

**NORDIC HEAVY LIFT ASA**  
Enterprise no. 990 919 321

**BOARD OF DIRECTORS' 2<sup>nd</sup> QUARTER 2008 REPORT**

**Background**

Nordic Heavy Lift ASA ("NHL") was established in January 2007 with the purpose to order a state-of-the-art 5,000 tonne heavy lift crane construction vessel for future offshore installation and construction work. The order was placed with the Sembawang Shipyard in Singapore. Sembawang has sub-contracted the hull fabrication with the Nantong Yahua shipyard in China. The order for the 5,000 tonne mast crane was placed with Huisman in the Netherlands. The scheduled delivery date of the Vessel is end of 1<sup>st</sup> Quarter 2010.



Among the unique features of the Vessel are DP3 class, significantly improved speed; 13-14 knots, compared to most existing crane vessels with about half that speed and the largest crane of its kind. The Huisman crane and associated equipment will be specifically designed for deepwater lowering activities, which also include active heave compensation. In the event that future use should require pipelaying capability, the Vessel can be modified both for S-lay and J-lay operation.

**Finance**

Company's stock is being traded at the OTC market in Oslo. As for most OTC listed companies the trade liquidity is limited.

The Company had no operating revenues in the 2<sup>nd</sup> Quarter 2008. The Company's operating profit in the 2<sup>nd</sup> Quarter 2008 was USD 1.9 million and USD -1.7 million YTD. (2<sup>nd</sup> Quarter 2007 and 2007 YTD nil).

Pre tax profit in the 2<sup>nd</sup> Quarter was USD 2.2 million and USD -0.8 million 2007 YTD (2<sup>nd</sup> Quarter 2007 USD 0.6 million and USD 0.6 million 2007 YTD), predominantly pre-delivery SG&A expenses, interest income and results from re-measurement of fair values of financial instruments in accordance with IFRS accounting guidelines. The Company's 2<sup>nd</sup> Quarter 2008 Financial Statements are enclosed hereto.

The Company's long-term interest bearing borrowings per 30 June 2008, with a nominal value of USD 115 million and a balance sheet (fair) value of USD 111.5 million, represents a bond loan which the Company raised in May 2007. The bond was raised shortly after the Company raised USD 108 million of equity. The combination of bond and equity is considered to be sufficient funding until the 2<sup>nd</sup> Quarter 2009 from which time the Company expects that it will start drawing upon conventional debt including possible state credit facilities and/or other debt instruments.

The earlier approved and reported investments in deepwater lowering equipment, improvements to the crane and the Vessel as well as mandatory safety and redundancy requirements, in total amounting to about USD 30 million, have meanwhile been committed to the respective vendors.

The Company aims to secure a conventional debt facility during the next months and is therefore engaged in detailed discussions with a bankers' consortium.

In the 1<sup>st</sup> Quarter 2008 report, it was stated that the Company would revert in due course with the verification of the overall capex cost including pre-opex cost as well as cost related to the Company's long term debt financing. Having completed this review the Company has reason to be confident that overall project cost will not increase.

During the first half year 2008 no material risk factors have been identified in addition to those that were disclosed in the Financial Statements 2007.

An equity incentive plan for key personnel of the Company is in the process of being implemented. The Company's CEO and CFO have been granted option rights for in total 840,000 company share

options with an exercise price of NOK 12 and a vesting period of three years.

Related party transactions amounted to about USD 0.5 million in the first half year 2008.

### **Construction Project Development**

Sembawang Shipyard is progressing with the detailed construction and out-fitting engineering which is nearing 50% completion. The keel-laying of the Vessel was scheduled to take place in early July 2008, however, during the 2<sup>nd</sup> Quarter 2008, it became evident that Nantong Yahua Shipyard would not be able to accommodate this milestone.

The Company has been assured by Sembawang that maximum focus will be given to recuperate time lost, and that Nantong Yahua Shipyard still will be able to deliver the Vessel hull in the agreed condition according to schedule. To achieve this milestone, Sembawang is providing additional resources at Nantong Yahua Shipyard. The block-building production plan, compared to benchmark projects, provides Sembawang the confidence that the Nantong Yahua Shipyard will achieve its target.

Representatives of the Company and Dyvi, as the technical construction manager, frequently visit the yards to attend progress meetings with the yards' management and the Company's site teams.



Section building at Nantong Yahua Shipyard

The Project Team now consists of 11 people; five of whom are acting as site team at Nantong Yahua Shipyard while also monitoring the works executed at the Huisman facilities in China. At peak of the construction activities, the site teams (located in both Singapore and Nantong) will eventually consist of 16 members.

As to the Huisman crane, the engineering, procurement and steel cutting is progressing according to schedule. Similar site visits and progress meetings are held with the Huisman with respect to engineering and construction of the 5,000 tonne crane.

Management is giving full and continuous attention to ensure that the Vessel will be delivered on time end of 1<sup>st</sup> Quarter 2010. All critical path equipment has been ordered and is scheduled to be delivered in time. Tank testing of a scale model of the Vessel has now commenced in order to validate and fine-tune the computer models of the Vessel. The computer software will be used for the engineering related to installation work for which the Vessel will be utilized.



Scale model (5.2 meter length) for tank tests

### **Corporate structure and organization**

The manning of the Company's wholly owned subsidiary; Nordic Heavy Lift Management BV in Rotterdam, The Netherlands, which was established end of 1<sup>st</sup> Quarter 2008 and headed by Company's CEO Rob Boer and CFO Erik Hageman, is progressing as planned.

The management has been strengthened with a Senior Vice President Marketing & Sales. Mr. Remko de Boer (43) has joined the Company as of August 2008. He has a business development and sales & contracting background from Smit International Heavy Lift, Bodewes and Stork Industry (Oil & Gas) Services.

Especially the business development and finance & project control functions have now been allocated to new personnel. Further functions currently being sourced are operations, asset management and SHEQ (safety, health, environment, quality).

The Company has signed agreements with Leenaars Engineering BV; an offshore technology and engineering bureau for engineering support and a contracts, risk and insurance representative, both having extensive experience in offshore construction and the oil and gas industry.

The Company's wholly owned subsidiary; Nordic Heavy Lift Shipowning Ltd. in Cyprus will manage and control the operations of the Vessel. Staffing of the Cyprus subsidiary is also in progress.

## **Market Conditions**

Most offshore installation contractors have recently reported increased levels of back log and earnings. Utilization levels of major offshore construction equipment for 2010 and onwards are expected to remain high. The market conditions in the sector in which NHL will be active are expected to remain favourable. Global E&P (exploration and production) spending is expected to remain high. In light of this expectation the Company is well positioned to secure work for the Vessel. This is underlined by the fact that the Company is already discussing different opportunities for the Vessel.

## **Responsibility Statement**

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January - 30 June 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting, and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

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Oslo, 19 August 2008  
The Board of Directors of Nordic Heavy Lift ASA