Annual report 2009

Prosafe Production

Key financial figures

		Note	2009	2008	2007	2006
Income statement						
Operating revenues	USD million		315.0	264.7	150.4	92.6
EBITDA	USD million	1	184.9	142.6	92.8	53.5
EBIT	USD million		54.5	-111.8	59.2	37.8
Net profit	USD million		-10.3	-203.6	53.0	43.0
EPS*	USD	2	-0.04	-0.80	0.21	0.17
Balance sheet						
Total assets	USD million		2096.8	1984.6	1173.4	774.0
Interest-bearing debt	USD million		1151.7	1032.7	120.0	0.6
Net interest-bearing debt	USD million	3	1017.9	821.7	67.0	-50.9
Book equity	USD million		813.8	805.7	990.1	678.0
Valuation						
Market capitalisation	USD million		546.9	401.1	-	-
Share price	NOK		12.45	11.00	-	-
Book equity per share	USD	4	3.19	3.16	-	-

*) Note that 2006 and 2007 illustrate comparable figures based on oustanding shares per 31 December 2009.

1. Operating profit before depreciation
2. Net profit / Average number of outstanding and potential shares
3. Interest-bearing debt - Cash and deposits
4. Book equity / Number of shares

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Letter from President and CEO

The year 2009 was quiet in the FPSO market. Due to the financial crisis, which hit the world in late 2008, and the lower oil price, most field development projects were postponed and no FPSO contracts were awarded during the first seven months of the year. However, as the economy started to show signs of recovery and as the oil price increased again, the activity level improved and we saw a number of awards in the latter part of the year. The beginning of 2010 has also been promising and we expect the demand to continue improving gradually throughout the year.

The number of FPSO prospects in the market has continued to increase. The demand for oil is growing at the same time as the amount of easily accessible oil is declining. This means that an increasing part of future oil production will have to come from deep water and remote areas with little infrastructure where the FPSO concept has its competitive advantages. Consequently, we have an optimistic view on the long-term demand for FPSOs.

The main focus for Prosafe Production through 2009 was the completion and the start-up of the three new FPSOs. All of the three units are unique and groundbreaking vessels not only for Prosafe Production, but for the FPSO industry as a whole.

FDPSO *Azurite* is the world's first FPSO with drilling capabilities. The unit commenced operations for Murphy in Congo in early 2009. The FDPSO concept reduces time to first oil and eliminates the need for external drilling units. As such, it saves the oil companies both time and cost.

With a topside weighing almost 20,000 tons, FPSO *Cidade de São Mateus* is one of the world's largest and most complex leased FPSOs. It has the capacity to process more than 350 mmscf of gas and 35,000 bbl of fluids per day. The contract with Petrobras has a fixed term of nine years, followed by a maximum of six one-year extension options. It commenced production offshore Brazil in early October last year after being on availability dayrate from late April.

FPSO *Ningaloo Vision* is tailored for the harsh environment off the North-western coast of Australia. It is moored with Prosafe Production's proprietary disconnectable turret, which allows the vessel to detach and go to a safe haven in case of severe weather conditions. It commenced operations in early 2010 and it is committed on a seven-year firm contract with Apache. In addition, Apache has the option to extend the contract by up to eight years.

Over the past years the entire FPSO industry has suffered from cost overruns and delays on conversion projects and Prosafe Production has unfortunately been no exception. As a large part of the value is created in the conversion phase it is instrumental for the company to improve performance and avoid such cost overruns in the future. We have therefore initiated a thorough review process in order to go through all aspects of the projects from the bidding phase to execution. Important lessons have been learned, from which the company has implemented several improvement initiatives. Substantially more engineering should be done in the bidding phase in order to minimize changes to the scope and the number of change orders necessary in the execution phase. This will significantly reduce the costly changes during that phase. Moreover, we will put more resources into following up sub-suppliers and we will consider ordering more of the packages on an EPC basis in order to reduce risk. All in all, with the changes to the bid and execution procedures and the improvements to the organisation, we feel confident in the company's project execution capabilities and competitive position.

The FPSO industry is a technology intensive business. In Prosafe Production it has always been important to be in the forefront of the development of FPSO related technologies. This has given us a number of innovative and cost efficient solutions on our FPSO's. We are offering a wide range of different mooring solutions, fluid transfer systems, offloading systems and utility systems. Moreover, we have, as mentioned, developed the world's first FPSO with drilling capabilities. Until now, the Technology department has only been focusing on serving internal needs. But going forward, we will also focus on selling our systems externally, either to other FPSO contractors or directly to yards and oil companies.

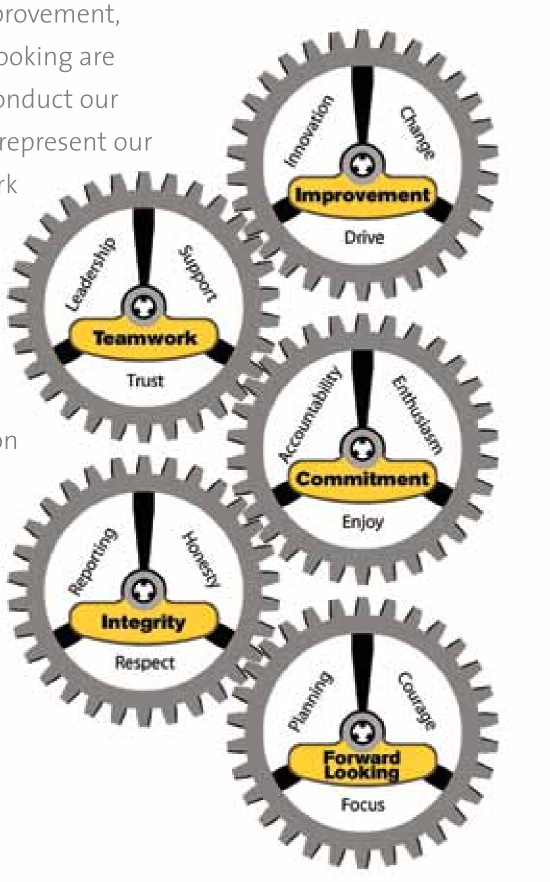
Health, Safety and Environment will always be on top of our agenda. We are therefore satisfied that we continue to show positive developments in this area. The LTI frequency continued its downward trend and our operations had no significant unplanned emissions to the environment. This serves as evidence that the efforts and resources we put into developing efficient systems and training of personnel are working. However, we will not be satisfied until we have realised our vision of a zero-accident environment and we will continue to work hard to reach this goal.

BHenriksen

Bjørn Henriksen
President and CEO

Dedication to core values

At Prosafe Production, teamwork, improvement, commitment, integrity and forward-looking are the values which guide the way we conduct our business. Visually, we have chosen to represent our core values as a set of cogs. These work together to drive us forward – if one cog (value) ceases to function, then the entire set stops. So it is crucial that we live by all five of our core values in everything we do. From the way we run our business to interaction with all our stakeholders, the five core values will guide the thoughts, decisions and actions of each and every one of our employees.



Our vision and mission

OUR VISION
To be the preferred provider and operator of floating production solutions.

OUR MISSION
To maximise shareholder and client value by providing quality solutions in a cost-efficient, timely and sustainable manner.

Corporate management

Bjørn Henriksen
President and CEO
Mr Henriksen has been president and CEO since May 2008. He was the chief operating officer of Prosafe SE from May 2007 to May 2008. He graduated as a state authorised accountant from the Norwegian School of Economics and Business Administration in Bergen, Norway. Mr Henriksen joined Transocean in 1992 and held a number of positions there and in Prosafe SE. He was president of offshore support services and floating production and executive vice president and chief financial officer of Prosafe SE.

Sven Børre Larsen
Executive vice president and CFO
Mr Larsen was hired as CFO of Prosafe Production in January 2008. He took an MSc in business (specialising in finance) at the Bodø Graduate School of Business in 2000. Mr Larsen has been a financial analyst with Fearnley Fonds, Danske Securities and Danske Markets, an electricity analyst with Troms Kraft and a senior financial analyst with First Securities.

Roy Hallås
Executive vice president and COO
In addition to being COO of Prosafe Production, Mr Hallås was the president of Prosafe Production Services from May 2007 to May 2009. With an engineering degree from the Norwegian University of Science and Technology in Trondheim, he joined Prosafe ASA in May 1997 and has held a number of positions there. These include president of Prosafe Drilling Services, executive vice president corporate relations and executive vice president corporate business development. Prior to joining Prosafe ASA, he held various positions in Transocean, the Norwegian Petroleum Directorate and Norsk Hydro's Technology & Projects Division.

Claes Olsen
Executive vice president corporate business development
Mr Olsen was appointed to executive vice president corporate business development in January 2010 after having been employed as senior vice president business development since June 2009. With an MSc degree from the Norwegian University of Science and Technology in Trondheim, he has 20 years of experience in the oil & gas industry. Key roles in his career include project manager, sales manager as well as product and business development manager mainly related to offshore mooring and loading systems. Prior to joining Prosafe Production he held various positions in Remora, Hitec Marine, MCG and Aker.

Directors' report

Prosafe Production is a leading provider and operator of Floating Production, Storage and Offloading (FPSO) vessels. The company has experienced strong growth, with five new projects executed since the autumn of 2005 and is clearly established as one of the preferred players in the segment. The company has a strong technological platform from which it provides innovative, cost efficient and robust solutions to clients. Following the slow market experienced in the first half of 2009, the demand for FPSOs has gradually started to increase. The long-term outlook appears bright and Prosafe Production is well positioned to take advantage of this in order to deliver sustainable profitable growth to shareholders.

INCOME STATEMENT

Operating revenues for 2009 were USD 315.0 million, compared to USD 264.7 million in 2008. The main reason for the increase is FDPSO *Azurite* and FPSO *Cidade de São Mateus* which commenced operations during 2009. This was partly offset by the scheduled decline in the dayrate for FPSO *Umuroa* and somewhat lower activity on variation orders.

Operating profit before depreciation and impairment amounted to USD 184.9 million, a significant increase compared to the USD 142.6 million seen in 2008. The increase reflects the contribution from FDPSO *Azurite* and FPSO *Cidade de São Mateus*, net of the lower contribution from FPSO Umuroa and variation orders.

As reported to the market in the interim result announcements, the conversion of FPSO *Ningaloo Vision* was substantially delayed due to damages sustained during an electrical fire that occurred in April, as well as technical challenges on the steam systems and the gas compressors. As such, the total project cost ended up at a higher level than anticipated at the start of 2009. Moreover, the market value of M/T *Takama*, a VLCC sized single hull conversion candidate, has dropped further. Due to these factors, an impairment charge of USD 46.7 million has been recognised in the 2009 accounts.

Operating profit amounted to USD 54.5 million in 2009 compared to a loss of USD 111.8 million in 2008. The reason for the increase is a lower impairment charge, in addition to the abovementioned operational factors.

Due to the investments in the three new FPSOs, the company continued to draw down on its debt facilities during the 2009. Consequently, net interest expenses increased to USD 44.2 million from USD 25.7 million in 2008. Net other financial items amounted to USD -0.6 million in 2009, compared to USD -55.9 million in 2008, when the company recognised a substantial loss related to sale of shares in Teekay Petrojarl ASA.

The tax cost in 2009 increased to USD 19.9 million from USD 10.2 million in 2008. The two new vessels that commenced operations are the main reason for the increase.

Net result for the year thereby was USD -10.3 million, compared to USD -203.6 million in the preceding year. Excluding impairment charges the net result was USD 36.4 million.

CAPITAL

Total assets amounted to USD 2,097 million at 31 December 2009, compared to USD 1,985 million in 2008. The increase is mainly related to investments in the three conversion projects, FPSO *Cidade de São Mateus*, FDPSO *Azurite* and FPSO *Ningaloo Vision*.

At the end of 2009, interest-bearing debt was USD 1,152 million, whereof USD 152 million is due for payment in 2010. The debt increased from USD 1,033 million at the end of 2008, as a result of draw-downs in connection with the three conversion projects. In early November, the company entered into a USD 130 million revolving credit facility with a syndicate of three international banks for the refinancing of FPSO *Umuroa*. The loan has a tenure of six years. The availability is reduced by 4.2 million four times a year, followed by a balloon payment of USD 30 million in 2015. The loan was not fully drawn as of 31 December 2009. In 2008 the company entered into a USD 1.2 billion senior secured revolving credit facility in connection with the spin-off from Prosafe SE. The loan has a tenure of seven years, with availability being reduced by USD 75 million semi-annually, followed by a final payment of USD 300 million at maturity. The first reduction was made in May 2009 and on 31 December 2009 the remaining available amount equaled USD 1,050 million. In addition, the company has a smaller facility related to FPSO *Petróleo Nautipa*.

Investments in tangible assets amounted to USD 318 million in 2009. Most of it relates to investments in the three new FPSO projects.

Liquid assets amounted to USD 134 million at 31 December 2009, compared to USD 211 million at 31 December 2008. Undrawn facilities amounted to USD 30 million, which gave a total liquidity reserve of USD 164 million. The book equity ratio was 38.8 per cent at the end of 2009, while it was 40.6 percent at the end of the preceding year.

The decrease is due to a combination of the higher asset base resulting from the investments in the three FPSO projects and the lower equity resulting from the impairment charge.

With a high fleet value and a solid contract backlog, Prosafe Production has a robust financial position, providing a good basis for long-term growth.

SHARE CAPITAL

Prosafe Production Public Limited had a total share capital of USD 25,520,176.4 at 31 December 2009, divided into 255,201,764 shares with a nominal value of USD 0.10 per share. There have been no changes to the share capital during 2009. The shares are listed at Oslo Stock Exchange with ticker code PROD.

SHAREHOLDERS

At 31 December 2009 one group of shareholders controlled 29.9 per cent of the outstanding shares. No other shareholders owned more than 10 per cent. Combined, the ten largest shareholders controlled 60.5 per cent of the shares, with the remaining shares held by around 4,100 investors.

OPERATIONS

Prosafe Production owned and operated nine vessels during 2009: FPSO *Cidade de São Mateus* and FPSO *Polvo* in Brazil, FDPSO *Azurite* in Republic of Congo, FPSO *Umuroa* in New Zealand, *Abo* FPSO in Nigeria, FPSO *Espoir Ivoirien* in Côte d'Ivore, FPSO *Petróleo Nautipa* in Gabon (50 per cent owned), FSO *Endeavor* in India and FSO *Madura Jaya* in Indonesia (50 per cent owned). FPSO *Cidade de São Mateus* and FDPSO *Azurite* commenced their charter contracts in October and April, respectively. The contract for FSO *Endeavor* expired in July, but it was subsequently extended by 12 months with effect from January 2010. In addition, one FPSO, *Ningaloo Vision*, commenced operation offshore the coast of Australia in first quarter of 2010. All the units operated as normal during the year and the combined uptime was 99.1 per cent.

PROJECTS

Prosafe Production had three vessels under conversion in 2009. The FPSO *Cidade de São Mateus* is one of the world's largest and most complex converted FPSOs. It is mainly designed for producing gas and it has a gas compression capacity of 353 million scf per day. In addition, it can produce up to 35,000 barrels of fluids per day. The vessel arrived in Brazil in February 2009 and was present at Petrobras' Camarupim field off the coast of Esperito Santo in March. The unit started to generate an availability dayrate with effect from late April, while the charter contract commenced in early October.

The FDPSO *Azurite* is the world's first and only FPSO with drilling capabilities. It has a process capacity of 60,000 barrels of fluids per day and has a storage capacity of 1.4 million barrels. It commenced operations at Murphy's Azurite development in the Mer Profonde Sud Block, Republic of Congo, in April, after generating permitted delay dayrate since January 2009.

The FPSO *Ningaloo Vision* arrived at the Van Gogh field off the North Western coast of Australia around year-end, after which it started to generate full dayrate. The charter contract commenced in February 2010. The unit is designed to produce up to 150,000 barrels of fluids per day and it has a storage capacity of 650,000 barrels. It is moored with Prosafe Production's proprietary disconnectable turret. The completion of FPSO *Ningaloo Vision* was substantially delayed compared to what was anticipated at the start of 2009. In April the vessel sustained damages during a fire in an Instrument and Technical room while it was at the shipyard. This delayed the progress by approximately five months. Furthermore, during final commissioning it was discovered leaks in the steam systems, which delayed the progress further.

Based on the experience gained over the last few projects, the company has implemented improvement initiatives to all phases of the project execution model from bidding to completion. In the future, substantially more engineering is going to be undertaken in the bidding phase in order to minimize changes to the scope in the execution phase. Moreover, follow-up of sub-suppliers is going to be intensified at the same time as a larger amount of the packages are going to be placed at fixed price orders. This, combined with the improvements to the organisation done over the last couple of years, should enhance the company's project execution capabilities and reduce the risk of cost overruns and delays on future conversions.

OUTLOOK

According to most industry analysts, the demand for oil is going to continue to rise for the foreseeable future. The International Energy Agency (IEA) expects global demand to grow by more than 1 per cent on average until 2030. Simultaneously, it is likely that the decline in production from individual oil fields will continue to increase. IEA estimates that the current decline rate of about 6.7 per cent will increase to 8.6 per cent by 2030. This means that investments in exploration and development need to be accelerated in order to fulfill future demand. As the easily accessible oil with the lowest marginal cost tends to be developed first, an increasing part of future production will come from areas and fields with higher marginal cost, such as deep waters, remote areas with little infrastructure and marginal fields. These are all areas where the FPSO concept has advantages over most other field development alternatives.

Deepwater drilling activity serves as a leading indicator for deepwater development projects. The deployment of ultra deepwater rigs (>4,500 feet) have increased significantly over the last years and 2009 marked an all-time-high with more than 50 rig years executed. Based on the contract status for the ultra deepwater rig fleet, the activity level is set to increase further over the next few years. In fact, an activity level equal to or above the 2009 level is secured until 2013. This means that there are going to be drilled an increasing amount of deepwater wells going forward, which in the longer term should lead to increased deepwater development activity.

Based on both the favorable development in leading indicators, such as the increased oil price and the growth in deepwater drilling, and the long-term demand/supply picture, the board is optimistic that the growth trend of the FPSO market is set to continue.

The board is also turning gradually more optimistic on the shorter term development. Due to the financial crisis that hit the market in 2008 many development projects were postponed and no FPSO contracts were awarded in the period from August 2008 to August 2009. The activity level increased somewhat towards the end of 2009 and a handful of contracts were signed. As the world economy seems to be on path for recovery and as the oil price has come up again, oil companies seem to have grown more confident in the economics of development projects. There is a large number of potential FPSO projects in the pipeline and the number of tenders and contract awards is expected to increase gradually during 2010 and into 2011.

Prosafe Production has robust project execution experience and a solid operating track-record. Moreover, it has access to a wide range of proven FPSO related proprietary solutions, including turrets, swivels and offloading systems. The company is in a comfortable financial position with strong cash flow from operations secured on long-term contracts.

HEALTH, SAFETY AND THE ENVIRONMENT

Good results in the area of health, safety and environment (HSE) are a success criteria and an important value driver in the international oil and gas business. Prosafe Production continuously strives to improve performance in this area and it is an integral part of the company's core values. The company works proactively and systematically to reduce sickness absence by promoting a positive and safe work environment and emphasising attendance factors. In 2009 the group's sickness rate was 0.9 per cent, compared to 0.5 per cent in 2008.

One lost time incident was recorded in operations in 2009, while none occurred in the conversion projects.

The injury frequency (defined as LTIs per million hours of work) for the year was 0.2 compared to 0.4 in 2008.

In line with Prosafe Production's environmental goals, there were no significant oil or chemical spills to the sea or unplanned emissions to the atmosphere in 2009.

EMPLOYEES

On average, Prosafe Production had 764 permanent employees and 311 contract employees during 2009. The corresponding figures for 2008 were 591 and 627, respectively. The number of contract workers has declined as the conversion projects have been completed, while the number of permanent employees has increased as the new units have commenced operations. Prosafe Production strives to be seen as an attractive workplace and puts high importance on offering challenging and motivating jobs and equal development opportunities for all, regardless of gender, nationality, culture or religion.

Men are traditionally over-represented in the recruitment pool for offshore and engineering staff, which is reflected in the fact that women made up only close to 13 per cent of Prosafe Production's permanent employees as of 31 December 2009. The company's policy is full equality of opportunity between men and women, and bases hiring, promotion, training and salary upon qualifications such as education, experience and performance.

RESEARCH AND DEVELOPMENT

Prosafe Production has a separate technology group, which is continuously developing solutions applicable for the construction and operation of FPSOs.

RISK

Prosafe Production is exposed to risks related to strategy, operations, finances and insurance. Understanding and managing risk exposures are instrumental in achieving the company's target of creating value for its shareholders by allocating capital and resources to the business opportunities which yield the best risk adjusted return in a long-term perspective.

Strategic risks are the only risks which the company will actively accept in order to generate a return for shareholders. Tactical risks, mainly related to operations and financing, are risks which the company will seek to mitigate through detailed assessment and well-established business procedures.

Prosafe Production's customers are mainly large international oil companies with low credit risk. The company minimises counter-party risk through bank guarantees or parent company guarantees. Moreover, all contracts contain cancellation clauses, which insure the company against substantial economic losses in case a customer withdraws from a contract.

The board of directors' main tools in managing risks are regular reporting on projects, operations and financial results, board meetings, periodic reviews of the business and tenders, as well as strategy and budget processes. This is supplemented by continuous dialogue and exchange of views with the corporate management.

CORPORATE GOVERNANCE

Effective corporate governance is essential for Prosafe Production's success in creating values for shareholders and customers. As such, the company is committed to maintain high standards of corporate governance and has adopted a policy that is based on the Norwegian Code of Practice for Corporate Governance.

PROSAFE PRODUCTION PUBLIC LIMITED

Prosafe Production Public Limited is the parent company in the Prosafe Production group. The company is incorporated on Cyprus and is structured as a holding company, whose ultimate purpose is to own shares in the subsidiaries and to fund the other companies in the group. The bulk of the group's debt, as well as the related interest rate swaps are maintained in the parent company. Moreover, Prosafe Production Public Limited is responsible for the group's top management functions, investor relations activities, treasury functions and business development. In 2009 the company entered into a management agreement with Prosafe Production Management B.V., a Dutch entity, for the execution of these tasks. All tasks and decisions of a strategic nature will still be done by Prosafe Production Public Limited and its board of directors.

For 2009, Prosafe Production Public Limited posted a net result of USD -48.9 million. The net result for 2008 was USD -83.1 million. No dividends have been proposed for 2009.

Total assets amounted to USD 2,019 million on 31 December 2009, compared to USD 1,967 a year earlier.

CHANGES TO THE BOARD OF DIRECTORS

All six directors were elected for a two year period at the General Meeting on 14 May 2008. There have been no changes to the composition of the board since then.

There were six board meetings held during 2009, and all members on the board participated on all six meetings.

Reference to the directors' fee is made in note 7 of the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditor of the company, Ernst & Young, has expressed its willingness to continue as the company's auditor. Reference to the auditor's fee is made in note 7 of the consolidated financial statements.

GOING CONCERN

The Prosafe Production group was in a solid financial position as of 31 December 2009. The board of directors and the CEO are of the opinion that the basis is good for continued operation of the group. The accounts have therefore been prepared on a going concern basis.

EVENTS AFTER THE BALANCE SHEET DATE

From 1 January 2010 until the date of this statement, there have not been any significant events with regards to the financial performance and situation of the Group.

Board of directors

Reidar Lund
Chairman
Mr Lund was president of Transocean ASA from 1985 to 1997, and CEO of Prosafe ASA from 1997 to 1999. He holds a number of directorships in offshore-related enterprises. Mr Lund has been chairman of Prosafe Production since 2008, and has also been the chairman of Prosafe SE since 1999. A Norwegian citizen, he resides in Tananger, Norway.

Christian Brinch
Non-executive director
Mr Brinch owns a consultancy business. His previous appointments include CEO of Helikopter Service AS and deputy CEO of ABB Norway. He is also the chair of Hafslund ASA and holds a number of other directorships. Mr Brinch has been a director of Prosafe Production since 2008, and has also been a director of Prosafe SE since 1997. A Norwegian citizen, he resides in Oslo, Norway.

Arne Austreid
Non-executive director
Mr Austreid has been the president and CEO of Prosafe SE since 1999. Educated as a petroleum engineer, he also has an MBA from the University of Aberdeen. Mr Austreid joined Prosafe ASA in 1998 as vice president marketing and business development. From 1982 to 1998, he held a number of positions in Transocean ASA, both offshore and on land, and was president when he left the company in 1998. In addition to being a director of Prosafe Production since 2008, Mr Austreid is a director of Solstad Offshore ASA. He is a Norwegian citizen and resides in Larnaca, Cyprus.

Chrysanthos Mardapittas
Non-executive director
Dr Mardapittas has more than 20 years of industrial and academic experience and is currently operations manager for Gnosis Limited (a knowledge-based consultancy). He received a PhD in the field of advanced control systems from the Polytechnic of Central London in 1987. Previous appointments include project work for a number of oil majors and a research position at Brunel University. Dr Mardapittas has been on a director in Prosafe Production since 2008. He is a citizen of Cyprus and resides in Larnaca, Cyprus.

Michael Raymond Parker
Non-executive director
Mr Parker has a total of 37 years of experience from international project management in the oil and gas industry. Previous appointments include managerial positions with Total E & P, Aker Contracting and Norwegian Contractors. Mr Parker has been a director in Prosafe Production since 2008, and has also been a director of Prosafe SE since 2007. A British citizen, he resides in Malaga, Spain.

Ronny Johan Langeland
Non-executive director
Mr Langeland runs his own investment and consultancy company. His previous appointments include vice president for investment at Storebrand and Avanse Forvaltning. He has been a director of Prosafe Production since 2008, and has also been a director of Prosafe SE since 2002. Mr Langeland is a Norwegian citizen and resides in Rælingen, Norway.

Corporate governance

Prosafe Production's corporate governance system is based on its vision and strategy. The company's business is based on a simple and efficient model which provides a segregation of responsibilities.

A broadly-based board of directors, a constructive mode of working in relation to company administration and precise reporting have laid the foundation for efficient management, equal treatment of all shareholder interests, and a controlled and profitable development of the company.

NORWEGIAN CODE OF PRACTICE

Headquartered in Cyprus, Prosafe Production is subject to Cypriot company and accounting legislation. Prosafe Production is listed on the Oslo Stock Exchange and observes the Norwegian code of practice for corporate governance of 21 October 2009.

DEFINITION OF CORPORATE GOVERNANCE

In defining corporate governance in accordance with the Norwegian code of practice, Prosafe Production seeks to clarify the division of roles between its shareholders, board of directors and executive management.

The company will observe good corporate governance in order to strengthen shareholder's confidence, the capital market and other interested parties, and to ensure the greatest value creation over time in the best interests of shareholders, employees and other stakeholders.

BUSINESS OBJECTIVE AND MAIN STRATEGIES

Prosafe Production's articles of association and its vision, goals and strategies provide the information necessary to help ensure that shareholders can anticipate the scope of its activities. The articles can be found on the group's website at www.prosafeproduction.com, in the section on investor information/shareholder information.

EQUITY AND DIVIDENDS

Prosafe Production has a sound financial position which supports its expressed strategy and policy for return on capital. The company's long-term aim is to provide shareholders with a competitive return on their shares through a combination of price appreciation and/or direct return in the form of dividends. The level of dividends will reflect the underlying financial development of the company, while taking into account opportunities for further value creation through profitable investments.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Prosafe Production has one class of shares. The articles of association place no restrictions on voting rights. All shares have equal rights. The board's mandate to acquire shares in the company is conditional on such purchases being made in the market.

No transactions took place in 2009 between the company and its shareholders, directors and senior executives, or the close associates of any of these.

Prosafe Production has rules which ensure that directors and senior officers report to the board if they have a significant interest, directly or indirectly, in any agreement concluded by the company.

FREELY NEGOTIABLE SHARES

All Prosafe Production's shares are freely negotiable. Its articles of association place no restrictions on negotiability.

GENERAL MEETINGS

The general meeting secures the participation of shareholders in the company's highest decision-making body. The company's articles of association are adopted by the general meeting. All shareholders are entitled to submit matters for inclusion on the agenda of a general meeting, as well as to attend, speak and vote at the meeting.

The annual general meeting (AGM) must be held by 30 June every year. An AGM and a meeting called to pass a special resolution must be notified no less than 21 days in advance in writing, and a meeting of the company other than an AGM or a meeting to pass a special resolution must be notified no less than 14 days in advance in writing.

Emphasis is given to include all requisite information in the supporting documents related to items on the agenda, so that shareholders can take a position on all matters to be discussed.

Shareholders wishing to attend the general meeting must notify the company of this intention before the deadline stipulated in the notice. As the board wishes to facilitate the attendance of as many shareholders as possible, it aims to set the deadline for notification of attendance as close as possible to the meeting date. Shareholders who are unable to attend in person are encouraged to appoint a proxy.

The agenda is determined by the board. The meeting is opened by the chairman of the board, and a chair for the meeting is then elected. The minutes of the general meeting will be published as a stock exchange announcement and posted to the company's website.

NOMINATION COMMITTEE

In accordance with the Articles of Association, the company shall have a nomination committee comprising of three members and one alternate which all is elected for a period of two years. One of the members has been elected by the board of directors, while two members and one alternate have been elected by the AGM.

The nomination committee will meet and submit its recommendation for the election of directors to the AGM.

CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The board of Prosafe Production comprises six shareholder-elected non-executive directors. Directors are elected by the shareholders in a general meeting. Pursuant to the articles of association, the board will have six members. However, the number of directors may be increased or reduced by an ordinary resolution (simple majority of the votes present) of the shareholders.

All six directors are independent of the company's management, its main business associates and the principal shareholders.

Prosafe Production does not have a corporate assembly as the company, as a Cypriot registered company, does not adhere to the Norwegian Public Companies Act .

WORK OF THE BOARD OF DIRECTORS

The board of Prosafe Production has overall responsibility for management of the company.

The company's operations and strategic direction are regularly reviewed with the help of periodic board meetings and annual strategy and budgetary processes, supplemented by on-going strategic discussions and monthly reporting of all significant management parameters. In parallel, a constructive

on-going dialogue is pursued between the board and the management. The board is also responsible for reaching decisions which form the basis for improving and executing investments and structural measures.

Scheduled board meetings will be held at least six times a year, but the work schedule is flexible and otherwise adaptable to the need to consider relevant operational and strategic circumstances. The board has drawn up separate instructions for the management. A job description specifies the duties, authority and responsibilities of the chief executive in relation to the rules governing the business. The chief executive has a particular responsibility for ensuring that the board receives precise, relevant and timely information which is sufficient for it to be able to discharge its duties.

Internal control of the accounts is handled through various forms of segregation of duties, guidelines and approval routines. The company's internal financial transactions are subject to special control systems and routines. Financial risk is managed by the group's central finance function. Monthly financial reports are received by the board.

The chairman has a particular responsibility for ensuring that the board's work is well organised and efficiently conducted. The chairman of Prosafe Production encourages open and constructive debate by the board.

The board has assessed the use of board committees. A compensation committee comprising three of the board members has been established. Its duties are to develop and maintain proper and effective compensation policies for the company, with a particular emphasis on management remuneration. The board has not otherwise found it appropriate to appoint committees. This is primarily because all the directors are regarded as independent, and the chief executive is not a director. The board is accordingly unaffected by the challenges relating to independence which are often used as an argument for appointing board committees.

The board undertakes a yearly self-evaluation of its working methods, composition and the way the directors function both individually and collectively in relation to the goals set for their work. In this context, the board also assesses itself in relation to corporate governance.

All six members of the board of directors have participated in all meetings conducted in 2009.

RISK MANAGEMENT AND INTERNAL CONTROL

Prosafe Production's conduct and development of its business is subject to several categories of risk. These risks and the associated internal control measures are described in more detail in the chapter on risk management on page 36 in this annual report.

Prosafe Production has established a corporate ethics committee which will maintain and further develop the company's code of conduct. Concerns about possible breaches of the code can be reported to the committee by ordinary mail or e-mail (conduct@prosafeproduction.com) on a confidential basis. The committee will ensure that alleged breaches are investigated thoroughly and fairly and that breaches are reported to the board of directors.

REMUNERATION

Board of directors

The remuneration of the members of the board will be determined on an annual basis by the AGM. Remuneration of the board reflects its responsibilities, expertise, commitment of time, and the complexity of Prosafe Production's activities. The directors may also be reimbursed for such outlays as travel, hotel and other expenses incurred when attending meetings of the board or in connection with the business of the company. Directors' fees are not related to the company's performance and no options are given to directors. Remuneration of directors totalled EUR 380,500 in 2009.

Executive management and senior officers

The terms of employment of the president and CEO are determined by the board of directors on the

basis of a detailed annual assessment of salary and other remuneration.

Prosafe Production aims to provide a competitive total package for senior officers. The basis for comparison is the practice followed by other international companies involved in the oil and gas sector in the geographic areas where Prosafe Production operates. The total remuneration package for the corporate management team and other senior officers comprises three principal elements – basic pay, variable pay and other benefits. In addition, corporate management and senior officers of Prosafe Production are awarded share appreciation rights.

The company introduced a bonus scheme in 2008 which embraces corporate management and senior officers. The size of these bonuses depends on achieving defined results for operations, earnings, health, safety and the environment, as well as meeting strategic targets.

Prosafe Production has prepared guidelines which define the main principles for determining the salary and other remuneration of management. For further details of these guidelines and for a specification of remuneration paid to corporate management, see note 7 of the consolidated accounts.

INFORMATION AND COMMUNICATION

Prosafe Production presented its preliminary annual accounts in early February. Complete accounts, the directors' report and the annual report are sent to shareholders and other stakeholders in April. Beyond this, Prosafe Production presents its interim accounts on a quarterly basis. Its financial calendar is published in the investor information/financial calendar section of the company's website www.prosafeproduction.com and in the annual report.

Open investor presentations are held in connection with the reporting of annual and interim results. These presentations are broadcasted as webcasts and can be followed on the internet. The chief executive and the chief financial officer use these occasions to review the results and comment on operations, markets and prospects. These presentations will also be published on Prosafe Production's website.

An on-going dialogue is otherwise maintained with, and presentations made to, analysts and investors. In order to ensure equal treatment of its shareholders, one of Prosafe Production's aims is to make sure that the stock market is at all times in possession of correct, clear and timely information about the company's operations and condition.

TAKE-OVERS

Prosafe Production has no defense mechanisms against take-over bids in its articles of association, and has not implemented other measures which limit the opportunity to acquire shares in the company. If an offer is made for the company's shares, Prosafe Production's board of directors will issue a statement evaluating the offer and make a recommendation as to whether shareholders should or should not accept the offer.

A mandatory bid for all the outstanding shares has to be made if a shareholder or a group of shareholders acquires an ownership of 30% or more, in accordance with Cypriot law.

AUDITOR

The company's independent auditor is Ernst & Young, Cyprus. Ernst & Young has been the company's auditor since 2008. The auditor will attend all board meetings where the annual accounts are considered. Information about the auditors' fees is presented in the consolidated accounts under note 7.

About
Prosafe Production

Prosafe Production is one of the world's leading FPSO contractors. The company has been active in the market since the 1980'ies and it has a long track-record of converting and operating FPSO and FSO vessels.

Prosafe Production is headquartered in Cyprus, while corporate management is employed by the management company Prosafe Production Management B.V., located in Hoofddorp, the Netherlands. The operational headquarter lies in Singapore where the main resources for engineering, project management and operations are found. In addition there are regional offices in Houston, USA; Hoofddorp, the Netherlands; Rio de Janeiro, Brazil, as well as base offices around the world to meet operational needs.

The group currently employs approximately 1,000 people, including contract personnel.

HISTORY

Prosafe Production was first set up as Nortrans in Singapore in 1982 to design, manage and operate FPSOs. In 1985, the Company was awarded its first FSO contract and purchased and converted a 110,000 dwt crude oil tanker into an FSO for operation off Samudra Island, Indonesia. The first FPSO, *Al Zaafarana*, was converted in 1994. The company has so far completed 18 conversions of increasing complexity.

Prosafe Production engineered and produced its first turret mooring system in 1991 and has since built up considerable expertise with a proven portfolio of external and internal single point mooring systems, disconnectable turrets as well as high-pressure multipath oil, gas and water swivels.

The Company was first listed on the Oslo Stock Exchange as Nortrans Offshore in 1998. Nortrans Offshore was subsequently acquired by Prosafe ASA in 2001 and renamed Prosafe Production. In 2008 Prosafe SE (formerly Prosafe ASA) transferred all its floating production related assets to the Cyprus registered company Prosafe Production Public Limited. In May 2008, Prosafe Production Public Limited was spun off from Prosafe SE and subsequently listed on the Oslo Stock Exchange under ticker code PROD on 2 June 2008.

THE BUSINESS

Prosafe Production is a leading owner and operator of floating production, storage and offloading vessels (FPSOs). The core business lies in the design, engineering, conversion and operation of FPSO/FSO vessels. The company currently owns and operates a fleet comprising eight FPSOs and two FSO units – *Abo* FPSO, FDPSO *Azurite*, FPSO *Cidade de São Mateus*, FPSO *Espoir Ivoirien*, FPSO *Ningaloo Vision*, FPSO *Petróleo Nautipa* (owned 50 per cent by Prosafe Production), FPSO *Polvo*, FPSO *Umuroa*, FSO *Endeavor* and FSO *Madura Jaya* (owned 50 per cent by Prosafe Production). All the units in the fleet have been converted by Prosafe Production.

To be prepared for a fast-track conversion, the VLCC M/T *Takama* was acquired at the beginning of 2008. This vessel will be converted to an FPSO on the award of a firm contract. The vessel is currently laid up in Malaysia.


UMUROA

STRONG ENGINEERING AND PROJECT EXPERTISE

Prosafe Production converts existing Aframax, Suezmax and VLCC tankers to FPSOs and FSOs. The group employs about 40 highly skilled engineers, and the Engineering and Operations departments can manage complete concepts from tanker purchase through design, life extension, construction, commissioning, installation on the field, operation and redeployment.

Over the years, Prosafe Production has completed 18 conversion and major upgrade projects. The first FSO conversion was carried out in 1985, with the first FPSO converted in 1994.

The Company has conducted several fast-track conversion projects. For instance, the *Abo* FPSO produced first oil only 15 months after the contract was awarded. The Company has also performed conversion of a complex gas FPSO, FPSO *Cidade de São Mateus*, and the world's first FPSO with drilling capabilities, FDPSO *Azurite*.

Prosafe Production uses its in-house resources for the design and operation of the units. The Project organisation liaises with the Operations department from the bid stage, thereby ensuring that the vessels are designed for operability and that continuous design improvement is safeguarded.

TECHNOLOGICAL EDGE

Prosafe Production also offers a range of innovative and patented FPSO related technological solutions that enhance its services.

With an in-house Technology department, the Company designs and engineers turret moorings, fluid transfer systems, offloading systems and utility systems for its floating production units. Its dedicated Technology department draws insights from the company's extensive experience in several of the world's largest oil and gas fields, and from its experience in converting vessels to FSOs and FPSOs.

Prosafe Production developed its first turret mooring system in 1991 and has since gone on to develop various innovative and patented turret mooring solutions capable of handling a significant numbers of risers, both in shallow and deep waters worldwide. The Company now has a proven portfolio of external and internal single point mooring systems, incorporating high-pressure multipath oil, gas and water swivels, as well as disconnectable turret moorings and high pressure swivels.

Aside from mooring solutions, our team of experienced engineers is also adept at customizing field-specific solutions to help our clients master the industry's challenges in a cost efficient manner.

EXCELLENT OPERATIONAL TRACK RECORD

Prosafe Production has since the acquisition of Nortrans Offshore 2002 provided FPSO clients with an operational uptime of more than 99 per cent. The operational uptime for 2009 was 99.1 per cent compared to 99.4 per cent in 2008. Taken into account that two vessels commenced operations in 2009, this is considered an excellent operational result. Over the years, the company has been responsible for operation of 13 units in different parts of the world, such as Brazil, West Africa, Southeast Asia and Australia/New Zealand.

In early 2010 Prosafe Production entered into a Memorandum of Understanding with Höegh LNG for the long term cooperation within the LNG FPSO segment. Prosafe Production's main responsibility in the partnership is operation and maintenance of the vessels, but the company is also going to assist Höegh LNG during marketing, project execution and completion.

The fleet

FPSO *Cidade de São Mateus* is one of the world's largest converted FPSOs with a topside weight of approximately 20,000 tonnes and the capacity to produce 353 million standard cubic feet per day (mmscfd) of gas, and 35,000 barrels of fluid per day (bfpd). The vessel commenced its nine-year firm contract with Petrobras at the Camarupim field off the coast of Espirito Santo, Brazil, in October 2009. Petrobras has the option to extend the contract by up to six years.

FDPSO *Azurite* is the world's first FPSO with drilling capabilities. The unit is equipped with a modular drilling package, which can be removed and used elsewhere once drilling is completed. It commenced operations at Murphy's deepwater Azurite development in the Mer Profonde Sud block offshore the Republic of Congo in April 2009. The firm part of the contract is seven years, while there is eight years of extension options.

FPSO *Ningaloo Vision*, is working in the Exmouth basin off the north-western coast of Australia. The vessel is equipped with Prosafe Production's first in-house developed disconnectable turret, which allows it to safely disconnect and sail to a safe haven in case of severe weather conditions. The unit is employed by Apache on a seven-year fixed term contract plus eight optional years. The contract commenced in February 2010.

FPSO *Polvo* started operations for Devon offshore Brazil in August 2007. The contract has a firm seven-year period with an eight-year extension option.

FPSO *Umuroa* started a five-year contract with five one-year extension options for Australian Worldwide Exploration offshore New Zealand in August 2007. This contract was adjusted in May 2008 to an eight-year firm period to 31 December 2015, with seven one-year extension options to 31 December 2022.

FPSO *Abo* began an eight-year charter with Nigerian Agip Exploration offshore Nigeria in April 2003. Since the start of its contract, it has operated without a single LTI.

FPSO *Espoir Ivoirien* is located on the Espoir field off the Ivory Coast for Canadian Natural Resources (CNR). After the original conversion, the vessel was upgraded in 2005 to accommodate the tie-in of the West Espoir wellhead platform. A further upgrade was requested by CNR in 2008, which will be completed in 2010. This included an accommodation expansion from 66 to 98 people and increases in oil production from 40,000 to 45,000 bopd, water production from 42,000 to 66,000 barrels per day (bbld), and gas compression from 60 to 80 mmscfd. The firm period of the contract lasts until 2012. In addition, CNR has the option to extend it by up to ten years.

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

FSO *Madura Jaya* has been under charter to Kodeco Energy since January 2003. The contract has been extended two times and currently runs until November 2010. The client has the option to extend to 31 December 2010.

FSO *Endeavor* is operating for Aban Loyd Chiles Offshore on the PY-3 field off India. The previous contract ended in July 2009. However, a 12 month extension has been negotiated for the vessel, which commenced 24 January 2010.

Certain of the company's charter contracts include an option for the client to purchase the vessel at one or several points during the firm charter term.

Prosafe Production also owns **M/T *Takama***, a VLCC of 266,286 deadweight tonnes (dwt) originally delivered in 1987, which was purchased in January 2008. This vessel is a suitable conversion candidate for future FPSO projects.

FPSO *Cidade de São Mateus*

Oil prod. cap. (bbl/d):	35 000
Gas compr. (mmscfd):	353,0
Str. cap. (bbl):	700 000
Water depth (m):	763
First oil:	2009
Contract period (yrs):	9+6
Operator:	Petrobras
Country:	Brazil

FDPSO *Azurite*

Oil prod. cap. (bbl/d):	40 000
Gas compr. (mmscfd):	18,0
Str. cap. (bbl):	1 400 000
Water depth (m):	1 400
First oil:	2009
Contract period (yrs):	7+8
Operator:	Murphy
Country:	Congo

FPSO *Ningaloo Vision*

Oil prod. cap. (bbl/d):	63 000
Gas compr. (mmscfd):	80,0
Str. cap. (bbl):	650 000
Water depth (m):	350
First oil:	2010
Contract period (yrs):	7+8
Operator:	Apache
Country:	Australia

FPSO *Polvo*

Oil prod. cap. (bbl/d):	90 000
Gas compr. (mmscfd):	7,5
Str. cap. (bbl):	1 600 000
Water depth (m):	100
First oil:	2007
Contract period (yrs):	7+8
Operator:	Devon
Country:	Brazil

FPSO *Umuroa*

Oil prod. cap. (bbl/d):	50 000
Gas compr. (mmscfd):	25,0
Str. cap. (bbl):	773 245
Water depth (m):	120
First oil:	2007
Contract period (yrs):	8+7
Operator:	AWE
Country:	New Zealand

FPSO *Abo*

Oil prod. cap. (bbl/d):	44 000
Gas compr. (mmscfd):	44,0
Str. cap. (bbl):	930 000
Water depth (m):	550
First oil:	2003
Contract period (yrs):	8+2
Operator:	Agip
Country:	Nigeria

FPSO *Espoir Ivoirien*

Oil prod. cap. (bbl/d):	40 000
Gas compr. (mmscfd):	60,0
Str. cap. (bbl):	1 100 000
Water depth (m):	120
First oil:	2002
Contract period (yrs):	10+10
Operator:	CNR
Country:	Côte d' Ivorie

FPSO *Petróleo Nautipa*

Oil prod. cap. (bbl/d):	20 000
Gas compr. (mmscfd):	3,0
Str. cap. (bbl):	1 080 000
Water depth (m):	142
First oil:	2002
Contract period (yrs):	13+2
Operator:	Vaalco
Country:	Gabon

FSO *Madura Jaya*

Oil prod. cap. (bbl/d):	n/a
Gas compr. (mmscfd):	n/a
Str. cap. (bbl):	633 000
First oil:	2000
Contract period (yrs):	11
Operator:	Kodeco
Country:	Indonesia

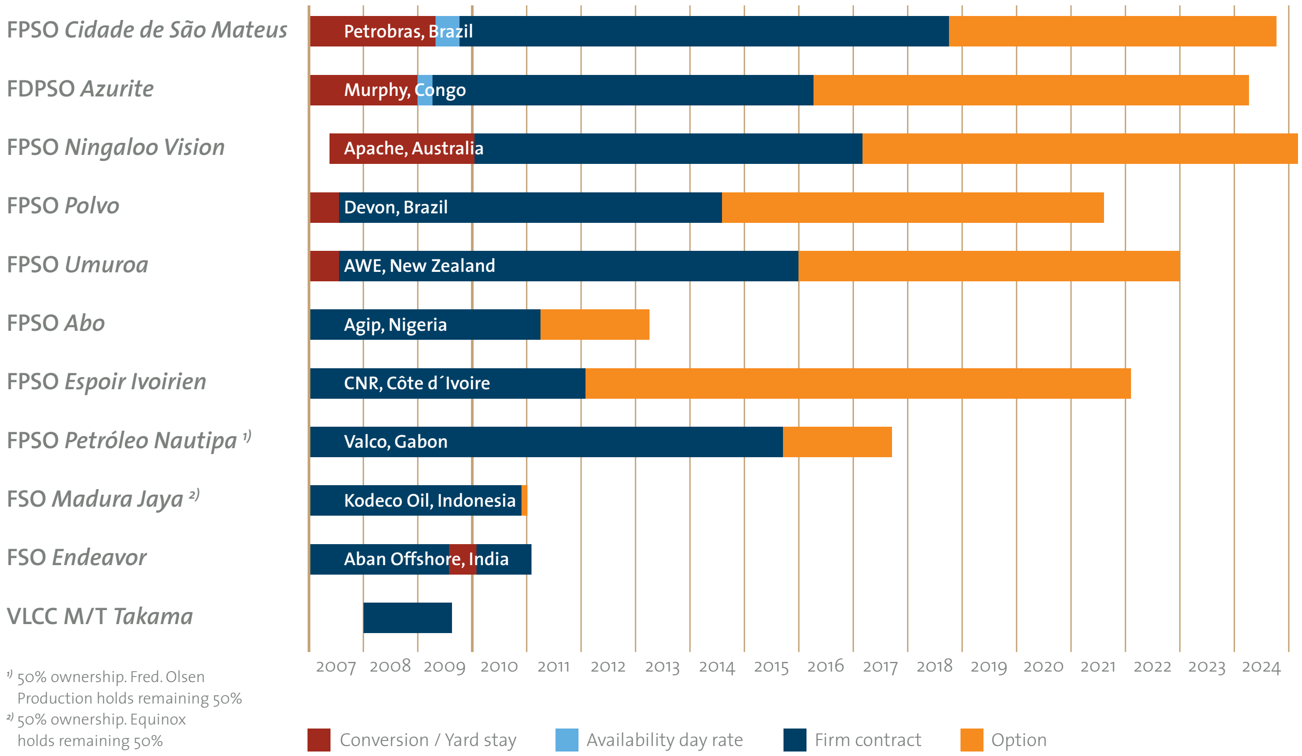
FSO *Endeavor*

Oil prod. cap. (bbl/d):	n/a
Gas compr. (mmscfd):	n/a
Str. cap. (bbl):	550 000
First oil:	1997
Contract period (yrs):	14
Operator:	Aban
Country:	India

VLCC M/T *Takama*

Oil prod. cap. (bbl/d):	n/a
Gas compr. (mmscfd):	n/a
Str. cap. (bbl):	1 939 983
First oil:	n/a
Contract period (yrs):	n/a
Operator:	n/a
Country:	n/a

Contract status



1) 50% ownership. Fred. Olsen Production holds remaining 50%
2) 50% ownership. Equinox holds remaining 50%

Prosafe Production worldwide

Health, safety, environment and quality assurance

Health, safety, the environment and quality (HSEQ) are integral aspects of Prosafe Production's core business. We believe in the zero mindset philosophy and continue to work systematically to improve our HSEQ performance, preventing negative consequences for people's life and health, the natural environment and material assets. In case of conflict between HSEQ and productivity, HSEQ will always come first.

SAFETY CULTURE

Prosafe Production believes in developing and maintaining a strong safety culture which promotes learning. All incidents, including near miss events, are reported and thoroughly investigated. The data collected is analysed and lessons learned are implemented. Such initiatives give the company a better understanding of the root causes of any incidents, equip it to implement effective solutions, and provide a holistic and systematic approach to managing risk.

A combined lost-time injury (LTI)* frequency across projects and operations of 0.2 per million hours worked during 2009 shows the company's commitment to a zero injury working environment.
**An LTI is defined as an occupational injury which causes the employee to be absent from work for one complete shift – in other words, 12 hours.*

An annual Safety Day is part of the proactive efforts implemented by Prosafe Production to inform, educate and debate HSEQ-related improvements, ideas and initiatives across the industry in order to enhance the safety culture. Around 100 participants including clients and contractors attended the sixth annual Prosafe Production Safety Day in 2009. The Prosafe Production Safety Partnership Award for 2009 was presented to Canadian National Resources. This annual prize recognises that the company's safety performance is based on strong partnerships and close integration with all its business partners, including the clients.

INTEGRATED HSEQ MANAGEMENT SYSTEM

Our integrated management system (IMS) is a web-based solution which allows the company to manage health, safety, security, environmental and quality issues systematically. Accessible by all employees around the world, key features of the IMS include databases on improvement actions, incident management and emergency response. The IMS provides easy access to resources for the safe management of people, material assets and the environment.

The IMS is certified to the ISO 9001-2000 quality management standard, the ISO 14001 environmental management standard, the OHSAS 18001 safety management standard and the ISM international safety management standard for ships.

As part of a preventive and proactive approach towards managing incidents, Prosafe Production has introduced a series of leading (proactive) indicators in all its areas of operation. A leading indicator highlights any deficiencies which could result in an incident before it actually occurs, as opposed to lagging (reactive) indicators obtained when an incident has already taken place.

Prosafe Production has further developed its potential escalation system, in which all incidents – including near-misses – are categorised not only by what actually happened but also by their potential for further escalation. Through analysing this potential, the company can address the immediate underlying causes of incidents and focus on risk reduction.

ENVIRONMENTAL MANAGEMENT

Prosafe Production is committed to environmentally responsible operations and has introduced several initiatives to reduce its ecological footprint. The company believes that education is a key element to successful environmental management, and seeks to co-operate with and support all its stakeholders in order to arrive at business decisions which improve environmental management performance.

Environmental considerations are an integral part of our FPSO engineering and construction phases. We seek to implement designs and technologies that minimize the impact of our operations, whilst at the same time enhancing productivity. Onboard the vessels, we have put in place preventative maintenance systems to ensure that all equipment is operating at the highest levels of efficiency, thereby using energy effectively. In 2009, in line with Prosafe Production environmental goals, there was no significant oil or chemical spills to the sea, or unplanned emissions to the atmosphere.

SECURITY MANAGEMENT

The company's vessels have security plans in place which are certified to the International Ships & Port Facility Security Code (ISPS) regulations and subject to regular internal and external audits. Security risk management forms part of the company's overall security management plan, and extends to travel arrangements for personnel. Prosafe Production also engages external security advisors to help develop the protocols necessary for ensuring a secure environment for all employees and material assets.

AUDITS

Prosafe Production's systems are subject to internal audits as well as audits by third parties, including the flag states, certifying bodies and clients. 35 audits were completed on Prosafe Production management systems in 2009 and no material non-compliances were found. All observations made and non-compliances identified, however small, are incorporated into the company's improvement action system.

CONTINGENCY PLANS

Contingency plans are in place to limit harm to people, the environment and material assets, as well as to ensure that correct and timely information is provided to relevant third parties, should circumstances require. Emergency response exercises are carried out in co-operation with clients and third parties to ensure we are prepared to deal with a possible serious event.

PEOPLE

A diverse and inclusive workforce

Prosafe Production's success depends on the combined capabilities and contributions of its employees. Their passion, commitment, knowledge and expertise are fundamental to the company's sustained success.

The company believes that strength lies in versatility, not in similarities. Its diverse and talented workforce is one of the company's most important competitive advantages in satisfying client requirements. Attracting, developing and retaining the best employees, regardless of gender, age, nationality, cultural background or religion, provides access to new ideas, promotes better decision-making and creates a workforce which mirrors the clients and the world at large.

Prosafe Production also promotes full equality between men and women. Policies and procedures have been developed to ensure efficient human resource management and equitable treatment of employees. The company is committed to providing a working environment in which everyone is treated fairly and with respect, and in which everyone has the opportunity to contribute to business success and to realise their potential. Recruitment, promotion, training and remuneration are based on qualifications such as education, experience and performance.

At 31 December 2009, Prosafe Production had 1,003 employees from 34 countries, compared with 1,238 a year earlier. The decrease reflects the lower activity on projects after completion of the three conversions. The company employs contract staff to provide flexibility during peak working periods. Overall turnover on permanent staff in Prosafe Production in 2009 was 12 per cent.

Attracting, developing and retaining talented people

Prosafe Production's high level of activity and strong targeting of international markets have increased its need for people with the right skills and attitudes.

In order to ensure a uniform and high standard of operation and to create a shared corporate identity across corporate and national boundaries, new employees are given a thorough introduction to Prosafe Production's history, operations, vision, core values and code of conduct. They are also offered the necessary training in company policies related to health, safety and the environment.

Every employee will also undergo an annual appraisal dialogue with their line manager. These annual reviews provide the opportunity to focus on how employee and manager can collaborate in order to reach individual and company goals. Based on the job review dialogue, an individual development plan for every employee will be developed.

Prosafe Production aims to be a preferred employer. It will attract and retain personnel by offering challenging and motivating tasks, providing attractive working conditions, a salary which is competitive and in line with industry standards, and opportunities for personal development and career growth.

OCS Services Limited

Some 50 per cent of the existing professionals in the oil and gas industry are expected to retire over the next five years, while 50,000 trained personnel will be needed worldwide. To meet the labour requirements in the offshore industry, Prosafe Production has a 50 per cent ownership and long-term joint venture with Mumbai-based

OCS Services Limited with the primary objective of providing staffing and support services to the maritime and oil and gas industry worldwide.

OCS currently employs approximately 1,400 people with additional personnel under training. This provides Prosafe Production with a steady and effective source of manpower for its FPSOs.

CORPORATE SOCIAL RESPONSIBILITY

Prosafe Production recognises that its long-term sustainability and success as a company depends on building and maintaining mutually beneficial relationships with all its stakeholders. The company believes that it has a responsibility to the wider community from both social and environmental perspectives, and that good corporate citizenship is integral to the way it conducts its business. Prosafe Production strives to positively contribute to the communities in which it operates.

International commitment and standards

In 2008 Prosafe Production signed the UN Global Compact – the largest corporate citizenship and sustainability initiative in the world. By doing so, the company is demonstrating its commitment to supporting the 10 universally accepted principles of the Global Compact in respect of human and labour rights, the environment and action to combat corruption. As part of this commitment, Prosafe Production will seek to align its business strategies and operations to address the challenges facing the wider international community and society wherever possible.

Corporate social responsibility – ISO 26000

Prosafe Production is preparing for compliance with the internationally recognised ISO 26000 standard on corporate social responsibility, which will be introduced in 2010.

Compliance with the ISO standard will be verified by an independent audit on an annual basis, thereby providing assurance that implementation of corporate social responsibility in Prosafe Production is both transparent and systematically managed.

In addition to this, Prosafe Production is supporting a number of programmes and charity initiatives in the local communities where it operates. This includes scholarship programmes, SOS Children Villages, and fighting malaria.

SUMMARY OF HSEQ STANDARDS FOLLOWED BY PROSAFE PRODUCTION:

- OHSAS 18001
- The International Management Code (ISM Code) for the Safe operation of ships and for Pollution Prevention
- ISO 9001
- International Ship and Port Facility Security (ISPS) Code
- ISO 14001
- ISO 26000
- UN Global Compact

Risk management

Prosafe Production operates on several continents, and the company's activities and business development are subject to several categories of risk.

Understanding and managing risk exposures are necessary to ensure that the company creates value for its shareholders by allocating capital and resources to the business opportunities which yield the best return relative to the risk involved.

Strategic risks are the only risks which the company will actively accept in order to generate a return for its shareholders. Tactical risks, mainly related to operations and financing, are risks which the company will seek to mitigate through detailed assessment and well-established business procedures.

PROSAFE PRODUCTION'S POSITION IN THE VALUE CHAIN

The company's activities are centered around the production and maintenance phases of the life cycle of oil fields. Traditionally, this represents the part of the value chain which is most robust to oil price variations and associated fluctuations in the pace of oil company investment and development.

Prosafe Production's strategic focus secures the company a stable revenue flow combined with growth opportunities in its selected niches, even during times of volatile oil prices. Moreover, the company's contracts are of a long-term nature, which offers a high degree of stability and predictability. Prosafe Production's business is also largely based on fixed day-rate contracts, where compensation is independent of oil prices and production volumes. In addition, the company operates in most of the important offshore regions of the world, which means its risk is substantially diversified in geographical terms.

RISK MANAGEMENT SYSTEM

Risk management forms an integral part of Prosafe Production's business management system and follows international standards. The company's risk management system consists of the following three activities.

RISK IDENTIFICATION	RISK ASSESSMENT	RISK MITIGATION

Risk identification

Prosafe Production currently identifies and assesses its risks in three main areas:

- business risks, such as geographical, political, contracting risks, asset ownership and investments
- operational risks, such as conversion and operational execution risks, as well as HSE risks
- financial risks, such as credit and liquidity risks, as well as interest rate and foreign currency risks.

Risk assessment

The assessment and definition of risk is divided into three categories:

- strategic risk taking, managed by the corporate management on the basis of the corporate strategy, vision, mission and core values
- tactical risk taking, managed by the business unit managements on the basis of the company's policies

- operational execution, managed by the operational management on the basis of the company's procedures.

Risk mitigation

Each individual risk or group of risks is assessed and the proper risk mitigation measures to be implemented are identified. These activities are divided into four different groups:

- avoiding the risk
- controlling the risk
- transferring the risk
- accepting the risk.

Insurance management forms part of risk mitigation activities and is a vital function in Prosafe Production's business management system, minimising the commercial consequences of an incident and providing resources for response and recovery activities.

INSURANCE MANAGEMENT

Prosafe Production has a separate corporate insurance procedure in place which defines the level of insurance cover required. The aim is to cover any loss of or harm to personnel, assets, third parties or the environment, as well as certain commercial risks, as fully as possible through insurance policies to the extent that such cover is available and reasonably priced.

Protection and indemnity (P&I) insurance provides cover for costs associated with crew injury or death, third-party claims and environmental damage. Other insurance policies will cover third-party, employer's and director's liability, and provide personal cover for employees relating to accident, death and disability.

Hull and machinery and loss of hire insurances will provide cover for damage to or total loss of the vessels and associated equipment. Insurance values for vessels are related to estimated market value and the value of the individual charters respectively, so that the impact of a possible loss on results is minimised. Prosafe Production has also taken out war risks insurance to cover physical damage and liability arising from war and terrorism.

FINANCIAL RISKS

Prosafe Production's activities expose it to financial risks from its operations such as interest rate risk, foreign currency risk, liquidity risk and credit risk. Corporate management oversees that management of these risks are in accordance with established policies and guidelines that have been reviewed and approved by the board of directors.

Interest rate risk

Interest on debt is in principle floating, but has to a large extent been hedged through the use of interest rate swap agreements. Prosafe Production evaluates the proportion of interest-rate hedging in relation to the repayment profile of its loans, the company's portfolio of contracts, cash flow and cash in hand. For more information reference is made to note 25 of the consolidated financial statements.

Foreign currency risk

Exposure to the risk of changes in foreign currency relates primarily to the group's operating activities. Prosafe Production Public Limited has USD as its functional currency. In normal operation, Prosafe Production will mainly have currency exposure to SGD, EUR, BRL, NZD, AUD and NOK.

All interest-bearing debt in Prosafe Production is in USD, and as such there is no foreign currency risk exposure. For more information we refer to note 25 of the consolidated financial statements.

Liquidity risk

The group's objective is to ensure that a sufficient cash balance is maintained, and to ensure that funding needed for operations is available. Management is actively planning and forecasting cash flows to assess that development of liquidity in the group is at sufficient levels.

As a covenant under the existing debt financing facilities, Prosafe Production is required to maintain a minimum liquidity reserve of USD 65 million.

Credit risk

Prosafe Production is exposed to credit risk from its operating activities (primarily for receivables on charter contracts and prepayments) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments. Credit risk and credit quality on financial assets related to operational activities is managed through thorough assessment of clients and suppliers in order to ensure that they are able to fulfill their contractual obligations. Credit risk from balances with banks is managed by the treasury department in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties.

PROJECT RISK

The different types of risks are integrated into a tool to assess individual projects in order to create a baseline when deciding on new projects.
When tendering for FPSO/FSO contracts, the company carries out an assessment of the following risk areas to evaluate the overall project risk:

- country/political risks
- client's creditworthiness
- the field's expected production profile and reservoir risks
- contractual risks
- conversion risks
- operational risks
- project profitability when residual value considerations are taken into account.

Country/political risks

Emerging and transitional markets in which Prosafe Production operates may experience political instability, acts of war and security issues. The company's vessels operate relatively far out at sea and would not necessarily be affected by a country's possible internal disturbances. The company has established emergency response plans and implements periodic emergency exercises. Furthermore, Prosafe Production primarily seeks to secure guarantees and payment in USD to reputable banks in politically stable countries.

Credit assessment of clients and suppliers

Prosafe Production undertakes a thorough assessment of its clients and suppliers in order to ensure that they are able to fulfill their contractual obligations. Prosafe Production attempts as far as possible to reduce this risk via parent company or bank guarantees.

Field's expected production profile and reservoir risks
Such risk is analysed to assess the long-term requirement for the vessel on the field. So far, the company has only entered into charters based on fixed day rates for a firm period, independent of both oil price variations and production volumes. Such charters also contain compensation clauses in the event of early cancellation, thereby safeguarding Prosafe Production's investment and expected earnings.

Contractual risks
In line with industry practice, a contract normally contains clauses which give the customer an opportunity for early cancellation under specific conditions. Providing Prosafe Production has not acted with gross negligence, the effect on results in such cases will normally be wholly or partly offset by a financial settlement in the company's favour.

Conversion risks
These are related to the possibility of cost overruns and delays. With the very high level of activity of late, the environment for performing conversions has been challenging. Managing this type of risk is a key part of Prosafe Production's core competence. Continuous improvement of systems and work processes, a focus on securing continuity in the organisation and key positions, and maintaining relations with sub-contractors and equipment suppliers are important for adequate management of conversion risk. The company's growth ambitions are aligned with the organisation's ability to ensure controlled and cost-effective implementation of conversion projects. Following experience gained on the last few conversion projects, the company has implemented several changes to the organisation, systems and procedures, as well as the project execution phase in order to improve the control over these risks.

Operational risks
Prosafe Production's offshore operations involve risks of injury to personnel, damage to equipment and accidental discharges/emissions to the natural environment. The company pays great attention to the safety of its personnel and equipment, as well as to accidental discharges/emissions. Risks and incidents are reported immediately and followed up to limit possible harm and prevent re-occurence. Prosafe Production works proactively and constructively with customers and suppliers on setting in-house goals, and concurrently makes continuous improvements to its own routines and procedures. These efforts include initiatives to shape attitudes in order to protect personnel and equipment from harm, and the natural environment from pollution caused by the operations of the company and its partners.

As part of its risk management efforts and framework, Prosafe Production is certified to all ISO standards applicable to the industry.

Profitability of a project
This is assessed on the basis of the residual value of vessel and equipment, the technical lifetime of individual components, the duration of the firm contract, and option periods and the likelihood of these being exercised. Assessments are also made of the vessel's direct applicability to other types of fields and possible requirements for upgrading and modifications in that context.

Generally, all vessels will be completed to provide a technical life of 15 to 20 years. Given that firm charters typically run for seven to 10 years, each unit is thereby built to serve potentially under at least two contracts. A field's producing life will often be extended, allowing good profitability to be achieved with a single charter.

Shareholder information

The principal objective of Prosafe Production's shareholder policy is to deliver the best possible risk-adjusted value creation for shareholders by increasing underlying asset values and results. Combined with open and timely communication with the market, the company aims to achieve a rising share price over time.

Given the current contract portfolio, the company should generate a solid cash flow from operations in the future. Once a floating production unit is producing, maintenance investments will be limited. This means that most of the operating cash flow is available for investment in new projects, repayment of debt and distribution of dividends. The long-term outlook for the floating production industry appears to be bright. It is Prosafe Production's ambition to use its ability as a top-end FPSO supplier to take advantage of this positive outlook and to secure profitable growth for its shareholders. Before any commitments are made, however, the company will carry out a detailed assessment of the risk/reward profile of an investment compared with the alternative of returning funds to shareholders.

EQUAL TREATMENT OF SHAREHOLDERS

In order to secure equal treatment of its shareholders, Prosafe Production aims to ensure that the stock market is at all times in possession of correct, clear and timely information about the company's operations and conditions.
This is essential for an efficient pricing of the shares and for maintaining confidence in the company. Approaches taken to meet this aim include prompt and comprehensive reporting of the company's interim results, and the distribution of annual and quarterly reports. Additionally, information of significance for assessing the company's underlying value and prospects is made available via the Hugin financial information service at www.huginonline.com as well as on the company's own website. Further details, such as the articles of association, contact names, addresses and news about the company, are also available at the Prosafe Production website. In addition, the company has authorised specific people to speak to the market on its behalf concerning various issues.

A number of Norwegian and foreign stockbrokers provide analyses of the Prosafe Production share. It is in the company's interests that such analyses are of high quality and based on facts. For that reason, Prosafe Production places great weight on ensuring that all analysts receive accurate, clear and relevant information, and that they are treated equally, regardless of the recommendations they make.

SHARE CAPITAL

Prosafe Production Public Limited had a total share capital of USD 25,520,176.4 at 31 December 2009, divided into 255,201,764 shares with a nominal value of USD 0.10 per share. No shares were owned by the company itself or by any of its subsidiaries. The total number of shareholders was 4,111 at 31 December 2009.

Prosafe Production's share is listed on the Oslo Stock Exchange (www.ose.no) with ticker code PROD.

SHARE RETURN

Prosafe Production's share price was NOK 12.45 at 31 December 2009, giving it a market capitalisation of NOK 3.18 billion or USD 546.9 million. The share price increased by 13.2 per cent from 31 December 2008 to 31 December 2009. By comparison, the Oslo Stock Exchange's benchmark (OSEBX) and energy (OSE10GI) indices increased by 64.8 per cent and 47.0 per cent respectively over the same period. The graph below shows the performance of Prosafe Production share with the Oslo Stock Exchange's benchmark and energy indices from 31 December 2008 to 15 March 2010.

The highest traded price of the Prosafe Production share in 2009 was NOK 14.85 (2 June), while the lowest traded price was NOK 10.00 (11 March).

SHARE TRADING AND LIQUIDITY

A high level of liquidity is important in order to enable investors to buy and sell shares in Prosafe Production at the time and in the quantity desired. The traded value from 1 January 2009 to 31 December 2009 (251 trading days) amounted to NOK 1.0 billion, with an average of 0.33 million shares traded per trading day. A total of 82.9 million shares changed hands over this period, corresponding to an annual turnover velocity of 33 per cent.

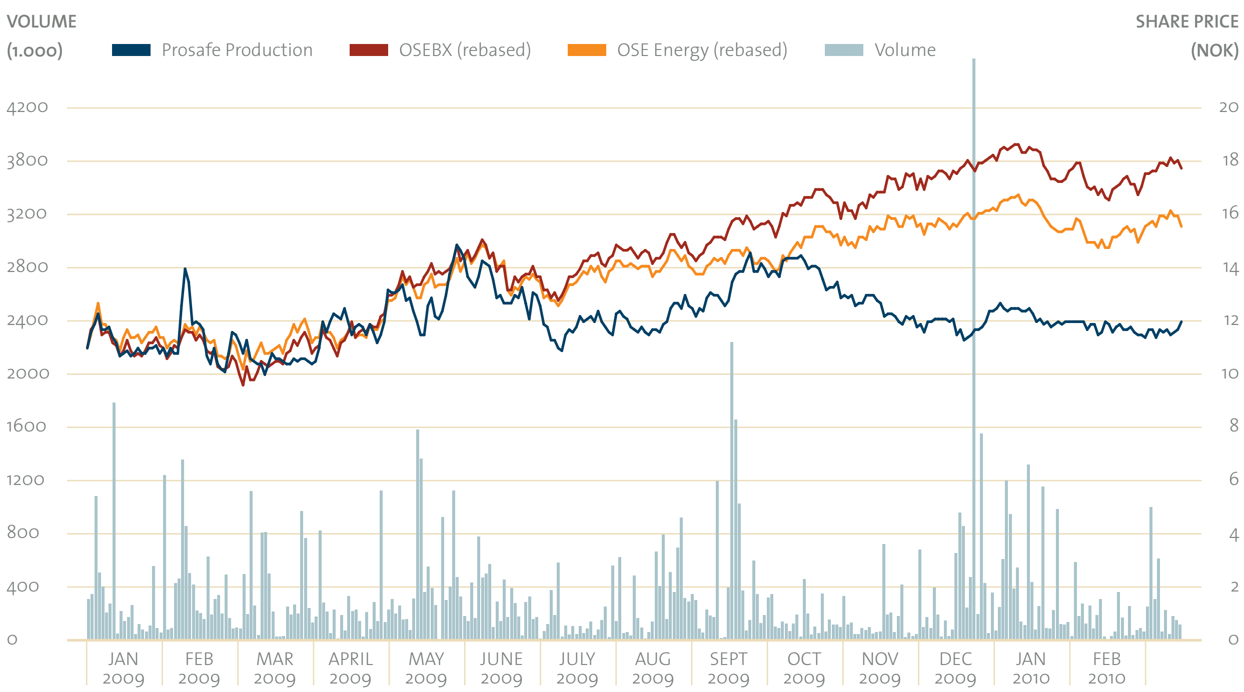
FINANCIAL CALENDAR

The following dates have been set for the annual general meeting, quarterly interim reporting and presentations in 2010:

11 May 2010	Annual general meeting
11 May 2010	Publication of Q1 2010 results
25 August 2010	Publication of Q2 2010 results
2 November 2010	Publication of Q3 2010 results
17 February 2011	Publication of Q4 2010 results

The quarterly reports will be released during trading hours of the Oslo Stock Exchange on the respective dates. Presentations, teleconferences and web casts will be held on the same dates. Prosafe Production reserves the right to amend abovementioned dates and times.

SHARE PRICE AND VOLUME (INCL. OSEBX AND OSE ENERGY)



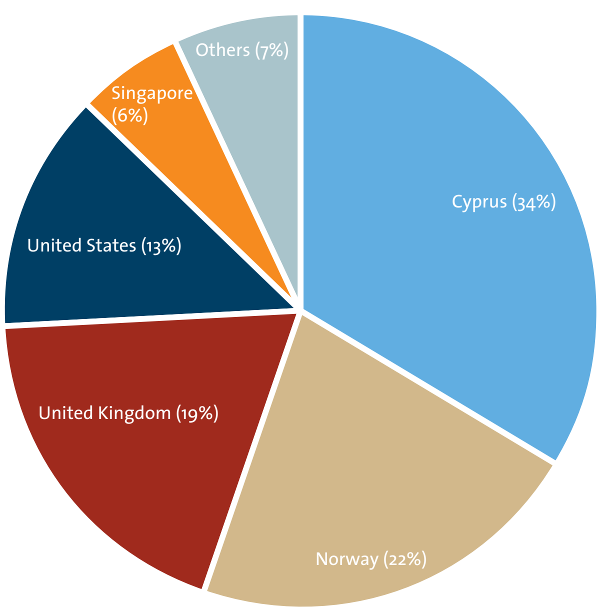
Shareholder composition

20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2009

Name	No. of shares	Percentage
BW Offshore Ltd*	60 932 990	23.88 %
Prosafe SE	25 375 134	9.94 %
BW Euroholdings Ltd*	15 332 280	6.01 %
Folketrygdfondet	12 798 235	5.01 %
RBC Dexia Investor Services Trust (nominee)	7 884 886	3.09 %
Brown Brother Harriman & Co	7 500 000	2.94 %
Awilco Invest AS	6 638 538	2.60 %
JPMorgan Chase Bank (nominee)	6 463 835	2.53 %
Orkla Asa	5 750 000	2.25 %
Pareto Aksje Norge	5 709 300	2.24 %
UBS AG. London Branch (nominee)	4 125 960	1.62 %
HSBC Bank Plc. (nominee)	4 061 620	1.59 %
BGL Bnp Paribas	3 978 775	1.56 %
Bank of New York Mellon (nominee)	3 963 845	1.55 %
Odin Offshore	3 932 000	1.54 %
State Street Bank and Trust Co. (nominee)	3 700 661	1.45 %
Morgan Stanley & Co Internat. Plc. (nominee)	3 641 705	1.43 %
Pareto Aktiv	2 893 950	1.13 %
Citibank N.A. (London Branch) (nominee)	2 884 495	1.13 %
Morgan Stanley & Co Inc. New York (nominee)	2 258 583	0.89 %
Total 20 largest	**189 826 792**	**74.38 %**
Total number of shares	**255 201 764**	

*) BW Offshore Ltd. is controlled by BW Euroholdings Ltd.'s parent company BW Group Ltd. In total they own 76,265,270 shares in Prosafe Production Public Ltd., which constitutes 29.88% of the total shares outstanding.

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS AS OF 31 DECEMBER 2009



EQUITY INDICES

Name	Ticker	Weighting
OSE All-share Index	OSEAX	0.22 %
OSE Small Cap Index	OSESX	2.58 %
OSE Energy	OSE10GI	0.44 %

Key financial figures

		Note	2009	2008	2007	2006
Income statement						
Operating revenues	USD million		315.0	264.7	150.4	92.6
EBITDA	USD million	1	184.9	142.6	92.8	53.5
EBIT	USD million		54.5	-111.8	59.2	37.8
Net profit	USD million		-10.3	-203.6	53.0	43.0
Net profit adjusted	USD million	2	36.4	49.0	53.0	43.0
EPS*	USD	3	-0.04	-0.80	0.21	0.17
EPS adjusted	USD	2	0.14	0.19	0.21	0.17
Balance sheet						
Total assets	USD million		2 096.8	1 984.6	1 173.4	774.0
Working capital	USD million		-38.3	164.6	49.9	8.9
Cash and deposits	USD million		133.8	211.0	53.0	51.5
Interest-bearing debt	USD million		1 151.7	1 032.7	120.0	0.6
Net interest-bearing debt	USD million	4	1 017.9	821.6	67.0	-50.9
Book equity	USD million		813.8	805.7	990.1	678.0
Gearing		5	1.25	1.02	0.07	-0.08
interest cover		6	4.12	4.92	58.00	178.33
USD/NOK exchange rate			5.81	7.00	5.41	6.26
Cash flow						
Capital expenditure	USD million		317.8	895.7	423.9	352.3
Cash flow	USD million	7	151.5	148.0	46.7	101.7
Cash flow per share*	USD	8	0.59	0.58	0.18	0.40
Key figures						
EBITDA margin			58.7%	53.9%	61.7%	57.8%
Operating margin			17.3%	-42.2%	39.4%	40.8%
ROCE		9	2.8%	-7.8%	6.5%	6.4%
ROE		10	-1.3%	-22.7%	6.4%	8.0%
Equity ratio		11	38.8%	40.6%	84.4%	87.6%
Number of shares	1000 shares		255 202	255 202	-	-
Average number of shares	1000 shares		255 202	255 202	-	-
Valuation						
Market capitalisation	USD million		547	401	-	-
Enterprise value	USD million	12	1 565	1 223	-	-
Share price	NOK		12.45	11.00	-	-
Book equity per share	USD	13	3.19	3.16	-	-
Market value / EBITDA			2.96	2.81	-	-
Market value / Cash flow			3.61	2.71	-	-
Market value / Book equity			0.67	0.50	-	-

*) Note that 2006 and 2007 illustrate comparable figures based on oustanding shares per 31 December 2009.

1. Operating profit before depreciation
2. Figures adjusted for effects from impairment charge, book loss from sale of Teekay Petrojarl and restructuring costs
3. Net profit / Average number of outstanding and potential shares
4. Interest-bearing debt – Cash and deposits
5. Net interest-bearing debt / Book equity
6. EBITDA / Interest expenses
7. Cash flow from operating activities
8. Cash flow from operating activities / Average number of outstanding and potential shares
9. [Operating profit+interest income] / [Average total assets – Average interest-free debt]
10. Net profit / Average book equity
11. Book equtiy / Total assets
12. Market capitalisation + Net interest-bearing debt
13. Book equity / Number of shares

Accounts

Consolidated accounts

Consolidated income statement

(USD million)	Note	2009	2008
Operating revenues	15	**315.0**	**264.7**
Employee benefits	7	-52.6	-39.0
Other operating expenses	8	-77.5	-83.1
Operating profit before depreciation		**184.9**	**142.6**
Depreciation	9	-83.7	-57.6
Impairment	9	-46.7	-196.8
Operating profit / (loss)		**54.5**	**-111.8**
Interest income	10	0.7	3.3
Interest expenses	10	-44.9	-29.0
Other finance income	10	1.6	6.0
Other finance costs	10	-2.2	-61.9
Net financial items		**-44.9**	**-81.6**
Profit before taxes		**9.6**	**-193.4**
Taxes	11	-19.9	-10.2
Net profit / (loss) attributable to owners of the parent		**-10.3**	**-203.6**
Earnings per share (in USD)	19	**-0.04**	**-0.80**
Diluted earnings per share (in USD)	19	**-0.04**	**-0.80**

Consolidated statement of comprehensive income

(USD million)	2009	2008
Net profit / (loss)	**-10.3**	**-203.6**
Other comprehensive income		
Foreign currency translation	0.4	0.3
Net gains/losses on cash flow hedges	17.9	-51.2
Income tax effect on components of comprehensive income	0.0	0.0
Other comprehensive income, net of tax	**18.3**	**-50.9**
Total comprehensive income attributable to owners of the parent	**8.0**	**-254.5**

Consolidated balance sheet

(USD million)	Note	31.12.09	31.12.08
ASSETS			
Goodwill	9	128.3	128.3
Ships	9	1 756.2	1 567.4
Other tangible assets	9	3.9	5.4
Other non-current assets		3.4	9.4
Deferred tax asset	11	0.2	0.9
Total non-current assets		**1 892.0**	**1 711.4**
Cash and deposits	20/22	133.8	211.0
Inventories		4.0	0.9
Accounts receivables	21/22	60.1	46.8
Other current assets	21/22	6.8	14.5
Total current assets		**204.8**	**273.2**
Total assets		**2 096.8**	**1 984.6**
EQUITY AND LIABILITIES			
Share capital	13	25.5	25.5
Share premium		1 062.6	1 062.6
Retained earnings/ (accumulated deficit)		-240.3	-230.0
Other reserves		-34.1	-52.4
Total equity atributable to equity holders of the parent		**813.8**	**805.7**
Interest-bearing long-term debt	16/22	1 001.1	1 013.8
Derivative financial instruments	22/24	35.6	54.2
Deferred tax	11	0.1	1.1
Other provisions		3.1	1.2
Total non-current liabilities		**1 039.9**	**1 070.3**
Interest-bearing short-term debt	16/22	150.6	18.8
Taxes payable		2.5	0.0
Accounts payable	22	36.9	50.4
Other current liabilities	18/22	53.1	39.4
Total current liabilities		**243.1**	**108.6**
Total liabilities		**1 283.0**	**1 178.9**
Total equity and liabilities		**2 096.8**	**1 984.6**

Limassol, 9 March 2010
The Board of directors of Prosafe Production Public Limited

Reidar Lund
Chairman

Christian Brinch
Non-executive director

Michael Raymond Parker
Non-executive director

Ronny Johan Langeland
Non-executive director

Arne Austreid
Non-executive director

Chrysanthos Mardapittas
Non-executive director

Consolidated statement of cash flows

(USD million)	Note	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before taxes		9.6	-193.4
Unrealised currency (gain)/loss		-0.9	-1.2
Depreciation	9	83.7	57.6
Impairment	9	46.7	196.8
Taxes paid		-12.7	-18.2
Loss on sale of financial assets		0.0	52.6
Change in working capital		-8.1	78.8
Other items from operating activities		33.3	-25.1
Net cash flow from operating activities		**151.6**	**148.0**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of tangible assets	9	-317.8	-895.8
Acquisition of financial assets		0.0	-319.6
Proceeds from sale of assets	9	0.3	260.0
Dividends received		0.0	1.5
Interest received		0.7	3.3
Net cash flow from investing activities		**-316.9**	**-950.6**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new interest-bearing debt	16	235.0	963.2
Repayments of interest-bearing debt	16	-107.6	-50.6
Dividends paid		0.0	0.0
Paid-in capital		0.0	70.1
Capital repayment		0.0	0.0
Interest paid		-39.2	-22.1
Net cash flow from financing activities		**88.1**	**960.6**
Net cash flow		**-77.2**	**157.9**
Net foreign exchange difference		0.0	0.0
Cash and deposits at 1 January		211.0	53.0
Cash and deposits at 31 December		**133.8**	**211.0**

Statement of changes in equity

(USD million)	Share capital	Share premium	Retained earnings	Cash flow hedges	Foreign currency translation	Total equity
	Attributable to equityholders of the parent					
Equity at 1 January 2008	**752.8**	**0.0**	**238.7**	**0.0**	**-1.5**	**990.1**
Net profit	0.0	0.0	-203.6	0.0	0.0	-203.6
Other comprehensive income	0.0	0.0	0.0	-51.2	0.3	-50.9
Paid-in capital	68.0	2.1	0.0	0.0	0.0	70.1
Restructuring*	-795.3	1 060.5	-265.2	0.0	0.0	0.0
Equity at 1 January 2009	**25.5**	**1 062.6**	**-230.0**	**-51.2**	**-1.2**	**805.7**
Net profit	0.0	0.0	-10.3	0.0	0.0	-10.3
Other comprehensive income	0.0	0.0	0.0	17.9	0.4	18.3
Equity at 31 December 2009	**25.5**	**1 062.6**	**-240.3**	**-33.3**	**-0.8**	**813.8**

*) As of 31 December 2007 the statement of changes in equity for Prosafe Production was presented on a combined rather than a legal basis. The legal form of the share capital and share premium accounts is reflected in the statements of changes in equity of the accompanying parent financial statements.

As part of the restructuring before the listing in 2008, Prosafe Production Public Limited was established as the new parent company of the floating production segment. A combination of shares in subsidiaries and cash were injected into the new parent company in April 2008.

After the restructuring, Prosafe SE distributed, as dividend, 90.1% of the shares in Prosafe Production, to its existing shareholders in May 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: General Information

Prosafe Production Public Limited ('the Company') is a public limited company domiciled in Limassol, Cyprus. The registered office address is City House, 3rd floor, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus.

Prosafe Production Public Limited was incorporated in Cyprus on 27 November 2007. In April and May 2008 the Company acquired all subsidiaries, related to the floating production operations, from its parent company Prosafe SE.

The Company was listed on the Oslo Stock Exchange 2 June 2008 with ticker code PROD.

The consolidated financial statements for the year ended 31 December 2009 were authorised for issue by the board of directors on 9 March 2010.

Prosafe Production ('the Group') is a leading owner and operator of Floating Production Storage and Offloading vessels (FPSOs).

Note 2: Basis for preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial investments that are stated at fair value. The consolidated financial statements are presented in US dollars (USD), and all values are presented in USD million unless otherwise stated.

Prosafe Production did, prior to May 2008, exist as the "floating production" segment in Prosafe SE. Prosafe SE distributed the shares in Prosafe Production as dividend in kind to its shareholders in May 2008. The split was accounted for using the "pooling of interest" method. In connection with the split from Prosafe SE, Prosafe Production Public Limited (a newly incorporated company) become the legal ultimate holding company.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted for 2009 are consistent with those of the previous financial year except as follows:
The group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009.

- IFRS 1 First time adoption & IAS 27 Consolidated and Separate Financial statements, effective 1 January 2009.
- IFRS 2 Share-based Payment: Vesting conditions and cancellations, effective 1 January 2009.
- IFRS 7 Financial Instruments: Disclosures, effective 1 January 2009.
- IFRS 8 Operating Segments, effective 1 January 2009.
- IAS 1 Presentation of Financial Statements, effective 1 January 2009.
- IAS 23 Borrowing Costs (revised), effective 1 January 2009.
- IAS 32 Financial Instruments: Presentation, effective 1 January 2009.
- IAS 39 Financial Instruments: Recognition and Measurement - Reclassification of financial assets, effective 1 August 2008.
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2009.
- IFRIC 13 Customer Loyalty Programmes, effective 1 January 2009.
- IFRIC 14 The Limit of a Defined Benefit asset, Minimum Funding Requirements and their Interaction, effective 1 January 2009.
- Annual improvements to IFRSs (May 2008), effective 1 January 2009.

When adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurement on items recorded at fair value is to be disclosed by source, using a three level fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures for derivatives and assets used for liquidity management. The effect of the amended disclosures on the fair value measurement is presented in note 22. The effect on the amended disclosures on the liquidity risk is presented in note 25.

IFRS 8 Operating Segments

IFRS 8 has replaced IAS 14 Segment Reporting. The Group has determined that it under IFRS 8 will have only one operating segment. However IFRS 8 has some entity-wide disclosure requirements where the Group will have to report revenues and assets based on geography and also provide information about the extent of reliance on major customers. IFRS 8 disclosures are presented under note 4.

IAS 1 Presentation of Financial Statements

The amended standard require companies to present a statement of comprehensive income. It means that all items of recognised income and expenses should be presented, either in one single statement or in two linked statements. Prosafe Production has chosen to present two statements. The amended standard also requires owner transactions to be separated from non-owner transactions in equity. The statement of changes in equity shall after the amendment only show details related to transactions with owners, while non-owner transactions shall be presented on one line as total comprehensive income.

IAS 23 Borrowing costs

The revised standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's former policy has been to expense borrowing costs as they were incurred. The changes will not have any impact on the Group's financial statements for 2009, as the group has not had any new projects.

The following new and amended IFRS and IFRIC interpretations have been published and will be mandatory for the Company's consolidated financial statements for periods beginning after 1 January 2009. The Company has chosen not to early adopt any of these.

- IFRS 1 First Time Adoption, effective 1 January and 1 July 2010 (expected).
- IFRS 2 Share-based Payment, effective 1 January 2010 (expected).
- IFRS 3 Business Combination and IAS 27 Consolidated and Separate Financial Statements (Amended), effective 1 July 2009.
- IFRS 9 Financial Instruments: Classification and Measurement, effective 1 January 2013 (expected).
- IAS 24 Related Party Disclosures, effective 1 January 2011 (expected).
- IAS 32 Financial Instruments: Presentation, effective 1 February 2010 (expected).
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible hedged items, effective 1 July 2009.
- IFRIC 12 Service Concession Arrangements, effective 29 March 2009.
- IFRIC 14 The Limit of a Defined Benefit asset, Minimum Funding Requirements and their Interaction, effective 1 January 2011 (expected).
- IFRIC 15 Agreements for the Construction of Real Estate, effective 1 January 2010.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective 1 July 2009.
- IFRIC 17 Distribution of Non-Cash Assets to Owners, effective 1 November 2009.
- IFRIC 18 Transfers of Assets from Customers, effective 1 November 2009.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010 (expected).
- Improvements to International Financial Reporting Standards, IFRS 5 amendment, effective 1 July 2009.

The adoption of the amended IFRS 3 and IAS 27 will change the accounting for business combinations that takes place after 1 July 2009, as several changes are introduced. The adoption of these standards will be applied prospectively and only affect future business combination. Adoption of the other new standards and interpretations is not expected to have a significant effect on the financial performance or to disclosures presented by the Group.

Note 3: Significant accounting policies, judgments, estimates and assumptions

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Below we have described the significant accounting policies applied by the Group in the consolidated financial statements.

Consolidation principles

The consolidated financial statements comprise the financial statements of Prosafe Production Public Limited and its subsidiaries as at 31 December 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for by the proportionate consolidation method, combining the Group's proportionate share of assets, liabilities, income and expenses of the joint venture line by line in the consolidated financial statements. The financial statements of the joint ventures are prepared for the same reporting period as the parent company. The joint venture is proportionately consolidated from the date of acquisition until the Group ceases to have joint control.

An associate is an entity in which the Group has significant influence. The Group's investment in associates is accounted for using the equity method. Under the equity method, the investment is carried at cost plus post acquisition changes in the Group's share of net assets of the associate.

All intra-group transactions and balances between fully owned companies in the group are eliminated in full. Any transactions with joint ventures are eliminated proportionally.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the consideration 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 contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is reviewed for impairment at least annually.

Foreign currency translation

The consolidated financial statements of the Group are presented in USD. This is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items in the financial statements of each entity is then measured using that functional currency.

Transactions in foreign currencies are recorded by each entity at their respective functional currency rate at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate on the balance sheet date, and the exchange difference is recognised in the income statement. However for monetary items that provide an effective hedge of a net investment in a foreign operation, exchange differences should be reported in other comprehensive income until disposal of the investment, until which the exchange difference is recycled into the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

When consolidating companies with a functional currency other than the USD, items in the income statement are translated at an average exchange rate, while balance sheet items are translated at the exchange rate on the balance sheet date. Translation differences are recognised in other comprehensive income. On disposal of companies with a functional currency other than USD, the amount recognised in other comprehensive income relating to that particular company is recognised in the income statement.

Tangible assets

Tangible assets are stated at cost, net of accumulated depreciation and/or accumulated impairment, if any. Such costs include all costs directly attributable to acquisition, including borrowing costs, and directly attributable costs for bringing the asset to its working condition and location for its intended use. Costs incurred after the asset has been put into operation is only capitalised as an additional cost on the asset if it can be demonstrated that increased future economic benefits can be obtained. Other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is performed on a straight-line basis, over the estimated useful life of the asset as follows:
1) Ships and mooring systems - 3 to 15 years
2) Equipment - 3 to 5 years

Assets under construction included in ships are not depreciated as these assets are not in condition and location for use.

A tangible asset is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss on derecognition of the asset is recognised in the income statement in the period when the asset is derecognised.

The residual value, useful live and method for depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Financial assets

Recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial asset, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Subsequent measurement of financial assets depends on their classification as outlined below.

The Group's financial assets include cash and short-term deposits and receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired with the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. The Group classifies derivatives as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any premium or discount on acquisition and fees that are an integral part of the effective interest rate. The amortisation is recognised under finance income or cost in the income statement.

Derecognition

A financial asset is derecognised by the Group when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without a material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans or borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Subsequent measurement of financial liabilities depends on their classification as outlined below.

The Group's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired with the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. The Group classifies derivatives as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

Loans and receivables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Such financial liabilities are carried at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any premium or discount on acquisition and fees that are an integral part of the effective interest rate. The amortisation is recognised under finance income or cost in the income statement.

Derecognition
A financial liability is derecognised by the Group when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and presented net in the consolidated balance sheet when, and only when, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging
Recognition and measurement
The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign exchange risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges undertaken are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that the hedge has been highly effective throughout the designated period.

The Group uses interest rate swaps as a cash flow hedge for the exposure to changes in interest rates on floating rate interest bearing debt.

Cash flow hedges
The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss. If the hedging instrument expires, is sold, terminates or the designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. Refer to note 24 for more details.

Current versus non-current classification
Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current based on an assessment of the facts and circumstances.

- Where the Group hold a derivative as an economic hedge (and does not apply hedge accounting) for a period exceeding 12 months after the reporting date, the derivative is classified as non-current consistent with the classification of the underlying item.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value less costs to sell and the value in use. Where the carrying amount of an asset exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal of an impairment is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment been recognised for the asset in prior years.

Impairment losses and reversal of impairment losses is recognised in the income statement.

Impairment of goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount is lower than the carrying amount an impairment is recognised in the income statement.

Impairment losses on goodwill cannot be reversed in future periods.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of a ”loss event” after initial recognition, and that loss event has an impact on the future cash flows of the financial asset or group of assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current 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 recognised in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Group.

If, in the future the amount of the estimated impairment loss increases or decreases because of an event after the impairment was recognised, the previously recognised impairment is increased or reduced by using the allowance account.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Charter revenue is recognised on a time apportionment basis according to the terms of the agreement in place.

Fees for ship management are recognised on a time apportionment basis based on the individual agreements with principals.

Fees for the rendering of services on short term variation orders are recognised upon completion.

Fees for the rendering of services on long term variation orders are recognised upon reference to the stage of completion at the reporting date. Stage of completion is determined by reference to the value of work performed relative to the total contract value. When the outcome of a variation order cannot be estimated reliably, fees are recognised only to the extent of variation order costs incurred that can probably be recovered and variation order costs are recognised as an expense in the period in which they are incurred. When it is probable that total variation order costs will exceed total contract value, the expected loss is recognised in the income statement immediately.

Interest income is recognised on an accrual basis. Interest income is presented as finance income in the income statement.

Other related revenues are recognised when the services are rendered.

Provisions

Provisions are recognised when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Pensions and other post employment benefits

Companies within the Group make contributions to pension schemes that are defined contribution plans. The companies' contributions are recognised in the statement of income for the year to which the contribution applies.

Research and development costs

Research and development costs are expensed in the period in which they are incurred.

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

Events after the balance sheet date

New information on the Group's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the position at the balance sheet date, but which will affect the position in the future, are stated if significant.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed as they occur.

The Group will capitalise borrowing costs for all eligible assets where construction is commencing on or after 1 January 2009. The Group has continued to expense borrowing costs for construction projects that commenced before 1 January 2009.

Taxes

Taxes in the income statement include taxes payable and changes in deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generate taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax to be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set of current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Cash and deposits

Cash and deposits in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Leases

Group as Lessor

Leases where the Group does not transfer substantially all the risks and benefits of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term. The accounting policy for charter revenue is stated under the accounting policy for revenue recognition.

Group as lessee
Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Share-based payment transactions
Senior management of the Group are granted share appreciation rights, which can only be settled in cash.

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised as employee benefits expense in the income statement.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcome that requires material adjustment to the carrying amount of the asset or liability affected in future periods.

Critical judgment in the Group accounts
The Group's management has made the following judgment that has the most significant effect on the amounts recognised in the financial statement.

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

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

Variation order fees
Revenues from long term variation orders are recognised to the extent of variation order cost incurred where it is probable that these will be recoverable and based on the percentage of completion method. Refer to the accounting policy on revenue recognition for description of the percentage of completion method.

Significant judgment is required to determine the percentage of completion for each project, and subsequently revenues and costs to be recognised in the financial statement.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Tangible assets
The cost of vessels and mooring systems are depreciated on a straight-line basis over the useful lives of the assets. The useful lives of the assets are estimated to be within 3-15 years, which is common life expectation

applied in the industry. Management uses its experience to estimate the remaining useful life of an asset, particularly when it has been upgraded. Changes in expected level of usage and technological development can impact the useful lives and residual value, and also affect future depreciation on these assets.

Impairment of non-financial assets

The Group's management assesses whether there are indicators of impairment on non-financial assets at every reporting date.

When the Group's management uses value in use calculations for assessment of the recoverable amount for impairment, management must estimate future cash flows from assets and choose an appropriate discount rate to find the net present value of the cash flows.

The recoverable amount is sensitive to the discount rate used for the cash flow models as underlying cash flows to a large extent are fixed to long term contracts. The key assumptions used to determine the recoverable amount is provided in note 9.

Impairment of goodwill

The Group's management assesses annually whether there are indicators of impairment on goodwill.

When the Group's management uses value in use calculations for assessment of the recoverable amount for impairment, management must estimate future cash flows from assets and choose an appropriate discount rate to find the net present value of the cash flows. The key assumptions used to determine the recoverable amount is provided in note 9.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques. Inputs to models used is taken from observable markets, however changes in assumptions about these factors could affect the reported fair value of financial instruments.

Note 4: Segment reporting

Prosafe Production is a major owner and operator of floating production, storage and offloading vessels (FPSOs). The core business of Prosafe Production is the design, engineering, conversion and operation of FPSO/FSOs.

Reporting of business activities is submitted regularly on a consolidated basis to the chief operating decision makers of the Group and as such the Group has only one reporting segment.

The Group had the following revenues from external customers based on geographical location of assets.

Operating revenues	**2009**	**2008**
Atlantic	246.4	129.3
Australasia	68.6	135.4
Total operating revenues	**315.0**	**264.7**

Prosafe Production currently own 10 FPSO/FSO's which are leased out to 10 different customers. For the Atlantic region, the Group has contracts with 5 customers that individually account for more than 10% of the total revenues of the Group. For the Australasia region the Group has contract with 1 customer that account for more than 10% of the total revenues of the Group.

The Group had the following geographical location of total assets based on location of the Group's assets.

Assets	2009	2008
Atlantic	1 332.8	1 173.8
Australasia	764.0	810.8
Total assets	**2 096.8**	**1 984.6**

Note 5: Quarterly results

	Q1	Q2	Q3	Q4	2009
Operating revenues	60.6	80.5	83.5	90.4	315.0
Operating expenses	-23.8	-33.3	-33.0	-40.0	-130.1
Operating profit before depreciation	**36.7**	**47.2**	**50.5**	**50.4**	**184.9**
Depreciation	-13.7	-19.6	-20.2	-30.3	-83.7
Impairment	0.0	0.0	0.0	-46.7	-46.7
Operating profit	**23.0**	**27.6**	**30.4**	**-26.5**	**54.5**
Net financial items	**-13.6**	**-11.7**	**-11.4**	**-8.1**	**-44.8**
Profit before taxes	**9.4**	**15.9**	**18.9**	**-34.6**	**9.6**
Taxes	-4.3	-3.7	-5.4	-6.6	-19.9
Net profit	**5.1**	**12.2**	**13.5**	**-41.1**	**-10.3**

Note 6: Joint ventures

The Group has 50% ownership in two joint ventures.
-Tinworth Pte Ltd which is the owner of FPSO *Petróleo Nautipa* operating in Gabon.
-Madura Pte Ltd which is the owner of FSO *Madura Jaya* operating in Indonesia.

	Country	Share capital (in 1000)	Ownership
Tinworth Pte Ltd	Singapore	USD 685	50 %
Madura FSO Pte Ltd	Singapore	USD 250	50 %

Voting rights equal ownership share. The shareholding in Tinworth and Madura have remained unchanged since 2005.

Specification of items from joint ventures included by proportionate share:

	2009	2008
Income statement		
Operating revenues	14.0	7.7
Operating profit	6.9	6.2
Net profit	4.9	4.6
Balance sheet		
Fixed assets	6.6	7.7
Current assets	8.6	7.5
Long-term liabilities	0.6	0.5
Current liabilities	-0.2	0.1
Equity	14.7	14.7

Change in equity relates to dividends, share of net profit and paid in capital.

Note 7: Employee benefits and management remuneration

	2009	2008
Wages and salaries	39.3	24.9
Other remuneration	10.0	11.6
Social security taxes	1.7	0.8
Share option cost	0.3	0.1
Pension expenses	0.4	0.3
Other personnel-related expenses	0.9	1.2
Total employee benefits	**52.6**	**39.0**

Bonus scheme

The Group had a bonus scheme for 2009, approved by the board of Prosafe Production Public Limited. The scheme compriced corporate management and other key employees. The bonus scheme is based on meeting defined results relating to earnings, the attainment of strategic goals and HSE. The bonus scheme is constructed such that some employees will receive 50% of achieved bonus directly while the remaining 50% of achieved bonus is subject to a three year vesting period before earned. Employees that leave the Group before the vesting period has expired will forfeit the right to the part of the bonus which is subject to vesting conditions.

Share options

The Company's board of directors has resolved to grant management and other key employees synthetic options. The synthetic options entitle the option holder, subject to conditions, to be paid a cash consideration corresponding to the difference between the share price of Prosafe Production Public Limited at the exercise date adjusted for any dividends paid during the period and the share price at grant. Net proceeds after tax shall be used to acquire shares in Prosafe Production Public Limited. The scheme has no dilutive effect as shares will be purchased in the market.

A total of 2,925,000 options were granted in May 2009. The following illustrates the number and weighted average exercise price (WAEP) of options granted, as well as movements in the share options during the year. All share options granted in 2009 are capped, and will automatically be exercised if the share price in Prosafe Production Public Limited exceeds two times the grant price of the options.

	2009	WAEP in NOK	2008	WAEP in NOK
Outstanding at 1 January	2 985 000	36.52	0	0.00
Options granted	2 925 000	12.09	2 985 000	36.52
Terminated	-470 000	20.93	0	0.0
Exercised during the year	0	0.0	0	0.0
Expired during the year	0	0.0	0	0.0
Outstanding at 31 December	**5 440 000**	**24.73**	**2 985 000**	**36.52**
Exercisable in 2009	1 260 000	36.52		

All synthetic options are subject to vesting conditions. The right to exercise is subject to the employee being employed during the vesting period. If the holder resigns during the vesting period, the synthetic options will lapse. When the vesting period is fulfilled, the options will have to be exercised within two years.

As the share option scheme is cash-settled, the fair value of the options is valued at grant date and remeasured at the reporting date. The valuation is estimated at the grant date using a Black & Scholes pricing model, taking into account the terms and the conditions upon which the instruments were granted.

The carrying amount of the liability for share options amounted to USD 0.4 million as of 31 December 2009.

The following table lists the inputs to the model used for the share option plan.

	2009	2008
Dividend yield (%)	0 %	0 %
Expected volatility (%)	50.2%	38.0%
Risk-free interest rate (%)	2.59 %	4.58-4.79%
Expected life of options (years)	1.99	2.17
Share price (NOK)	12.45	11.00
Model used	Black & Scholes - Merton	Black & Scholes - Merton

Corporate management

(USD 1 000)	Year	Salary	Bonus	Pension	Other benefits	Value of options 31-des
Bjørn Henriksen (President and CEO)	2009	695	564	140	251	63
Roy Hallås (Exec VP and COO)	2009	547	458	103	241	50
Sven Børre Larsen (Exec VP and CFO)	2009	417	440	84	114	47
Bjørn Henriksen (President and CEO)*	2008	450	0	107	142	36
Roy Hallås (Exec VP and COO)*	2008	365	482	88	129	34
Sven Børre Larsen (Exec VP and CFO)*	2008	270	224	64	98	11

*) Remuneration refer to the period 14 May 2008 to 31 December 2008.

Pension and severance pay

Members of the corporate management have agreements on severance pay. Under these agreements, the Group guarantees a remuneration corresponding to the base salary received at the time of departure for a period of up to two years after the normal six-month period of notice. With the exception of the president and CEO, these agreements specify that benefits received from new employers are deducted from the remuneration due unless the person concerned left as a result of an acquisition, sale or merger.

The president and CEO have an agreement on early retirement pension after the age of 60 and until the age of 67. With full earning of pension entitlement, the annual early retirement pension will equal 24 times the Norwegian national insurance base rate. The liability as at 31 December amounted to USD 254,593.

Board of directors

(USD 1 000)	Year	Director's fee[1]	Other benefits[2]
Reidar Lund (Chairman)	2009	99	19
Christian Brinch	2009	76	19
Arne Austreid	2009	76	0
Ronny Johan Langeland	2009	76	19
Michael Raymond Parker	2009	76	9
Chrysanthos Mardapittas	2009	76	0
Reidar Lund (Chairman)[3]	2008	61	10
Christian Brinch[3]	2008	47	10
Arne Austreid[3]	2008	47	0
Ronny Johan Langeland[3]	2008	47	10
Michael Raymond Parker[3]	2008	47	10
Chrysanthos Mardapittas[3]	2008	47	0

1) Director's fee is paid in EUR and converted to USD at the rate prevailing at 31 December.

2) Other benefits relates to additional compensation for directors not living in Cyprus.

3) Director's fee was paid for the period May-Dec 2008.

Auditors' fee

(USD 1 000)	2009	2008
Audit	365	319
Fees for other services	3	31

Statement on determination of salary and other remuneration to management
The remuneration of the management of Prosafe Production Public Limited will be determined by the following main principles:

The company shall offer conditions of employment which contribute to retain and recruit management personnel in an international labour market. The total remuneration shall be competitive with remuneration of management personnel on the same level in comparable businesses in the geographical areas within which the company operates.

The management remuneration shall consist of a fixed base salary and short- and long term incentives which will have a motivating effect on the management's efforts for the company in line with the shareholders' interests. Other types of remuneration may also be given, such as pension and insurance schemes, payments in kind, bonuses, share value based programmes and termination payments.

The board of directors' resolutions on remuneration of the management is based on input from the board of directors' compensation committee. Salary and other remuneration to the president and CEO are determined by the board of directors taking into consideration the management remuneration policy and an annual detailed review of the results that have been achieved.

Note 8: Other operating expenses

	2009	2008
Repair and maintenance	17.3	11.8
Other vessel operating expenses	42.9	50.9
General and administrative expenses	17.3	20.5
Total other operating expenses	77.5	83.1

Note 9: Tangible assets and goodwill

	Ships	Equipment	Goodwill	Total
Acquisition cost 1 January 2008	**1053.2**	**8.5**	**138.3**	**1200.0**
Additions	892.5	3.3	0.0	895.8
Disposals	0.0	-0.1	0.0	-0.1
Acquisition cost 31 December 2008	**1945.7**	**11.7**	**138.3**	**2095.7**
Additions	316.0	1.8	0.0	317.8
Disposals	0.0	-0.3	0.0	-0.3
Translation difference	0.0	0.1	0.0	0.1
Acquisition cost 31 December 2009	**2261.7**	**13.3**	**138.3**	**2413.3**
Depreciation and impairment 1 January 2008	**126.7**	**3.5**	**10.0**	**140.2**
Accumulated depreciation on disposals	0.0	0.0	0.0	0.0
Depreciation for the year	54.8	2.8	0.0	57.6
Impairment	196.8	0.0	0.0	196.8
Depreciation and impairment 31 December 2008	**378.3**	**6.3**	**10.0**	**394.5**
Accumulated depreciation on disposals	0.0	-0.1	0.0	-0.1
Depreciation for the year	80.5	3.2	0.0	83.7
Impairment	46.7	0.0	0.0	46.7
Depreciation and impairment 31 December 2009	**505.5**	**9.4**	**10.0**	**524.8**
Net carrying amount 31 December 2009	**1756.2**	**3.9**	**128.3**	**1888.5**
Depreciation rate (%)	**6-33**	**20-33**	-	-
Economical useful life (years)	**3-15**	**3-5**	-	-

Impairment assessment of Goodwill
The goodwill of USD 128.3 million relates to the acquisition of Nortrans Offshore Ltd in 2001. The goodwill has been allocated to a cash-generating unit comprising all assets acquired in the Nortrans Offshore acquisition.

The Group has performed an annual impairment test as at 31 December 2009. Goodwill impairment assessment has been done by determining the recoverable amount from assets, based on a value in use calculation (discounted cash flows).

The following describes the assumptions on which management has based its cash flow projections to calculate the recoverable amount, and to undertake impairment testing of goodwill:
- Budgeted revenues: the value assigned is based on signed (firm) contracts with existing customers, estimates on uncontracted cash flows on extension options and residual values.
- Budgeted vessel operating costs: the value assigned is based on approved budgets, which are determined based on historical trends with consideration for projected vessel maintenance needs.

The implicit discount rate, based on weighted average cost of capital (WACC) before tax, used for calculating the net present value of cash flows is 7.9%. The discount rate has been adjusted to reflect risks specific to similar companies with similar assets.

The recoverable amount from the respective vessels exceeds the sum of carrying value and existing goodwill.

Impairment assessment of tangible assets
The finalisation of FPSO *Ningaloo Vision* was substantially delayed due to the damages sustained during an electrical fire that occurred in April 2009, as well as due to technical challenges on the steam systems and gas compressors. As a result of this, project costs have ended up higher than anticipated at the start of 2009. This cost increase have indicated that the total carrying amount on the vessel would be higher than the recoverable value as the vessel was subject to impairment also in 2008 based on the anticipated total cost at that time.

The impairment assessment has been based on a value in use calculation to estimate the recoverable amount from the vessel. Value in use is a method to determine the value of assets based on discounted projected cash flows from assets. This method is chosen as there is no efficient market for transactions of FPSO vessels as each vessel is often purposely built for specific circumstances.

The following describes the assumptions on which management has based its cash flow projections to undertake the impairment testing:
- Budgeted revenues: the value assigned is based on signed (firm) contracts with existing customers, estimates on uncontracted cash flows on extension options and residual values.
- Budgeted vessel operating costs: the value assigned is based on approved budgets, which are determined based on historical trends with consideration for projected vessel maintenance needs.

The implicit discount rate, based on WACC before tax, used for calculating the net present value of cash flows is 7.9%. The discount rate has been adjusted to reflect risks specific to similar companies with similar assets.

An impairment assessment has also been performed on the vessel M/T *Takama*, which also was impaired in 2008, due to the declining market for VLCCs. The assessment has been based on fair value less cost to sell, with reference to market prices obtained. The assessment has determined that the recoverable amount was lower than the carrying amount of the vessel at year end.

The assessment has resulted in a total impairment loss on FPSO *Ningaloo Vision* and M/T *Takama* amounting to USD 46.7 million which has been recognised as impairment in the income statement.

Only the asset class 'Ships' has been affected by the impairment loss recognised.

Note 10: Financial items - IAS 39 categories

Year ended 31 Dec 2009	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Available for sale	Total
Interest income	0.7	0.0	0.0	0.0	0.7
Fair value adjustment derivatives	0.0	0.7	0.0	0.0	0.7
Currency gain[2]	0.0	0.0	0.0	0.0	0.9
Total finance revenue	**0.7**	**0.7**	**0.0**	**0.0**	**2.3**
Interest expenses	0.0	0.0	-44.9	0.0	-44.9
Other financial expenses	0.0	0.0	-1.2	0.0	-1.2
Currency loss[2]	0.0	0.0	0.0	0.0	-1.0
Total finance expenses	**0.0**	**0.0**	**-46.1**	**0.0**	**-47.1**
Net financial items	**0.7**	**0.7**	**-46.1**	**0.0**	**-44.9**

Year ended 31 Dec 2008	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Available for sale	Total
Interest income	3.3	0.0	0.0	0.0	3.3
Currency gain[2]	0.0	0.0	0.0	0.0	6.0
Total finance revenue	**3.3**	**0.0**	**0.0**	**0.0**	**9.3**
Interest expenses	0.0	0.0	-29.0	0.0	-29.0
Fair value adjustment derivatives	0.0	-5.2	0.0	0.0	-5.2
Disposal of shares[1]	0.0	0.0	0.0	-52.6	-52.6
Other financial expenses	0.0	0.0	-0.3	0.0	-0.3
Currency loss[2]	0.0	0.0	0.0	0.0	-3.8
Total finance expenses	**0.0**	**-5.2**	**-29.2**	**-52.6**	**-90.8**
Net financial items	**3.3**	**-5.2**	**-29.2**	**-52.6**	**-81.6**

[1]) Shares owned in Teekay Petrojarl ASA (30.1% of the outstanding share capital) were disposed of on 20 June 2008. Prosafe Production holds no shares in Teekay Petrojarl ASA following this transaction.

[2]) Currency gain and loss is not part of the break-down on IAS 39 categories, but is included to reconcile net financial items to the consolidated income statement.

Note 11: Income tax

	2009	2008
Taxes in income statement:		
Taxes payable	20.1	11.2
Change in deferred tax	-0.2	-0.9
Total taxes in income statement	**19.9**	**10.2**

	2009	2008
Deferred tax assets (-)		
Long-term liabilities	0.0	-0.6
Fixed assets	0.0	0.0
Tax loss carry forward	-0.7	-2.9
Deferred tax assets - gross	**-0.7**	**-3.5**
Deferred tax liabilities		
Fixed assets	0.0	1.1
Long-term liabilities	0.1	0.0
Deferred tax liabilities - gross	**0.1**	**1.1**
Net deferred tax (assets)/liabilities	**-0.5**	**-2.4**
Deferred tax assets - not recognised	**0.4**	**2.6**
Net recognised deferred tax (assets)/liabilities	**-0.1**	**0.2**

The main part of taxes in the income statement relates to taxes withheld and paid on the Group's operations, at different tax rates for different countries. The tax cost may therefore vary independently of profit before taxes.

Tax loss carried forward relates in all materiality to tax loss incurred by the parent company in Cyprus. No deferred tax asset has been recognised in the balance sheet with regards to this tax loss, as the Company does not anticipate that this asset can be utilised.

Charter revenue from the Group's vessels are subject to taxation based on the special rules for taxation of shipping and offshore companies in Singapore, the 'Approved International Shipping Enterprise Certificate'(AIS). Profits from these charters is not taxable to Singapore, but Group companies pays tax deducted at source in some of the countries in which they operate.

Note 12: Dividends

	2009	2008
Ordinary dividend declared during the year	0.0	0.0
Special dividend declared during the year	0.0	0.0
Total dividends declared	**0.0**	**0.0**
Dividends per share (NOK)		
Ordinary dividend declared	0.0	0.0
Special dividend declared	0.0	0.0

Note 13: Share capital

	2009	2008
Authorised number of shares issued and fully paid at 31 December*	255 201 764	255 201 764
Holding of own shares at 31 December	0	0
Nominal value at 31 December	USD 0.1	USD 0.1
Number of shareholders at 31 December	4 111	4 185
Authorised ordinary shares issued and fully paid		
At 1 January	255 201 764	376 780
Issued	0	254 824 984
At 31 December	**255 201 764**	**255 201 764**

*) Only one class of shares

Largest shareholders at 31 December 2009	No of shares	%
BW Offshore	44 500 000	17.4%
Prosafe Holding ltd	19 778 137	7.8%
BW Euroholdings ltd	15 332 280	6.0%
Folketrygdfondet	12 798 235	5.0%
BW Offshore Cyprus ltd	11 432 990	4.5%
RBC Deixa Investor Services Trust	7 884 886	3.1%
Brown Brothers Harriman & Co	7 500 000	2.9%
Awilco Invest AS	6 638 538	2.6%
JP Morgan Chase Bank	6 463 835	2.5%
Orkla ASA	5 750 000	2.3%
Pareto Aksje Norge	5 709 300	2.2%
Prosafe SE	5 596 997	2.2%
BW LPG FPSO I ltd	5 000 000	2.0%
UBS AG	4 125 960	1.6%
HSBC Bank Plc	4 061 620	1.6%
BGL BNP Paribas	3 978 775	1.6%
Bank of New York Mellon	3 963 845	1.6%
Odin Offshore	3 932 000	1.5%
State Street Bank and Trust Co	3 700 661	1.5%
Morgan Stanley & Co	3 641 705	1.4%
Total 20 largest shareholders	**181 789 764**	**71.2%**

Note 14: Related party disclosures

The financial statements of the Group include the financial statements of Prosafe Production Public Limited and companies listed in the following table:

Company name	Country	Ownership	Voting share*
Prosafe Production Holding Limited	Cyprus	100 %	100 %
Prosafe Production Services Pte Ltd	Singapore	100 %	100 %
Prosafe Production Management BV	Netherlands	100 %	100 %
Prosafe Production Pte Ltd	Singapore	100 %	100 %
Prosafe Services Cote d'Ivoire Pte Ltd	Singapore	100 %	100 %
Prosafe GFPSO I Pte Ltd	Singapore	100 %	100 %
Prosafe FPSO(D) Pte Ltd	Singapore	100 %	100 %
Prosafe Production Inc	USA	100 %	100 %
Prosafe Production Services Pty Ltd	Australia	100 %	100 %
PPB do Brasil Servicos Maritimos Ltda	Brazil	100 %	100 %
Prosafe Production do Brasil Ltda	Brazil (Dormant)	100 %	100 %
Prosafe Production BV	Netherlands	100 %	100 %
Prosafe GFPSO I BV	Netherlands	100 %	100 %
Prosafe Production Nigeria Ltd	Nigeria	100 %	100 %
Prosafe Nautipa AS	Norway	100 %	100 %
Prosafe Production Services du Congo Sarl	Congo	100 %	100 %
Prosafe FPSO(D) SARL	Congo	100 %	100 %
Egyptian Winlines Shipping Co. SAE	Egypt (Dormant)	100 %	100 %
Tinworth Pte Ltd	Singapore	50 %	50 %
Madura FSO Pte Ltd	Singapore	50 %	50 %
OCS Services Ltd	British Virgin Islands	50 %	50 %

*) Voting rights equal ownership share.

Tinworth Pte Ltd, Madura FSO Pte Ltd are consolidated in the financial statements of the Group by proportional consolidation based on ownership percentage, while OCS Services Ltd is consolidated using the equity method.

Transactions with related parties*

	2009	2008
Transactions		
Interest expense	0.0	0.0
Dividend/group contribution	4.0	1.5
Year-end balances		
Receivables of the ultimate parent to subsidiaries	1.0	0.2
Current payables from the ultimate parent to subsidiaries	-12.4	-5.4
Loans to subsidiaries of the ultimate parent	150.0	825.7

*) Note that all transactions and outstanding balances as listed above are eliminated in full as of year end.

Corporate management and directors' interests at 31 December 2009

Corporate management	Shares	Synthetic options
Bjørn Henriksen (President and CEO)	156 000	1 363 000
Roy Hallås (Exec VP and COO)	105 930	1 231 000
Sven Børre Larsen (Exec VP and CFO)	24 500	581 000

Directors	Shares	Synthetic options
Reidar Lund (Chairman)	190 000	0
Christian Brinch	0	0
Arne Austreid	93 500	0
Ronny Johan Langeland	10 000	0
Michael Raymond Parker	0	0
Chrysanthos Mardapittas	0	0

Note 15: Operating revenues

	2009	2008
Charter revenues	284.7	216.8
Other operating revenues	30.3	48.0
Total operating revenues	315.0	264.

Note 16: Secured interest-bearing debt

	Current eff. Interest rate	Maturity date	2009	2008
USD 1200 mill facility	3 month LIBOR + 0.65-0.95%	05-mai-15	1 043.6	950.0
Umuroa facility (new)	3 month LIBOR + 3.25%	03-nov-15	98.1	0.0
Umuroa facility (tranche A)	3 month LIBOR + 0.75%	31-juli-12	0.0	40.5
Umuroa facility (tranche B)	3 month LIBOR + 1.05%	31-juli-12	0.0	30.0
Petróleo Nautipa facility	3 month LIBOR + 0.70%	30-des-12	10.0	12.1
Total interest-bearing debt			**1 151.7**	**1 032.6**
Non-current interest-bearing debt			1 001.1	1 013.8
Current interest-bearing debt			150.6	18.8
Total interest-bearing debt			**1 151.7**	**1 032.6**

Senior secured revolving credit facility

Prosafe Production Public Limited as borrower has entered into a senior secured revolving credit facility dated 5 May 2008 with a total availability of USD 1200 million where Nordea Norge ASA act as facility agent on behalf of a number of lenders. The loan period is seven years with the final maturity date 5 May 2015.

In addition to interests, a commitment fee of 0.38% of available, but undrawn, facility is charged and recognised in the income statement.

The facility is subject to 13 consecutive semi-annual reductions commencing May 2009. The first 12 instalments shall be in the amount of USD 75 million, and the 13th and final instalment shall be in the amount of USD 300 million.

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

The following are the financial covenants for the senior secured revolving credit facility with Nordea Bank Norge ASA as facility agent:

1. Liquidity: Cash and Cash Equivalents shall at all times be equal or greater than USD 65 million.
2. Leverage ratio: Total Debt to EBITDA on a trailing four-quarter basis shall not be greater than 5.50:1.00.
3. Equity ratio: The ratio of value adjusted equity to value adjusted assets shall at all times be equal or greater than 35%.
4. Working Capital: Current asset less current liabilities shall at all times be equal or greater than zero.
5. Collateral maintenance: The sum of fair market value of each collateral unit shall at all times be at least 130% of the aggregate outstanding principal amount of loans and the unutilised portion of the facility.

The revolving credit facility has a change of control clause that can be triggered if a party exceeds 30% ownership.

Umuroa facility

Prosafe Production Services Pte Ltd. (acting through its New Zealand branch) as borrower has entered into a senior secured reducing revolving credit facility agreement dated 30 October 2009, with a total initial availability of USD 130 million. The loan period is six years with the final maturity date 3 November 2015. The revolving credit facility has financial covenants as referred to in item one through four abouve related to liquidity, leverage ratio, equity ratio and working capital, and includes a standard change of control clause that can be triggered if a party exceeds 30 % ownership.

The availability on the facility is reduced by USD 4.2 million four times a year, commencing in 2010, followed by a ballon payment of USD 30 million in 2015.

The earlier financing undertaken by Prosafe Production Services Pte Ltd, in connection with the FPSO *Umuroa* operating in New Zealand, has been settled as the new financing has been established.

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

Petróleo Nautipa facility

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

As at 31 December, USD 10.0 million was outstanding of which USD 2.1 million is due within 12 months and classified as short term interest bearing debt.

The Group is in compliance with all covenants relating to all three financing facilities as of 31 December 2009.

Note 17: Mortgages and guarantees

In line with industry practice, Prosafe Production has issued bank and parent company guarantees (performance guarantees) to customers on behalf of Prosafe Production Services Pte Ltd (PPS) and its subsidiaries in connection with the award and performance of contracts and in connection with debt financing in PPS.

Total bank guarantees issued amounted to USD 1 million at year-end.

The bank debt related to the USD 1,200 million facility, as referred to in note 16, is secured by:

- A subsidiary guarantee from each of Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority share pledge over all the shares issued by Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte
- A first priority perfected security interest in seven FPSO/FSO vessels owned by Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority secured interest in all earnings and proceeds of insurance related to all collateral units.

The bank debt related to the Umuroa facility, as referred to in note 16, is secured by:

- A parent company guarantee from Prosafe Production Public Limited
- A first priority perfected security interest in the FPSO *Umuroa* owned by Prosafe Production Services Pte Ltd, New Zealand Branch
- A first priority secured interest in all earnings and proceeds of insurance related to the FPSO Umuroa

The bank debt related to the Petróleo Nautipa facility, as referred to in note 16, is secured by mortgages on bank deposit, the shares in Tinworth Pte Ltd and Prosafe Nautipa AS, and on the FPSO owned by the former.

The carrying value of vessels pledged as collateral per 31 December 2009 was USD 1,737 million (USD 1,538 million).

Note 18: Other interest-free current liabilities

	2009	2008
Current payables (related party)	0.0	0.2
Accrued personnel cost	7.9	6.4
Public taxes	1.2	0.3
Other accruals	43.9	32.5
Total interest-free current liabilities	**53.1**	**39.4**

Note 19: Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted number of shares outstanding during the year. There are no share options or conversion rights that could potentially dilute earnings per share.

	2009	2008
Net profit attributable to ordinary equity holders of the parent	-10.3	-203.6
Weighted average number of ordinary shares (1000)	255 202	255 202
Basic earnings per share	**-0.04**	**-0.80**
Weighted average number of ordinary and potential shares (1000)	255 202	255 202
Dilutive earnings per share	**-0.04**	**-0.80**

Note 20: Cash and cash equivalents

	2009	2008
Restricted cash deposits	0.0	1.6
Free cash and short-term deposits	133.8	209.5
Total cash and cash equivalents	**133.8**	**211.0**

The Group actively manages its liquidity situation. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

According to the loan agreement regarding the USD 1,200 million credit facility, as referred to in note 16, the Group has to maintain at all times a minimum cash level of USD 65 million.

Note 21: Accounts receivables and and other current assets

Accounts receivables

As of 31 December the Group had the following ageing profile of outstanding accounts receivable:

		Total	Not due	Due <30 days	Due 31-60 days	Due 61-90 days	Due > 91 days
2009	Accounts receivables	60.1	48.6	4.0	0.2	2.5	4.8
2008	Accounts receivables	46.8	34.0	10.0	1.4	0.9	0.4

Debtors are non-interest bearing, and generally on 30-45 days term. The Group has USD 11.5 million (USD 12.7 million) that is past due, but not impaired, at the balance sheet date. Accounts receivables are unsecured.

The recorded accounts receivables are shown net of estimated bad debt loss. The estimated bad debt loss is:

	2009	2008
Bad debt provision 31 December	**1.4**	**0**
Recorded bad debt expense during the year	-	0
Change in bad debt provision	1.4	0
Total bad debt cost during the year	**1.4**	**0**

Reference is made to note 25 for more details on credit and currency risk related to accounts receivable.

Other current assets

	2009	2008
VAT receivables	1.8	2.9
Prepayments	3.4	6.6
other assets	1.6	5.0
Total interest-free current liabilities	**6.8**	**14.5**

Note 22: Financial assets and liabilities

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

Year ended 31 Dec 2009	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying amount	Fair value
Cash and deposits	133.8	0.0	0.0	133.8	133.8
Accounts receivables	60.1	0.0	0.0	60.1	60.1
Other current assets	1.6	0.0	0.0	1.6	1.6
Total assets	**195.5**	**0.0**	**0.0**	**195.5**	**195.5**
Interest bearing debt	0.0	0.0	1 151.7	1 151.7	1 108.4
Other provisions	0.0	0.0	3.1	3.1	3.1
Accounts payable	0.0	0.0	36.9	36.9	36.9
Derivative instruments	0.0	35.6	0.0	35.6	35.6
Other current liabilities	0.0	0.0	51.8	51.8	51.8
Total liabilities	**0.0**	**35.6**	**1 243.5**	**1 279.1**	**1 235.8**

Year ended 31 Dec 2008	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Carrying amount	Fair value
Cash and deposits	211.0	0.0	0.0	211.0	211.0
Debtors	46.8	0.0	0.0	46.8	46.8
Other current assets	5.0	0.0	0.0	5.0	5.0
Total assets	**262.8**	**0.0**	**0.0**	**262.8**	**262.8**
Interest bearing debt	0.0	0.0	1 032.6	1 032.6	1 032.6
Other provisions	0.0	0.0	1.2	1.2	1.2
Accounts payable	0.0	0.0	50.4	50.4	50.4
Derivative instruments	0.0	54.2	0.0	54.2	54.2
Other current liabilities	0.0	0.0	39.1	39.1	39.1
Total liabilities	**0.0**	**54.2**	**1 123.2**	**1 177.5**	**1 177.5**

Fair value estimation

The fair value of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and estimates have been used to estimate fair value:
Fair value of cash and short term deposits, debtors, other current assets, accounts payables and other current liabilities approximate their carrying amounts, largely due to the short-term maturity of these instruments.

The Group has entered into interest rate swaps with financial institutions. Fair value on interest swap agreements are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument.

For floating rate long-term debt, the fair value is estimated by discounting future cash flows using an estimate of current interest rates available for debt on similar terms, credit risk and remaining maturity.

Fair value Hierarchy

As at 31 December 2009, the Group held derivative financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted 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 which have a significant effect on the recorded fair value that are not based on observable data.

Liabilities measured at fair value	2009	Level 1	Level 2	Level 3
Interest rate swaps	35.6	0.0	35.6	0.0

Liabilities measured at fair value	2008	Level 1	Level 2	Level 3
Interest rate swaps	54.2	0.0	54.2	0.0

Note 23: Commitments and contingencies

Operating lease commitments - Group as a lessee

Prosafe Production has entered into commercial leases on certain office space, motor vehicles and equipment. At the balance sheet date, the Group was committed to make the following payments in respect of operating leases.

	2009	2008
Within one year	5.5	6.5
Between two to five years	6.1	9.8
Later than five year	0.0	0.0

Operating lease commitments - Group as a lessor

Prosafe Production has entered into contracts on operating leases on all FPSO/FSOs owned by year end. These leases include a clause to enable annual upward revision according to certain cost and price indices.

Future minimum payments receivable under non- cancellable as at 31 December are as follows:

	2009	2008
Within one year	362	348
Between two to five years	1 127	1 250
Later than five year	527	710

Contingent liabilities

At the balance sheet date, the Group had no material contingent liabilities not provided for.

Note 24: Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow or fair value hedges for accounting purposes.
The contracts are however entered into for periods consistent with currency transaction exposures.

As of 31 December 2009, the Group had no foreign exchange contracts. Per 31 December 2008, the Group had foreign exchange contracts at a notional amount of USD 7,136,740 with a fair value of USD -0.2 million.

The Group has entered into an interest swap agreement to hedge part of the floating rate cash flow related to interest payments on the Umuroa facility as described in note 16.

Nominal	Receive	Pay
USD 38.0 million	Libor	4.19 %

The fair value of interest rate swaps at 31 December, not designated as hedging instruments for accounting purposes, was USD -2.4 million (USD -3.2 million).

Cash flow hedges
At 31 December 2009, Prosafe Production held interest swaps at a notional amount of USD 800 million, designated as hedging instruments, whereby the Group receives LIBOR and pays fixed interest rate on the notional amount. The swaps are held to hedge the quarterly cash flow from interest payments on the USD 1,200 million, floating rate, debt facility for the Group. As at 31 December a notional amount of USD 1,050 million (USD 950 million) was drawn down on the facility.

The terms on the interest rate swaps have been negotiated to match the quarterly payment terms on the loan facility. It has been assessed that the cash flow hedge is highly effective and no ineffectiveness has been recognised in the income statement. The fair value loss on the hedging instruments (i.e. interest rate swaps) has been recognised directly in other comprehensive income. Fair value at 31 December was USD -33.1 million (USD -51.1 million). The positive change in fair value in 2009, USD 17.9 million (in 2008 negative change of 51.2 million) is recognised in other comprehensive income.

Interest rate swaps included in cash flow hedge

Nominal	Receive	Pay	Maturity
USD 100 million	Libor	3.01 %	2011
USD 100 million	Libor	3.14 %	2012
USD 100 million	Libor	3.26 %	2012
USD 100 million	Libor	3.37 %	2013
USD 100 million	Libor	3.44 %	2013
USD 100 million	Libor	3.53 %	2014
USD 100 million	Libor	3.64 %	2014
USD 100 million	Libor	3.74 %	2015
USD 800 million			

Note 25: Financial risk management

The Group's activities expose it to financial risks from its operations such as market risk, liquidity risk and credit risk. The Group's corporate management oversees that management of these risks are in accordance with established policies and guidelines that has been reviewed and approved by the Group's Board of Directors.

The Group undertakes derivatives as part of the risk management policy; however, no derivative transactions are entered into for speculative purposes.

Market risk
Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risks.

Sensitivity analyses are prepared for all market risks that the Group have exposure to. The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008. It is based on cases where all other variables than the risk in question is being held constant at the level per 31 December 2009.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to floating rate long term debt and derivatives used to hedge debt.

The Group's interest-bearing debt totaled USD 1,152 million (USD 1,033 million) at 31 December. Interest on the debt is floating but has to a large extent been hedged through the use of interest rate swap agreements. The Group evaluates the proportion of interest-rate hedging in relation to the repayment profile of its loans, portfolio of contracts, cash flow and cash in hand.

The proportion hedged for the Group as a whole will normally lie between 70 and 90 per cent for all loan terms. At 31 December, taking into account the effect of the interest rate swaps, 72 per cent (82 per cent) of the Group's bank debt was hedged at a fixed interest rate.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's profit and equity.

USD	Year	Change in basis points	Effect on profit	Effect on other comprehensive income
	2009	+100	-2.4	27.5
	2009	-100	2.3	-28.0
	2008	+100	-0.7	34.3
	2008	-100	0.6	-35.7

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign currency relates primarily to operating activities.

Prosafe Production Public Limited has USD as its functional currency. In normal operation, Prosafe Production will mainly have currency exposure to SGD, EUR, BRL, NZD, AUD and NOK.

All interest-bearing debt in Prosafe Production is in USD, and as such there is no currency risk exposure.

A portion of the operating expenses and project capital expenditure in Prosafe Production is in SGD, although the company normally has no significant revenues in that currency. The bulk of its revenues and expenses are in USD. The company actively manages mitigation of currency risk exposure by entering into forward contracts for net cash flows on significant operating expenses or project capital expenditure in other currencies than USD.

Foreign currency sensitivity

The following table demonstrates the sensitivity on the Group's profit to a reasonably possible change in USD exchange rate as at 31 December, against other currencies, with all other variables held constant (due to changes in the fair value of monetary assets).

USD	Year	Change in USD fx-rate	Effect on profit	Effect on equity
	2009	10 %	-2.8	0.0
	2009	-10 %	2.8	0.0
	2008	10 %	-9.1	0.0
	2008	-10 %	9.2	0.0

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract. Prosafe Production is exposed to credit risk from its operating activities (primarily for receivables on charter contracts and prepayments) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Credit risk and credit quality on financial assets related to operational activities is managed through thorough assessment of clients and suppliers in order to ensure that they are able to fulfill their contractual obligations. Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in note 21 and 22. The Group does not hold collateral as security.

Credit risk from balances with banks is managed by Group treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. The maximum exposure to credit risk related to balances with banks at the reporting date is the carrying amounts as illustrated in note 20.

Prosafe Production has put in place financial guarantees for fulfillment of contracts. The maximum exposure to credit risk from these financial guarantees is reported in note 17.

Information about financial assets that are past due is disclosed in note 21.

Liquidity risk

Liquidity risk is the risk that the Group will have difficulties in meeting its financial obligations when due. The Group's objective is to ensure that a sufficient cash level is maintained at any time, and to ensure funding needed for the Group's operations is available. The Group's management is actively planning and forecasting cash flows to assess that development of liquidity in the Group is at sufficient levels.

Under the existing credit arrangements, Prosafe Production is required to maintain a minimum cash level of USD 65 million at all times.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Contractual interest payments and payments on derivatives has been estimated based on 3 month Libor prevailing at the balance sheet date.

Year ended 31 Dec 2009	Total	Less than 3 months	Due 3 to 12 months	1 to 5 years	> 5 years
Interest bearing loans	1 160.0	0.0	152.1	661.2	346.7
Interest payments	61.7	4.2	12.1	42.7	2.7
Other provisions	3.1	0.0	0.0	3.1	0.0
Accounts payable	36.9	29.9	7.0	0.0	0.0
Other liabilities	51.8	39.4	11.7	0.6	0.0
Financial derivatives	94.4	6.8	20.4	65.6	1.6
Total	**1 407.9**	**80.3**	**203.3**	**773.3**	**351.0**

Year ended 31 Dec 2008	Total	Less than 3 months	Due 3 to 12 months	1 to 5 years	> 5 years
Interest bearing loans	1 032.6	4.5	14.3	563.9	450.0
Other provisions	1.2	0.0	0.0	0.0	1.2
Accounts payable	50.4	42.7	7.7	0.0	0.0
Other liabilities	39.3	29.9	9.4	0.0	0.0
Financial derivatives	54.2	0.2	0.0	28.9	25.2
Total	**1 177.8**	**77.3**	**31.4**	**592.7**	**476.4**

Capital management

The primary objective of Prosafe Production's capital management is to ensure that it maintains a healthy capital ratio. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. Prosafe Production monitors capital using a leverage ratio, which is total debt drawn, adjusted according to the covenant requirements, divided on 12 month trailing EBITDA. As specified as part of the covenants on the loan facility (Described in note 16), the Group has to keep the leverage ratio below 5.5. At 31 December the leverage ratio was 4.56 (3.04).

No changes have been made in the objectives, policies or processes during the years ending 31 December 2009 and 31 December 2008.

Note 26: Events after the balance sheet date

From 1 January 2010 until the date of this statement, there have not been any significant events with regards to the financial performance and situation of the Group.

Prosafe Production Public Limited

Income statement - Prosafe Production Public Limited

(USD 1000)	Note	2009	2008
Operating revenues		**36**	**19**
Operating expenses	3	**-8 525**	**-5 587**
Operating profit before depreciation		**-8 489**	**-5 567**
Depreciation		0	0
Operating profit		**-8 489**	**-5 567**
Interest income	11	502	2 483
Interest expenses	11	-41 646	-23 628
Gain/(loss) on sale of shares	5/11	0	-52 608
Other financial items	11	862	-3 788
Net financial items		**-40 282**	**-77 541**
Profit before taxes		**-48 771**	**-83 108**
Taxes	7	-147	0
Net profit		**-48 918**	**-83 108**

Statement of comprehensive income - Prosafe Production Public Limited

(USD 1000)	2009	2008
Net profit / (loss)	**-48 918**	**-83 108**
Other comprehensive income		
Net gains/losses on cash flow hedges	17 931	-51 078
Income tax effect on components of comprehensive income	0	0,0
Other comprehensive income, net of tax	**17 931**	**-51 078**
Total comprehensive income attributable to owners of the company	**-30 987**	**-134 186**

Balance sheet - Prosafe Production Public Limited

(USD 1000)	Note	31.12.09	31.12.08
ASSETS			
Shares in subsidiaries	4	1 823 999	1 066 056
Other tangible assets		5	5
Other non-current financial assets		765	7 365
Intra-group long-term receivables	6	149 977	825 714
Total non-current assets		**1 974 746**	**1 899 140**
Cash and deposits	12	42 566	65 835
Other current assets	6	1 345	1 812
Total current assets		**43 912**	**67 647**
Total assets		**2 018 658**	**1 966 787**
EQUITY AND LIABILITIES			
Share capital	8	25 520	25 520
Share premium		1 062 563	1 062 563
Retained earnings/ (accumulated deficit)		-132 026	-83 108
Other reserves		-33 147	-51 078
Total equity		**922 909**	**953 896**
Derivative financial instruments	12	33 147	51 078
Interest-bearing long-term debt	9/12	894 792	950 000
Total non-current liabilities		**927 940**	**1 001 078**
Interest-bearing short-term debt	9/12	148 800	0
Intra-group short-term payables	6	12 437	5 447
Other current liabilities	10/12	6 572	6 366
Total current liabilities		**167 809**	**11 813**
Total liabilities		**1 095 749**	**1 012 891**
Total equity and liabilities		**2 018 658**	**1 966 787**

Limassol, 9 March 2010
The Board of directors of Prosafe Production Public Limited

Reidar Lund Chairman	Christian Brinch Non-executive director	Michael Raymond Parker Non-executive director
Ronny Johan Langeland Non-executive director	Arne Austreid Non-executive director	Chrysanthos Mardapittas Non-executive director

Statement of cash flows - Prosafe Production Public Limited

(USD 1000)	Note	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxes		-48 771	-83 108
Loss on sale of assets	5	0	52 608
Change in working capital		7 663	61 078
Other items from operating activities		46	-58 296
Net cash flow from operating activities		**-41 062**	**-27 718**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of tangible assets		0	-5
Change in long-term intra-group balances	6	675 737	-825 714
Acquisition of financial assets		-757 943	-1 377 066
Proceeds from sale of assets		0	258 255
Net cash flow from investing activities		**-82 206**	**-1 944 530**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new interest-bearing debt	9	100 000	950 000
Paid-in capital	Equity	0	1 088 045
Net cash flow from financing activities		**100 000**	**2 038 045**
Net cash flow		**-23 269**	**65 797**
Cash and deposits at 1 January		65 835	38
Cash and deposits at 31 December		**42 566**	**65 835**

Statement of changes in equity - Prosafe Production Public Limited

(USD 1000)	Share capital	Share premium	Retained earnings	Cash flow hedges	Foreign currency translation	Total equity
Equity at 1 January 2008	**38**	**0**	**0**	**0**	**0**	**38**
Net profit	0	0	-83 108	0	0	-83 108
Other comprehensive income	0	0	0	-51 078	0	-51 078
Paid-in capital	25 482	1 062 563	0	0	0	1 088 045
Equity at 1 January 2009	**25 520**	**1 062 563**	**-83 108**	**-51 078**	**0**	**953 896**
Net profit	0	0	-48 918	0	0	-48 918
Other comprehensive income	0	0	0	17 931	0	17 931
Equity at 31 December 2009	**25 520**	**1 062 563**	**-132 026**	**-33 147**	**0**	**922 909**

NOTES - PROSAFE PRODUCTION PUBLIC LIMITED

Note 1: General Information

Prosafe Production Public Limited ('the Company') is a public limited company, domiciled in Limassol, Cyprus. The registered office address is City House, 3rd floor, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus.

Prosafe Production Public Limited was incorporated in Cyprus on 27 November 2007. In April and May 2008 the Company acquired all subsidiaries, related to the floating production operations, from its parent company Prosafe SE.

The Company was listed on the Oslo Stock Exchange 2 June 2008 with ticker code PROD.

All figures are presented in USD 1000 unless otherwise stated.

Note 2: Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113.

The accounting policies applied to the consolidated accounts have also been applied to the parent company, Prosafe Production Public Limited. In addition investments in subsidiaries are stated at cost less any impairment.

The disclosures provided to the consolidated financial statements provide additional information that accompanies the parent company's accounts which is not presented here separately.

Note 3: Operating expenses

(USD 1 000)	**2009**	**2008**
Salaries	3 543	2 951
Share-based payment expense	226	7
Pensions	164	141
Other personnel expenses	578	455
Director's fee	553	323
Reorganisation & listing expenses	0	670
Other operating expenses	3 460	1 040
Total operating expenses	**8 525**	**5 587**

Note 4: Shares in subsidiaries

(Carrying value in USD 1)

Company		Share-capital	Carrying-value 2009	Carrying-value 2008	Owner-ship
Prosafe Production Holding Limited	USD	1 750 000	1 814 760 999	1 064 760 999	100 %
Prosafe Production Management B.V.	EUR	18 000	7 943 239	-	100 %
Prosafe Nautipa AS	NOK	100 000	1 148 000	1 148 000	100 %
Prosafe Production Inc	USD	1	1	1	100 %
Prosafe Production Nigeria Ltd	USD	147 000	147 000	147 000	100 %
Total carrying value (USD)			**1 823 999 239**	**1 066 056 000**	

Voting rights equal ownership share.

Shares in subsidiaries were acquired in April 2008 as a result of the split, when the floating production segment of Prosafe SE was established as a separate group, except for Prosafe Production Management B.V.

Prosafe Production Management was established 13 August 2009 with EUR 18,000 as share capital at EUR 1 each.

The share capital in Prosafe Production Holding Limited was increased by 750,000 to 1,750,000 shares at USD 1 each at par and premium value of USD 999 each at 3 November 2009.

Note 5: Disposal of shares in Teekay Petrojarl ASA

Shares in Teekay Petrojarl ASA (30.1 % of outstanding share capital) were acquired by Prosafe Production Public Limited in April 2008. Subsequently, on 20 June 2008, all shares were disposed off and this resulted in a book loss of USD 52.6 million for Prosafe Production Public limited. The Company holds no shares in Teekay Petrojarl ASA following this transaction.

Note 6: Intra-group loans and receivables

(USD 1 000)	2009	2008
Loan to Prosafe Production Services Pte Ltd	142 597	818 587
Loan to Prosafe Nautipa AS	7 380	7 127
Intra-group long-term receivables	**149 977**	**825 714**
Outstanding from Prosafe Production Services Pte Ltd	125	125
Outstanding from Prosafe Production Management B.V.	839	0
Outstanding from Prosafe Production Holding Limited	64	24
Intra-group short-term receivables	**1 029**	**150**
Payable to Prosafe Production Services Pte Ltd	12 437	5 447
Intra-group short-term payables	**12 437**	**5 447**

Intra-group loan agreements with subsidiaries are set up with annual interests in the range 0-3.5% being charged. The loan to Prosafe Production Services Pte Ltd is expected paid in full by 2011. Outstanding balances at year-end are unsecured. For the year ended 31 December 2009, the Company has not recorded any impairment related to receivables on amounts owed by group subsidiaries.

Note 7: Income tax

(USD 1 000)	2009	2008
Taxes in income statement		
Corporate tax payable	0	0
Defence tax payable for fiscal year 2009	25	0
Defence tax payable for fiscal year 2008	122	0
Change in deferred tax	0	0
Total taxes in income statement	**147**	**0**
Calculation of the basis for taxation		
Accounting profit (loss) before tax	-48 771	-83 108
Permanent differences	49 406	78 149
Utilisation of previously unrecognised tax losses	-635	0
Tax base	**0**	**-4 960**
Tax expense at Cyprus statutory tax rate of 10%	**0**	**0**
Deferred tax assets (-)		
Tax loss carry forward	-494	-496
Deferred tax assets - gross	**-494**	**-496**
Deferred tax liabilities - gross	**0**	**0**
Net recognised deferred tax assets/liabilities	**0**	**0**

The corporate income tax in Cyprus is 10% under current legislation.

Prosafe Production Public Limited has tax losses of USD 4,9 million (2008: USD 5,0 million) that are available indefinately for offset against future taxable profits of the company. Tax loss carried forward is translated from EUR to USD using the exchange rate prevailing at the balance sheet date.

No deferred tax asset has been recognised in the balance sheet with regards to the tax loss, as the company does not anticipate that this asset can be utilised.

Note 8: Share capital

	2009	2008
Authorised number of shares issued and fully paid at 31 December*	255 201 764	255 201 764
Holding of own shares at 31 December	0	0
Nominal value at 31 December	USD 0.1	USD 0.1
Number of shareholders at 31 December	4 111	4 185
Authorised ordinary shares issued and fully paid		
At 1 January	255 201 764	376 780
Issued	0	254 824 984
At 31 December	**255 201 764**	**255 201 764**

*) Only one class of shares

Largest shareholders at 31 December 2009	No of shares	%
BW Offshore	44 500 000	17.4%
Prosafe Holding ltd	19 778 137	7.8%
BW Euroholdings ltd	15 332 280	6.0%
Folketrygdfondet	12 798 235	5.0%
BW Offshore Cyprus ltd	11 432 990	4.5%
RBC Deixa Investor Services Trust	7 884 886	3.1%
Brown Brothers Harriman & Co	7 500 000	2.9%
Awilco Invest AS	6 638 538	2.6%
JP Morgan Chase Bank	6 463 835	2.5%
Orkla ASA	5 750 000	2.3%
Pareto Aksje Norge	5 709 300	2.2%
Prosafe SE	5 596 997	2.2%
BW LPG FPSO I ltd	5 000 000	2.0%
UBS AG	4 125 960	1.6%
HSBC Bank Plc	4 061 620	1.6%
BGL BNP Paribas	3 978 775	1.6%
Bank of New York Mellon	3 963 845	1.6%
Odin Offshore	3 932 000	1.5%
State Street Bank and Trust Co	3 700 661	1.5%
Morgan Stanley & Co	3 641 705	1.4%
Total 20 largest shareholders	**181 789 764**	**71.2%**

Note 9: Interest-bearing debt

(USD 1 000)	Eff. Interest rate	Maturity date	2009	2008
USD 1,200 mill facility	3 month LIBOR +0.65 - 0.95%	05-mai-15	1 043 592	950 000
Total interest-bearing debt			**1 043 592**	**950 000**
Non-current interest-bearing debt			894 792	950 000
Current interest-bearing debt			148 800	0
Total interest-bearing debt			**1 043 592**	**950 000**

Senior secured revolving credit facility:

Prosafe Production Public Limited as borrower has entered into a senior secured revolving credit facility dated 5 May 2008 with a total availability of USD 1200 million where Nordea Norge ASA act as facility agent on behalf of a number of lenders. The loan period is seven years with the final maturity date 5 May 2015.

In addition to interests, a commitment fee of 0.38% of available, but undrawn, facility is charged and recognised in the income statement.

The facility is subject to 13 consecutive semi-annual reductions commencing May 2009. The first 12 instalments shall be in the amount of USD 75 million, and the 13th and final instalment shall be in the amount of USD 300 million.

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

The following are the financial covenants for the senior secured revolving credit facility with Nordea Bank Norge ASA as facility agent:

1. Liquidity: Cash and Cash Equivalents shall at all times be equal or greater than USD 65 million.
2. Leverage ratio: Total Debt to EBITDA on a trailing four-quarter basis shall not be greater than 5.50:1.00.
3. Equity ratio: The ratio of value adjusted equity to value adjusted assets shall at all times be equal or greater than 35%.
4. Working Capital: Current asset less current liabilities shall at all times be equal or greater than zero.
5. Collateral maintenance: The sum of fair market value of each collateral unit shall at all times be at least 130% of the aggregate outstanding principal amount of loans and the unutilised portion of the facility.

The revolving credit facility has a change of control clause that can be triggered if a party exceeds 30% ownership.

Note 10: Other interest-free current liabilities

(USD 1 000)	**2009**	**2008**
Accrued interest costs	4 764	5 137
Other accruals	1 661	1 229
Defence tax liability	147	0
Total interest-free current liabilities	**6 572**	**6 366**

Note 11: Financial items - IAS 39 categories

Year ended 31 Dec 2009	**Loans and receivables**	**Fair value through profit and loss**	**Financial liabilities measured at amortised cost**	**Available for sale**	**Total**
(USD 1 000)					
Interest income	502	0	0	0	502
Total finance revenue	**502**	**0**	**0**	**0**	**502**
Interest expenses	0	0	-41 646	0	-41 646
Other financial expenses	0	0	-4	0	-4
Currency loss *	0	0	0	0	866
Total finance expenses	**0**	**0**	**-41 650**	**0**	**-40 784**
Net financial items	**502**	**0**	**-41 650**	**0**	**-40 282**

* Currency gain and loss is not part of the break-down on IAS 39 categories, but is included to reconcile net financial items to the financial statement.

Year ended 31 Dec 2008	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Available for sale	Total
(USD 1 000)					
Interest income	2 483	0	0	0	2 483
Total finance revenue	**2 483**	**0**	**0**	**0**	**2 483**
Interest expenses	0	0	-23 628	0	-23 628
Currency loss	0	0	0	0	-3 788
Disposal of shares*	0	0	0	-52 608	-52 608
Total finance expenses	**0**	**0**	**-23 628**	**-52 608**	**-80 024**
Net financial items	**2 483**	**0**	**-23 628**	**-52 608**	**-77 541**

*) Shares owned by Teekay Petrojarl ASA (30.1% of the outstanding share capital) were disposed of on 20 June 2008. Prosafe Production holds no shares in Teekay Petrojarl ASA following this transaction.

Note 12: Financial assets and liabilities

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

Year ended 31 Dec 2009	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Booked value	Fair value
(USD 1 000)					
Cash and deposits	42 566	0	0	42 566	42 566
Other current assets	1 044	0	0	1 044	1 044
Total assets	**43 610**	**0**	**0**	**43 610**	**43 610**
Interest-bearing debt	0	0	1 043 592	1 043 592	995 990
Intra-group short-term payables	0	0	12 437	12 437	12 437
Other liabilities	0	33 147	6 426	39 573	39 573
Total liabilities	**0**	**33 147**	**1 062 455**	**1 095 602**	**1 048 000**

Year ended 31 Dec 2009	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Available for sale	Total
(USD 1 000)					
Cash and deposits	65 835	0	0	65 835	65 835
Other current assets	210	0	0	210	210
Total assets	**66 045**	**0**	**0**	**66 045**	**66 045**
Interest-bearing debt	0	0	950 000	950 000	950 000
Intra-group short-term payables	0	0	5 447	5 447	5 447
Other liabilities	0	51 078	6 366	57 444	57 444
Total liabilities	**0**	**51 078**	**961 813**	**1 012 891**	**1 012 891**

Note 13: Mortgages and guarantees

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

Total bank guarantees issued amounted to USD 1 million at year-end.

The bank debt related to the USD 1,200 million facility, as referred to in note 9, is secured by:

- A subsidiary guarantee from each of Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority share pledge over all the shares issued by Prosafe Production Holding Limited, Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte
- A first priority perfected security interest in seven FPSO/FSO vessels owned by Prosafe Production Services Pte Ltd and Prosafe FPSO (D) Pte Ltd
- A first priority secured interest in all earnings and proceeds of insurance related to all collateral units.

The bank debt related to the Umuroa facility, as referred to in note 16 of the consolidated financial statements of the Group, is secured by:

- A parent company guarantee from Prosafe Production Public Limited
- A first priority perfected security interest in the FPSO *Umuroa* owned by Prosafe Production Services Pte Ltd, New Zealand Branch
- A first priority secured interest in all earnings and proceeds of insurance related to the FPSO *Umuroa*

The carrying value of vessels pledged as collateral for debt in Prosafe Production Public Limited per 31 December 2009 was USD 1,589 (USD 1,369 million).

Note 14: Events after the balance sheet date

From 1 January 2010 until the date of this statement, there have not been any significant events with regards to the financial performance and situation of Prosafe Production Public Limited.

Statement by the members of the board of directors and the company officials responsible for the financial statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the board of directors and the company officials responsible for the drafting of the consolidated, and separate, financial statements of Prosafe Production Public Limited (the 'Company') for the year ended 31 December 2009, confirm that, to the best of our knowledge,

a) the consolidated financial statements, and separate financial statements,
   1. have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
   2. give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidated, and separate, financial statements taken as a whole, and

b) the Directors' report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated, and separate, financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Limassol, 9 March 2010

The board of directors of Prosafe Production Public Limited

Reidar Lund
Chairman

Christian Brinch
Non-executive director

Michael Raymond Parker
Non-executive director

Ronny Johan Langeland
Non-executive director

Arne Austreid
Non-executive director

Chrysanthos Mardapittas
Non-executive director

Bjørn Henriksen
President and CEO

Sven Børre Larsen
Executive VP and CFO

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Independent Auditor's Report

To the Members of Prosafe Production Public Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Prosafe Production Public Limited (the "Company") and its subsidiaries (the "Group") and the Company's separate financial statements, which comprise the balance sheets of the Group and the Company as at 31 December 2009, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated and the Company's separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2009, and of the financial performance and the cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the Directors' Report is consistent with the financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Ltd

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
9 March 2010

Glossary

AGM: annual general meeting

Bareboat charter: charterparty for a vessel which assigns responsibility for operation and maintenance to the charterer

Bbls: barrels

Bfpd: barrels of fluid per day

Bopd: barrels of oil per day

Bwpd: barrels of water per day

Dwt: deadweight tonnes

EBITDA: earnings before interest, taxes, depreciation and amortisation. Operating result before depreciation

EBIT: earnings before interest and taxes. Operating result.

EPC: engineering, procurement and construction

FDPSO: floating drilling, production, storage and offloading vessel

FPSO: floating production, storage and offloading vessel

FSO: floating storage and offloading vessel

HSE: health, safety and environment

IFRS: International Financial Reporting Standards

IMO: International Maritime Organisation. The UN's advisory body for shipping

ISM: International Safety Management Code. Standard for safety management systems on vessels

ISO: International Organisation for Standardisation

ISPS: International Ships & Port Facility Security Code

Libor: London interbank offered rate

Lost-time injury (LTI): occupational injury which causes the employee to be absent from work for one complete shift – in other words, 12 hours

MMSCFD: million standard cubic feet per day. Unit for measuring gas flow

M/T: motor tanker

OSE: Oslo Stock Exchange

PROD: Prosafe Production's ticker on the OSE

SE: Societas Europa. European public limited company

Suezmax: largest ship able to pass through the Suez Canal, normally 150,000-200,000 dwt

Time charter: charterparty for a vessel which assigns responsibility for operation and maintenance to the owner

VLCC: very large crude carrier

VPS: Norwegian Central Securities Depository

PRINTERS AS

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