

ANNUAL REPORT 2003



BOARD OF DIRECTORS REPORT 2003

SEVAN MARINE AS

Sevan Marine focuses its business on the delivery of goods and services to the oil industry. The Company is based in Tananger and Arendal.

The Company has developed a cylinder shaped FPSO/FSO named SSP (Sevan Stabilized Platform), which may be used for floating production and storage of hydrocarbons offshore. The SSP is an alternative to ship based solutions, semis, TLPs and spar platforms. It is suitable for use in all offshore markets including harsh environment areas and on both marginal and large field developments, due to its flexible design and favorable motion characteristics.

The major part of the activities in 2003 were related to marketing of the SSP to potential clients, further development of the technology in cooperation with clients, yards and other partners as well as completion of fabrication drawings for three SSP sizes.

In first quarter 2004, the Company entered into an agreement with a yard for the delivery of one SSP 300 FSO, subject to, among other things, financing.

CONTINUED OPERATIONS

In accordance with the Accounting Act's § 3-3 the board confirms that the annual accounts have been prepared based on the assumption of continued operations. The basis for this assumption is the Company's strategic plan and financial prognoses. The Company's financial position is sound.

WORK ENVIRONMENT AND PERSONNEL

No sick leave has been reported in 2003. No serious work incidents or accidents resulting in personal injuries or damages to materials or equipment have happened in 2003. The work environment is good.

The board and management will work to establish equal positions and opportunities for men and women among its employees and in the board. Currently, 20% and 30% of the employees in the parent company and group, respectively, are women. There are no women elected as board members.

ENVIRONMENT REPORTING

The Company's business in 2003 did not pollute the environment.

FUTURE OUTLOOK

In 2003, the Company experienced continued positive feedback from potential clients on its solution for floating production and storage. Due to this feedback, in first quarter 2004 the Company entered into an agreement with a yard for the delivery of one SSP 300 FSO. In 2004, the Company will focus its activities on securing employment for this unit. The board believes the possibilities for such employment are good.

OTHER MATTERS

Sevan Marine intends to apply for a listing on the Oslo Stock Exchange and in this connection the board will propose that the Company will be transformed from a AS-company to an ASA-company according to the Company's act chapter 15. Currently the Company is listed in the OTC market under the ticker SEMA.

RESULT AND FINANCIAL POSITION

All costs related to the development of the SSP have been expensed. The parent company's net income was therefore minus NOK 4.0 million. The operating revenues for the group came to NOK 3.6 million, while the net income for the group amounted to minus NOK 7.2 million.

Total assets and liabilities at year-end were NOK 21.8 million and NOK 14.4 million in the parent company and group, respectively. The equity ratio as at year-end was 93% and 86 % for the parent company and group, respectively.

In January and March 2004 the Company carried out two private placements and thereby increased its equity by NOK 161 million.

ANNUAL RESULT AND YEAR-END APPROPRIATIONS

The board proposed the following appropriation of the annual result in Sevan Marine AS:

Transfer from share premium account: NOK 4.019.314

Total appropriations : NOK 4.019.314

The Company did not have free equity as at December 31, 2003.

Tananger, May 13 2004

Arne Smedal
Chairman of the board
Sign.

Jan Erik Tveteraas
Board member and
managing director
Sign.

Kåre Syvertsen
Board member
Sign.

Jean-Philippe Flament
Board member
Sign.

SEVAN MARINE AS
BALANCE SHEET AS OF 31.12.2003

PARENT COMPANY			GROUP		
<u>2002</u>	<u>2003</u>	ASSETS	Note	<u>2003</u>	<u>2002</u>
		<i>Fixed assets</i>			
		<i>Intangible fixed assets</i>			
4 663 805	6 525 571	Deferred tax assets	2	6 525 571	4 663 805
4 663 805	6 525 571	Total intangible assets		6 525 571	4 663 805
		<i>Tangible fixed assets</i>			
198 210	206 238	Machines, fixtures, fittings	3	661 499	582 810
198 210	206 238	Total fixed assets		661 499	582 810
		<i>Investments</i>			
5 561 473	8 608 462	Investments in subsidiaries	4	0	0
5 561 473	8 608 462	Total investments		0	0
10 423 488	15 340 271	Total fixed assets		<u>7 187 070</u>	<u>5 246 615</u>
		<i>Receivables</i>			
0	0	Accounts receivable from customers		291 315	316 275
6 927 852	4 274 715	Other receivables	5 & 10	4 468 263	7 170 280
520 375	360 975	Intercompany balances	4	0	0
7 448 227	4 635 690	Total receivables		<u>4 759 578</u>	<u>7 486 555</u>
1 114 595	1 867 895	Cash at bank		<u>2 464 447</u>	<u>1 815 902</u>
8 562 822	6 503 585	Total current assets		<u>7 224 025</u>	<u>9 302 457</u>
<u>18 986 310</u>	<u>21 843 856</u>	TOTAL ASSETS		<u>14 411 095</u>	<u>14 549 072</u>

SEVAN MARINE AS
BALANCE SHEET AS OF 31.12.2003

PARENT COMPANY			GROUP	
2002	2003	EQUITY AND LIABILITIES	2003	2002
		<i>Equity</i>		
		<i>Called-up and fully paid equity</i>		
3 197 567	3 897 567	Share capital (19.487.835 shares a NOK 0,20)	3 897 567	3 197 567
<u>10 923 348</u>	<u>16 447 622</u>	Share premium account	<u>8 464 738</u>	5 903 222
<u>14 120 915</u>	<u>20 345 189</u>	Total called-up and fully paid equity	<u>12 362 305</u>	<u>9 100 789</u>
		<i>Retained earnings</i>		
0	0	Other reserves	0	0
<u>0</u>	<u>0</u>	Total retained earnings	0	0
<u>14 120 915</u>	<u>20 345 189</u>	Total equity	1 <u>12 362 305</u>	<u>9 100 789</u>
<u>0</u>	<u>0</u>	Minority interests	<u>0</u>	<u>0</u>
		<i>Liabilities</i>		
		<i>Current liabilities</i>		
2 682 957	0	Overdraft facilities	0	2 682 957
1 113 363	565 211	Accounts payable to suppliers	688 134	1 285 493
0	0	Taxes payable	2 0	0
489 192	497 074	Unpaid government charges and special taxes	574 793	489 192
0	0	Intercompany balances	0	0
<u>579 883</u>	<u>436 382</u>	Other current liabilities	<u>785 863</u>	<u>990 641</u>
<u>4 865 395</u>	<u>1 498 667</u>	Total current liabilities	<u>2 048 790</u>	<u>5 448 283</u>
<u>18 986 310</u>	<u>21 843 856</u>	TOTAL EQUITY AND LIABILITIES	<u>14 411 095</u>	<u>14 549 072</u>

Tananger, May 13 2004

Arne Smedal
Chairman
of the board
(Sign.)

Jan Erik Tveteraas
Board member
Managing director
(Sign.)

Kåre Syvertsen
Board member
(Sign.)

Jean-Philippe Flament
Board member
(Sign.)

SEVAN MARINE AS
PROFIT AND LOSS ACCOUNT AS OF 31.12.03

PARENT COMPANY			GROUP	
2002	2003		2003	2002
		OPERATING REVENUES AND EXPENSES		
489 781	0	Operating revenues	3 625 792	4 712 039
0	0	Raw materials and goods	0	0
-4 717 289	-4 443 147	Wages and salaries	9 -6 437 066	-5 887 376
-56 030	-87 322	Ordinary depreciations	3 -167 731	-114 279
-6 141 587	-2 427 059	Other operating expenses	10 -5 943 939	-9 764 069
-10 914 906	-6 957 528	Total operating cost	-12 548 736	-15 765 724
-10 425 125	-6 957 528	OPERATING PROFIT / LOSS	-8 922 944	-11 053 685
		FINANCIAL INCOME AND EXPENSES		
238 097	200 631	Interest income	206 847	250 474
1 456 200	950 400	Group contribution	0	0
2 320 510	0	Other financial income	132 458	2 511 360
-67 625	-60 469	Interest expenses	-82 853	-67 625
0	0	Interest expenses to group undertakings	0	0
-23 841	-14 115	Other financial expenses	11 -421 289	-1 154 923
3 923 341	1 076 447	NET FINANCIAL INCOME AND EXPENSES	-164 837	1 539 286
		PROFIT/LOSS ON ORDINARY ACTIVITIES BEFORE TAX		
-6 501 784	-5 881 081		-9 087 781	-9 514 399
2 237 816	1 861 767	Taxes	2 1 861 767	2 237 816
-4 263 968	-4 019 314	PROFIT / LOSS FOR THE YEAR	-7 226 014	-7 276 583
		TRANSFERS		
-4 263 968	-4 019 314	Transferred from share premium account		
-4 263 968	-4 019 314	TOTAL TRANSFERS		

SEVAN MARINE AS
CASH FLOW STATEMENT 2003

PARENT COMPANY			GROUP	
<u>2002</u>	<u>2003</u>		<u>2003</u>	<u>2002</u>
		<i>Cash flow from operations</i>		
-6 501 784	-5 881 081	Profit/loss before tax	-9 087 781	-9 514 399
0	0	Taxes paid during the period	0	-266 994
-2 300 900	0	Loss/gain on disposal of fixed assets/shares	0	-2 300 900
56 030	87 322	Ordinary depreciations	167 731	114 279
0	0	Change in accounts receivable	24 960	72 790
883 311	-548 152	Change in accounts payable	-597 359	1 003 651
-3 564 516	2 517 519	Change in other accrual accounting items	2 582 840	-6 620 040
<u>-11 427 859</u>	<u>-3 824 392</u>	Net cash flow from operations	<u>-6 909 609</u>	<u>-17 511 613</u>
		<i>Cash flow from investment activities</i>		
0	0	Proceeds from disposal of tangible fixed assets	0	1 492 168
6 522 172	0	Proceeds from disposal of shares	0	0
-7 035 904	-3 046 989	Investments in shares	0	0
-103 011	-95 350	Investment in tangible fixed assets	-246 420	-156 669
<u>-616 743</u>	<u>-3 142 339</u>	Net cash flow from investment activities	<u>-246 420</u>	<u>1 335 499</u>
		<i>Cash flow from financing activities</i>		
2 682 957	-2 682 957	Net change in overdraft facilities	-2 682 957	2 682 957
0	10 243 588	Contributed new capital	10 243 588	0
10 000 685	0	Net change in investments in bonds/certificates	0	10 496 218
292 795	159 400	Final intercompany balances	0	0
0	0	Change in the exchange rate for foreign subsidiary	243 943	-777 947
<u>12 976 437</u>	<u>7 720 031</u>	Net cash flow from financing activities	<u>7 804 574</u>	<u>12 401 228</u>
<u>931 835</u>	<u>753 300</u>	NET CASH FLOW FOR THE PERIOD	<u>648 545</u>	<u>-3 774 886</u>
182 760	1 114 595	Cash, bank deposits as of 01.01	1 815 902	5 590 788
<u>1 114 595</u>	<u>1 867 895</u>	Cash, bank deposits 31.12	<u>2 464 447</u>	<u>1 815 902</u>

NOTES TO THE 2003 ANNUAL ACCOUNTS

Accounting Policies

The consolidated accounts

The consolidated Profit and Loss Accounts include Sevan Marine AS, the wholly-owned subsidiaries Sevan Marine Management AS, Sevan Marine Production AS and Sevan Marine do Brasil Ltda. The parent company is located in Tananger, and the subsidiaries are located in Tananger and Brazil. The consolidated accounts define the group's financial position and profit when the consolidated accounts are viewed as one financial unit. When consolidating the accounts, the subsidiaries are evaluated according to the cost method. All intercompany transactions and debts and receivables between the parent company and subsidiaries have been eliminated.

The company's accounts have been prepared in accordance with Norwegian accounting standards. The subsidiary Sevan Marine do Brasil Ltda is converted from local currency in Brazil to NOK using the prevailing exchange rate at the Balance Sheet date.

When preparing the accounts, management needs to make various estimates and assumptions that affect the value of the reported assets and liabilities. Such estimates and assumptions may have considerable significance for reported revenues and costs for a specific period. The actual amounts may deviate from the estimates.

The parent company's accounts

The accounts for Sevan Marine AS define the parent company's financial position and the profit/loss for this company.

Principal rule for evaluation and classification of assets and liabilities

Assets determined for permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due for repayment within one year are classified as current assets. Classification of debts is based on analogue criteria. Current assets are evaluated at the lower of original cost and net realizable value. Short-term debt is recognized in the balance sheet at nominal amount at the point the debt was incurred. Some items are assessed according to specific evaluation rules in compliance with the Norwegian Accounting Act. This is further explained in the following:

Tangible fixed assets

Tangible fixed assets are capitalized and classified as fixed assets. Tangible fixed assets will be depreciated over their anticipated economic life. Depreciations will be distributed as a straight-line depreciation over their estimated useful economic life.

Shares in subsidiaries and other shares

Investments in subsidiaries have been evaluated according to the cost method. Investments are considered depreciated to fair market value unless the drop in value is regarded as temporary.

Research and development

Costs related to research and development, are expensed when incurred.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and other means of payment with an original due date of three months or less from the date of acquisition.

Currency

Cash and bank deposits, current assets and short-term debts in foreign currency are converted to exchange rates that prevail on the Balance Sheet date. Realized and non-realized profit and loss on exchange on assets and debts in currencies other than NOK have been included in the profit/loss for the year.

Taxes

Deferred taxes / deferred tax assets are calculated on the basis of temporary differences between accounting and tax-related Balance Sheet values, and losses carried forward at the end of the accounting year. Tax-reducing temporary differences and losses carried forward are offset against tax-increasing temporary differences that are reversed during the same period. Taxes consist of taxes payable (taxes on the year's taxable income), and change in net deferred taxes.

Cash flow statement

The cash flow statement has been prepared in accordance with the indirect cash flow method. Cash comprises cash and bank deposits.

Note 1 – Equity

Parent company	Share capital	Share premium account	Other equity	Total
Equity as of 31.12.02	3 197 567	10 923 348	0	14 120 915
Share issue 24.02.03	700 000	9 800 000		10 500 000
Issue costs		-256 412		-256 412
Profit/Loss 2003		-4 019 314		-4 019 314
Equity as of 31.12.03	3 897 567	16 447 622	0	20 345 189

Group	Share capital	Share premium account	Other equity	Total
Equity as of 31.12.02	3 197 567	10 931 213	-5 027 991	9 100 789
Changed presentation for the group		-5 027 991	5 027 991	0
Share issue 24.02.03	700 000	9 800 000		10 500 000
Share issue costs		-256 412		-256 412
Profit/Loss 2003		-7 226 014		-7 226 014
Gain/loss on exchange - equity of foreign subsidiary		243 943		243 943
Equity as of 31.12.03	3 897 567	8 464 738	0	12 362 305

Note 2 – Tax

Parent company

1 Jan. 2003 – 31 Dec. 2003

Loss	- 5.881.081
Other permanent differences	- 768.184
Change in temporary differences related to business assets	11.636
Tax-related loss carry-forward	- 6.637.629
Taxable income	0
Tax rate – 28%	0

The tax-related effect of temporary differences and tax-related loss carry-forward which provide deferred tax assets was as follows as of 31 December 2003:

As of 31 December 2003

	Temporary differences	Tax-related effect
Business assets	23.259	6.513
Tax-related loss carry-forward 2001 (expires 2011)	- 8 689 900	- 2 433 173
Tax-related loss carry-forward 2002 (expires 2012)	- 8 001 341	- 2 240 375
Tax-related loss carry-forward 2003 (expires 2013)	- 6.637.629	- 1.858.536
Basis for calculating deferred tax assets	-23.305.611	- 6.525.571

Deferred tax assets are recognized in the Balance Sheet at nominal value.

Group

Deferred tax assets and tax payable are related to the parent company and to subsidiaries in Norway.

Note 3 – Tangible fixed assets

Parent company	Machines, fixtures, fittings	Total
Acquisition cost 1.1	266 775	266 775
Additions	95 350	95 350
Disposals	0	0
Acquisition cost 31.12	362 125	362 125
Accumulated depreciation 31.12	-155 887	-155 887
Book value as of 31.12	206 238	206 238
Depreciation for the year	87 322	87 322
Economic life / Depreciation rate	3 years/30%	

Group

Group	Machines fixtures, fittings	Total
Acquisition cost 1.1	1 151 642	1 151 642
Additions	246 420	246 420
Disposals	0	0
Acquisition cost 31.12	1 398 062	1 398 062
Accumulated depreciation 31.12	-736 563	-736 563
Book value as of 31.12	661 499	661 499
Depreciation for the year	-167 731	-167 731
Economic life / Depreciation rate	3-10 years /10-30%	

Note 4 – Shares and intercompany balances

Investments in subsidiaries are valued according to the cost method

Company name	Cost price	Ownership interest	Share book equity	Share profit/loss 2003
Sevan Marine Management AS	115 000	100%	115 727	684.091
Sevan Production AS	115.000	100%	112.183	4.213
Sevan Marine do Brasil Ltda	8.378.462	99.9%	402.059	-2.977.631
Total	8.608.462		629.772	-2.289.327

Intercompany balances

Parent company

Loan to Sevan Marine do Brasil Ltda	NOK 31.113
Loan to Sevan Production AS	NOK 7.030
<u>Loan to Sevan Marine Management AS</u>	<u>NOK 322.832</u>

Total NOK 360.975

There are no secured debts, guarantees or other provisions of security to the advantage of the subsidiaries.

Note 5 – Other short-term receivables

Other short term receivables mainly consist of advances on travel expenses and loans to employees, ref note 9, and receivable payment from the SkatteFUNN scheme, cf. Note 10.

Note 6 – Cash and bank deposits

Cash and bank deposits consist of unrestricted funds in NOK, and restricted funds related to advance tax deductions from employees of NOK 214.887. Interest income consists of interest on bank deposits and investments.

Note 7 – Shares, stock options and stock bonus options owned or controlled by the board of directors

As of 31 December 2003 the following board members owned or controlled shares in the Company. Arne Smedal, chairman of the board, owns 2.562.615 shares, Jan Erik Tveteraas, board member and managing director, 120.570 shares, and Kåre Syvertsen, board member, 287.240 shares. Arne Smedal, Jan Erik Tveteraas and Kåre Syvertsen also own 1/3 each in Vela AS, which owns 38,49% of the shares in Sevan Marine AS. Mr Smedal, Mr Tveteraas and Mr Syvertsen each hold 179.500 stock options at strike NOK 3 and 100.000 stock bonus options at strike 0,20 in the Company. JP Flament, board member, is an indirect beneficiary of Whitehorse Investing, which owns 232.500 shares. Mr Flament does not exercise control over Whitehorse Investing. Mr Flament holds 500.000 stock options at strike NOK 4 in the Company.

Note 8 – Shareholder information

As of 31 December 2003, the Company had 38 shareholders. Eight of these were non-Norwegians.

Vela AS	7.500.000 shares	38,49%
Arne Smedal	2.562.615 shares	13,15%
Jaco Invest AS	1.281.420 shares	6,58%
Waterman Holding	841.670 shares	4,32%
Terra Vekst	666.665 shares	3,42%
Skagenkaien Eiendom AS	625.000 shares	3,21%
AS Clipper	490.000 shares	2,51%
AS Audley	490.000 shares	2,51%
Nils R. Hersløv	483.335 shares	2,48%
Memento A/S	462.500 shares	2,37%
Svein Henrik Vormedal	410.000 shares	2,10%
Bjørn J. Brenna	408.340 shares	2,10%
Tveteraas Eiendomsselskap	406.310 shares	2,08%
Spring Capital,	333.335 shares	1,71%
Kåre Syvertsen	287.240 shares	1,47%
Verdipapirfondet Holberg Norden	250.000 shares	1,28%
Raul Schmidt	241.500 shares	1,24%
Roberto Paschoalin	241.500 shares	1,24%
Whitehorse Investing.	232.500 shares	1,19%
<u>Applied Manufacturing Technology AS</u>	<u>150.000 shares</u>	<u>0,77%</u>
Total 20 largest shareholders	18.363.930 shares	94,23%
<u>Other</u>	<u>1.123.905 shares</u>	<u>5,77%</u>
Total	19.487.835 shares	100,00%

At year-end, 2.459.060 stock options were awarded to employees and board members under the Company's stock option scheme while 139.702 options remained not awarded. The strike price for the awarded options is NOK 3 – 4 each. At year-end, 650.000 stock bonus options were awarded to employees and executive board members under the Company's stock bonus scheme while 50.000 options remained not awarded. The strike price for the awarded options is equal to the par value, NOK 0.20 each. Under both schemes, the options may be exercised at certain dates, but at latest 5 years after award.

Note 9 – Payroll expenses, number of employees, remunerations, loans to employees

Salaries, social costs, pension costs, etc	2003	2002
Salaries	3.139.617	3 407 826
Employer's National Insurance contributions	661.101	683 372
Pension costs	332.364	456.734
Other payments	310.065	169.357
Total	4.443.147	4 717 289

Average number of employees	3	3
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Payments to senior employees	Payroll exp.	Other payments
Managing director	1.129.003	76.527
Chairman of the board	1.075.692	187.647
Board member/VP Technology	1.090.495	108.617

The company has a defined benefit pension scheme for all employees.

No directors' fees have been charged as an expense/paid for 2003.

According to the Company's car loan scheme, the company's three executive directors, who are also shareholders of the company, have been given interest-free car loans of NOK 600 000 each. The benefit of interest-free loans has been declared as provided by Norwegian tax legislation. Other loans and travel advances to shareholders amount to NOK 751.799 as at 31 December 2003.

The loans are not in accordance with the Norwegian Companies Act § 8-7 and will therefore be repaid in 2004.

Auditor

Auditor's fees charged as an expense for 2003 are NOK 45.000. Remunerations have been paid for other services to the amount of NOK 40.000.

Note 10 - SkatteFUNN

In 2003, the Company has had R&D projects approved as projects that are entitled to grants under the rules of SkatteFUNN.

Calculated grants for 2003 amounts to NOK 839.600. This amount has been recorded and classified as a reduction of other operating costs.

Note 11 – Other financial expenses

Group

Other financial expenses consist of exchange losses in connection with business activities in Brazil.