

ANNUAL REPORT 2010

Directors' report 2010

The Board of Directors presents the annual report and audited consolidated financial statements of Songa Offshore SE (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010.

History and principal activities

Songa Offshore SE is a public limited liability company, subject to the Cyprus Companies Law, Cap. 113. The Company, which was established in Norway in 2005, was converted into a European Public Company Limited by shares ("Societas Europaea" or "SE") on 12 December 2008.

With effect from 11 May 2009, the Company transferred its registered office to Cyprus. The Company's shares have been listed on the Oslo Stock Exchange since 26 January 2006 (Ticker: "SONG").

The principal activity of the Group, which has not changed from last year, is to provide offshore oil and gas drilling services. The Group owns a fleet of five semi-submersible rigs, all of which operate in the mid-water segment of the offshore oil and gas drilling industry. In addition as of 31 December 2010 the Company owned 31.25% of the shares in Deepwater Driller Ltd, a company owning a semi-submersible ultra-deepwater rig under construction at the Jurong Shipyard in Singapore. The estimated time of delivery of the rig will be 31 July 2011. In Q1 2011 the Company bought additional shares in the company and now owns 51.9% of the shares, making this an investment in subsidiary from Q1 2011. The Group enters into contracts for its rigs, including crew and related equipment, on a day rate basis, with oil exploration and production companies.

The Group's rigs currently operate in the offshore crude oil basins in the North Sea, and offshore North West Australia. Mercur is currently in Singapore, undergoing repairs after an incident with the Blowout Preventor. The Group's customers include major integrated, state-owned national and independent oil and natural gas companies.

The rigs are suitable for both exploration and development drilling and the Group normally engages in both types of drilling activity. The rigs are mobile and can be moved to new locations in response to client demand. They are designed to operate away from port for extended periods and have living quarters for the crew and helicopter landing facilities.

The Group operates and provides technical drilling assistance, personnel, and repair and maintenance services to three out of the Group's five rigs. Its other two rigs are managed by Odfjell Drilling, the prior owner of those rigs. The Group is responsible for the operating and maintenance expenses in respect of those rigs in accordance with its

management agreement with Odfjell Drilling. This arrangement is expected to lapse on the termination of the current drilling contracts, which is expected to be in May and June 2012 for Songa Delta and Songa Trym respectively.

The Group's mission

As noted above the principal activity of the Group is the ownership and operation of rigs and offshore installations, as well as other related business. The Group may also acquire and own shares, securities and ownership interests in other companies.

The Group's mission is *to be the provider of safe and superior offshore drilling performance to the Group's clients*. This will be accomplished with competent and experienced personnel delivering high quality performance to the Group's clients.

The main objective of the Group, as a commercial entity, is to increase the economic value for the owners, who rely on the Group to provide them with a satisfactory return on capital invested.

In achieving this objective, the Group's goal is to provide services in its field of expertise, in accordance with the highest standards of professional excellence and commercial integrity and in compliance with all relevant laws, regulations and guidelines.

Consideration must be taken for the rights and interests of others, and the health, safety and job satisfaction of all Songa employees.

The Group will at all times strive to be a good corporate citizen within each country in which it operates, and to obey the laws, respect the customs, cultures and beliefs, and preserve the environment of each country.

The Group seeks to understand the goals and objectives of the clients for which the Group performs services, and endeavours at all times to assist its clients to achieve these goals.

Strategy

The Group has during the last two years been going through a deleveraging process where the total debt has been significantly reduced. The sale of the drillship Songa Saturn did also contribute to this process in addition to adding a significant amount of free cash flow to the Group. The Group is now operating 5 rigs and have one ultra deepwater rig under construction for delivery in 2011. The Group is now in a position with a solid Balance Sheet and a contract back log which will enable the Group to continue its growth strategy.

The Board of Directors summarizes the strategy going forward in the following main points:

- Increase contract coverage for the existing rigs including the new ultra deepwater unit.
- Continue to deliver top class commercial and operational management of the Group's rigs
- Grow the Company through adding new assets

Expected future developments of the Group

Songa Offshore took steps to grow the company during what was widely reported as a very difficult year for the industry. These decisions, most notably divestiture of the Songa Saturn and investment in the ultra-deepwater rig Songa Eclipse, will allow the Group to recognize a more substantial gain with a market recovery than it would have otherwise. The Group is set to emerge from the shadow of 2010 as a competitive player in the ultra-deepwater segment, building on the solid financial and technical foundation provided by its mid-water fleet.

Expectations were high at the start of 2010 but activity remained relatively flat with an increase in bidding activity only seen toward the close of the year. We expect this increase to extend into 2011 as delayed projects are brought forward. However, we expect some idle time on rigs outside of Norway as they move between locations and operators.

The Board of Directors does not expect any major changes in the principal activities of the Group in the foreseeable future.

Significant events of the year ended 31 December 2010

The following were the most significant events for the year, presented in chronological order:

Songa Offshore announced 8 February that it had received a Letter of Award from Shell Development (Australia) confirming the use of the Songa Venus for the upcoming 2010 Exploration Drilling Campaign in the Browse Basin in Australia. The contract commenced 2 April.

On 16 February the Company completed a private placement of 20,500,000 shares directed towards professional Norwegian and international investors. The placement was made at a price of NOK 29 per share and the capital increase represents approximately 15% of the outstanding shares in the Company.

On 7 March the Company announced the signing of a firm contract for the use of the Songa Mercur with Gazflot LLC, a Gazprom subsidiary. The contract covered the use of the rig for the upcoming drilling campaign offshore Sakhalin Island during the 2010 summer season.

On March 10 ESA sent a "Letter of formal notice" to the Ministry of Finance of Norway for failing to comply with its obligations under Articles 31, 34 and 40 of the Agreement on the European Economic Area by imposing immediate taxation on companies that transfer their seat or assets and liabilities to another EEA State and on the shareholders of such companies and for the breach of the SE regulation. In all respect the letter supported the Company's understanding of the rules.

On 24 March the Company entered into an agreement with the shareholders of Deepwater Driller Ltd ("Deepwater Driller") to invest USD 50 million in new equity into the company (the "investment"). The investment in this company is treated as an investment in an associate, and is Songa Offshore's first entry into the deepwater drilling market. Deepwater Driller owns a 6th generation Friede & Goldman ExD ultra-deepwater semi-submersible drilling rig (previously named Larsen Rig 1) under construction at Jurong Shipyard Pte Ltd, Singapore ("Jurong").

24 March the Company made a successful completion of a private placement of 10,365,000 shares directed towards professional Norwegian and international investors. The placement was made at a price of NOK 29 per share, and the capital increase represented approximately 6.6% of the outstanding shares in the Company.

On 16 April Songa Offshore announced that the investment in Deepwater Driller was completed in accordance with the terms of the Heads of Agreement entered into between the Company and the shareholders of Deepwater Drilling Ltd. Following the investment the Company holds a 31.25% ownership stake in Deepwater Drilling Ltd.

On May 6 Songa Offshore announced that a firm drilling contract had been agreed and signed with Total E&P Australia for their use of Songa Venus for the upcoming Drilling Campaign on the North Western Shelf of Australia.

On 12 May it was announced that the Company had agreed and signed a firm drilling contract with Eni China B.V. for the use of Songa Mercur for the upcoming drilling campaign offshore China, the contract was to commence in direct continuation of the contract with Gazflot.

On 21 July Songa Offshore announced that the first of three optional wells had been declared by Shell Development (Australia) under the contract for Songa Venus. The well was further assigned to MEO Australia Limited. Shell Development (Australia) continued to have the right to exercise up to two additional optional wells.

On 16 August the Company announced that a new bank facility was fully committed. The terms and covenant-structure are in line with former financing. The loan is committed by a group of ten banks lead by Nordea Bank Norge ASA, DVB Bank SE and ING bank N.V.

On 20 September Songa Offshore announced the sale of Songa Saturn to a wholly owned subsidiary of PetroSaudi Oil Services Ltd ("PetroSaudi"), for gross sales proceed of USD 260 million. On 8 October Songa Offshore announced that the transaction had been finalized and the drillship was delivered to PetroSaudi. The transaction gave a positive result of approximately USD 67 million, recorded in the fourth quarter. The sale represents no change in the Company's growth strategy but should be seen as an opportunistic move against the Company's plan to expand the fleet into newer assets.

As a consequence of the sale of Songa Saturn the abovementioned bank facility was reduced from USD 650 million to USD 532 million, split into a term loan of USD 368 million and a revolving credit facility of USD 164 million.

On 19 October Songa Offshore announced that a Letter Of Intent (LOI) was received from Statoil Petroleum AS for the use of Songa Dee for a three years firm plus one year option drilling contract on the Norwegian Continental Shelf. The final firm contract was signed on 25 November. The contract also includes an option to extend the firm period of the contract beyond the initial one year option, this option will have to be exercised prior to the contract commencement. The contract will commence in direct continuation of the rig's commitment and subsequent demobilization from Marathon/Lundin during Q3 2011.

The new loan facility was finally signed on 20 October and drawn on 27 October. The facility is a 5 year loan with 20 equal instalments. This step completes the refinancing of the Company and the new bank facility will reduce the repayment commitments going forward. The above mentioned revolving credit facility is undrawn for the time being.

Significant events after the end of the financial year

All significant events that occurred after the end of the financial year are described in note 32 to the financial statements.

Overview of the Group's drilling fleet and current status of its contracts

Songa Venus

Songa Venus was at year end fixed on a contract with Total Australia for two wells firm offshore North West Australia until May/June 2011, with one optional well. The day rate for the contract was set at USD 280,000 per day.

Songa Mercur

Songa Mercur was at year end on a fixed contract with Eni China offshore China. The day rate for the contract was set at USD 280,000 per day.

The rig was during Q1 2011 demobilized to Singapore, and undergoing repairs and preparations for future contracts after the structural failure of the telescopic joint. See note 32 to the financial statement for further information.

Songa Dee

Songa Dee was at year end fixed on a contract for 2 years plus 2 six month options with Marathon and Lundin. The operators may use the Songa Dee in the Norwegian and the UK sectors of the North Sea on an equal time basis. The current day rate for the contract, including cost escalations, is USD 432,000 per day.

In October 2010 the rig received a Letter of Intent (LoI) from Statoil Petroleum AS, for a three year firm plus one year option contract, at a day rate of USD 345,000. The contract will commence in direct continuation from its current contract with Marathon/Lundin during Q3 2011.

Songa Trym

Songa Trym was at year end fixed on a contract with Statoil. The contract was extended in late November 2009. The original contract expired 1 February 2011, while the renegotiated contract has extended the termination date until 1 July 2012, partly in exchange for a reduction in the day rate for the remaining originally contracted period. The day rate for the period from 1 December 2009 until 1 July 2012 is USD 355,000.

In addition Statoil has an option for one or two additional years, such option to be exercised by 1 July 2011. If Statoil elects to exercise the option period, any cost associated with continued maintenance of the Acknowledge of Compliance, AoC, from the Petroleum Safety Authority Norway will be amortized and added to the day rate over the option period.

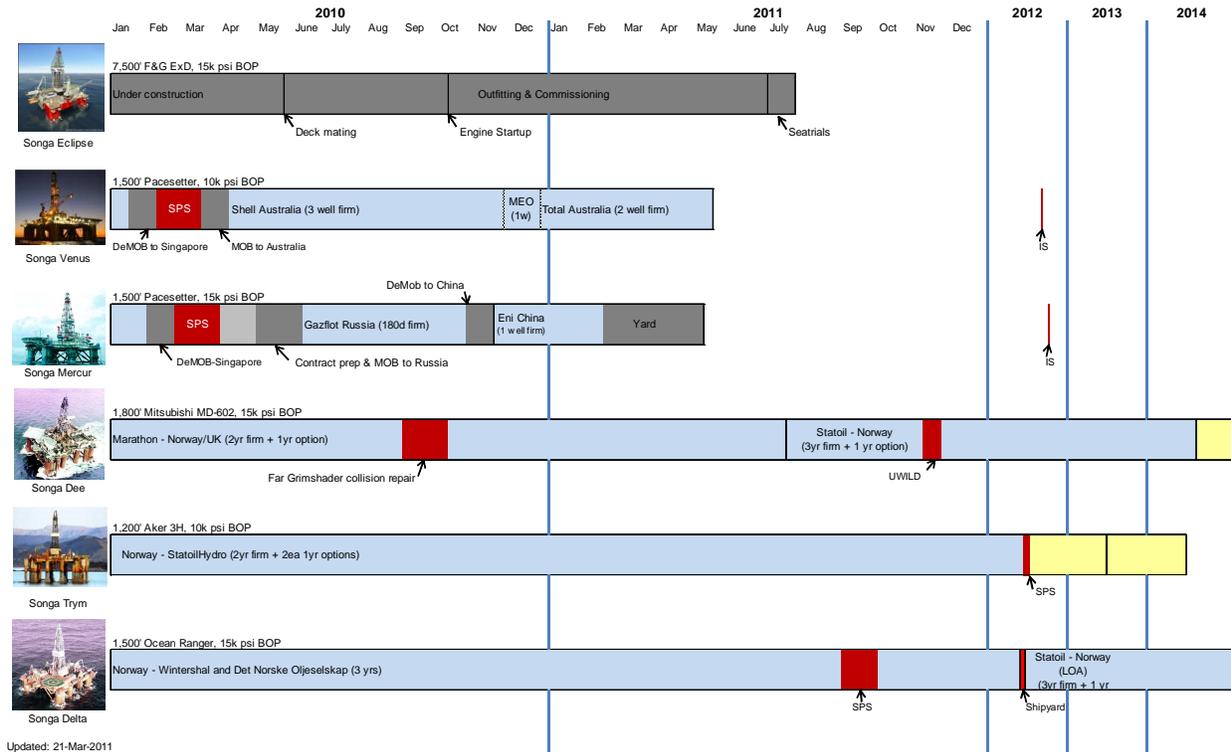
Additional upgrade to enhance the rig's subsea completion capabilities is under evaluation by Statoil, and any costs for this upgrade will be paid by Statoil under an amortization schedule for the remaining firm period of the contract.

Songa Delta

Songa Delta was at year end fixed on a contract with Wintershall and Det norske oljeselskap at a day rate of USD 450,000 per day including escalation clauses. The contract is firm for three years until 2012 with no option periods.

The rig received a Letter of Award from Statoil in March 2010 for a 3 year firm plus 1 year option drilling contract, commencing in direct continuation of the rig's current commitment. See note 32 to the financial statement for details.

Contracts for the rigs:



Planned surveys

Investments and planned surveys for both intermediate and SPS for next three years ¹:

USD mill	2011	2012	2013	Total
Songa Venus	6	7		13
Songa Mercur	5	7		12
Songa Dee	15			15
Songa Delta	50			50
Songa Trym	13	25		38
Unspecified	6	20	20	46
Total	96	59	20	160

SPSs are normally budgeted with USD 15 million taking 28 to 35 days to complete and intermediate surveys are budgeted with USD 7 million and taking 10 days to complete for rigs outside Norway. For the Norwegian rigs the budget is USD 25 million and 35 days and USD 10 million and 14 days respectively. No charter hire is received during surveys.

Review of developments, financial results and financial position of the Group

Financial results and cash flows

The Revenue of the Group for the year was USD 649.9 million as compared to USD 784.7 million for 2009, a decrease of 17%. After deducting operating and other expenses of USD 306.4 million (2009: USD 360.5 million) and net finance cost of USD 35.6 million (2009: USD 51.8 million) profit before tax for the year was USD 206.3 million as compared to USD 285.3 million in 2009.

Profit for the year, which was derived after allowing a tax charge of USD 1.7 million (2009: USD 24.6 million), was USD 204.7 million (2009: USD 260.7 million). Basic earnings per share (EPS) for the year ended 31 December 2010 was USD 1.26 (2009: USD 2.05) and diluted EPS was USD 1.26 (2009: USD 2.00).

Net cash generated by operating activities for the year was USD 240.5 million (2009: USD 267.4 million). Net cash used in investing activities was USD 151.3 million (2009: USD 94.1 million).

Net deleveraging in 2010 was USD 328.5 million (2009: USD 163.0 million). This is a result of USD 146.1 million in new equity, and USD 474.6 million repayment of debt.

Net increase in cash and cash equivalents was USD 63.2 million (2009: USD 10.3 million). Total cash and cash equivalents at year end was USD 132.0 million (2009: USD 68.8 million), and USD 163.8 million (2009: USD 2.2 million) in unutilized financing facilities.

Financing

In the third quarter of 2010 the Company entered into a new loan agreement with a syndicate of banks. The new loan facility is in the amount of USD 532 million, split into a term loan of USD 368 million and a revolving credit facility of USD 164 million. The facility is a 5 year loan with 20 equal instalments.

This step completes the refinancing and will reduce the repayment commitments for the company going forward. In combination with the sale of the drillship Songa Saturn the company is now in a situation with a comfortable cash balance and a gross debt reduced to USD 416.1 million at year end.

The outstanding debt as of 31 December 2010 which amounted to USD 416.1 million at nominal value consisted of the following:

USD 368.1 million outstanding of the USD 531.7 million bank facility that the Company entered into in October 2010;

USD 0.5 million outstanding under the secured fixed rate bond issued by the Company in March 2006, which carries a fixed rate of interest of 9.75%; and USD 47.5 million

outstanding under the three-year floating rate bond issued in June 2009 with a coupon of LIBOR + 12%.

Financial position

The Group's total assets at the end of the year were USD 1,563.6 million (2009: USD 1,720.2 million) of which USD 1,180.7 million (2009: USD 1,410.3 million) relates to the carrying value of the Group's rigs. Total equity increased from USD 708.5 million in 2009 to USD 1,059.2 million at the end of 2010. The increase in equity was due to the total net comprehensive income for the year of USD 204.7 million and the issuance of additional share capital of USD 146.1 million. As of 31 December 2010 the equity ratio of the Group (defined as total equity divided by total assets) improved significantly and reached 67.7% as compared to 41.2% in 2009.

Dividends

The Board of Directors does not recommend the payment of any dividend and the net profit for the year is retained.

Risk and uncertainties

The main uncertainties and risks faced by the Group and the steps taken to manage these risks are mentioned below.

Status exit tax after redomiciliation in 2009

According to the Norwegian Tax Act Section 10-71, a company that emigrates and ceases to be tax resident in Norway is subject to exit tax. The exit tax is calculated on any potential gain related to the assets, rights and liabilities that the exiting company owned the day preceding the redomiciliation. The capital gain/loss would be calculated as if the assets, rights and liabilities were realized for tax purposes at this time. In contrast, capital gains on assets or shares of similar domestic transactions are not taxable until they are realized.

The Company moved from Norway to Cyprus in May 2009. The Company has been advised that the Norwegian exit tax rules are in conflict with the European Economic Area (the "EEA") Agreement with respect to the principle of freedom of establishment. The Board of Directors is of the opinion that no exit tax should apply to the redomiciliation. The Company therefore filed a complaint with the EFTA Surveillance Authority (the "ESA").

In the tax return for the income year 2009, the Company maintained the view that no exit tax should apply. In the event that the Company has to pay the exit tax, the

Company estimated that the tax can be offset against available losses. In 2010, the tax office notified the Company that it is considering assessing an exit tax.

On 2 March 2011, ESA sent a "reasoned opinion" to the Norwegian Ministry of Finance for failing to comply with its obligations under Articles 31, 34 and 40 of the Agreement on the European Economic Area by imposing immediate taxation on companies that transfer their seat or assets and liabilities to another EEA State and on the shareholders of such companies and for breach of the SE regulation.

According to ESA, Norway is in breach of the EEA Agreement by imposing an immediate tax on companies, or the shareholders of companies, that transfer their seat to another EEA State. The Authority considers that such immediate, and potentially also higher, taxation penalizes those companies that wish to leave Norway. It results in less favourable treatment compared to companies which relocate or merge within Norway. The rules in question are, therefore, likely to dissuade companies from exercising their right of freedom of establishment and, in certain circumstances, they also hinder the free movement of capital. As a result, these rules constitute unlawful restrictions according to EEA law.

The Norwegian Government was requested to take the necessary measures to comply with the reasoned opinion within two months.

On 25 March 2011, the Norwegian Ministry of Finance presented a bill proposing amendment of the tax rules in respect of exits to EEA countries. The ministry proposes to dismantle the tax liability on owner and company level for companies relocating to normal tax countries within the EEA. For companies relocating to low tax countries within the EEA the exit tax rules will not apply if the company is effectively established in the low tax country. Assets that are taken out of the Norwegian area of taxation will be governed by the existing Tax Act Section 9-14, whereby a payment of the assessed tax for physical assets can be deferred and the tax will not be payable if the exiting company does not realize the physical assets within five years after redomiciliation.

The Company is of the opinion that its redomiciliation to Cyprus in 2009 will not result in payable exit tax, as a result of this no provision for tax has been made in the accounts. ESA's reasoned opinion and the Ministry of Finance's law proposal support this understanding.

Operational risks

The business of the Group depends on the level of activity in offshore oil exploration, development and production in markets worldwide. Worldwide demand for oil, fluctuations in oil prices, market expectations of potential changes in these prices and a variety of political and economic factors significantly affect this level of activity. Decreases in oil prices could result in lower levels of exploration, development and production activity, resulting in pressure on day rates and utilization of the Group's rigs. Oil prices are extremely volatile and are affected by numerous factors beyond the control of the Group. Factors that can affect oil prices (and in turn higher or lower demand for the services and the rates that can be charged for providing such services) include:

- worldwide demand for oil;

- the ability of the OPEC to set and maintain production levels and pricing;
- the level of production in non-OPEC countries;
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities in the Middle East, other oil-producing regions or other geographic areas, or further acts of terrorism;
- the worldwide economic environment or economic trends,
- the cost of exploring for, producing and delivering oil;
- the discovery rate of new oil reserves;
- the rate of decline of existing and new oil reserves;
- available pipeline and other oil transportation capacity;
- the ability of oil companies to raise capital;
- weather conditions;
- the policies of various governments regarding exploration and development of their oil reserves;
- development and exploitation of alternative fuels;
- foreign exchange fluctuations;
- domestic and foreign tax policy; and
- advances in exploration and development technology.

In any event, higher or lower commodity demand and prices do not necessarily translate into increased or decreased drilling activity since the Group's customers project development time, reserve replacement needs, as well as expectations of future commodity demand and prices, all combine to drive demand for the Group's services. Each of the foregoing facts could have a material effect on the results from operations and profitability of the Group.

The management of the Group monitors closely and manages the above risks through various control mechanisms.

Financial Risks

Details with respect to the management of financial risks are included in notes 4 and 5.

Quality and Safety Management System (QSMS)

The nature of the Group's activities requires a high degree of expertise, experience and reliability with an overall emphasis on performing these services with the highest degree of safety. The Group's prime objective is to consistently provide drilling and associated services in a manner that conforms to or exceeds contractual and regulatory requirements. To achieve this objective, it is the Group's policy to establish, document and maintain an efficient and effective quality assurance program in accordance with applicable international standards. The Group seeks to conform its work to contractual and regulatory requirements (particularly those requirements that relate to safety) on the basis of objective evidence of quality.

Compliance with the Group’s Corporate Quality & Safety Management System Manual is mandatory for all personnel at all levels of the Group. The Corporate Quality & Safety Management System Manual describes the quality assurance program of the Group and is designed to ensure that all quality and regulatory requirements are recognized and that a consistent and uniform control of these requirements is adequately maintained. The Group seeks to incorporate guidance from the International Marine Contractors Association (the “IMCA”) and the International Association of Drilling Contractors (the “IADC”). The addition of documented procedures periodically, their implementation and the monitoring of the quality management system of the Group is the responsibility of the Chief Executive Officer, who is also ultimately responsible to ensure the delivery of quality conforming products and services.

The Group seeks to continually develop the Group’s quality management and improvement systems, by identifying the expectations and needs of its customers and by processes including data collection and experience feedback from users of the systems, both onshore and offshore.

Songa Offshore is certified according to the International Safety Management (ISM) Code.

Health, safety and the environment (HSE)

The Group always puts people and the environment first. Hence major focus has been put on working environment and behaviour based safety. The Group focuses continuously on competence management and a systematic approach to work that can include potential hazardous situations.

The Group considers Risk Management to be a core activity in the Company and are actively using the Quality and Safety Management System to improve the working environment for the crew. A companywide campaign to focus on behaviour based safety contributes to heighten the safety awareness and also bonds crew and management through teambuilding sessions.

Both health and welfare for all employees are important factors and the Group works to motivate the crew by ongoing campaigns and initiatives. The Board of Directors would like to thank all employees of Songa Offshore for their hard work and good efforts in 2010.

The Company does not have a research and development group.

Sick leave

Recorded leave of absence due to illness is detailed in the table below:

Recorded Days Sick Leave	Total Work Days	% Recorded Absence due to Illness
3,899	110,061	3.54%

Throughout 2011 the Group will focus on further reducing absence through a coordinated and consistent approach. Key focus areas being:

- Proactive absence management and reporting
- The involvement of occupational health services where appropriate to limit the negative impact of long term sickness absence
- The involvement of private medical insurance providers to assist with timely rehabilitation
- The use and analysis of return to work interviews

Gender equality

The Group is fully committed to providing a workplace with equal opportunities in all aspects of the employment relationship and the promotion of equal opportunities and diversity within the Group. Managing diversity and equal opportunities successfully is the key to good people management. People can make the difference between good and poor business performance. The Group will encourage good employment practices through managing equality issues, communication and training, and addressing specific areas.

The gender profile of the Group is:

Location	% Female	% Male
Shore based and offshore	10	90

The high percentage of male employees is explained by the proportion of Group Employees working in offshore senior positions. For these positions there is little scope for new entrants to the oil industry to join the Group. As these are traditionally male dominated disciplines within the Drilling Industry the pool of labour for female entrants is limited. Where the Group has agreements with third party vendors to supply the junior offshore positions (where the pool of female labour may be greater), the Group requests that these vendors comply with the Group's commitment to Equal Opportunities.

Throughout the Group a higher proportion of onshore positions are filled by females when compared to Offshore. However, again due to the limited pool of skilled female labour in technical disciplines of the Drilling Industry, the Group average salaries reflect the fact that the majority of senior positions within the organisation are held by males resulting in a higher average salary for men than for women.

The Group is not complacent with regard to this issue and the following initiatives will continue throughout 2011:

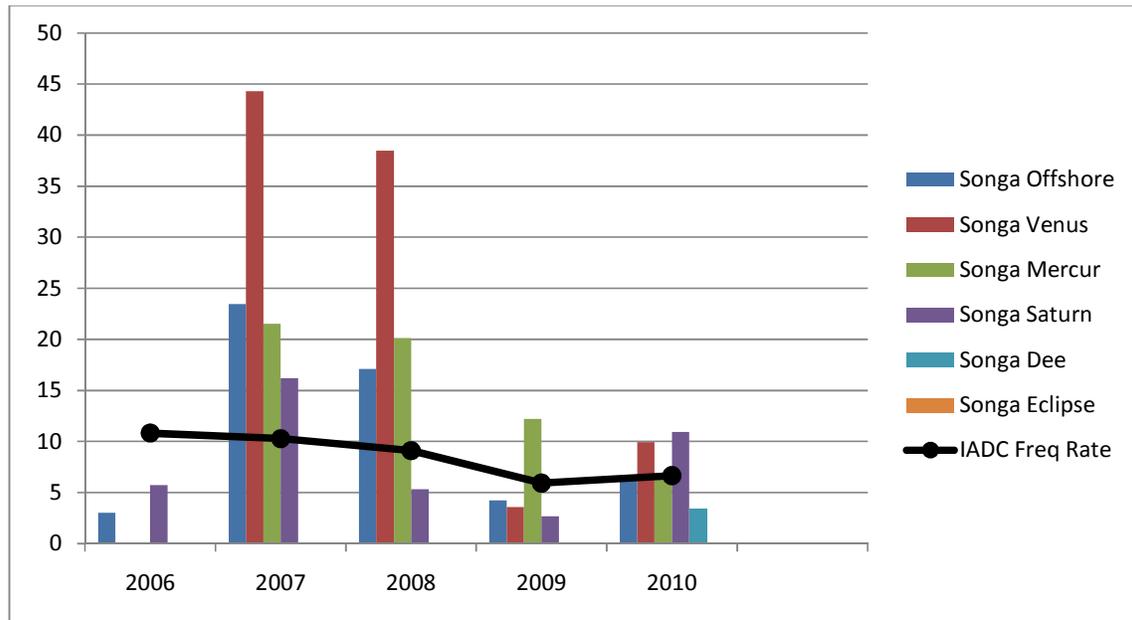
- Ensure a fair and consistent recruitment and selection process. Draft and place advertisements to avoid discrimination and stereotyping through language and images. Indicate if any genuine occupational requirements apply.
- Operate transparent and consistent appraisal and performance management processes. Have clear career paths including promotion and training opportunities for all employees.

- Revise policies and procedures, if appropriate, to ensure fairness and consistency e.g. flexible working practices
- Treat personal information sensitively and confidentially, and reassure how this information will be used.
- Continually monitor and evaluate policies and practices to ensure that they are working and bias free using cross-sections of the organisation. Complacency can undermine effectiveness.
- As above, encourage all third party vendors to follow the Group’s commitment to Equal Opportunities and Diversity.

Accidents and incidents

The Group had only 8 incidents in 2010 recordable with the International Association of Drilling Contractors (IADC). None of the incidents were fatal or caused long term disability. Of the 8 incidents 5 were Medical Treatment Only (MTO), 2 incidents were Restricted Work Cases (RWC) and 1 Lost Time Incident (LTI).

The results above give confidence that the Group has been effective in its strategy to become a safe and robust company within this important area. The development below shows the Group’s Total Recordable Frequency Rate over the last 5 years of operations compared with the IADC frequency rate (recordable incidents per 1,000,000 working hours).



Songa Trym and Songa Delta are not included as they are not managed by the company.

Environmental reporting

The Group has placed great emphasis so that the rigs meet all statutory requirements for emissions, pollution and environmental impact. The Group strives to comply with all classification society, flag state, national and international regulations, but more importantly the International Maritime Organization (IMO) requirements with regards to Environmental Issues.

The Group has also been audited against the International Safety Management (ISM) Code and has received the Document of Compliance (DOC) Certificate by American Bureau of Shipping (ABS) which essentially means the Group's Quality Safety Management System suffices international requirements of all facets of safety, health and the environment. With regards to the Group's compliance of these organizations' regulations, the Group fulfils accepted international standards for environmental considerations. For further information about the Group's environmental policy, please see the Company's webpage.

Waste management system

The Group seeks to ensure that all waste and waste products generated as a result of the Group's operations are disposed of in a safe and efficient manner, without harm to employees, the environment or third parties and in compliance with relevant environmental guidelines and legislation.

The Group's management is ultimately responsible for the application of the Group's waste management system, with all employees sharing responsibility for its implementation. The Group seeks to achieve the objectives of the waste management system through waste elimination or minimization, waste recovery or recycling and safe and efficient disposal methods and their application. The Group seeks to commit all necessary resources to ensure adequate and appropriate disposal of waste in accordance with the Group's waste management procedures.

Consideration is given to (a) the nature and quantity of waste, (b) the environmental impact of relevant waste disposal methods at the particular location (c) the waste products that will be generated (and their subsequent disposal) when purchasing raw materials (including the containers and packaging containing the raw material) and (d) exposure of personnel to accumulations of waste and strategies for personnel protection.

The Group believe that the Group provides adequate training to employees in waste minimization and handling. The Group also audit waste control and disposal methods on a periodic basis to ensure compliance with the Group's waste management procedures and relevant new technology.

Type and quantity of energy and raw materials consumed

Drilling with Non-Aqueous Drilling Fluid (NAF): High-speed shale shakers will be used to provide an average of less than 20% wet weight mud on cuttings over the NAF

sections of the well, upon completion of drilling with NAF based fluids, the drilling fluid is returned to the supplier for reconditioning and re-use.

Drill cuttings: Discharged to sea through a shunt pipe placed below the sea surface. The discharge depth is set and selected to achieve maximum dilution effects and to minimize impacts upon the surface waters.

Deck Drainage: Spillage of diesel, cleaning solvents or mud chemicals will be cleaned up completely using absorbent pads and low toxicity biodegradable detergents. Deck drainage, wash down water and machinery space drainage will be processed through an oil-water separator as required and in accordance with rules and regulations.

Sewage: The drilling units are equipped with sewage treatment units; all sewage is properly treated prior to disposal at sea.

Galley wastes: Food waste will be macerated to less than 25 mm and discharged to the sea at a distance of more than 12 nautical miles (22 km) from shore.

Type and quantity of pollution that is let out by rig activity

2010			Atmospheric Emissions		
Vessel	Fuel Consumed (m3)	Waste Oil (m3)	SO2 (t)	NOx (t)	CO (t)
Songa Mercur	3,225	77.60	73.18	491.00	55.07
Songa Venus	4,225	22.85	71.82	249.52	59.15
Songa Saturn	25,951	n/a	358.63	1,371.81	438.29
Songa Dee	6,112	75.00	103.88	281.36	85.54

Songa Trym and Songa Delta are not included as they are not managed by the company.

Action taken or planned to be taken to eliminate or reduce environmental damage:

Environmental Procedures are integrated within Songa Offshore's units Quality & Safety Management System.

Incidents are covered in the specific procedure for each area the Group operate. Additionally all Songa Offshore Vessels have classification society approved "Ship Oil Pollution Emergency Plan" (SOPEP). The purpose of these plans is to provide guidance to the Master and Officers on board the Mobile Offshore Drilling Units (MODUs) with respect to the steps to be taken when pollution incidents have occurred or is likely to occur.

Effective planning ensures that the necessary actions are taken in a structured, logical, and timely manner. These plans and procedures are written in accordance with the requirements of Regulations 26 of Annex I of the International Convention for the Prevention of Pollution from ships 1973, as modified by the Protocol of 1978 relating thereto. The SOPEP contains all information and operational instructions required by the

Guidelines. These Plans have been approved by the Administration and no alteration or revision shall be made to any part of the plan without prior approval of the Administration.

The plan is designed to link into the Corporate Crisis Management Plan for dealing with oil pollution emergencies. The Offshore Installation Manager will be backed up on-scene by management-appointed personnel as the circumstances and the position of the rig at the time of the incident require.

Regular exercises will ensure that the plan functions as expected and that the contacts and communications specified are accurate. Such exercises may be held in conjunction with other shipboard exercises and appropriately logged.

Corporate Governance

The Group has established a separate Corporate Governance Policy document that is published on the Company's webpage. The Group has also established a separate Business Code of Ethics document, also published on the Company's webpage.

A more detailed discussion on the Group's compliance of the Norwegian Code of Practice for Corporate Governance guidelines is included in the Appendix of this annual report.

Existence of branches

To facilitate its operations the Company has established branches in Norway, Australia, Bermuda, Singapore and Africa.

Going concern

The Board of Directors confirms their assumption of the Group as a going concern. This assumption is based on income forecasts for the year 2011 and the Group's long-term strategic forecasts. The Group's economic and financial position is sound. The Board believes that the annual report provides a correct outline of the Group's assets and debt, financial position and financial performance.

Share capital

As of 31 December 2009 the total number of shares issued was 136,847,544.

On 17 February 2010 the Company announced the successful completion of a private placement of 20,500,000 shares directed towards professional Norwegian and international investors. The substantially oversubscribed placement was made at a price of NOK 29 per share. Gross proceeds from the private placement amounted to NOK 594.5 million (USD 100.2 million). The proceeds will be applied towards general business purposes.

On 24 March 2010 the Company made a successful completion of a private placement of 10,365,000 shares directed towards professional Norwegian and international investors. The substantially oversubscribed placement was made at a price of NOK 29 per share, and the capital increase represents approximately 6.6% of the outstanding shares in the Company. Gross proceeds from the private placement amount to NOK 300.6 million (USD 49.9 million).

The share capital was increased by EUR 2,255,000 by the issue of 20,500,000 new shares on 17 February 2010 and the share capital was further increased by EUR 1,140,150 by the issue of 10,365,000 new shares on 24 March 2010.

Following the completion of the private placements Songa Offshore's share capital is EUR 18,448,379.84, divided into 167,712,544 shares with a nominal value of EUR 0.11 per share.

Both the weighted average number of shares and adjusted weighted average number of shares for the year ended 31 December 2010 was 162,715,845 (year ended 31 December 2009: 127,441,073 and 132,230,073, respectively).

The reason for the difference between the reported Q4 2010 financial statements and the audited annual financial statements is due to a revision of the estimated deferred tax asset, with a corresponding change in the tax expense.

The share holdings of the members of the board are listed in note 22 in the Financial Statement.

Board of Directors

The members of the Group's Board of Directors as at 31 December 2010 and at the date of this report are presented below. There have been no significant changes in the assignment of the responsibilities and the remuneration of the Board of Directors.

Board Composition at 31 December 2010

Arne Blystad. Mr. Blystad is the founding director and was appointed chairman of the Issuer's Board of Directors in April 2005. He owns and operates shipping and investment activities through a group of companies. He is currently the director of Arne Blystad AS, Offshore Heavy Transport AS, Blystad Shipholding Inc., Spencer Energy AS and Spencer Holding AS. The Songa Offshore Group is renting office space in Oslo from the company Arne Blystad AS, a company controlled by Mr. Blystad. See further information in note 29 in the annual report. Mr. Blystad has participated in all board meetings held in 2010.

Valborg Lundegaard. Mrs. Lundegaard was appointed as director in December 2007. She has more than 20 years' experience in the oil and gas industry and has held a number of positions in the Aker Solutions group, including within corporate and project management. Between 2002 and 2006, Mrs. Lundegaard was a director of Aker Verdal AS, Aker Stord AS, Intsok Norway and Stiftelsen Petrab. She is currently the president and director of Aker Engineering & Technology AS, and is also a director of Aker Offshore Partner AS, Simtronics ASA, Aker Engineering Ltd. and Aker Powergas. Mrs. Lundegaard holds a masters degree in chemical engineering from the Norwegian University of Science and Technology. Mrs. Lundegaard is considered to be an independent director of the Board in Songa Offshore SE. Mrs. Lundegaard has participated in all board meetings except one held in 2010.

Asbjorn Vavik. Mr. Vavik was appointed as Director in April 2010. He is also the Chief Executive Officer of the Company. Mr. Vavik began his career in the early 1970's working offshore in the Norwegian sector of the North Sea. During his 30 plus years in the drilling business, Mr. Vavik has contributed to the construction of several offshore drilling rigs. He has also owned and operated a land drilling company for 12 years. Mr. Vavik has participated in all board meetings held in 2010 after he was appointed.

Erik Ostbye. Mr. Ostbye was appointed as director in February 2009. Since 1983, he has been associated with the Arne Blystad group of companies. From 2003 to 2007, Mr. Ostbye was vice president of finance of Sokana Chartering LLC. Prior to that, from 1988 to 2003, he served as vice president of finance of Blystad Shipping (USA) Inc. and, from 1983 to 1988, as financial manager of Blystad AS. Following the sale of the Blystad tanker operation to Eitzen Chemical USA in 2006, Mr. Ostbye continued his work for the

Blystad Group of companies as a U.S. representative. He also serves on the board of directors of several privately held companies, including Blue Dolphin Energy Company, Norwegian Crew Management AS, Beacon Maritime Inc., Carib Sand & Stone Ltd., Inter Caribe Maritime Ltd. and Norwegian American Chamber of Commerce Inc. Mr. Ostbye holds an MBA from the Norwegian School of Management (BI). Mr. Ostbye has participated in all board meetings held in 2010.

Nancy Erotocritou (Charalambous). Mrs. Erotocritou was appointed as director in February 2009. She is a qualified lawyer in the Republic of Cyprus and a partner at Harneys Aristodemou Loizides Yiolitis LLC. Mrs. Erotocritou practises in the areas of banking, corporate finance and mergers and acquisitions and advises multinational clients and financial institutions. She holds an LLB from the University of Sheffield and an LLM from University College London, England. Mrs. Erotocritou has completed the Legal Practice Course of the Law Society of England and Wales and has been called to the Cyprus Bar. Mrs Erotocritou is considered to be an independent director of the Board in Songa Offshore SE. The Songa Offshore Group has engaged legal services from Harneys Aristodemou Loizides Yiolitis LLC where Mrs. Erotocritou has been the engaged lawyer. See further information in note 29 in the annual report. Mrs. Erotocritou has participated in all board meetings held in 2010 after she was appointed in February 2009.

Independent auditors

The independent auditors, PricewaterhouseCoopers Limited Cyprus who have been appointed during the year, have expressed their willingness to continue in office. A resolution authorising the Board of Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

Limassol, 14 April 2011



Arne Blystad
(Chairman)



Erik Østbye
(Board member)



Asbjørn Vavik
(Chief Executive Officer)



Nancy Erotocritou (Charalambous)
(Board member)



Valborg Lundegaard
(Board member)

Statement of the members of the Board of Directors and other responsible persons of the Company for the financial statements

In accordance with Article 9, sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law"), we the members of the Board of Directors and the other responsible persons for the financial statements of the Songa Offshore SE, and the businesses that are included in the consolidated accounts as a total, for the year ended 31 December 2010 we confirm that, to the best of our knowledge:

- (a) the annual consolidated financial statements that are presented in this report:
 - (i) were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Article 9, section (4) of the Law, and
 - (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of Songa Offshore SE, and the businesses that are included in the consolidated accounts as a total, and
- (b) the directors' report gives a fair review of the developments and the performance of the business as well as the financial position of Songa Offshore SE, and the businesses that are included in the consolidated accounts as a total, together with a description of the principal risks and uncertainties that they are facing.

Limassol, 14 April 2011



Arne Blystad
(Chairman)



Erik Østbye
(Board member)



Asbjørn Vavik
(Chief Executive Officer)



Nancy Erotocritou (Charalambous)
(Board member)



Valborg Lundegaard
(Board member)

Songa Offshore SE

Consolidated statement of comprehensive income

for the period ended 31 December 2010

Amounts in USD '000	Note	2010	2009
Revenues	10	649,908	784,682
Operating expenses	10	(327,846)	(276,273)
Reimbursables	10	(6,001)	(37,361)
General and administrative expenses	12	(47,404)	(47,846)
Other gain and loss	11	74,875	947
Depreciation and amortization	18	(101,649)	(87,000)
Finance income	13	630	403
Finance costs	13	(36,184)	(52,214)
Profit before tax		206,329	285,338
Income tax	14	(1,672)	(24,628)
Profit for the period		204,657	260,710
Other comprehensive income		-	-
Total comprehensive income		204,657	260,710
Attributable to the owners of the parent		204,657	260,710
Earnings (loss) per share (USD)			
Basic	15	1.26	2.05
Diluted	15	1.26	2.00

Songa Offshore SE

Consolidated statement of financial position at 31 December 2010

(USD '000)	Note	31/12/2010	31/12/2009
ASSETS			
Non-current assets			
Rigs, machinery and equipment	18, 20	1,180,684	1,410,312
Deferred tax assets	14	59,142	46,722
Investment in associates	8	50,000	-
Total non-current assets		1,289,826	1,457,034
Current assets			
Assets available for sale		4,368	-
Trade and other receivables	17	99,835	148,404
Prepayments		4,130	4,658
Earned revenue	19	1,385	13,019
Other assets	21	32,054	28,240
Cash and cash equivalents	16	132,015	68,842
Total current assets		273,787	263,163
TOTAL ASSETS		1,563,612	1,720,197

Consolidated statement of financial position at 31 December 2010

(USD '000)		31/12/2010	31/12/2009
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	22	26,075	21,476
Share premium	22	371,564	230,118
Reserves		15,585	15,585
Retained earnings		646,004	441,348
Total equity		1,059,228	708,527
Non-current liabilities			
Bank loan	23	287,539	537,639
Bond loans	23	48,057	87,488
Other long term liabilities	27, 28	6,650	2,933
Total non-current liabilities		342,246	628,060
Current liabilities			
Current portion of long term debt	23	74,149	264,466
Trade and other payables	24	19,570	25,688
Tax payable	14	21,321	35,424
Derivative financial instruments	5	9,287	10,938
Deferred revenues	25	5,602	9,546
Other liabilities	26	32,209	37,548
Total current liabilities		162,138	383,610
Total liabilities		504,384	1,011,670
TOTAL EQUITY AND LIABILITIES		1,563,612	1,720,197

Songa Offshore SE

Consolidated statement of changes in equity for the period ended 31 December 2010

Amounts in USD '000

	Share capital	Share premium	Equity-settled employee benefits reserve	Recognition of convertible bond loan	Other equity	Total equity
Balance as at 1 January 2009	16,630	120,496	15,585	20,815	161,763	335,289
Adjustments recognized directly to equity	-	-	-	-	(7)	(7)
Total comprehensive income for the period	-	-	-	-	260,710	260,710
Issue of share capital	4,846	112,148	-	-	-	116,994
Cost of share issuance	-	(2,526)	-	-	-	(2,526)
Derecognition of convertible bond	-	-	-	(20,815)	18,882	(1,933)
Balance as at 31 December 2009	21,476	230,118	15,585	-	441,348	708,527
Balance as at 1 January 2010	21,476	230,118	15,585	-	441,348	708,527
Total comprehensive income for the period	-	-	-	-	204,657	204,657
Issue of share capital	4,598	145,976	-	-	-	150,574
Cost of share issuance	-	(4,531)	-	-	-	(4,531)
Balance as at 31 December 2010	26,074	371,563	15,585	-	646,005	1,059,228

Consolidated statement of cash flows for the period ended 31 December 2010

Amounts in USD '000	Note	31/12/2010	31/12/2009
Cash flows from operating activities:			
Profit before tax		206,329	285,338
Adjustment for:			
Depreciation	18	101,649	87,000
Change in unpaid option expense	27	4,125	2,954
Finance costs	13	36,184	52,214
Other gain and loss	11	(74,875)	(19,064)
Movements in working capital:			
Change in receivables		52,549	(121,830)
Change in payables		(6,118)	15,294
Change in other liabilities		(5,298)	23,771
Cash generated from operations		314,545	325,677
Taxes paid		(25,332)	(15,860)
Interest and fees paid		(41,331)	(50,926)
Cash effect from other gain and loss		(7,416)	8,485
Net cash generated by operating activities		240,466	267,376
Cash used in investing activities:			
Purchase of property, plant and equipment	18	(81,042)	(94,115)
Proceeds from sale of property, plant and equipment		282,342	56
Investment in associate		(50,000)	-
Net cash used in investing activities		151,300	(94,059)
Cash generated by financing activities:			
Proceeds from issue of share capital	22	146,044	64,468
Proceeds from issue of bonds and new bank loan raised	23	458,120	21,800
Repayment of bonds and bank loans		(932,757)	(249,244)
Net cash used/generated in financing activities		(328,593)	(162,976)
Net increase/(decrease) in cash and cash equivalents		63,173	10,341
Cash and cash equivalents at 1 January		68,842	58,501
Cash and cash equivalents at 31 December	16	132,015	68,842

Notes to the consolidated financial statements for the year ended 31 December 2010

Note 1 General information

In furtherance of a shareholder-approved plan to redomicile to Cyprus, on 12 December 2008, Songa Offshore ASA was converted into a European public company limited by shares ("Societas Europaea" or "SE") in accordance with Article 2 no. 1 of the European Council Regulation no. 2157/2001 (the "SE Regulation") and Section 5 of the Norwegian Act on European Companies of 1 April 2005 (the "SE Act"). The conversion into an SE was effected through a merger between Songa Offshore ASA and Songa Offshore Cyprus Plc. Effective 11 May 2009, the survivor of the merger, changed its name to Songa Offshore SE and transferred its registered office to Cyprus in accordance with Article 8 of the SE Regulation and Section 7 of the SE Act (the "redomiciliation").

Songa Offshore SE is a public limited liability company, subject to the Cyprus Companies Law, Cap. 113. The address of its registered office is: 8, John Kennedy Street, IRIS House, Off. 740B. The Company's shares have been listed on the Oslo Stock Exchange since 26 January 2006 (Ticker: "SONG").

Songa Offshore SE ("the Company", "Songa") and its subsidiaries (together, "the Group") are engaged in the business of owning and operating offshore drilling rigs and other vessels to be used in the exploration and production of hydrocarbons. The Group owns five semi-submersible rigs and had one drill ship that was sold during the year. The Group has ownership in the company Deepwater Driller Ltd, which has an ultra-deepwater semi-submersible drilling rig under construction in Jurong Shipyard Pte Ltd in Singapore. With a highly experienced management team, the Company's vision is to provide a flexible and reliable drilling service to its customers.

The Group is headquartered in Limassol, Cyprus, and the rig operations are run from Singapore, Perth – Australia, Limassol – Cyprus and Stavanger – Norway.

As of 31 December 2010 the Group had operations in the North Sea and offshore North/Western Australia as well as in China.

These group consolidated financial statements were authorised for issue by the Board of Directors on 14 April 2011.

Note 2 Adoption of new and revised Standards

New and amended standards and interpretations adopted by the Group

The following new standards and amendments to standards and IFRIC interpretations are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), "Business combinations", and IAS 27, "Consolidated and separate financial statements (amended) were effective 1 July 2009. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without a loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (revised) and IAS 27 (amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010.

IFRS 5 – Non-current Assets Held-for-sale and Discontinued Operations (Amendment). The amendment became effective 1 July 2009. It clarifies that all assets and liabilities of a subsidiary are classified as held for sale if a partial disposal sale plan results in a loss of control.

The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.

The Group has also adopted the following new interpretations during the year. However, adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

IFRS 2 - Share-based Payment (Amendment). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions.

IAS 1 (amendment), Presentation of financial statements. The amendment is effective from 1 January 2010. It provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

IAS 36 (Amendment) – Impairment of assets, effective 1 January 2010.

IFRIC 9 – Reassessment of embedded derivatives and IAS 39 – Financial instruments: Recognition and measurement, effective 1 July 2009.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation became effective 1 October 2009. It clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency and not presentation currency, and hedging instruments may be held anywhere in the Group.

IFRIC 17 – Distribution of non-cash assets to owners. The interpretation became effective on 1 July 2009. It provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

IFRIC 18 – Transfers of assets from customers, effective for transfer of assets received on or after 1 July 2009.

Standards issued but not yet effective:

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2011 or later periods, but have not been early adopted by the group.

IFRS 9 – Financial instruments. This standard is the first step in the process to replace IAS 39 – Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. It is not applicable until 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoptions of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 24 (Revised) – Related party disclosure. The revised standard is effective for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party. When the revised standard is applied, the group and parent will need to disclose any transactions between subsidiaries and its associates. It is not expected to have a material impact on the Group's financial statement.

Classification of rights issues – amendment to IAS 32. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. It is effective for annual periods beginning on or after 1 February 2010. It is not expected to have a material impact on the Group's financial statement.

IFRIC 19 – Extinguishing financial liabilities with equity instruments. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It is

effective from 1 July 2010 and is not expected to have a material impact on the Group's financial statement.

Note 3 Significant accounting policies

Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap 113. The consolidated financial statements are presented in US dollars (USD), and all values are presented in USD unless otherwise stated.

The consolidated financial statements have been prepared under the historical cost convention, except for:

Derivative financial instruments stated at fair value (note 5).

Liabilities for cash-settled share-based payment arrangements measured at fair value (note 27).

The consolidated financial statements have been prepared on a going concern basis.

Assets available for sale have been recognized at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). A list of the Company's subsidiary companies is presented in note 8 to the financial statements. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Any costs directly attributable to the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Investment in associates

Investment in associates is accounted for using the equity method. Investments are classified as investments in associates when the Group has a significant influence in the company.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue derived from charter-hire contracts or other service contracts is recognised on a straight line basis in the period that services are rendered at rates established in the relevant contracts.

In connection with drilling contracts, the Company may receive lump sum fees for the mobilization of equipment and personnel. Mobilization fees received and costs incurred to mobilize a drilling unit are recognized over the firm contract term of the related drilling contract.

Certain contracts include a contribution or fee from the client payable at the start of the contract. In cases where the contribution covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognised as revenue over the firm contract period whereas the investment is depreciated over the remaining lifetime of the asset.

In cases where the fee covers specific upgrades or equipment specific to the contract, the fee is recognised as revenue over the firm contract period. The related asset is depreciated over the firm contract period. In cases where the fee covers specific operating expenses at the start up of the contract the fees are recognised in the same period as the expenses.

For two of the rigs, Songa Trym and Songa Delta, the Group has entered into a management agreement with the previous owner to manage the rig on the Group's behalf. The Group has retained all risks and rewards in the contracts with the oil companies. The Group is considered to be the principal in the arrangement and accordingly revenue and costs are recognized on gross basis.

Reimbursed expenses

Reimbursed expenses relate to amounts paid by the Group and recharged to clients in accordance with the relevant provisions of the contracts.

Amounts recharged to clients are included in revenue and amounts paid are shown within expenses.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the entities within the Group at the exchange rates at the dates of the transactions. All entities within the Group have USD as functional currency, and the Group has USD as presentation currency.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

Retirement benefit plan

The Group has in place various pension schemes. The schemes are generally funded through payments to insurance companies or investment houses.

A defined contribution plan is a pension plan under which the Group pays contributions into an insurance company, investment house or state organized fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a plan which typically defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, year of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Share-based compensation

At year end the Group operates a cash-settled share-based compensation plan for senior management. The options are in the form of synthetic options, or so called Stock Appreciation Rights (SAR), meaning that the employee will not be given the right to subscribe for shares as such, but will be entitled to receive, in cash, the difference between the exercise price and the strike price multiplied with the number of synthetic options exercised. Each synthetic share option converts into the value of one ordinary share of Songa Offshore SE on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights.

The plan is valued at fair value for each reporting period end. The options that are fully vested are recognized with at full FV in the balance sheet, but for options not fully vested, only the portion which has been vested (using linear model) is recognized in the balance sheet at FV. Any changes in the fair value of the liability are recognized as personnel expenses within general and administrative expenses in profit or loss. Further details on how the fair value of the share-based transactions has been determined are disclosed in note 27 to the financial statements.

Taxation

Income tax expense relates to current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Rigs, machinery and equipment

Rigs, machinery and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets and modifications includes the cost of material, direct labour and other direct attributable cost to bring the asset to a working condition for its intended use.

Subsequent expenditures are capitalised when it is probable that they will give rise to future economic benefits. Other costs are recognised in the income statement as incurred.

Depreciation is charged in the income statement on a straight-line basis over the estimated useful life of each component of property, plant and equipment. The estimated useful lives, residual values and decommissioning costs are reviewed at each financial year end.

No decommissioning costs have been recorded to date, and the presence of any obligations is reviewed at each financial year end. There is no decommissioning liability on the drilling rigs as there is no legal or constructive obligation to dismantle or restore the assets. In practice, assets of this nature are rebuilt, when no longer useful; laid up in dry dock or scrapped. For a standard vessel, specialised demobilising yards pay for a vessel to be scrapped per light displacement tonne (ldt) of the vessel. Any changes to the above are accounted for prospectively as a change in accounting estimates.

The estimated useful lives of the rigs, machinery and equipment are as follows:

- Rigs; 2.5 to 25 years
- Machinery and equipment; 3 to 10 years

Where components of an item of property, plant and equipment have different useful lives, each component's depreciation is calculated separately.

The useful lives of the assets are reviewed at each year end. Management has reviewed each of the rigs by expected usage and considered the scheduled 5 years special periodic surveys (SPS) going forward.

Costs for SPSs and intermediate surveys on offshore units required by regulatory bodies are capitalised and amortised over the anticipated period between surveys, generally five years for SPSs and two and half years for intermediate surveys. Other maintenance and repair costs are expensed as incurred.

The Group categorizes spare parts into two main groups, spare parts and spare assets. A spare part is a consumable that is not depreciated, but expensed when consumed during repair and maintenance. A spare asset is a larger spare item that is recorded as a rig component and depreciated. Consumables are recorded at cost.

The most common method to estimate residual values for ships is to use the scrap price which is publicly noted by brokers in USD per ldt (light displacement tonne) of a complete vessel with all normal machinery and equipment on board. Drilling rigs are much more complicated to scrap than ships and have much less metal and scrapable/recoverable material due to their construction, design and nature. The price that could be recovered from scrapping of drilling rigs is estimated to approximate the cost of extracting this scrap metal. Therefore, no residual value is recorded given the assumption that if the assets were disposed at the end of their useful life given their expected age and condition no material amount would be recovered.

Impairment of tangible assets

The carrying amounts of the Group's rigs, machinery and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analyzed by reviewing day rates and broker valuations. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The value in use is calculated as the present value of the expected future cash flows for the individual units.

An impairment loss is recognised if the carrying amount of an asset exceeds the recoverable amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the time the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Trade receivables

Trade receivables are presented net of any allowance for bad debts. Estimates for allowance for bad debts are calculated individually for each customer. When a trade receivable is uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss. For the amounts and movement in the bad debt s provision account refer to the financial statements note 17.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. The Group does not hold derivatives that meet the criteria for hedge accounting.

Further details of derivative financial instruments are disclosed in note 5 to the financial statements.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, collaterals, escrow accounts and other short-term highly liquid assets that are readily convertible to known amounts of cash and which are subject to insignificant changes in value. An analysis of cash and cash equivalents and the respective carrying amounts at year end is presented in note 16 to the financial statements.

Reclassification

The Company has reclassified some of its cash balances to other current assets. These relate to prefunding to and bank deposits held by a 3rd party rig manager. Prior year comparatives have been reclassified to conform to the current year presentation. The reclassification has as of 31 December 2009 reduced the cash balance and prepayments balance with USD 19.1 million and USD 1.5 million respectively, while other current assets is increased with USD 20.6 million.

Events after the balance sheet date

New information on the Group's position 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 Group's position at the balance sheet date but which will affect the Group's position in the future are stated if significant.

Note 4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The following are the critical judgements and estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Possible exit tax due to redomiciliation

According to the Norwegian Tax Act Section 10-71, a company that emigrates and ceases to be tax resident in Norway is subject to exit tax. The exit tax is calculated on any potential gain related to the assets, rights and liabilities that the exiting company owned the day preceding the redomiciliation. The capital gain/loss would be calculated as if the assets, rights and liabilities were realized for tax purposes at this time. In contrast, capital gains on assets or shares of similar domestic transactions are not taxable until they are realized.

The Company moved from Norway to Cyprus in May 2009. The Company has been advised that the Norwegian exit tax rules are in conflict with the European Economic Area (the "EEA") Agreement with respect to the principle of freedom of establishment. The Board of Directors is of the opinion that no exit tax should apply to the redomiciliation. The Company therefore filed a complaint with the EFTA Surveillance Authority (the "ESA").

In the tax return for the income year 2009, the Company maintained the view that no exit tax should apply. In the event that the Company has to pay the exit tax, the Company estimated that the tax can be offset against available losses. In 2010, the tax office notified the Company that it is considering assessing an exit tax.

On 2 March 2011, ESA sent a "reasoned opinion" to the Norwegian Ministry of Finance for failing to comply with its obligations under Articles 31, 34 and 40 of the Agreement on the European Economic Area by imposing immediate taxation on companies that transfer their seat or assets and liabilities to another EEA State and on the shareholders of such companies and for breach of the SE regulation.

According to ESA, Norway is in breach of the EEA Agreement by imposing an immediate tax on companies, or the shareholders of companies, that transfer their seat to another EEA State. The Authority considers that such immediate, and potentially also higher, taxation penalizes those companies that wish to leave Norway. It results in less favourable treatment compared to companies which relocate or merge within Norway. The rules in question are, therefore, likely to dissuade companies from exercising their right of freedom of establishment and, in certain circumstances, they also hinder the free movement of capital. As a result, these rules constitute unlawful restrictions according to EEA law.

The Norwegian Government was requested to take the necessary measures to comply with the reasoned opinion within two months.

On 25 March 2011, the Norwegian Ministry of Finance presented a bill proposing amendment of the tax rules in respect of exits to EEA countries. The ministry proposes to dismantle the tax liability on owner and company level for companies relocating to normal tax countries within the EEA. For companies relocating to low tax countries within the EEA the exit tax rules will not apply if the company is effectively established in the low tax country. Assets that are taken out of the Norwegian area of taxation will be governed by the existing Tax Act Section 9-14, whereby a payment of the assessed tax for physical assets can be deferred and the tax will not be payable if the exiting company does not realize the physical assets within five years after redomiciliation.

The Company is of the opinion that its redomiciliation to Cyprus in 2009 will not result in payable exit tax. ESA's reasoned opinion and the Ministry of Finance's law proposal support this understanding.

Impairment of rigs

At each balance sheet date judgement is used to determine whether there is any impairment of the Group's fleet of rigs. If any such indication exists, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. adverse changes in performance) and external sources (e.g. adverse changes in the business environment). These are analysed by reviewing day rates and broker valuations. If an indicator of impairment is noted, further management estimate is required to determine the amount, if any, of impairment. In order to measure for potential impairment, the carrying amount of the rigs and drill ship would be compared to the recoverable amount, which is the higher of value in use or fair value less the cost to sell. The value in use is calculated as the present value of the expected future cash flows for the individual units, requiring significant management estimates of the proper discount rates as well as the length and amounts of cash flows. Fair value is calculated as the mean of two independent brokers' estimates on the rig values. An impairment loss would then be recognised to the extent the carrying amount exceeds the recoverable amount.

Useful lives for depreciation of fixed assets

Depreciation of rigs and drilling equipment is computed using the straight line method over estimated useful lives. The depreciable amount is determined after deducting the residual value of the asset. To support management's estimate for residual value, considerations provided by an independent third party have been used. The cost of rigs has been categorised separately by its main components, and useful lives have been determined for each component. The primary portion of the rigs is depreciated over 25 years, while other components are depreciated over their useful lives, ranging from 4 to 25 years. Cost which relate to special periodic surveys categorized as full or intermediate are amortized over a five and a two and a half year period respectively. Estimates of useful lives, residual values and methods of depreciation are reviewed at each financial year end, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. The estimated useful life of the rigs could change, resulting in different depreciation amounts in the future.

Valuation of share based-options

The Group uses share-based incentive programs. Share-based options are valued at fair value at the grant date and remeasured at reporting date, using the Black & Scholes option pricing model. The Group carefully reviews the assumptions used in the Black & Scholes option pricing model, and uses an external third party to perform the calculations of the fair value for each period. However changes in the assumptions, and

especially the expected volatility used for the calculation of fair value at grant date, could change the fair value of the options significantly.

Income taxes and deferred tax assets

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Note 5 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes borrowings (note 23), cash and cash equivalents (note 16) and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group has been in compliance with externally imposed capital requirements related to borrowings (note 23).

The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The Group's overall financing strategy moves with the changes in the financial markets. The increased risk premiums and lack of liquidity in the financial markets is closely monitored by the Company.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group has been through two years with the strategy of decreasing the gearing ratio and has reduced the gearing ratio from 2009 to 2010 from 54% to 21%. Going forward the Group will monitor the gearing ratio

closely and will in potential investment opportunities aim to optimize the gearing ratio seen in combination with the risks involved for any investments.

The gearing ratios at 31 December 2010 and 2009 were as follows:

USD '000	2010	2009
Total borrowings	409,745	889,593
Less: cash and cash equivalents	132,015	68,842
Net debt	277,730	820,751
Total equity	1,059,228	708,527
Total equity and net debt	1,336,958	1,529,278
Gearing ratio	21%	54%

The Company's future capital requirements and level of expenses will depend on numerous factors, including but not limited to the timing and terms on which drilling contracts and other contracts can be negotiated, the amount of cash generated from operations, the level of demand for its services and general industry conditions. Songa Offshore is further exposed to credit-, interest rate-, foreign currency- and liquidity risks in its operations.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of financial instruments

USD '000	2010	2009
Financial assets available for sale	4,368	-
Loans and receivables including cash and cash equivalents excluding prepayments	292,211	254,697
Financial liabilities		
Interest swap derivatives	9,287	10,938
Amortised cost	451,878	915,281

The Group monitors and manages the financial risks related to the operations of the Group through internal reports and analysis. The Group is exposed to various risks such as market risk (including currency risk, fair value interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to manage these risks by using derivative financial instruments when appropriate. The use of financial derivatives is monitored and approved by the board of

directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including but not limited to:

- forward exchange contracts to hedge the exchange rate risk arising on debt in foreign currency
- interest rate swaps to mitigate the risk of rising interest rates

Foreign currency risk management

The Group is exposed to foreign currency (FC) risks related to its operations. The Group's expenses are primarily in USD, AUD and NOK. As such, the Group's earnings are exposed to fluctuations in the foreign currency market for AUD and NOK. The Group uses the foreign currency spot market to buy foreign currencies. The following tables show the expenses, assets and liabilities in the foreign currency and in USD, respectively.

FC '000	Expenses		Assets		Liabilities	
	2010	2009	2010	2009	2010	2009
AUD	71,032	108,389	2,792	10,202	7,364	17,815
EUR	18,249	10,470	2,518	709	686	653
LYD	189	2,715	688	1,356	748	252
NOK	1,246,366	1,140,807	91,601	125,466	138,193	126,131
SGD	20,558	6,035	1,486	262	29,159	1,152

USD '000	Expenses		Assets		Liabilities	
	2010	2009	2010	2009	2010	2009
AUD	59,151	87,233	2,841	9,136	7,491	15,970
EUR	24,157	14,641	3,362	1,018	914	933
LYD	152	2,178	548	1,098	599	196
NOK	205,485	180,560	15,598	21,820	23,341	22,282
SGD	15,027	4,096	735	187	35	810

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of Australia (AUD) and Norway (NOK) in addition the Group is exposed to the currencies of Singapore (SGD), Libya (LYD) and the European currency (EUR). The table below details the Group's sensitivity to a 10 % increase/decrease in the USD against the relevant foreign currencies with all other variables held constant.

For assets and debt the analysis only includes monetary items stated in other currencies than USD. A negative number below indicates a decrease in profit and loss after tax and a positive number below indicates an increase in profit and loss after tax where the currency increases/decreases 10% against the USD.

Impact on profit and loss in USD for working capital		
USD '000		
Currency	2010	2009
Australian Dollar (AUD) ¹	+/-461	-/+624
European Currency (EUR) ¹	+/-243	-/+8
Libyan Dinar (LYD) ¹	+/-5	+/-82
Norwegian Krone (NOK) ¹	+/-768	+/-42
Singapore Dollar (SGD) ¹	+/-69	+/-57

¹ The net of assets and liabilities for each currency

Impact on profit and loss in USD for OPEX		
USD '000		
Currency	2010	2009
Australian Dollar (AUD)	+/-5,867	+/-7,970
European Currency (EUR)	+/-2,396	+/-1,338
Libyan Dinar (LYD)	+/-15	+/-199
Norwegian Krone (NOK)	+/-20,382	+/-16,498
Singapore Dollar (SGD)	+/-1,491	+/-374

The Group has no specific policy of entering into forward foreign exchange contracts to cover foreign currency payments. Contracts are entered into when treasury finds it in line with the overall currency risk strategy. In 2009 and 2010 the strategy has been to buy currency in the spot market.

There are no forward foreign currency (FC) contracts outstanding as at the reporting date.

Interest rate risk management

The Group is exposed to fluctuations in interest rates for USD. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates at the balance sheet date. A 50 basis point increase or decrease is used and is considered as reasonably possible change in interest rates.

At 31 December 2010, if interest rates had been 50 basis points higher/lower and all other variables were held constant the Group's profit and loss after tax for the year ended 31 December 2010 would decrease/increase by USD 2.1 million (2009: decrease/increase by USD 3.3 million). This is attributable to the Group's exposure to floating interest rates on its bank facilities and bonds held during the year.

Interest rate swap contracts

Under the interest swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposure on the issued variable rate debt.

The Group is financed through a combination of equity, bonds and bank loans. The interest rate on the major bank loan is LIBOR (floating) plus a margin. In September 2007 the Group entered into a 5 year interest rate swap contract, swapping from floating to fixed interest. As such the Group will receive floating interest rate and pay fixed interest rate. Three notionals of USD 50 million each have been swapped from LIBOR to a fixed interest rate.

The term of the swaps is 5 years with an option for the bank to flip the swap back to LIBOR after 1 year, and on every quarter thereafter. If the swaps are flipped the Company will pay LIBOR minus 0.10%.

Details of the swaps:

USD 50 million, 5 September 2007, fixed rate 4.25%

USD 50 million, 7 September 2007, fixed rate 4.20%

USD 50 million, 11 September 2007, fixed rate 4.16%

The market value of the swaps was at the year end 2010 negative with (representing a liability) USD 9.3 million (2009 negative USD 10.9 million).

The instrument is recognized at fair value through profit or loss. The option the bank has to flip is not treated as an embedded derivative since the swap itself is a derivative. The fair value is calculated using inputs other than quoted prices, included within Level 1 of the fair value hierarchy as defined in IFRS 7, that are observable for the asset or liability, either directly or indirectly. In other words Level 2 of the fair value hierarchy as defined in IFRS 7.

Credit risk management

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base of international oil and gas companies. The Group continually evaluates the credit risk associated with customers and, when considered necessary, requires certain guarantees, either in the form of parent company guarantees, bank guarantees or escrow accounts. The Group's five largest customers accounted for 22%, 21%, 17%, 11% and 8% of gross revenues respectively in 2010 (in 2009 five largest accounted for 23%, 10%, 9%, 9% and 7%). The maximum credit risk is equal to the capitalised value of trade receivables and incurred revenue not billed. The trade receivables are pledged as security for the Group's long term borrowing. There is no history of material loss on trade receivables.

The Group's short term investments are limited to reputable money market funds and cash deposits in the Group's relationship banks. Derivative financial instruments are normally entered into with the Group's main relationship banks.

Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury is seeking flexibility in funding by maintaining availability under committed credit lines.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

USD '000	1-3 months	3-12 months	1-5 years	Total
2010				
Non interest bearing	19,570			19,570
Variable interest rate instruments	23,660	71,269	457,000	551,929
Fixed interest rate instruments	549			549
Contractual obligations	11,582			11,582
	55,361	71,269	457,000	583,630

USD '000	1-3 months	3-12 months	1-5 years	Total
2009				
Non interest bearing	25,688			25,688
Variable interest rate instruments	82,757	216,191	655,312	954,260
Fixed interest rate instruments	2,321		23,800	26,121
Contractual obligations	301	5,960		6,261
	111,067	222,151	679,112	1,012,329

At the year end of 2010 there are unused financing facilities in the amount of USD 163.8 million. The Group expects to meet its obligations from operating cash flows.

Cash flow forecasting is performed in the operating entities of the group and aggregated by group finance. Group finance monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 22) at all times so that the group does not breach borrowing limits or covenants.

The following table details the Group's liquidity analysis for its derivative financial instruments. The flippable swap is assumed not to be converted given the existing level for floating 3M USD LIBOR. The table has been drawn up based on the undiscounted net cash (inflows)/outflows on the derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date and the probability that options included in the instruments would be exercised.

2010 USD '000	1-3 months	3-12 months	1-5 years	Total
Flippable interest rate swap	(1,478)	(4,228)	(3,581)	(9,287)

2009 USD '000	1-3 months	3-12 months	1-5 years	Total
Flippable interest rate swap	(1,422)	(4,484)	(5,032)	(10,938)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The fair value of the derivative financial instruments are calculated by reputable financial institutions on behalf of the Group
- the carrying amounts of financial liabilities recorded at amortised cost in the financial statements are assumed to approximate the fair value.

Note 6 Changes in the Group's structure

On 11 May 2009 Songa Offshore SE was registered in the Cyprus Registrar of Companies. The transfer of Songa Offshore SE's registered office from Oslo (Norway) to Limassol (Cyprus) was effective from the same date. The new registered office of Songa Offshore SE is 8, John Kennedy Street, IRIS House, Off. 740B, Limassol, Cyprus.

One new company was established in 2010. Songa Eclipse Management Pte Ltd was established on 23 April 2010.

Note 7 Segment information

No segment information is presented. The Group's business activities are not organised on the basis of different related products and services or different geographical areas of operations.

The Group operates five rigs all in the mid water segment. Operating results are regularly reviewed by the entity's chief operating decision maker in order to make decisions about resources to be allocated to them and to assess the performance. The rigs are reported together since the drilling services provided are the same, the drilling operations are the same and the customers approached are the same.

The rigs and drillship all operate worldwide, and therefore providing financial information split according to geographical location is not considered to add any value.

The Group's five largest customers account for 79 % of the Group's gross operating revenue:

USD million	Operating revenue
Customer A	138
Customer B	134
Customer C	109
Customer D	66
Customer E	50
Other customers	132
Total operating revenue	630

Note 8 List of subsidiaries and associates

Subsidiaries	Country of registration	Ownership share 2009	Ownership share 2010
Songa Management AS	Norway	100%	100%
Songa Services International AS	Norway	100%	100%
Songa Offshore Drilling Ltd	Cyprus	100%	100%
Songa Services AS	Norway	100%	100%
Songa Offshore Pte Ltd	Singapore	100%	100%
Songa Saturn Chartering Pte Ltd	Singapore	100%	100%
Songa Pty Ltd	Australia	100%	100%
Songa Management Inc	USA	100%	100%
Songa Rig AS	Norway	100%	100%
Songa Management Ltd	Cyprus	100%	100%
Songa Saturn Ltd	Cyprus	100%	100%
Songa Delta Ltd	Cyprus	100%	100%
Pegasus Invest Pte Ltd	Singapore	100%	100%
Songa Eclipse Mangement Pte Ltd	Singapore	0%	100%

Associates	Country of registration	Ownership share 2009	Ownership share 2010
Deepwater Driller Ltd	Cayman Islands	0%	31.25%

Investment in Deepwater Driller Ltd:

USD '000	2010	2009
At 1 January	-	-
Aquisition of associate	50,000	-
Share of (loss)/profit	-	-
Exchange differences	-	-
Other equity movements: available-for-sale reserve	-	-
At 31 December	50,000	-

The Company's share of results of its principal associate, which is unlisted, and its aggregated assets and liabilities are as follows:

Name	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest held
2010					
Deepwater Driller Ltd.	491,740	(270,516)	-	-	31.25%
2009					
Deepwater Driller Ltd.	-	-	-	-	0.00%

Note 9 Exchange rates

Currency/USD	Exchange rates year end 2010	Exchange rates year end 2009
Norwegian Krone (NOK)	0.17131	0.17265
Singapore Dollar (SGD)	0.77976	0.71250
Australian Dollar (AUD)	1.01721	0.89545
Libyan Dinar (LYD)	0.79998	1.23599
European Currency (EUR)	1.33620	1.43396

Note 10 Revenue, operating expenses

USD '000	2010	2009
Mobilisation	48,913	6,384
Time Charter Revenue	580,730	731,734
Bare Boat Charter Revenue	-	4,783
Reimbursable revenue ¹	6,382	37,594
Other income	13,882	4,187
Total revenue	649,908	784,682

¹ With respect to reimbursable revenue there are equivalent reimbursable expenses of USD 6.0 million (2009: USD 37.4 million).

The operating expenses of the Group of USD 327.8 million (2009: USD 276.2 million) is in its entirety related to the operation of the rigs.

Note 11 Other gains and losses

USD '000	2010	2009
Allowances for bad debts ¹	3,850	(3,534)
Net foreign exchange gain/ (loss)	9,838	(4,101)
Changes in fair value financial items ²	(7,454)	8,582
Disposal of assets	68,641	-
Other gain	74,875	947

¹ See note 17.

² For the financial year 2010 changes in fair value consist of the following items: Flippable swap loss USD 4.2 million (2009: loss USD 2.5 million), early redemption of bond loss USD 3.0 million (2009: gain USD 6.6 million), financial investments loss USD 0.2 million (2009: USD 0.0).

The sale of Songa Saturn in Q4 2010 contributed to a gain of USD 66.3 million.

Note 12 General and administrative expense

USD '000	2010	2009
Total administrative expenses	12,019	16,708
Total employee benefit expenses	35,385	31,138
Total general and administrative expenses	47,404	47,846

Total administrative expenses as follows:	2010	2009
Legal and consulting fees ¹	3,685	9,655
Other office costs	1,081	3,111
Travel expenses	2,356	1,981
Other expenses	4,897	1,961
Total administrative expenses	12,019	16,708

¹ Including remuneration to auditors

Total employee benefit expenses are split as follows:	2010	2009
Salary	23,503	20,497
Social security tax	966	1,068
Bonus and stock based compensation	8,567	7,651
Pension cost defined benefit plans (Note 28)	2,134	1,795
Director's fee (Note 30)	215	127
Total employee benefit expense	35,385	31,138

Employees full time equivalents	2010	2009
Employees offshore based	267	293
Employees onshore based	87	74

The total employee benefit expenses are split as follows:	2010	2009
Onshore personnel	35,385	31,138
Offshore personnel	129,839	162,510
Total employee benefit expenses	165,224	193,648

Fees related to the auditors Deloitte and PricewaterhouseCoopers are split as follows (VAT is not included in the auditor's fee):

USD '000	2010	2009
Statutory audit	515	412
Other assurance services	150	214
Other non-assurance services	30	11
Tax consultant services	357	365
Total	1,052	1,002

Please note that the Company has changed auditors within 2010 from Deloitte to PricewaterhouseCoopers, hence the statutory audit fee includes remuneration to the both.

Note 13 Finance income and finance costs

USD '000	2010	2009
Interest income	630	403
Total finance income	630	403

USD '000	2010	2009
Interest expense	29,335	51,523
Other finance expenses	6,849	691
Total finance costs	36,184	52,214

Income, expenses, gains and losses for other categories of financial instruments can be found in note 11.

Other finance expense relates mainly to costs incurred in relation to the refinancing, as part of the capitalized loan fees in relation to the old loan agreement had to be expensed, as required by IFRS. In addition loan expenses in relation to the contemplated USD 200 million bond were expensed.

Note 14 Income tax expense and deferred taxes

USD '000	2010	2009
Tax expense comprises:		
Current tax expense in respect of current year	(21,407)	(43,110)
Changes in deferred tax	12,420	-
Over/Underprovision of last year's tax charge	7,315	(13,855)
Release of deferred tax on temporary differences resulting from the move of the Company from Norway to Cyprus	-	32,337
Income tax expense	(1,672)	(24,628)

The tax expense for the year can be reconciled to the accounting profit as follows:

	2010	2009
Profit before tax	204,657	285,338
Income tax expense calculated at applicable tax rate of Cyprus of 10%	(20,466)	(28,534)
Tax rates applicable to jurisdictions other than Cyprus	(941)	(14,588)
Over/Underprovision of last year's tax charge	7,315	(13,855)
Recognition of deferred tax asset	12,420	32,337
Non-deductible expenses	-	12
Tax expense recognised in consolidated income statement	(1,672)	(24,628)

Deferred tax assets and deferred tax liabilities:	2010	2009
Gross deferred tax asset on total tax losses	166,164	151,938
Unrecognised deferred tax asset on tax losses	(107,022)	(105,216)
Recognised deferred tax assets on tax losses	59,142	46,722
Property, plant and equipment	-	-
Profit and loss account	-	-
Option plans	-	-
Allowance for doubtful debt	-	-
Financial instruments	-	-
Interest bearing debt	-	-
Deferred tax liabilities	-	-
Net recognised deferred tax assets	59,142	46,722

As at 31 December 2010 the Group had unrecognised deferred tax assets relating to tax losses carried forward of USD 593 million. Those relate to Norwegian entities of the Group and have no expiry date. Deferred tax assets are recognised only to the extent that they relate to foreseeable taxable profits.

See note 4 "Critical accounting judgements" for a discussion on exit tax.

Note 15 Earnings per share

USD	2010	2009
Basic earnings per share	1.26	2.05
Diluted earnings per share	1.26	2.00

Basic earnings per share:

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

USD '000	2010	2009
Profit for the year	204,657	260,710
Weighted average number of ordinary shares for the purposes of basic earnings per share (shares '000)	162,716	127,441

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

USD '000	2010	2009
Profit for the year	204,657	260,710
Profit impact of assumed conversions	-	4,275
Adjusted profit	204,657	264,985
Weighted average number of ordinary shares for the purposes of basic earnings per share (shares '000)	162,716	127,441
Convertible bond	-	4,789
Dilutive potential ordinary shares	-	4,789
Adjusted weighted average number of ordinary shares for the purpose of diluted earnings per share (shares '000)	162,716	132,230

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company had one category of dilutive potential ordinary shares included in the calculation above, a convertible bond, during the first half of 2009. The USD 125 million convertible bond loan was partly converted into ordinary shares and partly into a non convertible bond, therefore at year end; there are no categories of potential dilutive ordinary shares.

Note 16 Cash and cash equivalents

USD '000	2010	2009
Cash at the bank and in hand	128,905	66,574
Time deposit	653	110
Escrow account regarding employee's tax	2,457	2,158
Total cash and cash equivalents	132,015	68,842

Note 17 Trade and other receivables

There are made no provisions for loss on trade receivables at year end 2010 (2009 USD 0.0). No losses on trade receivables has been recorded during the year (in 2009: USD 0.5 million). The normal credit period, when issuing invoices for sale of drilling services, is 30-45 days. Interest is charged on the receivables in accordance with the contract with the customer. Total trade and receivables at year end is USD 99.8 million.

Customer aging report per 31 of December 2010:					
USD '000					
Not due	0-30 days	31-60 days	61-90 days	over 91 days	Total
59,265	37,929	15	-	2,625	99,835

The balance due over 91 days mainly consist of one major item that was received in January.

Customer aging report per 31 of December 2009:					
USD '000					
Not due	0-30 days	31-60 days	61-90 days	over 91 days	Total
81,250	66,666	413	27	48	148,404

Change in allowance for doubtful debts:	
USD '000	
Allowance for doubtful debt 1 January 2010	3,850
Less reversals during the year	(3,850)
Allowance for doubtful debts 31 December 2010	-

Allowance for doubtful debt 1 January 2009	2,727
Less reversals during the year	(2,727)
Allowance for doubtful debt during the year	3,850
Allowance for doubtful debts 31 December 2009	3,850

Note 18 Rig, machinery and equipment

USD '000	Rigs and drillship	Fixtures	Total
Year ended 31 December 2009			
Opening net book amount	1,401,615	1,583	1,403,197
Additions	93,729	385	94,114
Book value before depreciations	1,495,344	1,968	1,497,311
Total depreciation charge	(86,467)	(533)	(87,000)
Closing net book amount	1,408,877	1,435	1,410,312
At 31 December 2009			
Cost	1,623,895	2,734	1,626,629
Accumulated depreciation	(215,023)	(1,299)	(216,322)
Net carrying amount	1,408,877	1,435	1,410,312

USD '000	Rigs and drillship	Fixtures	Total
Year ended 31 December 2010			
Opening net book amount	1,408,877	1,435	1,410,312
Additions	80,958	133	81,091
Disposals	(209,070)	-	(209,070)
Book value before depreciations	1,280,765	1,568	1,491,403
Total depreciation charge	(101,227)	(422)	(101,649)
Closing net book amount	1,179,538	1,146	1,180,684
At 31 December 2010			
Cost	1,495,670	2,611	1,498,281
Accumulated depreciation	(316,132)	(1,465)	(317,597)
Net carrying amount	1,179,538	1,146	1,180,684
Estimated lifetime	4-25 years	3-10 year	
Depreciation rates	4%-25%	10%-33%	
Depreciation method	Straight line	Straight line	

Rigs and drillship includes the rigs Songa Venus, Songa Mercur, Songa Dee, Songa Trym and Songa Delta.

Songa Saturn was sold 8 October 2010.

There has been recognized no impairment loss for any of the Group's units.

No borrowing costs have been capitalized.

Note 19 Earned revenue

Earned revenue relates to work performed in the amount of USD 1.4 million that has not yet been invoiced to the customers per 31 December 2010 (2009: USD 13.0 million).

Note 20 Assets pledged as security

Assets have been pledged to secure borrowings of the Group (see note 23). The rigs are pledged as security with a maximum amount of USD 532 million each.

Note 21 Other assets

USD '000	2010	2009
Other current assets	2,312	3,326
Prepayment to rig managers	27,117	20,732
Warehouse inventory	434	248
VAT receivables	592	3,777
Miscellaneous	1,599	157
Other assets	32,054	28,240

Note 22 Issued capital

USD '000	Number of shares ('000)	Share capital	Share premium	Cost of share capital	Total issued capital
As at 01/01/2009	105,308	16,630	120,496	-	137,126
Issue of share capital	18,080	2,778	64,216	(2,526)	64,468
Conversion of bond	13,460	2,068	47,932	-	50,000
As at 31/12/2009	136,848	21,476	232,644	(2,526)	251,594
As at 01/01/2010	136,848	21,476	232,644	(2,526)	251,594
Issue of share capital	30,865	4,598	145,976	(4,531)	146,043
As at 31/12/2010	167,713	26,074	378,620	(7,057)	397,637

During the first quarter 2009 the nominal value of the Songa Offshore SE shares was converted from NOK to EUR, as resolved by the Extraordinary General Meeting on 17 February 2009. For the purpose of the conversion, an exchange rate between NOK and Euro of 8.92 was applied, which reflects the exchange rate of the Central Bank of Norway on the last day of the month before the transformation of the Company into a Societas Europaea (SE). After the conversion the share capital of the Company is EUR 11,583,830 divided into 105,307,545 shares of EUR 0.11 each.

The Company was allocated a new ISIN number after the move to Cyprus. The Cyprus Stock Exchange allocated a new ISIN number, CY0100962113, for the Songa Offshore SE shares (old ISIN: NO0010268451). The new ISIN number was effective for trading on Oslo Børs from Wednesday 13 May 2009.

On 17 February 2010 the Company announced the successful completion of a private placement of 20,500,000 shares directed towards professional Norwegian and international investors after the close of the Oslo Stock Exchange on 16 February 2010. The placement was made at a price of NOK 29 per share. Gross proceeds from the private placement amounted to NOK 594.5 million (USD 100.2 million). The proceeds will be applied towards general business purposes.

On 24 March 2010 the Company made a successful completion of a private placement of 10,365,000 shares directed towards professional Norwegian and international investors. The substantially oversubscribed placement was made at a price of NOK 29 per share, and the capital increase represents approximately 6.6% of the outstanding shares in the Company. Gross proceeds from the private placement amount to NOK 300.6 million (USD 49.9 million).

The share capital is increased by EUR 1,140,150 by the issue of 10,365,000 new shares. Following the completion of the private placement Songa Offshore's share capital is EUR 18,448,379.84, divided into 167,712,544 shares with a nominal value of EUR 0.11 per share.

As of 31 December 2010 the total number of shares issued was 167,712,544. Both the weighted average number of shares and adjusted weighted average number of shares for the year ended 31 December 2010 was 162,715,845. All issued shares are fully paid. There is only one class of shares and all shares are freely transferable.

Further information about share-based payments to executive management and Board of Directors is set out in notes 27, 28 and 30.

20 largest shareholders as of 31 December 2010

Owner	Number of shares in '000:	Ownership interest in %:
SPENCER ENERGY AS	26,759	15.96%
PERESTROIKA AS	14,038	8.37%
JPMORGAN CHASE BANK	4,988	2.97%
FRANK MOHN A/S	4,230	2.52%
SEB ENSKILDA ASA	4,176	2.49%
NORDEA BANK NORGE AS	3,767	2.25%
STATE STREET BANK AN	3,613	2.15%
DNB NOR NORGE SELEKT VPF	3,600	2.15%
VARMA MUTIAL PENSION NORWAY	3,551	2.12%
PICTET & CIE BANQUIERS	3,510	2.09%
CITIBANK N.A. NEW YO A/C DFA	3,458	2.06%
MOHN FREDERIK WILHELM	2,991	1.78%
SHB STOCKHOLM CLIENTS ACCOUNT	2,799	1.67%
BANK OF NEW YORK CLIENTS ACCOUNT	2,445	1.46%
BANK OF NEW YORK MEL S/A MELLON	2,265	1.35%
STATE STREET BANK CLIENTS ACCOUNT	2,221	1.32%
HOLBERG NORGE	2,188	1.30%
FRODE TEIGEN	2,000	1.19%
MORGAN STANLEY & CO CLIENTS ACCOUNT	1,752	1.04%
GOLDMAN SACHS & CO - SECURITY CLIENT	1,600	0.95%
Total 20 largest	95,954	57.21%
Others	71,759	42.79%
Total	167,713	100.00%

20 largest shareholders as at 31 December 2009:

Owner	Number of shares in '000:	Ownership interest in %:
SPENCER ENERGY AS	26,759	19.55%
SEB ENSKILDA ASA	6,875	5.02%
PICTET & CIE BANQUIERS	4,838	3.54%
FRANK MOHN A/S	4,000	2.92%
GOLDMAN SACHS & CO - EQUITY	3,833	2.80%
SKANDINAVISKA ENSKILDA BANKEN	3,723	2.72%
BANK OF NEW YORK MELLON SA/NV	3,552	2.60%
HSBC BANK PLC	3,071	2.24%
HOLBERG NORGE	2,964	2.17%
DNB NOR NORGE SELEKTIV (III)	2,672	1.95%
HSBC BANK PLC	2,044	1.49%
DNB NOR BANK ASA	1,723	1.26%
VARMA MUTUAL PENSION INSURANCE	1,605	1.17%
MORGAN STANLEY & CO INC. NEW YORK	1,483	1.08%
JPMORGAN CHASE BANK	1,458	1.07%
EUROCLEAR BANK S.A./N.V. ('BA')	1,259	0.92%
SHB STOCKHOLM CLIENTS ACCOUNT	1,207	0.88%
DNB NOR SMB	1,200	0.88%
BROWN BROTHERS HARRIMAN & CO	1,200	0.88%
GOLDMAN SACHS & CO - EQUITY	1,174	0.86%
Total 20 largest	76,638	56.00%
Others	60,210	44.00%
Total	136,848	100.00%

Shares and options owned by the executive managers, members of the board and senior management in thousands:

Name	Shares	Options
Arne Blystad - Chairman	26,759	-
Asbjørn Vavik - CEO	100	600
Geir M. Karlsen - CFO	-	200
Trond Christensen - COO	320	600

Please note that these options are cash settled.

Arne Blystad holds his shares through Spencer Energy AS. Asbjørn Vavik holds his shares through Netza AS.

Note 23 Borrowings

Current (USD '000)	2010	2009
Secured:		
Bank loan (i)	73,600	264,466
Bond loan (ii)	549	-
Current secured debt	74,149	264,466
Non current (USD '000)	2010	2009
Secured:		
Bond loan (ii)	-	25,444
Bank loan (iv)	287,539	537,639
Non current secured debt	287,539	563,083
Current (USD '000)	2010	2009
Unsecured:		
Bond loan (iii)	48,057	62,044
Current unsecured debt	48,057	62,044

(i) Current portion of noncurrent bank loan. See section (iv).

(ii) USD 75 million bond loan reduced to a nominal value of USD 0.5 million, issued 24 March 2006. Main terms: 5 years, 9.75% fixed rate, no warrants, not convertible. Option: The remaining loan was redeemed on 24 March 2011. The loan is a second priority mortgage with priority and right of advancement after a USD 150 million first priority mortgage granted as security for the senior bank loan. Secured with second priority mortgage in the rig Songa Dee. The Company shall not make or distribute dividend payments to the Company's shareholders that constitutes more than, on a consolidated basis 50% of the Company's net profit after taxes for the previous financial

year. The outstanding amount under the senior bank loan is redeemed with at least USD 15 million in both 2009 and 2010.

(iii) USD 62.5 million convertible bond loan was reduced to a nominal value of 47.5 million, issued 11 June 2009. 2009: On 11 June 2009, the Group obtained commitments from the required majority of bondholders to convert the USD 125 million bond. The proposed amendments were approved at a bondholders meeting held on 24 June 2009, and the agreement was amended effective 29 June 2009. The bond was subsequently converted into (i) 13,460,000 new shares worth approximately USD 50 million (at a conversion rate of USD 3.71 per share) and (ii) a USD 62.5 million principal amount floating rate bond due 29 June 2012 with a coupon of LIBOR + 12%.

(iv) On 27 October 2010, the new bank loan facility of USD 532 million replaced the old loan facility of USD 1,050 million, drawn down in August 2008. The new facility is a 5 year loan with 20 equal instalments. The facility consists of a term loan in the principal amount of USD 285 million guaranteed by Eksportfinans, a commercial term loan in the principal amount of USD 83 and a revolving facility in the principal amount of USD 164 million. At year end 2010 USD 368 million has been drawn down (2009: USD 1,048 million) and USD 600 million repaid (2009: USD 245.5 million). Main terms: USD Libor + a margin of 3.25% on the total loan facility and in respect of the total Eksportfinans loan a margin of 2,5% p.a. Instalments in the amount of USD 18.4 million are due in January 2011, thereafter follows quarterly instalments of USD 18.4 million each.

Note 24 Trade and other payables

USD '000	2010	2009
Payable vendors	19,570	25,688

Note 25 Deferred revenue

USD '000	2010	2009
Deferred revenues	6,046	11,917
Deferred drydocking	(797)	(2,065)
Mobilization costs	353	(306)
Total deferred cost/(revenue)	5,602	9,546

Note 26 Other liabilities

USD '000	2010	2009
Accrued employee benefits	14,375	16,925
Withholding tax	6,086	5,906
Accrued expenses	11,429	14,576
Other	319	141
Total other liabilities	32,209	37,548

Note 27 Share based payments

In 2009 the company established a program based on cash settled synthetic options, also known as stock appreciation rights (SAR). The synthetic shares have been granted by Songa Offshore SE and are based on the share price of the ultimate parent, Songa Offshore SE, whereas the employees are in different subsidiaries. Settlement of the synthetic share options will be done by funds from Songa Offshore SE, but actual payment will be done by each subsidiary/branch in order to comply with local tax and reporting requirements.

The Option series are vested and exercisable as follows:

- Options in Option series 1 (labelled 1 in table below) are vested at 31 December 2009. The options may be declared any time over the following 24 months.
- Options in Option series 2 (labelled 2 in the table below) are vested 31 December 2010. The options may be declared any time over the following 24 months.
- Options in Option series 3 (labelled 3 in the table below) vest 1/3 every year, starting 1 January 2009. At 31 December 2010 2/3 of these options were vested, and will be fully vested 31 December 2011. The options may be declared any time over the following 24 months.

Option series	Number of options	Grant date	Expiry Date	Exercise Price	Average fair value at year end 2010
12.2009 - 1	748,333	12/9/2009	12/31/2011	NOK 13.20	NOK 19.00
12.2009 - 2	783,333	12/9/2009	12/31/2012	NOK 13.20	NOK 20.27
12.2009 - 3	783,334	12/9/2009	12/31/2013	NOK 13.20	NOK 21.45
07.2010 - 2	20,000	7/5/2010	12/31/2012	NOK 14.88	NOK 19.18
07.2010 - 3	20,000	7/5/2010	12/31/2013	NOK 14.88	NOK 20.52
08.2010 - 2	100,000	8/2/2010	12/31/2012	NOK 19.88	NOK 16.35
08.2010 - 3	100,000	8/2/2010	12/31/2013	NOK 19.88	NOK 18.15

Options were priced using Black & Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Input into the model	12.2009 - 1	12.2009 - 2	12.2009 - 3	07.2010 - 2	07.2010 - 3	08.2010 - 2	08.2010 - 3
Reporting date share price (close)	NOK 31.40						
Average remaining expected life	1 year	2 years	3 years	2 years	3 years	2 years	3 years
Expected Volatility	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%
Exercise Price	NOK 13.20	NOK 13.20	NOK 13.20	NOK 14.88	NOK 14.88	NOK 19.88	NOK 19.88
Dividends							
Risk free rate ¹	2.35%	2.47%	2.58%	2.47%	2.58%	2.47%	2.58%

Following the private placement in October 2008, the historic volatility have increased and fluctuated in the range of 50 – 100 %. Prior to this the volatility was steady around 40 %. The Group still believes the share price will fluctuate. We have used a volatility of 65 % in these calculations.

¹ Rates from Norges Bank on grant date that is used in the calculations (interpolation is used to achieve a comparable term).

Option activity:	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at the beginning of the financial year	2,435,000	NOK 13.20	900,000	NOK 72.15
Granted	240,000	NOK 19.05	2,435,000	NOK 13.20
Exercised	(50,000)	NOK 13.20	-	NOK 54.56
Terminated	-	-	-	-
Replaced	-	-	(900,000)	NOK 72.15
Forfeited	(70,000)	NOK 13.20	-	-
Expired	-	-	-	-
Balance at the end of the financial year	2,555,000	NOK 13.75	2,435,000	NOK 13.20
Vested options	1,651,666	NOK 13.62	798,333	NOK 13.20

Weighted average fair value of options granted during the financial year	240,000	NOK 9.41	2,435,000	NOK 20.42
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Outstanding options			Vested options	
Outstanding options 31/12/2010	Weighted average remaining contractual life	Weighted average exercise price (NOK)	Vested options 31/12/2010	Weighted average exercise price (NOK)
2,555,000	2.06	NOK 13.75	1,651,666	NOK 13.62

The option cost recognised during 2010 was USD 4,125 thousand.

Note 28 Retirement benefit plans

The Group operates both funded defined benefit plans and defined contribution plans. In a defined contribution plan the Company is responsible for paying an agreed contribution to the employee's pension assets. The employee bears the risk related to the investment return on the pension assets. In a defined benefit plan, the company is responsible for paying an agreed pension to the employee based on his or her final pay. The defined benefit plans of the Group are limited to subsidiaries in Norway.

For the defined benefit plans the principal assumptions used for the purpose of the

Economic assumptions	2010	2009
Discount rate	3.60%	4.40%
Expected return on plan assets	5.00%	5.60%
Expected rate of salary increase	4.00%	4.25%
Adjustment of base amount in national insurance (G)	3.75%	4.00%
Pension adjustment	0.90%	1.30%
Actuarial assumptions	2010	2009
Expected voluntary retirement before age of retirement		
Withdrawal rates before retirement age	0-8%	0-8%
Turnover	0%	0%
Disability rate	IR02-level	IR02-level
Death rate	K2005	K2005
Probability of marriage	K2005	K2005

actuarial valuations were as follows:

USD '000	2010	2009
Current service cost	1,651	1,565
Interest on obligation	88	35
Expected return on plan assets	102	(48)
Amortization of loss/(gain)	4	11
Administration cost	51	11
Payroll tax	238	220
Total pension cost	2,134	1,795

Amounts recognized in profit or loss in respect of the defined benefit plans is:

The charge for the year is included in the General and administrative cost for the onshore based employees and in the Operating expenses for the offshore based employees in the income statement.

Estimated pension cost for 2011 is USD 2.3 million. Estimated payment for 2011 is USD 1.5 million. The estimated cost is converted from NOK to USD using the exchange rate at year end 2010.

The amount included in the balance sheet arising from the entity's obligation in respect of its defined benefit plans are as follows:

USD '000	2010	2009
Projected benefit obligation	3,476	2,370
Plan assets at market value	1,994	1,222
Funded status (underfunded)	(1,483)	(1,148)
Unrecognized net experience loss/(gain)	525	227
Payroll tax	(209)	(162)
Net liability for defined benefit obligations	(1,167)	(1,083)

Movements in the present value of the defined benefit obligations in the current period were as follows:

USD '000	2010	2009
Opening defined benefit obligation converted from NOK to USD with exchange rate at YE	1,992	923
Current service cost	1,651	1,565
Interest cost	88	35
Actuarial loss (gain)	(254)	(153)
Closing defined benefit obligation - estimated	3,476	2,370

Movements in the present value of the plan assets in the current period were as follows:

USD '000	2010	2009
Opening balance of plan assets converted from NOK to USD with exchange rate at YE	1,165	315
Expected return on plan assets	102	48
Actuarial gain / (loss)	(590)	(172)
Administration costs	(51)	(11)
Employer contribution	1,368	1,042
Closing balance of plan assets - estimated	1,994	1,222

Major categories of plan assets were as follows:

USD '000	2010	2009
Equities	15.1 %	3.8 %
Bonds and other security	15.4 %	29.9 %
Cash / Money market	17.4 %	14.0 %
Bonds held to maturity	33.7 %	28.8 %
Properties and real estate	16.8 %	16.8 %
Other	1.5 %	6.7 %
Total	100.0 %	100.0 %

USD '000	2010	2009
Experience adjustments on plan liabilities, loss/(gain)	(254)	(153)
Experience adjustments on plan assets, loss (gain)	(590)	172

Note 29 Transactions with related parties

The major shareholder of Songa Offshore SE is Spencer Energy AS, controlled by the Chairman Arne Blystad with 15.96 % of the shares outstanding at year end.

Office space in Oslo is rented from Arne Blystad AS, a company controlled by Arne Blystad, Chairman of the Group. The rent for 2010 was USD 0.1 million (2009: USD 0.1 million).

The Group has engaged legal services from the law firm Harneys Aristodemou Loizides Yiolitis LLC. Nancy Ch. Erotocritou, member of the Board of Directors in Songa Offshore SE, is a partner of this firm.

In May 2009, the Group adopted a stock appreciation rights incentive plan to replace its 2008 share option plan. Please refer to note 27 and 28 for details.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Note 30 Remuneration to the Board of Directors and executive management

Remuneration in 2010:

USD '000							
	Director's fee	Salary	Bonus	Pension	Benefits in kind	Paid out of options exercised	Total
Executive management:							
Asbjørn Vavik - CEO		498	227		88		812
Geir Magne Karlsen - CFO (from 1 Aug 2010)		144		11	1		156
Trond Christensen - COO		415	213	21	95		743
Tom E. Jebsen - SVP (CFO until 1 Aug 2010)		399	289	36	2		726
Total remuneration executive management		1,455	730	67	185		2,437
Board of Directors:							
Arne Blystad - Chairman	56						56
Erik Østbye - board member	33						33
Valborg Lundegaard - board member	40						40
Nancy Erotocritou - board member	33						33
Trond Christensen - board member (resigned)	33						33
Jon Christian Syvertsen - board member (resigned)	7						7
Anette Melbye - board member (resigned)	7						7
Gunnar Hvammen - board member (resigned)	7						7
Total remuneration Board of Directors	215						215

Remuneration in 2009:

USD '000							
	Director's fee	Salary	Bonus	Pension	Benefits in kind	Paid out of options exercised	Total
Executive management:							
Asbjørn Vavik - CEO	-	425	470	26	3	-	924
Tom E. Jebsen - CFO	-	397	392	26	3	-	817
Trond Christensen - COO	-	589	370	12	99	-	1,070
Total remuneration executive management	-	1,410	1,232	64	104	-	2,811
Board of Directors:							
Arne Blystad - Chairman	31	-	-	-	-	-	31
Erik Østbye - board member	-	-	-	-	-	-	-
Valborg Lundegaard - board member	24	-	-	-	-	-	24
Nancy Charalambous - board member	-	-	-	-	-	-	-
Trond Christensen - board member	-	-	-	-	-	-	-
Anette Mellbye - board member (resigned)	24	-	-	-	-	-	24
Jon C. Syvertsen - board member (resigned)	24	-	-	-	-	-	24
Gunnar Hvammen - board member (resigned)	24	-	-	-	-	-	24
Total remuneration Board of Directors	127	-	-	-	-	-	127

Executive Management consists of Group executive management being: Chief Executive Officer - CEO, Chief Financial Officer - CFO, Chief Operating Officer - COO and Senior Vice President - SVP, who is disclosed separately above.

The CFO and the SVP are included in the defined benefit plan for qualifying employees of the Norwegian branch of Songa Offshore SE. Under the plan, the employees are entitled to retirement benefits of 70% of final salary, limited to twelve times the national insurance base amount (Folketrygdens grunnbeløp (G)), on attainment of a retirement age of 67. No other post-retirement benefits are provided to the executive management. (See note 28)

The Group has one share option scheme per 31 December 2010 (see note 27).

The remuneration of the members of the Board is determined on an annual basis. The directors will be reimbursed for, inter alia, travelling and other expenses incurred by them in attending meetings of the Board. A director who has been given a special assignment beside the normal duties of a member of the Board may be paid such extra remuneration as the Board may determine. The total remuneration to the Board is, at present, not expected to exceed USD 0.2 million per annum, excluding reimbursement for expenses.

No loans or guarantees are granted to the Chairman, member of the Board, CEO, employees, management, shareholders or other related parties to any of these groups.

The executive management has not received any other remuneration from any Group companies other than what is disclosed above. There has been no additional remuneration for any special services exceeding the normal work scope of executive management.

Note 31 Contingent liabilities

The Group is engaged in standard legal proceedings which are not expected to have a material impact on the financial result.

The Company's exposure to a possible exit tax in Norway is considered a contingent liability. The Company's redomiciliation from Norway to Cyprus took effect on 11 May 2009. The redomiciliation was done in accordance to the EU's SE directive and the Company is consequently not considered liquidated nor are the assets considered realised for neither tax nor accounting purposes. For further information see note 4 to the financial statements.

Note 32 Events after the balance sheet date

On 16 January the Songa Mercur suffered a structural failure of the telescopic joint, causing an uncontrolled descent of the BOP and Marine riser a short distance to sea bed. The rig was not drilling at the time of the incident and the BOP was in safe distance from the well, which had already been plugged and secured. The incident is under

investigation and all required resources were made readily available for a safe and effective recovery.

As the ongoing well was near its final stage at the time of the incident and the rig had been planned to be towed to Singapore after the well completion in preparation for future contracts, the incident does not have any significant impact on budgets and/or projections.

On 25 January the company announced that it has increased their ownership in Deepwater Driller Ltd with an additional 20.6% of the shares. The seller of the shares is Petrolia Invest AS. The Company now owns 51.9% of the shares in Deepwater Driller Ltd which owns the Songa Eclipse, 6th generation Friede & Goldman ExD ultra-deepwater semi-submersible drilling rig under construction at Jurong Shipyard Pte Ltd, Singapore.

Deepwater Driller will from Q1 2011 be consolidated into the Company accounts as the increased ownership of the shares gave the Group control of the company. The acquisition will be treated as an asset that does not constitute business.

On 17 March the company announced that a Letter of Award (LOA) was received from Statoil for the use of Songa Delta for a three years firm plus 1 year option Drilling Contract on the Norwegian Continental Shelf. The LOA is conditional to mutual agreement of the contract terms between the parties. The firm part of the contract has an aggregated revenue value of USD 409 million inclusive a rig upgrade element and an associated yard stay prior to contract commencement. The contract also includes an option to extend the firm period of the contract, and this option will have to be exercised prior to the contract commencement.

The yard stay and contract with Statoil will commence in direct continuation of the rig's current commitment and subsequent demobilization from Det Norske Oljeselskap/Wintershall late Q2/early Q3 2012. Songa Offshore will undertake full rig management and operations responsibility of the Songa Delta from current Odfjell Drilling Management at time of transition between contracts.

On 2 March 2011, ESA sent a "reasoned opinion" to the Norwegian Ministry of Finance for failing to comply with its obligations under Articles 31, 34 and 40 of the Agreement on the European Economic Area by imposing immediate taxation on companies that transfer their seat or assets and liabilities to another EEA State and on the shareholders of such companies and for breach of the SE regulation.

According to ESA, Norway is in breach of the EEA Agreement by imposing an immediate tax on companies, or the shareholders of companies, that transfer their seat to another EEA State. The Authority considers that such immediate, and potentially also higher, taxation penalizes those companies that wish to leave Norway. It results in less favourable treatment compared to companies which relocate or merge within Norway. The rules in question are, therefore, likely to dissuade companies from exercising their right of freedom of establishment and, in certain circumstances, they also hinder the free

movement of capital. As a result, these rules constitute unlawful restrictions according to EEA law.

The Norwegian Government was requested to take the necessary measures to comply with the reasoned opinion within two months.

On 25 March 2011, the Norwegian Ministry of Finance presented a bill proposing amendment of the tax rules in respect of exits to EEA countries. The ministry proposes to dismantle the tax liability on owner and company level for companies relocating to normal tax countries within the EEA. For companies relocating to low tax countries within the EEA the exit tax rules will not apply if the company is effectively established in the low tax country. Assets that are taken out of the Norwegian area of taxation will be governed by the existing Tax Act Section 9-14, whereby a payment of the assessed tax for physical assets can be deferred and the tax will not be payable if the exiting company does not realize the physical assets within five years after redomiciliation.

The Company is of the opinion that its redomiciliation to Cyprus in 2009 will not result in payable exit tax. ESA's reasoned opinion and the Ministry of Finance's law proposal support this understanding.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal and Regulatory Requirements

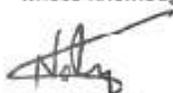
Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- 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 Company's consolidated 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 consolidated 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 report of the Board of Directors is consistent with the consolidated financial statements.

Pursuant to the requirements of the Directive D1190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of the said Directive, and it forms a special part of the Report of the Board of Directors.

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 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, 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.



Tasos Nolas
Certified Public Accountant and Registered Auditor

for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 14 April 2011

CORPORATE GOVERNANCE

It's Company's objective to comply with all relevant laws and regulations, as well as the Norwegian Code of Practice for Corporate Governance. The Company's directors have adopted a Corporate Governance Policy 18 July 2006 to reflect the Company's desire to comply with good corporate governance. The Company has also established a Corporate Code of Business Ethics and Conduct. Corporate Governance is in focus at all levels of the organisation, which is reflected in various corporate documents, like articles of incorporation, strategy and mission statement. These documents are posted on the Company's web site. The key goal is to have systems for communication, monitoring, responsibility and incentives in place that create the greatest value over time, long-term health and success for the Company, as well as the shareholders' return on their investments.

The Company has implemented the Norwegian Code of Practice for Corporate Governance. Deviations from this code of practice will be explained in line with the code's principle of "comply or explain."

The Company has the following deviations from the code with explanations:

Except for the deviations of the Code discussed below, the Company complies with the Norwegian Code of Practice for Corporate Governance:

Deviation from clause 7 of the Code – Nomination Committee: The Company does not have a nomination committee. Instead of a traditional nomination committee the Company has elected to set up a web page where the investors are invited to nominate candidates for the Board of Directors. Further it should be mentioned that in Cyprus it is customary for the Board of Directors itself to handle tasks which in some countries are handled by a separate nomination committee. The Company can see no reason to deviate from regular Cypriot practice

Deviation from Clause 8 of the Code - Board member: Members of executive management may take up positions on the Board of the Company. For young companies like Songa Offshore it is considered as a strength to have the experience of executive management on the Board.

Deviation from Clause 9 of the Code - Independent members of Board committees: In certain circumstances the Board has found it favourable not to restrict the membership of Board committees to members of the Board who are independent of the Company's executive management.