stakeholders. Floatel's Code of Business Conduct and Ethics is available on the company's website www.floatel.bm

Business

In accordance with normal practice for Bermuda companies, the bye-laws do not include a specific description of the Company's business. As a Bermudan incorporation, Floatel has chosen to establish the constitutional framework in compliance with the normal practice on Bermuda and accordingly deviates from the Code section 2.

Equity and dividends

When evaluating a sound level of equity in Floatel, consideration is given targets and current projects as well as the objectives of the Company. Floatel's book equity ratio at 31 December 2010 was 36,1%.

Since Floatel still is in the start-up phase and still building up a steady cash flow, dividends will not be considered in the near future. Floatel does not currently intend to purchase its own shares.

In accordance with the companies laws on Bermuda, the shareholders have resolved an authorized capital within which the board may decide to increase the issued capital at its discretion, without further shareholder approval. There is no legal framework providing for specific time limited or purpose limited authorizations to increase the share capital. The Company has chosen to comply with the normal practice on Bermuda and accordingly deviates from the Code section 3.

Equal treatment of shareholders and transactions with close associates

Floatel has only one class of shares. All shares have the same voting rights and all shareholders are treated equally.

The board assesses on a case to case basis whether independent third party evaluations are required, if entering into agreements with close associates. The board may however, due to the specific agreement/transaction, decide to deviate from the recommendation in the Code section 4 if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Guidelines on how to handle any conflicts of interest are to be found in the Company's Code of Business Conduct and Ethics.

Freely negotiable shares

All Floatel's shares are in principle freely negotiable. Following the Company's bye-laws, the board has the right to decline to register transfer of shares if such transfer would result in a Norwegian ownership exceeding 50% of the issued share capital. This right is vested with the board in order to protect Norwegian shareholders from adverse tax consequences following Norwegian regulations.

The bye-laws are available on the Company's website www.floatel.bm

General meetings

As a Bermuda registered company, the general meetings of the Company are conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings, and not through their physical presence.

The annual general meeting 2011 is scheduled for 2 June.

Notice calling the annual general meeting is published at least twenty-one days before the meeting together with resolutions to be considered as well as recommendations of

the Nomination and Remuneration Committee. The deadline for shareholders to vote via proxy will be set as close to the meeting date as possible.

The minutes of the annual general meeting will be published on the Company's website and available at the Company's offices.

Nomination committee

The Company has established a Nomination and Remuneration Committee which comprises two members of the board. The chairman of the Committee is an independent director. The mandate of the Committee is to prepare and propose new board directors, propose fees of the directors and remuneration of the CEO. The Company accordingly deviates from the requirement to establish an independent nomination committee founded in the bye-laws and elected by the shareholders as per the Code section 7. It is further the board, and not the shareholders as recommended in the Code, that has adopted guidelines for the duties of the Committee. Going forward the Company will seek the views of the shareholders in general as to whether an independent nomination committee should be established.

The Nomination and Remuneration Committee comprises:

- Geir Sandvik (chairman), independent director
- Jonathan Fairbanks, director

The Committee shall ensure sufficient rotation of directors and their alternates.

Corporate assembly and board of directors: composition and independence

As a company with less than 200 employees, Floatel has no corporate assembly. The board comprises seven directors of which the majority is independent of main business associates. The chairman of the board has been elected by the board of directors which is in compliance with normal procedures under Bermuda law, but which deviates from the recommendations in the Code section 8. The Company will ask the shareholders to elect chairman of the board at the annual general meeting 2 June 2011.

Current board members are listed below. Their terms of office will expire in 2011.

Erland P. Bassøe, Chairman (Born 1957)

Mr. Bassøe is the owner of Bassoe Offshore AS which is an offshore rig broker company. Mr. Bassøe is the founder of several companies including Chiles Offshore, Hercules Offshore, Frontier Drilling, Scorpion Offshore, Seajacks International, FPS Ocean, ODS-Petrodata, BassDrill and BassTech. He has extensive experience from various board positions. Mr. Bassøe holds a bachelor degree in business and public administration from New York University. He is a Norwegian citizen and resides in Oslo, Norway.

Yew Yuen Chow, Director (Born 1955)

Mr. Chow holds a BSc degree in mechanical engineering with first class honors from the University of Newcastle Upon Tyne, UK. He is the President of The Americas for Keppel Offshore and Marine with the responsibility of business management, covering the United States, Mexico and Brazil. Mr. Chow is also the Chairman of KeppelAmfels Inc, Deputy Chairman of KeppelFels Brazil SA and President of Keppel Offshore and Marine USA Inc. Mr. Chow also serves as Director on the Board of Wideluck Enterprises Limited, BrasFels SA (Brazil), Deepwater Marine Technology LLC, Floatec LLC, Keppel FELS Ltd., FSTP Pte. Ltd., AmFels Offshore Ltd., Joy Pride Investments (BVI), Kep Holdings Ltd., Kepital Management Ltd., Keppel FELS Invest (HK) Ltd., Keppel Marine Agencies, International LLC, KI Investments (HK) Ltd., Willalpha Limited, Fornost Ltd. Mr. Chow is also a member of The American Bureau of Shipping. He is a Singapore citizen and resides in Houston, USA.

Jonathan B. Fairbanks, Director (Born 1966)

Mr. Fairbanks is Managing Partner of Global Energy Capital. He is a director of Vortex Ventures. He was previously president of Bassoe Offshore (USA) Inc, as well as director of Forum Oilfield Technologies, Chiles Offshore, ODS-Petrodata, Hercules Offshore, Scorpion Offshore and Seajacks International. Mr. Fairbanks holds a bachelor degree from Denison University. He is a US citizen and resides in Houston, USA.

Merete Haugli, Director (Born 1964)

Merete Haugli is a professional board member who currently holds various directorships, thereunder in RS Platou AS, Acta Holding ASA, Comrod ASA, Folketrygdfondet (deputy member). She furthermore undertakes consultancy assignments in the areas of personal coaching, HR related matters and Corporate Governance issues, for a variety of clients. Former directorships include Aktivkapital ASA, ABG Sundal Collier ASA, Technor ASA, SEB ASA and Formuesforvaltning ASA. Haugli has previously held positions with various licensed financial institutions in Norway, thereunder Skandinaviska Enskilda Banken, Private Banking ASA, First Securities ASA and Forvaltningselskapet Optimum AS. She has also in the past held a directorship and acted as consultant for the compliance department in ABG Sundal Collier ASA. From 2002 to 2005 she was the Assistant Chief of Police, responsible for the department of organized economic crime at the Oslo Police District. Education from the Norwegian School of Management and is currently finalizing a 4 year graduate study at Huma Nova in Gothenburg and Oslo, in Psychosynthesis Therapy, to be completed during the spring of 2011.

Todd A. Overbergen, Director (Born 1965)

Todd Overbergen joined D. E. Shaw Group in February 2004 and is senior vice president of D. E. Shaw & Co., L.P. and Head of Energy and a Director of the Direct Capital Unit of the D. E. Shaw Group. Mr. Overbergen serves on the board of directors of numerous existing D. E. Shaw Group portfolio companies and has served on the board of directors

of several previous portfolio companies of the D. E. Shaw Group. Mr. Overbergen is a member of the Houston Producers Forum and Independent Petroleum Association of America. Mr. Overbergen holds two Bachelor of Business Administration degrees in finance and accounting from Texas A&M University. He is a US citizen and resides in Houston, USA.

Geir Sandvik, Director (Born 1949)

Geir Sandvik is an independent consultant. He is the Chairman of the Board of Prospector Offshore Drilling S.A. and Hydroenergi AS, and a director of Pareto World Wide Offshore AS, Beerenberg Corp., Neptune Offshore AS, and BassDrill Alpha Ltd. He is also the Chairman of the Board's Audit committee at Beerenberg Corp. From 1994 to 2006 Sandvik held various management positions with Pareto Securities ASA's Corporate Finance division, managing nearly 150 IPOs and share issues and 80 M&A transactions. Prior to Pareto, Sandvik was the Executive Vice President and CFO of Transocean Offshore, Executive Vice President and CFO of Astrup Høyer AS, Vice President Finance of Aker and Vice President Finance of Royal Viking Line. Sandvik holds a title of siviløkonom from the Norwegian School of Economics and Business Administration in Bergen. He is a Norwegian citizen and lives in Oslo.

Tom Virik, Director (Born 1944)

Mr. Virik has a long and extensive experience from the maritime industry through a range of managerial positions within Det Norske Veritas (DNV). His recent positions included Member of the Executive Board and Senior Advisor to the CEO, COO for DNV Maritime, and Head of Division Asia Pacific. He has been serving at the board of various DNV companies worldwide. Mr. Virik today serves as director on the board of Bergshav Shipholding AS, Shenzhen Hua-Tong Wei International Test. Co. Ltd and Aktiv Prosess AS. Mr Virik holds a BSc. (Honors) Degree in Naval Architecture and Shipbuilding from the University of Newcastle upon Tyne, UK. He is a Norwegian citizen and resides in Oslo.

The work of the board of directors

The Audit Committee comprises

- Merete Haugli (chairman), independent director
- Geir Sandvik, independent director

Both directors have appropriate background and experience of accounting and auditing. See also relevant information about the Nomination and Remuneration Committee above.

The board of directors holds a minimum four board meetings per year where the day-to-day operations and the work of the management are discussed in depth.

An annual plan for board meetings 2011 was approved by the board before the listing. The board has adopted Rules of Procedures to ensure the highest standards of the work performed within Floatel.

The board did not perform a self-evaluation during 2010. Three of the directors were appointed in connection with the listing 1 December and one month was not considered sufficient as a basis for evaluation.

Risk management and internal control

Risk management forms an integral part of Floatel's Management System which is divided into:

- Risk identification
- Risk assessment
- Risk control

To ensure good corporate governance, Floatel maintains a system of key processes and control. The board recognizes the need for an ongoing development in this area and attention is being devoted to assess the effectiveness of those processes and key controls as well as the implementation of a continual improvement process. Appropriate measures to ensure continued compliance with the Code section 10 are taken to substantiate the approach and improve internal control.

The board has routines in place for reviews of important risk areas and will fully comply with the Code section 10 once those reviews are carried out.

Remuneration of the board of directors

Up until the Company's listing, the directors did not receive any remuneration for their work. The board decided to pay remuneration from the time of listing. The chairman currently receives USD 50,000 per year and each director USD 30,000 per year as remuneration. See also note 8.

Remuneration to a chairman of a Committee amounts to USD 12,500 and remuneration to a member of a Committee amounts to USD 7,500. The Nomination and Remuneration Committee shall annually review and assess the remuneration of the directors.

Remuneration of the executive personnel

Up until the time of listing the board resolved the remuneration of the CEO of Floatel International AB. As from the listing, such responsibility has been discharged to the Nomination and Remuneration Committee. The principles for remuneration have not been presented to the shareholders at the annual general meeting. There is no obligation to present the guidelines for remuneration to the executive management under Bermuda law, wherefore the Company does not comply with the Code section 12. In the view of the Company, there is sufficient transparency and simplicity in the

remuneration structure provided through the annual report to keep shareholders adequately informed at the current stage of the Company.

Information and communication

The procedures in the Company's Code of Business Conduct and Ethics ensure that shareholders are provided with all relevant information for assessment of the Company's operation and value.

At the time of listing, the Company entered into a Disclosure and Distribution Agreement with Oslo Bors ASA. This to ensure that information from the Company to the shareholders is widely disclosed in accordance with applicable legislation.

The Company's financial calendar is presented on the Company's webpage.

Take-overs

There are no restrictions in the Company's bye-laws against take-over offers. In the event of an offer, the board will after careful evaluation issue a statement to the shareholders as to whether they should accept the offer or not.

Auditor

The Company did not prior to the listing comply with all recommendations in the Code section 15. In connection with the listing, an Audit Committee Charter was adopted in which the external Auditor's role and responsibilities are detailed. This includes control procedures, participation at board meetings and remuneration. The routines and procedures will be fully effected during 2011.

Health, safety, environment and quality assurance (HSEQ)

2010 was an active year as regards HSEQ. Floatel Superior was delivered in March and commenced her first charter period directly upon delivery with its integrated safety management system and all statutory certificates in place. The HSE related certificates, the Interim Safety Management Certificate (SMC) relating to the ISM Code and the Interim Ship Security Certificate (ISSC) relating to the ISPS Code were issued by DNV on behalf of the flag state Bermuda on the day of delivery. The interim certificates were replaced by full term certificates in January 2011. The shore based management organization within Floatel International AB received an interim Document Of Compliance in 2009, which was transferred into a Full Term Document in 2010. Floatel International AB is now therefore fully compliant with all statutory requirements to operate and manage accommodation vessels.

Floatel Superior's first job was located in the Joint Petroleum Development Area (JPDA) between Timor Lesté and Australia. The Timor-Lesté Petroleum Authority (ANP)

approved the submitted Safety Case prior to delivery of Floatel Superior from the shipyard.

After completion of the first charter in June 2010, Floatel Superior undertook a long transit to Norway. During that time, the application for an Acknowledgment of Compliance (AoC) was filed with the Norwegian Petroleum Safety Authority. The mandatory AoC was received in December 2010. Floatel Superior was thereby approved and ready for operation on the Norwegian Continental Shelf.

Floatel Reliance was delivered from the yard in Singapore in October 2010 with its statutory certificates in place and with interim safety and security certification. The transit to Brazil commenced immediately upon delivery.

Quality Assurance

Floatel International AB in Sweden is the responsible manager and operator of Floatel Superior and Floatel Reliance as defined in the ISM Code. The organisation in Gothenburg is not only certified in accordance with ISM but also ISO 9001:2008 and has held a Quality Certificate of Approval since 2009. The organisation was audited by Lloyd's Register Quality Assurance twice in 2010.

Preparations for certification of the units and the shore based organisation in accordance with ISO 14001 (Environment) and OHSAS 18001 (Occupational health) was ongoing during 2010 and will be completed in 2011.

The Certificate of Qualification in the Achilles Joint Qualification System was renewed in August.

Indicators

During 2010, a total of 163 572 working man-hours were performed onboard Floatel Superior and Floatel Reliance.

No statutory, occupational, health or environmental notifiable incidents or accidents have occurred during this period. Nor has there been any occupational illnesses reported during the period. Consequently, the HSE related KPIs (Key Performance Indicators) normally used, Lost Time Injury (LTI) and Injury Frequency Rate (IFR), which are both based on incident occurrences per one million man-hours have not risen above zero during 2010.

First Aid Treatments are not included in the Indicators. 14 minor injuries defined as First Aid Treatments occurred during 2010.

Significant events after the end of the financial year

- Floatel Reliance commenced the five year charter for Petrobras on 4 February 2011. The vessel was on standby rate as from 13 January 2011.
- Floatel Superior has been on standby rate since early December 2010, in all respects ready to mobilize for Talisman Energy Norge AS to support the YME hook up and commissioning. Due to weather, Talisman has decided to delay installation of the YME platform. As Floatel Superior needs to mobilize to Statoil early May 2011, Talisman decided to cancel the contract for Floatel Superior.
- On 1 April Statoil exercised their option to extend the present contract from 5 to 19 months firm period commencing early May 2011. Floatel Superior is now on firm contracts for Statoil from May 2011 until December 2012 and from May through October 2013.

Outlook

The worldwide semi submersible accommodation fleet's utilisation in 2010 was 85% on average. With Petrobras contracting two semi submersible accommodation vessels on long term charter, the present utilisation for 2011 is already standing at approximately 83% and will increase further due to that a number of outstanding projects are yet to be awarded for work in 2011.

Looking further forward, 70% of the fleet capacity is already committed for 2012 with several new enquiries in the market for work in the period 2011 to 2015 both for work in the North Sea region and other areas.

Based on our market prediction we believe that the semi submersible accommodation market will remain tight with close to full utilisation of the fleet for the next 5 years.

With the number of outstanding enquiries yet to be awarded and an increased activity level globally we expect that the future rate level for semi submersible accommodation vessels will continue to increase as a consequence of the limited supply.

Annual result and disbursements

The following loss are at the disposal on the Annual General Meeting:

Retained earnings	371
Net income / (loss) for the year	<u>-20 988</u>
	-20 617

The Board of Directors proposes that the accumulated loss is allocated to retained earnings.

Hamilton 27 April 2011

Erland P. Bassøe
Chairman

Jonathan B. Fairbanks

Yew Yuen Chow

Merete Haugli

Todd A. Overbergen

Tom Virik

Geir Sandvik

**CONSOLIDATED
FINANCIAL STATEMENTS
OF
FLOATEL INTERNATIONAL GROUP
2010**

Consolidated income statement

All numbers in USD thousands except per share data

	Notes	2010	2009
Charter revenues		22 097	0
Other operating revenues	6	<u>3 843</u>	<u>495</u>
Total operating revenue		25 940	495
Operating expenses	7	-13 364	-542
Employment benefits	8	<u>-9 618</u>	<u>-1 155</u>
Operating profit / (loss) - EBITDA		2 958	-1 202
Depreciation	12	-9 056	-16
Operating profit / (loss) - EBIT		-6 098	-1 218
Interest income		24	57
Interest expenses		-15 192	0
Other financial income	9	1 291	131
Other financial expenses	9	<u>-1 167</u>	<u>-107</u>
Net financial items		-15 044	81
Net Income / (loss) before taxes		-21 142	-1 137
Taxes	10	154	-2
Net income / (loss) for the year		<u>-20 988</u>	<u>-1 139</u>
Earnings per share, basic (USD)	11	-0,37	-0,02
Earnings per share, diluted (USD)	11	-0,37	-0,02

Consolidated statement of comprehensive income

All numbers in USD thousands

	Notes	2010	2009
Net income / (loss)		-20 988	-1 139
Foreign currency translation		13	11
Fair value adjustments of financial instruments	18	-4 046	5 210
Other comprehensive income		<u>-4 033</u>	<u>5 221</u>
Comprehensive income (loss)		<u>-25 021</u>	<u>4 082</u>

Consolidated statement of financial position

All numbers in USD thousands

	Notes	31 December 2010	31 December 2009
Assets			
Non-current assets			
Vessels	12	584 127	0
Vessels under construction	12	0	443 196
Other fixed assets	12	<u>28</u>	<u>43</u>
		<u>584 155</u>	<u>443 239</u>
Current assets			
Trade receivables	13	2 158	120
Fair value on derivatives	18	353	61
Other current receivables	14	2 300	72
Cash and cash equivalents	15	<u>48 737</u>	<u>19 914</u>
		<u>53 548</u>	<u>20 167</u>
Total Assets		<u>637 703</u>	<u>463 406</u>
Equity and liabilities			
Equity			
Share capital	16	1 933	957
Share premium		253 774	177 249
Other reserves		-4 576	-3 551
Retained earnings		371	1 510
Net income / (loss) for the year		<u>-20 988</u>	<u>-1 139</u>
Total equity		<u>230 514</u>	<u>175 026</u>
Liabilities			
Non-current liabilities			
Long term debt	17	<u>362 239</u>	<u>201 330</u>
Total non-current liabilities		<u>362 239</u>	<u>201 330</u>
Current liabilities			
Trade payables		9 803	138
Short term debt		0	66 798
Current portion of long term debt	17	12 187	11 670
Fair value on derivatives	18	8 368	3 607
Other current liabilities	19	<u>14 592</u>	<u>4 837</u>
Total current liabilities		<u>44 950</u>	<u>87 050</u>
Total Equity and Liabilities		<u>637 703</u>	<u>463 406</u>

Consolidated statement of changes in equity

All numbers in USD thousands

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Equity 2008-12-31	898	171 433	-8 771	404	163 964
New share issue	59	5 863	-	-	5 922
Share issue expenses	-	-47	-	-	-47
Consolidation adjustments	-	-	-	1 106	1 106
Foreign currency translation	-	-	11	-	11
Fair value adjustments of financial instruments	-	-	5 210	-	5 210
Net income / (loss) of the year	-	-	-	-1 139	-1 139
Equity 2009-12-31	957	177 249	-3 551	371	175 026
New share issue	976	61 110	-	-	62 086
New share issue related to conversion of debt	-	18 372	-	-	18 372
Share issue expenses	-	-2 957	-	-	-2 957
Equity portion of convertible debt	-	-	3 008	-	3 008
Foreign currency translation	-	-	13	-	13
Fair value adjustments of financial instruments	-	-	-4 046	-	-4 046
Net income / (loss) of the year	-	-	-	-20 988	-20 988
Equity 2010-12-31	1 933	253 774	-4 576	-20 617	230 514

Consolidated statement of cash flows

All numbers in USD thousands

	Notes	2010	2009
Cash flow from operating activities			
Net income / (loss) for the year		-20 988	-1 139
Depreciation & amortization	12	9 056	16
Other adjustments non-cash items		504	1 105
Changes in working capital		<u>24 799</u>	<u>3 921</u>
Net cash flow from operating activities		13 371	3 903
Cash flow from investing activities			
Acquisition of fixed assets	12	-121 186	-172 262
Interest received		<u>24</u>	<u>52</u>
Net cash flow from investing activities		-121 162	-172 210
Cash flow from financing activities			
Proceeds from issuance of shares		59 129	5 875
Repayment of debt		-145 148	0
Proceeds from debt	17	252 000	178 000
Interest paid		<u>-29 367</u>	<u>-8 236</u>
Net cash flow from financing activities		136 614	175 639
Cash flow for the year		28 823	7 332
Cash and cash equivalents, January 1		19 914	12 582
Cash and cash equivalents, 31 December		<u>48 737</u>	<u>19 914</u>

Notes to the consolidated financial statements

1 General information

Floatel International Ltd. ('the Company') is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company is listed on the Oslo Stock Exchange with the ticker code "FLOAT". The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together 'the Group').

The Group owns and operates the most modern and cost efficient fleet of accommodation and construction service vessels in the world. The fleet is designed to meet the increased offshore oil and gas activity in the new challenging projects in deep water and hostile environments and to provide superior living standard and support services compared to the existing accommodation fleet worldwide.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 27 April 2011.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, except for derivative instruments which have been measured at fair value through profit or loss. The consolidated financial statements are presented in US dollars (USD).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

New and amended standards adopted by the group in 2010

- The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC

- interpretations effective as of 1 January 2010:IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
 - IAS 39 Financial Instruments: Recognition and Measurement amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7,2010
 - IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
 - Improvements to IFRSs (May 2008)
 - Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the

financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on the financial position or performance of the Group.

Improvements to IFRS

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group will not disclose such information.
- IAS 7 Statement of Cash Flows: States that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group.

Other amendments resulting from improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

2.2 Consolidation

(a) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.6).

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

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that is recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (see note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.3 Segment reporting

IFRS 8 defines an operating segment as follows:

- a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- c) for which discrete financial information is available

As both the Group's vessels will operate as offshore accommodation support vessels, segment reporting is not applicable for the Group's accounts.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Vessels, 35 years
- Periodic maintenance, 5 years
- Other equipment, 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses)/gains – net' in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

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

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. The Group has no financial instruments designated as at fair value through profit and loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are

classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (see note 2.11 and 2.12).

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. Impairment testing of trade receivables is described in note 2.11.

2.9 Derivative financial instruments and hedging activities

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in other reserves in Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in the income statement within 'fair value adjustments of financial instruments'. The gain or loss relating to the ineffective portion is recognized in the income statement within 'interest expenses'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognized in the income statement within 'other financial income' or 'other financial expenses'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within 'other financial income' or 'other financial expenses'. The gain or loss relating to the ineffective portion is recognized in the income statement within 'other gains/(losses) – net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately

recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other financial income' or 'other financial expenses'.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other financial income' or 'other financial expenses'.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(d) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognized immediately in the income statement within 'other financial income' or 'other financial expenses'.

2.10 Inventories

Not applicable to the Group's accounts

2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) is considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Pension obligations

The Group has a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

On October 2, 2007 a share-based compensation program was established and approved by the Board of Directors on the same day (see note 5). No expense is recognized for awards that do not ultimately vest.

(c) Bonus plans

The Group recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation;
- and the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services

The Group provides offshore services to oil and gas industry in the form of charter contracts with contract terms generally ranging from less than one year to five years. The charter income is recognized according to the terms of the agreement and in the period the work is performed. Services and other related income is recognized in the period the services are rendered. Mobilization fees are recognized as revenue over the charter contract periods.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(c) Dividend income

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

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk for the Group is the risk that arises in connection with the operations and investments in foreign currencies. As all Group companies have USD as their functional currency, foreign currency risks arise when the cash flows and balance sheet items are denominated in a currency other than USD. The Group shall strive towards minimising currency exposure. Essential current cash flow and balance sheet exposures that cannot be matched against cash flows and balance sheet items shall be minimised on the basis of financial instruments. The Group uses financial instruments as required to hedge USD exchange risk against other currencies. In accordance with its strategy for managing foreign exchange risk exposure, the Group uses forward foreign exchange contracts.

(ii) Cash flow and fair value interest rate risk

The Group's revenues and cash flow from operations are, in all material respects, independent of changes in market interest rate levels. The Group sometimes raises loans at floating interest rates and utilises interest swaps as cash flow hedges of future interest payments, which has the financial effect of converting loans from floating to fixed interest rates. Interest swaps allow the Group to raise long-term loans at floating interest rates and convert these loans to fixed interest rates that are at a lower rate than if the borrowing had taken place directly at a fixed interest rate. In the case of an interest swap, the Group reaches an agreement with other parties to exchange, at

stipulated intervals (usually once per quarter), the difference between amounts according to contract at fixed interest rates and floating interest amounts, calculated with respect to the agreed notional amount.

The Group's risk related to interest rate risk is considered to be limited. After the refinancing of the Floatel Superior senior facility in 2010, close to 100% of the debt is fixed under the interest rate swap agreement for the term period. In November 2010 Floatel Reliance entered into an interest rate swap agreement for approximately 95% of the outstanding balance for the term period. The below table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables unchanged, of the Group's profit before tax:

	+/- basis points in interest rate	Effect on profit before tax (USD 1.000)
2010	100	267 / -267

(b) Credit risk

Credit risk is managed on Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures clients, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If there is no independent rating, management assesses the credit quality of the client, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk on cash and cash equivalents (ignoring collateral and credit quality) at December 31, 2010 was USD 48.7 million (19.9). At December 31, 2010 a majority of the current accounts and short-term deposits were held by DnB NOR, Natixis and ABN Amro.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The Group's both vessels are fully financed in relation to budget through equity and long-term debt and a positive cash flow is expected from their operations.

The liquidity risk of the Group has been reduced significantly after the Statoil charter extension to December 2012.

3.2 Capital risk management

The Group's objectives are to ensure a sound financial position at all times. Management continuously monitors the cash position and capital structure in order to meet current funding requirements and to fund future growth opportunities. As the Company matures, its capital structure will be optimized to meet evolving conditions including liquidity, investment opportunities and financing capabilities. At year-end, The Group is in compliance with all loan covenants and is building towards an optimal liquidity situation.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

Management has used estimates and assumptions that have affected assets, liabilities, revenues, expenses and information on potential liabilities. This applies to common pension commitments, assessment of fixed assets and in addition to financial instruments at fair value. The actual outcome may differ from these estimates and assumptions and future events may lead to these estimates being changed. Estimates

and the underlying assumptions are continuously reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Such changes will be recognized in the period in which the changes occur.

5 Share-based compensation program

In 2007 a share option program was established and approved by the Board of Directors. The total number of shares authorized under the program is 1,643,673 (par value USD 0.02)

The option strike price was USD 5.20 per share (par value USD 0.02). The share option program expired on 18 March 2011 and no shares were issued under the program. The fair value of the options as of 31 December 2010 was 0 (0).

6 Other operating revenues

	2010	2009
Mobilization/demobilization income	475	0
Other contract income	<u>3 368</u>	<u>495</u>
	3 843	495

7 Operating expenses

	2010	2009
Repair and maintenance	-1 536	0
Other vessel operating expenses	-9 740	0
General and administrative expenses	<u>-2 088</u>	<u>-535</u>
	-13 364	-535
<u>Details of auditors' fee</u>		
Audit	-55	-4
Other non-audit services	<u>-3</u>	<u>-4</u>
	-57	-8

8 Employment benefits

	2010	2009
Salaries and wages	-1 592	-788
Contract personnel	-6 671	0
Other remuneration	-60	-30
Statutory and contractual social security contributions	-516	-223
Pension expenses	-421	-81
Other personnel expenses	<u>-359</u>	<u>-32</u>
Total employee benefits	-9 618	-1 155

	Salary	Bonus	Defined contribution pension plan	Total remuneration
Management				
Peter Jacobsson (CEO)	165	198	30	393
Jörgen Bengtsson (CFO)	99	198	27	325
Nils Erik Flink (COO)	154	142	0	296
Nils Mårtensson (Technical Manager)	123	198	19	341
Oskar Wahl (HSEQ Manager)	79	13	10	102
Total remuneration	621	750	86	1 457

The board of directors has served without compensation up to the listing of the Company on 1 December 2010 and the numbers outlined below constitutes one month of compensation.

	Board compensation	Committee compensation	Total compensation
Board of Directors			
Erland Bassoe (Chair)	4,2	-	4,2
Jonathan Fairbanks (Director)	2,5	0,6	3,1
Merete Haugli (Director)	2,5	1,0	3,5
Todd Overbergen (Director)	2,5	-	2,5
Geir Sandvik (Director)	2,5	1,7	4,2
Tom Virik (Director)	2,5	-	2,5
Yew Yuen Chow (Director)	2,5	-	2,5
Total compensation	19,2	3,3	22,5

9 Other financial items

	2010	2009
Currency gain	1 235	131
Fair value adjustment of currency forwards	<u>56</u>	<u>0</u>
Total other financial income	1 291	131
Currency loss	-338	-107
Other financial expenses	<u>-828</u>	<u>0</u>
Total other financial income	-1 167	-107

10 Taxes

At the date of this report, there is no Bermuda income, corporation or profits tax, nor is there any withholding tax, capital tax, capital transfer tax, estate duty or inheritance tax payable.

The Company's Swedish subsidiary is subject to taxation in Sweden at the standard rate of 26.3%. The Company's Dutch subsidiaries are subject to taxation in the Netherlands at the standard rate of 25.5%. No tax is payable for the year ended 31 December 2010 as a result of accumulated trading losses. The group has recognized a total deferred tax asset of KUSD 154 on these trading losses. Management estimates that the deferred tax asset will be recoverable in the future as a result of forecast trading profits against which the accumulated trading losses will be offset.

	2010	2009
Current tax for the year	0	-2
Deferred tax	<u>154</u>	<u>0</u>
	154	-2
Tax reconciliation:		
Profit/loss before taxation subject to Swedish tax	-68	1
Profit/loss before taxation subject to Dutch tax	<u>-552</u>	<u>0</u>
Total profit/loss before taxation	-620	1
Swedish corporation tax at 26,3%	-18	0
Expenses not tax deductible	5	2
Dutch corporation tax at 25,5%	-141	0
Unutilized tax losses	<u>154</u>	<u>0</u>
Income tax reported in the consolidated income statement	154	-2

11 Earnings per share

2010 2009

Earnings per share are calculated by dividing the net profit by the weighted average number of common shares outstanding during the year.

Net income / (loss) of the year	<u>-20 988</u>	<u>-1 139</u>
Total number of common shares outstanding at	96 665 289	47 855 607
Weighted average number of common shares	56 325 510	45 634 810
Weighted average number of common shares, diluted	57 969 183	59 019 771
Earnings per share, basic (USD)	<u>-0,37</u>	<u>-0,02</u>
Earnings per share, diluted (USD)	<u>-0,37</u>	<u>-0,02</u>
Effect of dilution (number of shares):		
Share options	1 643 673	1 643 673
Conversion rights (convertible loan)	<u>0</u>	<u>11 741 289</u>
Total dilution effect	1 643 673	13 384 962

12 Tangible fixed assets

	<u>Vessels</u>	<u>Office equipment</u>	<u>Total</u>
Opening balance 1 January 2009	195 912	47	195 959
Purchases during the year	247 284	36	247 321
Closing acquisition costs, December 31	443 196	83	443 279
Accumulated depreciation, January 1	0	-24	-24
Depreciation for the year	0	-16	-16
Closing accumulated depreciation, December 31	0	-40	-40
Net book value as per 31 December 2009	443 196	43	443 240

	<u>Vessels</u>	<u>Office equipment</u>	<u>Total</u>
Opening balance 1 January 2010	443 196	83	443 279
Purchases during the year	149 952	7	149 959
Closing acquisition costs, December 31	593 149	90	593 239
Accumulated depreciation, January 1	0	-40	-40
Depreciation for the year	-9 022	-22	-9 043
Closing accumulated depreciation, December 31	-9 022	-62	-9 083
Net book value as per 31 December 2010	584 127	28	584 155

Capitalized borrowing costs of USD 29.1 million (17.3) are included in the closing acquisition costs as per December 31. The Company capitalizes project management costs to the vessels under construction. This includes general and administrative costs. The general and administrative expenses included in the acquisition costs as per December 31 were USD 3.5 million (1.7).

13 Trade receivables

	Total	Neither past due nor impaired	<30 days	30-60 days
2010	2 158	2 158	0	0
2009	120	0	120	0

14 Other current receivables

	2010	2009
Prepaid expenses	218	47
Warranty claims	1 783	0
Accrued income	0	7
Deferred tax	155	0
Other current receivables	<u>144</u>	<u>18</u>
	2 300	72

15 Cash and cash equivalents

	2010	2009
Short-term deposits	16 500	17 400
Restricted cash	14 526	700
Current accounts	<u>17 711</u>	<u>1 814</u>
	48 737	19 914

Restricted cash represents cash collateral for loan and bond in Floatel Superior Ltd.

16 Share capital

	2009
<u>Authorized</u>	
Common shares of par value USD 0.01	370 000 000
Preferred shares of par value USD 0.01	30 000 000
<u>Issued and fully paid</u>	
Common shares of par value USD 0.01	89 789 088
Preferred shares of par value USD 0.01	5 922 125
	2010
<u>Authorized</u>	
Common shares of par value USD 0.02	125 000 000
<u>Issued and fully paid</u>	
Common shares of par value USD 0.02	95 665 289
Unissued shares available for issuance by the board	29 334 711

All issued shares have equal voting rights and the right to receive dividend.

The 20 largest shareholders as of 18 April 2011 are:

20 largest shareholders as of 18 April 2011	# of shares	% of shares
WIDELUCK ENTERPRISES LIMITED	30 649 077	31,71%
BANK OF NEW YORK MELLON SA/NV	10 241 816	10,60%
BANK OF NEW YORK MELLON SA/NV	9 122 486	9,44%
CENIARTH WALES INTERESTS LP	3 586 282	3,71%
POLGAS LTD	3 194 759	3,30%
DEUTSCHE BANK AG	3 121 640	3,23%
CITIGROUP GLOBAL MARKETS INC	2 530 064	2,62%
WIECO INVEST AS	2 226 924	2,30%
BASS INVEST AS	1 935 828	2,00%
ODIN NORDEN	1 891 650	1,96%
SHB STOCKHOLM CLIENTS ACCOUNT	1 648 640	1,71%
ODIN NORGE	1 509 611	1,56%
KLP AKSJE NORGE VPF	1 425 099	1,47%
FLOATEL INVESTORS LTD	1 315 335	1,36%
DEUTSCHE BANK AG LONDON	1 266 057	1,31%
VBI CORPORATION	1 175 671	1,22%
KLP AKSJE NORDEN VPF	1 005 800	1,04%
UBS AG, LONDON BRANCH	961 669	0,99%
KOMMUNAL LANDSPENSJONSKASSE	869 264	0,90%
RED ROCK INTERESTS LTD.	833 333	0,86%
Total 20 largest shareholders	80 511 005	83,29%

17 Interest-bearing debt

	2010	2009
Convertible loan - Floatel Reliance	0	66 798
Senior loan - Floatel Superior	177 600	213 000
Bond loan - Floatel Superior	75 000	0
Senior loan - Floatel Reliance	130 000	0
Less loan arrangement fees	<u>-8 174</u>	<u>0</u>
	374 426	279 798

The long-term debt is repayable as follows:

Within one year	12 187	11 670
Between one and two years	24 350	23 340
Between two and five years	293 250	70 020
After five years	<u>52 813</u>	<u>107 970</u>
	382 600	213 000

The Group's long-term interest-bearing debt per 31 December 2010

<i>USD</i>	Rate of interest	Effective interest rate	Maturity	Principal amount
Senior Facility (Floatel Superior)	LIBOR + 2,25%	5,23%	2015	177 600 000
Bond Loan (Floatel Superior)	13,00%	13,61%	2015	75 000 000
Senior Facility (Floatel Reliance)	LIBOR + 3,75%	5,56%	2016	130 000 000
Total				382 600 000

After the refinancing of the Floatel Superior senior facility in 2010, approximately 100% of the debt is fixed under the interest rate swap agreement for the term period. In November 2010 Floatel Reliance entered into an interest rate swap agreement for approximately 95% of the outstanding balance for the term period.

Superior Financing

Floatel Superior Ltd. (the Borrower) entered into a senior facility and a junior facility on 9 November 2007. The total principal amount under the senior facility was USD 210 million, and the principal amount under the junior facility was USD 50 million.

Both the senior facility and the junior facility were fully drawn in connection with the delivery from the yard of Floatel Superior on 18 March 2010. The agreement relating to the senior facility and junior facility was entered into between Floatel Superior Ltd, the senior lending syndicate and the junior lending syndicate on 9 November 2007, and amended and restated on 24 April 2008 and further amended and restated on 7 September 2010. The sole purpose of the senior facility and the junior facility has been to partly finance the construction of Floatel Superior. In connection with the new bond issue in September 2010, the junior facility was redeemed in full, and USD 32.4 million of the senior facility was prepaid.

Several clauses in the senior facility have been amended. The main terms of the senior facility after the amendment and restatement of the loan agreement on 7 September 2010:

- Senior facility: Facility amount USD 177.6 million
- Guarantee facility: Senior lenders commit to a new USD 10 million

- Margin: 2,25%
- Repayment: No semi-annual installments payable until 18 September 2012, after which the semi-annual installments amount to USD 8.1 million. On the last repayment date, the Borrower shall repay the relevant repayment installment together with a "balloon" repayment of USD 129 million.
- Financial covenants: The financial covenants consolidated interest coverage ratio and debt Service coverage ratio to be waived for the test period ending 30 September 2010 through 31 December 2011, with the first test period to be 30 June 2012.
- Consolidated interest coverage ratio: The Borrower will not permit its consolidated interest coverage ratio (Consolidated EBITDA / Consolidated interest expense) for any test period to be less than 2.50:1.00.
- Debt service coverage ratio: The Borrower will not permit the ratio of (x) its consolidated EBITDA (excluding, for this purpose, any liability for tax) to (y) the sum of (i) its debt service plus (ii) interest, fees or other costs or expenses accruing (or, as the case may be, accrued and payable) and any principal amounts payable by the Borrower under the bond loan agreement and any tax in respect thereof for any test period to be less than 1.10:1.00.

The definition of test period is amended to mean the six months period ending on 30 June 2012, each successive 6 months period ending on 30 September, 31 December and 30 June, thereafter; and each successive 12 months period ending on 31 March, thereafter.

- Dividend restrictions: The Borrower shall not pay any dividends or make any distributions unless (i) no default has occurred, (ii) approved contract backlog of greater than 12 months and (iii) the senior facility is prepaid in an amount equal to any such dividend or distribution.
- Employment of vessel requirement: Employment of vessel requirement as defined in the senior facility loan agreement to be waived until 31 March 2012.
- Customary security package with first priority including but not limited to vessel mortgage, assignment of earnings, assignment of insurances, floating charge, share pledge, a guarantee from the Company (the "Parent Company Guarantee") and account pledges including debt service reserve account pledge (the balance of the debt service reserve account shall at all times be not less than the amount equal to 6 months of debt service and swap costs (if any)).
- Pursuant to the Parent Company Guarantee, the Company has undertaken to maintain a working capital greater than zero at all times. Working capital is defined as current assets less current liabilities.

- Senior facility put option: In the event of (i) Change of control event (as defined in the senior facility loan agreement), or (ii) any amalgamation, demerger, merger or corporate reconstruction of the Company to which the senior lenders have not given their prior written consent.
- Cross default provision: The senior facility to be cross-defaulted with the bonds, and any financing of the Company and any subsidiary of the Company.

On 25 August 2010 Floatel Superior Ltd. (the Issuer) issued a USD 75 million bond loan. Norsk Tillitsmann ASA acts as trustee for the bondholders. The settlement date was 2 September 2010. The interest on the bond is 13% p.a. as semi-annual coupons

Main terms of the bond issue:

- Amount: USD 75 million
- Coupon: 13%
- Maturity: Duration 5 years with final maturity date 2 September 2015. The bonds shall be redeemed in full at maturity date.
- Call option: The Issuer may call the Bonds at 108.0%, 106.0% and 103.5% of par value plus accrued interests on the redeemed amount at the interest payment days two (2), three (3) and four (4) years after settlement date, respectively.
- Put option: In the event of change of control of the Company the bondholders have the right to pre-payment of the bonds at a price equal to 100 % of par value (plus accrued interest).
- Customary security package ranking only behind the senior facility, including but not limited to vessel mortgage, assignment of earnings, assignment of insurances, floating charge, share pledge, a guarantee from the Company, account pledges and a bond retention account (which at all times until the final maturity date shall have a balance equal to 6 months of interest under the bonds).
- Negative covenants of the Issuer restricting distribution to the Company, new indebtedness and right to create security over the Issuer's assets.
- Cross default provision: The bond issue to be cross-defaulted with the senior facility and any financing of the Company and any subsidiary of the Company.

The Company, Floatel Reliance Ltd. and Floatel Reliance B.V. signed a loan agreement for a USD 130 million senior debt facility for post-delivery financing of Floatel Reliance with Natixis and Swedbank on 25 October 2010 (the Reliance loan).

The main terms of the Reliance loan are:

- Amount: USD 130 million
- Margin: 3,75%
- Maturity: 5 year and 3 months from draw-down
- Amortization: 19 equal installments (first after six months) in the amount of USD 4,062,500 with balloon of USD 52,812,500
- 1st lien security in vessel, assignment earnings and insurances, and shares in Floatel Reliance Ltd, a guarantee from Floatel International Ltd and account pledges including a debt service reserve account pledge (the balance on the debt service reserve account shall at all times from six months after draw-down be not less than the amount equal to six months of debt service and swap costs (if any)), and, subject to the consent from Petrobras having been obtained, assignment of the Petrobras contract.
- Financial covenants – Floatel International Ltd (consolidated)
 - Book equity – min. USD 200 million
 - Equity ratio – min. 30%
 - Interest service coverage (EBITDA / Interest expense) – min. 2.5:1
- Financial covenants – Borrower
 - Interest service coverage (EBITDA / Interest expense) – min. 2.5x1
 - Debt service coverage (EBITDA / Interest expense + amortization) – min. 1.1x1
- Other covenants
 - Change of control provision Floatel International Ltd – threshold 33.4%
 - Fair market value of vessel - min. 130% of outstanding debt
 - Limitation on engaging in other business activities, indebtedness, consolidation, merger, acquisition & disposal of assets, dividend
 - Dividend restrictions
 - Listing to be maintained
 - Cross default to other companies in the Floatel Group

18 Financial instruments

The following information is presented in order to assist users of the financial instruments in assessing the extent of risk related to financial instruments.

Classification of financial assets and liabilities as of 31 December 2010	<u>Loans and receivables</u>	<u>Fair value through profit and loss</u>	<u>Total</u>
Financial assets			
Trade receivables	2 158	0	2 158
Fair value on interest rate swaps	0	353	353
Other current receivables	2 653	0	2 653
Cash and cash equivalents	<u>48 737</u>	<u>0</u>	<u>48 737</u>
Total financial assets	53 547	353	53 900
Financial liabilities			
Trade payables	9 803	0	9 803
Current portion of long term debt	12 187	0	12 187
Fair value on interest rate swaps	0	8 368	8 368
Other current liabilities	<u>14 591</u>	<u>0</u>	<u>14 591</u>
Net book value as per 31 December 2010	36 581	8 368	44 949

Classification of financial assets and liabilities as of 31 December 2009	<u>Loans and receivables</u>	<u>Fair value through profit and loss</u>	<u>Total</u>
Financial assets			
Trade receivables	120	0	120
Fair value on currency forwards	0	61	61
Other current receivables	72	0	72
Cash and cash equivalents	<u>19 914</u>	<u>0</u>	<u>19 914</u>
Total financial assets	20 106	61	20 167
Financial liabilities			
Trade payables	138	0	138
Short term debt	66 798		66 798
Current portion of long term debt	11 670	0	11 670
Fair value on interest rate swaps	0	3 580	3 580
Fair value on currency forwards	0	27	27
Other current liabilities	<u>4 838</u>	<u>0</u>	<u>4 838</u>
Net book value as per 31 December 2009	83 444	3 607	87 051

The FX forwards and interest rate swaps are value based on current exchange rates and forward curves. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Assets and liabilities measured at fair value at:

31 December 2010	Total	Level 1	Level 2	Level 3
Fair value interest rate swap	353	0	353	0
Total financial assets	353	0	353	0
Fair value interest rate swap	8 368	0	8 368	0
Total financial liabilities	8 368	0	8 368	0

31 December 2009	Total	Level 1	Level 2	Level 3
Fair value on currency forwards	61	0	61	0
Total financial assets	61	0	61	0
Fair value on currency forwards	27	0	27	0
Fair value interest rate swap	3 580	0	3 580	0
Total financial liabilities	3 607	0	3 607	0

19 Other current liabilities

	2010	2009
Invoiced but not recognized income	6 689	0
Accrued interest	4 159	4 663
Other accrued expenses	<u>3 744</u>	<u>176</u>
	14 592	4 839

20 Related party transactions

Related party transactions during the year amounted to USD 2.56 million whereof USD 2.48 million relates to the services provided in connection with raising debt and equity under the Advisory Services Agreement with DCV Ventures and Bassoe Offshore. Related party transactions during 2009 amounted to USD 0.17 million.

21 Legal issues

The Group has currently no legal issues pending.

FINANCIAL STATEMENTS
OF
FLOATEL INTERNATIONAL LTD
2010

Income statement – Floatel International Ltd

All numbers in USD thousands

	Notes	2010	2009
Other operating revenues		<u>1 525</u>	<u>0</u>
Total operating revenue		1 525	0
Operating expenses		<u>-250</u>	<u>-68</u>
Operating profit / (loss) - EBITDA		1 275	-68
Depreciation		0	0
Operating profit / (loss) - EBIT		1 275	-68
Interest income		8	9
Other financial income		1 020	10
Other financial expenses		<u>-6</u>	<u>-6</u>
Net financial items		1 022	13
Net Income / (loss) before taxes		2 297	-54
Taxes		<u>0</u>	<u>0</u>
Net income / (loss) for the year		<u>2 297</u>	<u>-54</u>

Statement of comprehensive income

All numbers in USD thousands

	Notes	2010	2009
Net income / (loss)		2 297	-54
Other comprehensive income		<u>0</u>	<u>0</u>
Comprehensive income / (loss)		<u>2 297</u>	<u>-54</u>

Statement of financial position – Floatel International Ltd

All numbers in USD thousands

	Notes	31 December 2010	31 December 2009
Assets			
Non-current assets			
Participation in subsidiaries	5	<u>245 151</u>	<u>177 143</u>
		<u>245 151</u>	<u>177 143</u>
Current assets			
Other current receivables		19	19
Cash and cash equivalents	6	<u>17 437</u>	<u>2 344</u>
		<u>17 455</u>	<u>2 363</u>
Total Assets		<u>262 606</u>	<u>179 506</u>
Equity and liabilities			
Equity			
Share capital		1 933	957
Share premium		253 774	177 249
Retained earnings		4 295	1 342
Net income / (loss) for the year		<u>2 297</u>	<u>-54</u>
Total equity		<u>262 300</u>	<u>179 494</u>
Liabilities			
Non-current liabilities			
Interest-bearing debt		<u>0</u>	<u>0</u>
Total non-current liabilities		<u>0</u>	<u>0</u>
Current liabilities			
Trade payables		111	12
Other current liabilities		<u>196</u>	<u>0</u>
Total current liabilities		<u>307</u>	<u>12</u>
Total Equity and Liabilities		<u>262 606</u>	<u>179 506</u>

Statement of changes in equity – Floatel International Ltd

All numbers in USD thousands

	Share capital	Share premium	Retained earnings	Total equity
Equity 2008-12-31	898	171 433	1 342	173 673
New share issue	59	5 863	-	5 922
Share issue expenses	-	-47	-	-47
Net income / (loss) for the year	-	-	-54	-54
Equity 2009-12-31	957	177 249	1 288	179 494
New share issue	976	61 110	-	62 086
Share issue related to conversion of debt	-	18 372	-	18 372
Share issue expenses	-	-2 957	-	-2 957
Equity portion of convertible debt	-	-	3 008	3 008
Other comprehensive income	-	-	0	0
Net income / (loss) for the year	-	-	2 297	2 297
Equity 2010-12-31	1 933	253 774	6 593	262 300

Statement of cash flow – Floatel International Ltd

All numbers in USD thousands

	Notes	2010	2009
Cash flow from operating activities			
Net income / (loss) for the year		2 297	-54
Share issue related to conversion of debt		18 372	0
Change in working capital		<u>287</u>	<u>-1</u>
Net cash flow from operating activities		20 956	-55
Cash flow from investing activities			
Interest received		8	12
Investment in financial assets		<u>-65 000</u>	<u>-6 000</u>
Net cash flow from investing activities		-64 992	-5 988
Cash flow from financing activities			
Proceeds from share issues		<u>59 129</u>	<u>5 875</u>
Net cash flow from financing activities		59 129	5 875
Cash flow for the year		15 094	-168
Cash and cash equivalents, January 1		2 344	2 512
Cash and cash equivalents, December 31		<u>17 437</u>	<u>2 344</u>

Notes to the financial statements of Floatel International Ltd

1 General information

Floatel International Ltd. ('the Company'), through its subsidiaries, owns and operates the most modern and cost efficient fleet of accommodation and construction vessels in the world. The fleet is designed to meet the increased offshore oil and gas activity in the new challenging projects in deep water and hostile environments and to provide superior living standard and support services compared to the existing accommodation vessel fleet worldwide.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for fair value used for available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2.2 Foreign currency translation

(a) Functional and presentation currency

The Company's functional- and presentation currency is USD.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying

amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Vessels, 35 years
- Periodic maintenance, 5 years
- Other equipment, 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.4).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses)/gains – net' in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.4 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (note 2.6 and 2.7).

2.6 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) is considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within 'other expenses'. When trades receivable is

uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.8 Share capital

Shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.9 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation;
- and the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.11 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is

shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

3 Financial risk management

The Company's overall financial risk management program is conducted on Group level (see note 3 in the notes to the consolidated financial statements).

4 Critical accounting estimates and judgments

Management has used estimates and assumptions that have affected assets, liabilities, revenues, expenses and information on potential liabilities. This applies to common assessment of fixed assets and in addition to financial instruments at fair value. Future events may lead to these estimates being changed. Estimates and the underlying assumptions are continuously reviewed. Such changes will be recognized in the period in which the changes occur.

5 Participation in subsidiaries

<u>Company</u>	<u>Identification No</u>	<u>Registered office</u>	<u>Share capital %</u>
Floatel International AB	556711-1421	Sweden	100
Floatel Superior Ltd	40 891	Bermuda	100
Floatel Reliance Ltd	41 165	Bermuda	100

<u>Company</u>	<u>Equity %</u>	<u>No of shares</u>	<u>Book value</u>
Floatel International AB	100	400 000	143
Floatel Superior Ltd	100	100	117 000
Floatel Reliance Ltd	100	100	<u>128 008</u>
			245 151

6 Cash and cash equivalents

	2010	2009
Short-term deposits	16 500	1 500
Restricted cash	0	700
Current accounts	<u>937</u>	<u>144</u>
	17 437	2 344



Auditors' Report

To the Annual General meeting of the shareholders of Floatel International Ltd

Corporate identity number 38902

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Floatel International Ltd for the year 2010. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company and the income statement and the statement of financial position of the group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the board of directors and the managing director be discharged from liability for the financial year.

Gothenburg 2011-04-27

KPMG AB

Jan Malm

Authorized Public Accountant



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