

Directors' report

Prosafe is a global company with a leading position in the offshore accommodation/service rig industry. The business is well positioned in the latter part of an oil field's life cycle, with most of the demand being related to maintenance and modification work.

Operating profit for 2008 was Prosafe's best ever, which means that the positive trend from previous years is being continued. In May 2008, Prosafe was split into two separate listed companies. The comparative figures presented therefore refer to the pro-forma accounts for the continuing business.

Income statement

Consolidated revenues in 2008 were USD million 491.1 (USD 376.7 million in 2007). Operating revenues grew by USD 114.4 million, reflecting higher rig utilisation and higher average dayrates in all major market segments.

Consolidated operating profit for 2008 was USD 232.2 million (USD 163.0 million). This improvement reflects higher revenues and an improved operating margin.

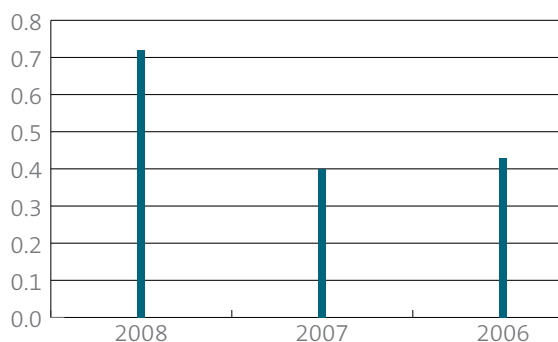
Net interest expenses totalled USD 57.1 million in 2008, a decrease of USD 1.7 million from 2007. The company's net debt decreased from USD 1 189.1 million at the end of 2007 to USD 843.1 million at

31 December 2008. The net debt was reduced as a result of the split, as a certain portion of the debt was allocated to the Floating Production division. The general interbank short-term interest rate level fell from approx. 4.5 per cent at the start of the year to approx. 1.5 per cent at the end of the year. Average for the period was approx. 2.9 per cent. Due to a high proportion of interest rate hedges, and including credit margin, the average interest cost for Prosafe during this period remained largely unchanged, at approx. 5 per cent (6 per cent in 2007). Other financial items amounted to negative USD 23.7 million (USD 13.9 million) which primarily reflects a lower market value for the company's financial instruments.

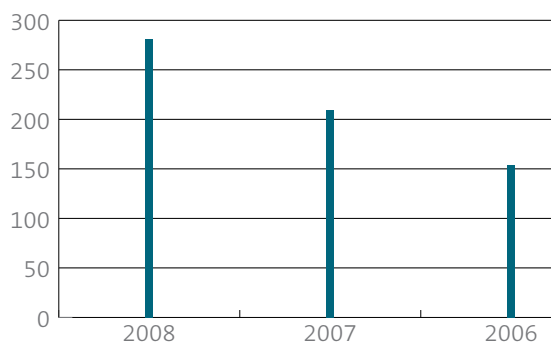
Taxes in 2008 amounted to USD 9.4 million positive, which reflects a reduction in tax liability in a subsidiary compared to a tax cost of USD 5.1 million in 2007. Tax charges for the company's ordinary activities will typically be below 5 per cent, depending on the countries in which the company's vessels operate.

Net profit for continuing operations amounted to USD 164.8 million (USD 90.8 million), and diluted earnings per share were USD 0.72 (USD 0.40). Including discontinued operations, net profit was USD 202.8 million and diluted earnings per share were USD 0.89.

EARNINGS PER SHARE ADJUSTED (USD)



EBITDA (USD MILLION)



Capital

Total assets at the end of 2008 were USD 1 314 million (USD 2 624 million). The reduction in the balance sheet total primarily reflects the split from the Floating Production division. Investments in maintenance, refurbishment and upgrading of rigs were USD 132 million (USD 32 million), while depreciation for 2008 came to USD 48.8 million (USD 46.4 million). The main increase in investments relates to a major refurbishment of the *MSV Regalia*, and certain upgrades of *Safe Regency*, *Safe Bristolia* and *Safe Astoria*.

In 2008, the company paid a dividend in kind in the form of 90.1 per cent of the shares in Prosafe Production Public Limited. The shares of Prosafe were quoted ex-dividend from 16 May 2008. Prosafe bought back a total of 6.9 million shares in the period from July to September at an average price of NOK 39.3 per share.

Borrowing in 2008 totalled USD 1 167 million (USD 718 million), while loan repayments came to USD 1 526 million (USD 16 million). The high debt-turnover was related to a major refinancing of the group's revolving credit facility prior to the split of the group. At year-end, gross interest bearing debt was USD 959 million.

At the end of 2008, Prosafe had USD 115.6 million (USD 162 million) in overall liquid assets. The book equity ratio at year-end was 9.5 per cent (39.6 per cent). The decline reflects the split of the company, where the majority of book equity was allocated to Prosafe Production Public Limited. The book equity in Prosafe is low due to a well depreciated asset base. As an example, six of the company's 11 semi-submersibles carried a book value of less than USD 50 million each at the end of the year.

Overall, Prosafe has developed a sound financial position based on a good contract portfolio and competitive debt facilities.



Pursuant to Section 3-3 of the Norwegian Accounting Act, the board confirms that the going-concern assumption applies and that the annual accounts have been prepared on this assumption.

Reference is made to note 27 to the consolidated accounts for a description of events after the balance sheet date.

Offshore Support Services

Prosafe owns 11 of the world's 16 semi-submersible accommodation/service rigs. During the year, these rigs served charters in the North Sea, Gulf of Mexico, Russia and the US Gulf of Mexico. Total rig utilisation in 2008 was 92 per cent (88 per cent).

Safe Hibernia, *Jasminia*, *Safe Britannia*, *Safe Lancia* and *Safe Regency* renewed their long-term charters in the Gulf of Mexico. Including a six-month extension for the *Safe Concordia*, contract extensions worth USD 425 million were won during the year. The average dayrate of the long-term contracts was increased by 103 per cent for the new contract periods. Completing its work in Mexico in June, *Safe Concordia* was mobilised to operate in the US Gulf in the latter half of the year. The vessel assisted ChevronTexaco in the hook-up of the Tahiti Spar. The contract at the Tahiti field was completed early February 2009.



Safe Caledonia was on charter on the UK Continental Shelf during the year. The vessel is contracted through the third quarter of 2010.

Safe Scandinavia operated for ConocoPhillips in the UK sector of the North Sea in January and February. Thereafter, she mobilised to the Norwegian Continental Shelf, commencing operations for StatoilHydro at the Sleipner field in March. The contract for StatoilHydro was completed late November. After a brief yard stay, the vessel mobilised to the Valhall field where she commenced operations for BP under a two-year charter. The first six months of the charter will be completed with the *Safe Scandinavia*. However, when the refurbishment of the *MSV Regalia* is completed, the *MSV Regalia* will take over the operation. The estimated time of the vessel exchange is June 2009.

In 2008, *MSV Regalia* assisted Aker Solutions in decommissioning work in the UK sector of the North Sea from February to early December. The refurbishment of the *MSV Regalia* is targeting an Acknowledgement of Compliance for working on the Norwegian Continental Shelf and will provide Prosafe with a unique solution for dynamically positioned (DP) operations in harsh environments.

Safe Bristol was upgraded in the first quarter of 2008, and thereafter mobilised to the North Sea for a contract for ConocoPhillips. After completion of the

assignment, the vessel was idle until January 2009, when she was mobilised to the Gulf of Mexico for a one-year contract. Thereafter, she will start a six-month contract for Nexen in the North Sea.

Safe Astoria operated off the Sakhalin Island during the summer half of the year and was de-mobilised to Malaysia at year-end.

Safe Esbjerg, which is Prosafe's only jack-up accommodation/service rig, was on contract for Maersk on the Danish Continental Shelf during the entire period. She was awarded a new contract for the same client until mid-2011, with option for another 12 month-period.

Outlook

In recent months, the fall in oil price has induced caution and cost cutting in the international oil and gas industry. Historically, such situations have led to a sharp decline in exploration and production spending in the following period. For 2009 it appears that the largest cuts in spending are seen among the smaller oil companies, whilst the majors and national oil companies are showing less net change. Typically, these changes in spending are more focused on early cycle activities and less focused on existing operations. In the current environment the financial crisis has a wider impact than the isolated fall in oil price. Therefore, we may also see broader cost cutting measures in the whole industry in the coming period.



At the start of 2009, the outlook in the accommodation/service industry remains good, with visible demand in all major regions for the coming years. However, considering the pressures observed in other parts of the industry, Prosafe will continue to work on improving safety, operational efficiency and service to our clients.

Prosafe is well positioned, with a high order backlog for both 2009 and 2010. In 2008, the company secured contracts worth approx. USD 645 million. As such, there is limited rig availability in the coming two-year period. Prosafe is working to maximise utilisation in this period as well as to win contracts for 2011 and beyond.

Prosafe's rig fleet is well adapted to meeting market requirements. In 2009, the company will have four units in the North Sea, seven units in the Americas and one unit in Asia. In 2010, *Safe Bristolia* will return to the North Sea from its current position in Mexico.

The company is targeting the high end of the global offshore accommodation/service market. Therefore, it is the company's ambition to have the world's largest and most advanced fleet of vessels suitable for such operations. Together with long operational experience, this puts the company in a favourable competitive position and provides reason for optimism in the near term.

Prosafe is well placed within its business area, with good contract coverage and a sound financial position. Together with a good market outlook, this provides a solid foundation for profitable development going forward.

Health, safety and the environment (HSE)

Health, safety and the environment represent fundamental success factors for Prosafe, and are reflected in its core values. The company works proactively and systematically to reduce injuries and sickness absence.

Sickness absence has been relatively low in recent years, but ended up at 3.6 per cent in 2008, as compared to 2.3 per cent in 2007. This increase is mainly due to a higher number of people on long-term sick leave in 2008.

In 2008, Prosafe had eight incidents that required medical treatment. Three of the incidents were classified as Lost Time Injuries (LTIs). None of the incidents had long-term consequences. As a result of this, the LTI frequency increased from 2.6 in 2007 to 3.3 in 2008. The injury frequency also increased from 7.7 in 2007 to 8.8 in 2008.

Prosafe works according to a zero mindset philosophy. This implies that no accidents or serious incidents are acceptable. During the year Prosafe initiated a number of new measures to improve safety offshore.

Prosafe had no accidental discharges to the natural environment in 2008.

Prosafe's vessels use diesel engines for power generation. These engines cause emissions to the environment. The company has started measuring emissions of CO₂, CO, NO_x, SO₂, CH₄ and VOC based on the reported fuel consumption. In 2009, the company will replace all the existing engines on the MSV *Regalia* with new and more environmentally friendly engines. The upgrade is expected to reduce NO_x emissions from the vessel by 40-50 per cent and lead to a general reduction in the consumption of fuel and lubricants.

Human resources and diversity

Prosafe currently has about 380 employees from 17 countries. The company wants to be an attractive place to work, and attaches great importance to 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 operations, which is reflected in the company's gender breakdown. Prosafe's policy is full equality of opportunity between women and men, and it bases hiring, promotion, training and remuneration on qualifications such as education, experience and achievements.

Corporate governance

Corporate governance in Prosafe is based on the principles contained in the Norwegian Code of Practice for Corporate Governance of 4 December 2007. There are no significant deviations between the Code of Practice and the way it has been implemented in Prosafe.

By displaying good corporate governance, the company will strengthen confidence in the company among shareholders, the capital market and other interested parties, and will help ensure maximum value creation over time in the best interest of shareholders, employees and other stakeholders.

At the Annual General Meeting in May 2008, the board of directors was expanded from six to seven

members. Andreas Sohmen-Pao was elected as a new director in May 2008, and resigned from his position as a director in February 2009.

Corporate social responsibility

Prosafe aims to be a social responsible company, and to further develop its business in a sustainable manner. In order to ensure long-term, viable development and profit, the company balances economic, environmental and social objectives and integrates them into its daily business activities and decisions.

Prosafe's objectives for corporate social responsibility are based on the company's strategy, core values, Code of Conduct and principles for corporate governance, in addition to international recognised principles and guidelines. In order to advance its commitment to sustainability and corporate citizenship, Prosafe signed up as a member of the United Nations Global Compact in October 2008.

Going forward, the company will continue to look for ways to further improve its internal standards, the way it works with partners and suppliers, and to manage the impact of its operations.

Risk

Prosafe must deal with the following primary risks: strategic, operational, financial and insurance-related. The company's board and senior officers manage these risk factors through continuous reporting, board meetings, periodic reviews of the business and tenders, and rolling strategy and budget processes. This is paralleled by dialogue and exchange of views with the company's management.

The company aims to create shareholder value by allocating capital and resources to the business opportunities that yield the best return relative to the risk involved within its specified strategic direction.

Prosafe seeks to reduce its exposure to operational, financial and insurance-related risk through proper operating routines, the use of financial instruments and insurance policies.

Shareholders

The shareholder register at 31 December 2008 showed that no shareholder owns or controls more than 10 per cent of the company's shares. Its ten largest shareholders owned a total of 35.5 per cent of shares, with the remaining held by more than 4 600 investors.

The number of shares in Prosafe is 229 936 790, of which 7 001 705 shares were owned by Prosafe SE.

There has been no change in share capital in the reporting period.

Auditor

The independent auditor of the company, Ernst & Young, has expressed its willingness to continue as the company's auditor. Reference to auditor's fee is made in note 8 to the financial statements of the Group.

Split of Prosafe into two listed companies

In December 2007, the board resolved to initiate a process intending to split the company into two listed companies, one focused Accommodation and Service Rig company and one focused Floating Production company. The split was completed in May 2008 through dividenting out shares in the Floating Production company. The Floating Production company, named Prosafe Production Public Limited, became listed on the Oslo Stock Exchange in June 2008. After the split, Prosafe has retained a shareholding of approx. 9.9 per cent of Prosafe Production.

Proposed dividend

Prosafe's shareholders are to receive a competitive return on their shares through a combination of share price appreciation and a direct return in the form of dividends. The level of dividend is to reflect the underlying financial development of the company, while taking into account opportunities for further value creation though profitable investment.

At the annual general meeting on 14 May 2009, the board of directors of Prosafe will propose an amendment to the articles of association, to allow for interim distribution of dividend. Such amendment will facilitate a flexible distribution of dividend allowing a better correlation between operating cash flow and dividend payments. This will improve corporate risk management and provide an attractive basis for dividend distribution. The target is a distribution of dividend of 40-50 per cent of the company's net profit paid tri-annually the following year.

At 31 December 2008, Prosafe SE had a distributable equity of USD 1 017 million. The parent company showed a net profit of USD 97.4 million for 2008, which the board proposes to be allocated as follows (in USD million):

| | |
|-----------------------|------|
| Dividend | 0 |
| Transferred to equity | 97.4 |
| Total | 97.4 |

Larnaca, 18 March 2009

BOARD OF DIRECTORS OF PROSAFE SE



Reidar Lund
Chairman



Ronny Johan Langeland



Michael Raymond Parker



Christian Brinch
Deputy chairman



Elin Nicolaisen



Christakis Pavlou