

Attachment

OVERVIEW OF THE BALDER DISPUTE

The production vessel Balder FPU was constructed by Keppel Fels in Singapore and sold in November 1995 to Esso Norge AS for USD 296 million. At that time, the vessel was 75 percent complete. Balder FPU was delivered to Esso in March 1997 with adequate certificates. Esso moved the vessel to a shipyard in Scotland to complete their modification program in order to comply with certain new Balder-specific requirements, and to carry out other remaining work.

Smedvig and Esso are in agreement that certain work should be performed by Esso on Smedvig's behalf. However, the parties disagree as to the amount of the outstanding work and the costs and procedures required for completion.

During the yard-stay in Scotland, Esso undertook comprehensive modifications and upgradings of the vessel above and beyond those specified in the sales and purchase agreement.

On October 17, 1997, Esso notified Smedvig that it terminated the operating contract for the Balder FPU, as well as the remaining part of the sales contract. The termination did not result in the vessel being redelivered to Smedvig. As of December 31, 2002, amounts owed to Smedvig by Esso under the sales contract totalled gross USD 47 million.

In April 1998, Smedvig filed a complaint against Esso in Stavanger District Court for unjustified termination and wilful breach of the sales contract and the operating contract for Balder FPU. In the complaint, Smedvig claims payment of the remaining purchase price under the sales contract plus compensation for unjustified termination and wilful breach of contracts up to a total of approximately NOK 2.6 billion. In its reply, filed in September 1998, Esso rejected Smedvig's claim and brought counterclaims totalling NOK 4.5 billion against Smedvig. Esso's net claim against Smedvig has later been reduced to approximately NOK 2.75 billion.

On March 6, 2000, the hearings of the dispute between Esso and Smedvig commenced in Stavanger District Court. The proceedings were completed on November 1, 2001. The Court's decision was awarded on July 30, 2003.