

# NORDIC HEAVY LIFT ASA

Enterprise no. 990 919 321

## BOARD OF DIRECTORS' 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 crane vessel for future offshore installation and construction work. The final 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 31 March 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. In the event that future use should require pipelaying capability, the Vessel can be modified both for S-lay and J-lay operation.

### Finance

In the 3<sup>rd</sup> Quarter 2007 the Company had no operating revenues. The Company's operating profit in the 3<sup>rd</sup> Quarter 2007 was USD -250,000 and USD -221,000 YTD. Pretax profit was USD 948,000 and USD 1,554,000, respectively. The Company will report in accordance with IFRS accounting guidelines which are attached to this Board of Directors' Report.

The Company's interest bearing debt per 30 September 2007 was USD 115 million which included in its entirety a bond which the Company raised in May 2007 in connection with its immediate finance need; only a few days after, the Company raised USD 108 million of equity. The combination of the debt and equity is intended 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 Company is currently in discussions with different potential lenders. As the Company is considering certain improvements of the offshore construction capacity of the Vessel; deepwater lowering capability in particular, this may increase the Company's funding need, but most likely not to exceed about USD 20.0 million in total. The Company believes that the earnings potential will be considerably enhanced following this investment.

Due to certain technical improvements, provisions in the Sembawang- and Huisman contracts, increased site team cost, SG&A and pre-opex cost, the overall project cost is scheduled to increase with about USD 20 million still allowing for the original contingency of about USD 9 million.

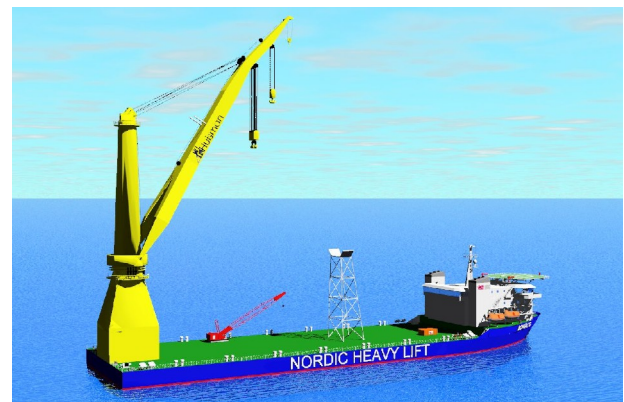
The Board of Directors is of the opinion that the financial statements and the balance sheet reflect the operation of the Company per 30 September 2007.

### Construction Project Development

In order to run an efficient operation, the Company entered into a Technical Construction Management Agreement with Dyvi AS ("Dyvi") who will be responsible towards the Company during the construction phase. Dyvi is currently in the process of establishing its project team and site team. The site team will overview the activities taking place at the different relevant construction facilities.

All critical path equipment has been ordered and is scheduled to be delivered in ample time to make all possible efforts to ensure that the Vessel will be delivered on time.

In August 2007, Det Norske Veritas; being the classification society of the Vessel, approved the Basic Design of the Vessel; albeit with some comments. Nevertheless, the approval was sufficient to proceed with the Detail Design and for the Chinese yard to start ordering steel. The current schedule of the Chinese yard suggests that they may start steel-cutting earlier than originally planned.



One of the most critical components of a crane vessel is its crane and associated equipment. The Company, directly and via Dyvi, maintains a close dialogue with Huisman. This has also led to certain improvements of the 5,000 tonne crane which the Company is confident will enhance the workability of the Vessel. These features cover split hook operation and preparedness for deepwater lowering capability. The Company is currently in discussions with Sembawang and Huisman to seek optimum solutions to incorporate deepwater lowering feature. Deepwater lowering is particularly required for installation of deepwater templates, wellheads, production trees, etc., and should represent an interesting additional revenue potential for the Company.

### **Market Conditions**

In line with the rest of the offshore market and the development of oil price, the offshore construction market is strong and is expected to stay strong in the foreseeable future. Compared to the number of drilling rigs that have been ordered over the last couple of years (about 168 in total) and supply vessels (about 880 in total), there has hardly been any additional capacity which has entered into the heavy offshore construction and installation market. Some of the main players have not added any capacity at all. A few companies have added additional pipelaying capacity to their fleet. One company will shortly take delivery of a derrick/ pipelaying vessel, but with a lower crane capacity (2,700 tonnes) than the Company's Vessel. The Company believes that this vessel will be busy mainly with captive clients. A Dutch company placed the order for a somewhat similar vessel to the Company's Vessel; for delivery in the 2<sup>nd</sup> Quarter 2010. The Company firmly believes that even with the additional crane tonnage entering the market, there are good reasons to believe that there will be sufficient work for all the construction vessels and maintaining healthy earnings.

The Company also sees that oil companies tend to enter into offshore installation and construction contracts not only months in advance, but even years in advance of execution to secure adequate crane capacity for field development work. There are clear indications that the endusers are of the opinion that this market may be short of supply.

### **Shareholder and Bondholder Structure**

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

The Company currently has some 80 shareholders of whom the 10 largest own about 80%. The shareholders are mainly Norwegian, but there are also several UK and US investors. The Company's bond is mainly held by UK and US investors, and about 15% Norwegian investors; some 60 bond investors in total.

### **Corporate Structure**

The Company currently has one 100% subsidiary company; Nordic HL Shipowning Co. Ltd., ("NHLS") which is registered at Cyprus. NHLS is the official owner of the Vessel. The Company is also in the early process of establishing Nordic Operating Company; which will be responsible for IR, commercial, engineering, operations and also directly or indirectly the employer of the Vessel's construction crew. The marine crew will be provided by Dyvi.

The Company's Board of Directors are:-

Jan Frederik Dyvi	Chairman of the Board and Managing Director of Dyvi AS
Tove Raanes	Investment Manager; Dyvi AS
Rob Boer	Self-employed
Endre O. Sund	Investment Manager, Sector Omega ASA
Christine Rødsæther	Lawyer; Vogt & Wiig AS.

Through a separate Corporate Management Agreement, Dyvi is also rendering corporate management services to NHL and its subsidiary company.

Although, the Company informed its investors and the market in May 2007 that it planned to apply for listing at Oslo Axess in the latter part of 2007, the Company's Board of Directors have concluded to defer such application initially until the time that the 2007 financials are available; scheduled for end 1<sup>st</sup> Quarter 2008.

### **Forecasts**

As the offshore oil and gas industry is expected to stay strong, with a high oil price and high level of offshore exploration and production activities, the Board of Directors has good reasons to be confident that the installation market will stay strong in the foreseeable future. The combination of large fields being depleted coupled with many new- and smaller fields being discovered, generate good reasons to believe that the requirement for the services the Company will render with its state-of-the-art crane Vessel, will be in quite a demand in the foreseeable future.

Oslo, 15 November 2007  
The Board of Directors of Nordic Heavy Lift ASA