REPORT OF THE BOARD OF DIRECTORS

INTRODUCTION

Cecon ASA's business is to carry out EPCI contracts in connection with installation of subsea pipelines, cables and umbilicals on the seafloor to connect miscellaneous offshore oil and gas producing units with each other through new and existing pipelines. So far the Group has specialized in shallow water installations and maintenance of various pipes and hoses. Work has been performed offshore in West-Africa and on the Norwegian continental shelf. The work performed has been done by own employees and various sub-contractors. Two of the main sub-contractors are associated companies. CeCT Oilfield Services AS (ownership 50 %) is a company supplying personnel for the offshore operations such as deckhands, riggers, foremen and supervisors. Reellay AS (ownership 50 %) is a company supplying consultancy services, welding and delivery of steel pipelines for installation on the sea floor. Cecon ASA's offices are located at Kystveien 226, 4841 Arendal, Norway.

EVENTS DURING 2010

Vessels under construction
The Cecon Group has three vessels under construction at Davie Yards Inc. Financial problems at the yard were revealed in February 2010 when Davie entered creditor protection in Canada. This is the second time during the period of vessel construction that the yard has experienced significant financial difficulties and, therefore, the Group is exposed to risks related to the yard's financial matters. The risk relates to future further price increases, delivery delays and financing challenges in connection with the completion of the vessels.

Cecon's vessels were financed through equity, a 2nd priority bond loan and a 1st priority loan from Export Development Canada Inc. (EDC). The equity part and the bond loan of USD 100 million were utilized during 2008. The EDC loan of USD 200 million was utilized in 2009.

SUBSIDIARIES

The Group has three subsidiaries registered in Cyprus (all 100% owned). There is no activity, nor any equity, in any of these companies.

Cecon Shipping 1 AS, Cecon Shipping 2 AS and Cecon Shipping 3 AS are three wholly owned subsidiaries registered in Norway. The new-building contracts, assets and debts related to the three vessels were transferred to the subsidiaries in 2007. New-building no. 1 (hull no 717) is owned by Cecon Shipping 2 AS, new-building no. 2 (hull no 718) is owned by Cecon Shipping 1 AS and new-building no. 3 (hull no 719) is owned by Cecon Shipping 3 AS.

WORK PERFORMED IN 2010

2010 has been a difficult year without any major projects. 2 minor engagements have been performed as subcontractor. A larger part of the work performed has been in-house design of pipelay spreads for both J- and S-lay systems for shallow, deep and ultra-deep waters. The equipment designed is to be used on the Group's vessel under construction when the vessels are completed.

During the second half of the operating year a number of bids have been prepared for work during 2011 and 2012. Clarification on such projects is expected during spring of 2011.

SEGMENT INFORMATION

The Group operates as per year end 2010 within only one business segment in relation to subsea construction services (installation of pipelines) and two geographical regions based on the customers' location, the North Sea and West African Continental Shelf.

RISK FACTORS

Historically demand for offshore exploration, development and production has been volatile and closely linked to the price of hydrocarbons. Low oil prices typically lead to a reduction in exploration drilling as the oil companies' scale down their investment budgets. The reduction in oil prices during 2009/2010 and the global financial crisis has had effect on Cecon's primary market. Some smaller, low margin projects have seen postponements, but the major oil companies are so far keeping the majority of the planned developments, but at a slower pace. The medium term effect during 2010 has shown delays in projects and a temporary reduced demand, but subsea activity demand is gradually increasing. A growing number of rigs, installations of subsea trees etc coming into the market create further demand for subsea services.

A substantial decrease in the oil prices may have a material adverse impact on the financial position of the Group. A weakened demand for energy (especially from China) combined with increased supply of oil, more stable supply from key regions like Russia, Middle East and West Africa and the decreasing risk of gas crises in North America would be key reasons for lower oil prices.

The Group has entered into construction contracts with Davie Yards Inc (earlier Davie Quebec Inc.) for the fabrication and installation of three vessels. Davie Yards was acquired by a Norwegian-led group of investors in 2006 following bankruptcy in 2001. The Group has prepared proper specifications of the vessels; including the hull, marine equipment and supply and installation of equipment. The severe financial problems at the yard that occurred during 2010, exposes the Group to a risk of not getting the vessels delivered. Despite all efforts made by the Group there are no assurances that further delays and additional cost-overruns will not occur and such events, if occurring, could have an adverse impact on the Group.

The investment in the three vessels is totaling USD 472.6 million (as agreed 17 February 2009). The planned external financing consisted of a bond loan of USD 100 million and a loan facility from Export Development Canadian (EDC) of USD 200 million. The equity financing for the new-buildings was USD 109.6 million, already paid to the yard. This investment is part of the equity raised in 2007. In addition the Group is dependant on additional cost to complete financing. All assets and debts related to the new-buildings are USD denominated. The bond loan has a fixed interest rate. The interest rate margin on the bank facility can vary within a specified and limited range above USD LIBOR. Due to the uncertainty at the yard, the Group has performed an impairment of NOK 142 million on the recorded values of the vessels under construction. According to the vessel construction contract, the Group has title to the vessels under construction. Fincantieri of Italy together with other investors is most probably taking over the Davie Yards and completion of the vessels will be negotiated.

Operational income is primarily in USD. The major project costs are in USD, EUR and GBP, and personnel cost is normally in NOK. All other operational costs are in NOK.

No currency hedges are established on a regular basis. The major bank deposits and debts are subject to floating interest rates.

The day to day operation is exposed to currency exchange risks. Forward exchange contracts are used under certain circumstances to limit currency exchange risks.

The credit risk exposure on operations is normally acceptable to the extent the project payments from customers are ahead of the incurred project cost. This exposure is normally evaluated before contract signing.

The day to day operations are financed by equity and advances from customers. The Group does not have any overdraft or other banking facilities except for the financing of the investments in new-buildings. Both during 2010 and so far in 2011 the Group has experienced strained liquidity.

FUNCTIONAL CURRENCY

Functional currency of the three ship owning subsidiaries is USD. The contracts for the new-buildings are denominated in USD and the same applies to the debt financing of the same. Only a minor volume of transactions are in other currencies than NOK, whereof the most significant number being transactions between the parent company and subsidiaries.

The functional currency of the parent company is NOK, but under close monitoring related to special events. Project income is denominated both in NOK and USD, and the major project costs during the latest project were in EUR. The major project income/costs in 2011 will be in EUR, USD and NOK.

GOING CONCERN

The accounts have been prepared on the assumption of a going concern, however a going-concern uncertainty may exist. The going concern evaluation has been performed by the management and the board.

The following items are essential for the evaluation of the going concern situation; problems at Davie Yards, resulting in uncertainty related to the ability of the yard to complete the vessels, and the Group's future orders.

The Davie Yards announced in February 2010 that it had filed for creditor protection under the Canadian Companies' Creditors Arrangement Act ("CCAA"). The yard stated delays in delivery combined with increased costs. The Davie Yards Inc. entity will not be completing the vessels. A new entity will be initiated, buying the assets and continuing the completion of the vessels. This process in ongoing and will be completed during May 2011. The Group has received draft offers for financing of the cost to complete based on the expected cost and delivery times. The existing 1st priority financing is linked to a limited recourse as part of the Loan agreement so no claim on the EDC loan can be raised against the Group before the vessels are delivered to the Group. No interest has been paid on the EDC loan during 2010. Clarification on the EDC loan is pending due to a final solution for the restructuring of the yard.

The Group has experienced a strained liquidity during 2010. The major reason for this situation is continued late payments by the Group's major clients. Due to this the Group introduced a temporary stop in payments of payables in April 2010. The outstanding trade receivables at year end amounted to TNOK 119 044. The trade receivables have been fully agreed and confirmed by the clients, therefore no provisions have been made. The Group expects full payment to be received, however there is an uncertainty regarding when to expect payment, and this situation generates problems for the planning of the Group's available liquidity requirements.

During October 2010 an agreement was made with bondholders of the USD 100 million loan and the USD 10 million loan on a complete restructuring. This work was far more time consuming than expected, and the closing took place in March 2011. Both loans plus accrued unpaid interest were converted to equity in the parent company and a new five year USD 74.125 million bond loan at 8 % interest p.a. First year's interest will be added to the principal and be paid at the end of the 5 year period. In addition the Group issued a USD 7 million cash flow loan. This is a 2 year loan at 5 % interest p.a. There are restrictions on distribution of the loan to the Group. The money is held at Escrow. This loan combined with new EPCI projects and gradual payments of confirmed receivables will solve the liquidity issue.

If the Group should be unsuccessful in completing the vessels currently under construction at Davie Yards, normal operations with EPCI projects with chartered vessels will continue, and on this basis the restructured and the new bondloan will be serviced.

The Group has full focus on the above mentioned challenges, and the restructuring of the bond loans was the key element for securing the going concern evaluation, and therefore the accounts have been prepared on the assumption of a going concern.

If the Group fails to sign further EPCI contracts and no inflow is received from clients, this might set the Group's operation in jeopardy, and Group's assets may in that case be realized at values below the carrying values in the balance sheet.

CORPORATE GOVERNANCE

The Group emphasizes the importance of maintaining and further developing its corporate governance policy, and supports the principles set out in the Norwegian Code of Practice for Corporate Governance.

The Group provides information to the market through quarterly and annual reports; investor and analyst presentations open to the public and by making financial information available on the Group's website. Events of importance are made available to the stock market by notification to the Oslo Stock Exchange (Oslo Axess), and other commonly read information sources. Information is only provided in English.

The Board of Directors consists of six board members (as pr 31 December – during Q1/2011 increased by one). All board members are independent of the Group's management.

1. Reporting on corporate governance

The board is supervising and monitoring that the Group is operating according to the code of practice for good corporate governance. The number of board meetings indicates that through a troubled period for the Group, monitoring and supervision has been actively pursued.

The Group is working actively with ensuring the ethical, environmental, health and safety and employee rights issues being taken care of according to the accepted standards.
Certification according to ISO standards has been achieved within Quality Management Systems ISO 9001:2008, Environmental Management Systems ISO 14001:2004 and Occupational Health and Safety Management systems ISO 18001:2007. All certificates issued by Det Norske Veritas. In addition the Group is qualified through Achilles Joint Qualification Systems as supplier of services to the oil industry in Norway.

2. Business

The Groups business is kept within the frames described in the Articles of Association. The company's objectives within EPCI contracts is monitored closely according to the strategies and targets set forth for the operation

3. Equity and Dividends

The Groups equity is relevant for the operations planned and the way the EPCI contracts are structured. Large investments are partially financed by equity combined with earnings and external financing.

Existing loan agreements are restricting dividends through specific arrangements between the parties. Such limitations are a prerequisite for bond loans. New guidelines for dividends will be issued and disclosed when existing limitations becomes void.

4. Equal treatments of shareholders and transactions with close associates

The Group has one class of shares. All shareholders are treated equally, and the board review all within arms-length transaction, if any. The Group's legal advisors and/or auditors are consulted when required.

5. Freely negotiable shares

No restriction on shares/warrants have been applied, and all shares/warrants are freely negotiable through the market place; Oslo Børs (Oslo Axess).

6. Annual Meeting

Annual meetings are called with 21 day's notice and all documentation is provided at the same time. Distribution is performed by Nordea bank Issuer Service. All relevant documentation is disclosed to the market on the stock exchange newsweb as well as the Groups homepage. Both Annual meetings and Extraordinary General Meetings are held in strict accordance to the agenda set forth and managed by the appointee. Auditor is always present at the Annual Meeting.

7. Nomination/election committee

The committee is consisting of 3 individuals and the members are elected by the Annual meeting. Guidelines for the committee are stipulated by the Annual Meeting.

8. Corporate assembly, board of directors; composition and independence

The company does not have a Corporate assembly due to being a small operation with limited number of employees. The board is currently consisting of 7 members, whereof 3 females and 4 males. The largest shareholders are represented on the board. 3 of the board members are currently independent of the major shareholders. Management is not represented on the board. Maximum election time is set at 2 years.

9. The work of the board of directors

The Financial calendar for the coming year is disclosed by the Group during October/November. The board is working with supervising the developments throughout the year, monitoring cash flow, evaluating market strategies and following the operation closely. All major contracts are subject to board approval. Board meetings out of sequence, to discuss matters of importance, can be called on short notice if required.

The board has appointed an Audit committee consisting of 2 – 3 of the board member to quality assure any disclosed quarterly or annual accounts. This committee is working closely with both management and the appointed auditor. The Committee is responsible for contributing to the effective stewardship of the Group by assisting the Board in fulfilling its oversight of:

i. the integrity of the Group's financial statements;
ii. the Group's compliance with applicable legal and regulatory requirements;
iii. the independence, qualifications and appointment of the Group's external auditor;
iv. the performance of the Group's external auditor;
v. the accounting and financial reporting processes of the Group; and
vi. audits of the financial statements of the Group.

The board has appointed a subcommittee supervising cash flow and remuneration to top management. The Chairman and one of the independent board members shall be participating in the sub-committee. The committee shall consist of 3 board members, where the 3rd member shall be appointed by the election committee.

If board members are incapacitated in specific cases they have to leave the meeting while the matter is resolved. This will always be noted in the minutes of meetings.

10. Risk management and internal control

The Group operates in some political unstable areas of the world, henceforth risk evaluation is important for the board. The monitoring of risks is required for all projects performed, but the Group's capacity to perform many projects at the same time gives a fair risk evaluation. Outside risk managers are used if required.

Internal control is secured with working with the auditor and management. There is a limited number of transactions throughout the year and a very high level of transparency in the Group's internal systems for both accounting, payroll and documentation and design.

11. Remuneration to the board

The board is remunerated according to suggestions from the election committee and approval by the Annual Meeting. The remuneration is planned to compensate for the board's collective and individual responsibility. In addition a board insurance is in place, covering both board and top management.

Board members have been working for the company on separate issues beyond the board member duties. Such work is approved by the board in advance and remunerated separately. Such remuneration is disclosed in notes to the annual accounts.

12. Remuneration of executive personnel

The remuneration of executive personnel is controlled by a sub-committee (see item 9 above). There are a limited number of persons in this group and the degree of transparency is high. Required information on remuneration is disclosed in the notes to the Annual Accounts.

13. Information and communications

Information to the market is following the financial calendar disclosed beforehand on an annual basis. Additional reporting on all major issues is disclosed on the stock exchange newsweb and on the Group's homepage simultaneously. All information disclosed to shareholders is also disclosed on the same electronic sources to the market. Communication with individual shareholders are sought to be limited to avoid unsymmetrical information on the market place. The board's philosophy is to disclose as much information as possible.

14. Take-overs

This issue is not regulated. This has not been a topic neither for the Group nor the board. Necessary procedures will be developed if this becomes a reality. In the near future this is probably not an issue henceforth no preparation for such a situation has been developed. However, if such situation should occur it will be the board's intention to seek a disclosure of information at first possible event to see that the market has symmetrical information. The board will not obstruct such bids due to this being an issue for an EGM more than a board issue.

15. Auditor

The Group works closely with the appointed auditor. The audit is an ongoing event throughout the year. The responsible auditor participate in all required board meetings and Annual meetings incuding EGMs. In addition the auditor is requested to participate in board meetings if the board feels it would be appropriate to have the auditor's opinion. There is formal communications between auditor and board throughout the year. The auditor is also used for additional work in cooperation with management and board. The auditor does also communicate with the board without management being present. The auditors remuneration is disclosed in the notes to the Annual Accounts.

Auditing plans are constantly improved in cooperation with the Groups board of directors and management.

ORGANISATION

The Group has 25 employees and utilizes a number of sub contractors including associated companies. Operational management and engineering is performed through own personnel, whilst parts of the project management are carried out through subcontractors. Some of the Groups employees have decided to leave the company, but new personnel are/will be employed. In addition closer links with subcontractors have been made to compensate if need be. A higher degree of utilization of subcontractors is expected. During the year the Group has experienced no accidents or injuries to its personnel. Total absence due to sickness during the year was 210 days, which is 2.49 % of produced days.

Direct installation work on site is performed through associated companies and subcontractors depending on services required. An expected utilization of sub-contractors is expected to increase in the years to come.

Three out of six members (50 %) of the Board of directors, and five of the employees, are female (23 %). The Group aims to be a workplace with equal opportunities regardless of nationality, culture, religion or gender.

In 2010 Det Norske Veritas completed a successful intermediate audit of the Cecon Management System in order to verify the certificates according to ISO 9001:2008 (Quality Management System), ISO 14001:2004 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management Systems).

ENVIRONMENT

All necessary and applicable environmental considerations and precautions are taken during project execution. Third party vessels used are evaluated based on environmental standards in addition to the technical requirements. All environmental issues are based in the Group's own QA management system.

The day to day operations meet all environmental requirements, and create no environmental hazard or pollution.

The vessels under construction have been designed to meet the latest and most demanding environmental regulations within international shipping.

FINANCIAL RESULT AND BALANCE SHEET AT YEAR END

The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS).

All below figures in NOK are NOK Thousands and figures in brackets are for 2009.

The Group's revenue was NOK 9 452 (NOK 381 148) with an operating profit on NOK -192 426 (NOK -396 379). Earnings before interest, taxes, depreciation and amortization (EBITDA) for the Group were NOK -42 369 (NOK 172 360). Net financial cost was NOK 161 721 (NOK 86 036). The loss for the year was NOK 354 147 (NOK 485 090) which is covered by equity.

At year end The Group had total assets of NOK 2 195 891 (NOK 2 323 811). The main assets were Vessels under construction, which amounts to NOK 2 024 866 (NOK 2 090 617), after impairment of NOK 142 400 (NOK 564 000). The major debt at year end was the interest bearing loan from EDC at NOK 1 161 992 (NOK 1 138 893). The equity at year end was NOK 99 857 (NOK 444 160).

Payments under the construction contracts with Davie Yards Inc. are financed by equity, bond loan and a loan facility from EDC.

Due to late payments from major clients, the cash position at year end was not considered sufficient. The Group expects full payment to be received, however there is an uncertainty regarding when to expect payment. In order to fulfill the liquidity requirements the Group issued a USD 7 million cash flow loan in March 2011.

Net cash at end of period was NOK 1 452 (NOK 38 810). Net cash flow from operating activities amounted to NOK -24 143 (NOK 87 652). Net cash flow from investing activities was NOK -5 960 (NOK -937 667), while net cash flow from financing activities amounted to NOK -7 254 (NOK 962 083).

The accounts are prepared in NOK, the functional currency of the parent company. The long term debt financings for the vessels are denominated in USD (bond loan and bank facility). The contracts for the vessels under construction are in USD.

The functional currency for the entities Cecon Shipping 1 AS, Cecon Shipping 2 AS and Cecon Shipping 3 AS is USD. The accounts are prepared on a going concern basis. However a significant going-concern uncertainty exists.

The accounts of the parent company are prepared according to Norwegian GAAP.

The parent company's revenue was NOK 13 186 (NOK 384 415) with an operating profit on NOK -42 885 (NOK 171 031). Earnings before interest, taxes, depreciation and amortization (EBITDA) for the company were NOK -36 228 (NOK 175 770). Net financial cost was NOK 177 360 (NOK -602 994), after impairment of investments in subsidiaries of NOK 142 400 (NOK 529 953). Interest from long-term payables to subsidiaries is included with NOK 9 070 (NOK 13 604). The loss for the year was NOK 216 413 (NOK -477 056) which is covered by equity.

At year end the parent company had total assets of NOK 635 931 (NOK 830 247). The main asset is shares in subsidiaries on NOK 454 812 (NOK 597 212). The major debt at year end was intercompany long-term payables at NOK 229 911 (NOK 217 787), short term loan at NOK 78 010 (NOK 64 199) and trade and other payables at NOK 55 724 (NOK 55 884). The equity at year end was NOK 272 286 (NOK 488 546).

The loss for the year of NOK 216 413 (NOK 477 056) is covered by equity. No off-set for dividend has been made. Non-restricted equity of the parent company was NOK 0 (NOK 0).

Net cash at end of period was NOK 1 442 (NOK 38 810). Net cash flow from operating activities amounted to NOK -30 766 (NOK -13 926). Net cash flow from investing activities was NOK 663 (NOK -69 355), while net cash flow from financing activities amounted to NOK -7 254 (NOK -119 371).

SUBSEQUENT EVENTS

a) Restructuring of bond loans

The complete restructuring of the bond loans on USD 100 million and USD 10 million was closed during March 2011. Both loans plus accrued, not paid interest were converted to equity in the parent company and a new five year USD 74.125 million bond loan at 8 % interest p.a. First years interest to be added to the principal and being paid at the end of the 5 year period. In addition the Group issued a USD 7 million cash flow loan. This is a 2 year loan at 5 % interest p.a. The funds on this loan are currently on an escrow account with limitations on usage. This loan combined with new EPCI projects and gradual payments of confirmed receivables will solve the liquidity issue.

As compensation for writing off approximately USD 61.5 million on principal and accrued interest all bondholders received 49 500 000 shares in Cecon ASA. The distribution of the shares was made based on an agreed formula in the restructuring.

The new holders of the USD 7 million bond loan received 65 000 000 warrants in Cecon ASA. The warrants have a strike price on NOK 0.65 and a maturity period of 2 years. One warrant can be converted to one share.

b) Davie Yards – newbuilding programme

The CCAA (Canadian Companies' Creditors Arrangement Act) process has been ongoing for more than a year and a substantial amount of money has been spent on finding a solution for all stakeholders. The Group has participated in the process throughout 2010, and on 31 March 2011 exclusivity to do a due diligence process with the aim of taking over the assets of Davie Yards Inc. and completing the Cecon vessels under construction was granted to DRS Technologies Inc., Fincantieri SPA and Investment Quebec.

This process is ongoing, and has to be finalized within 18 May 2011 to be able to submit binding offer to the Canadian National Shipbuilding Procurement Strategy (NSPS) which is the driving force for taking over Davie Yards Inc (i.e. assets). Completing one or more of the Cecon vessels under construction is also an important qualification to be able to build for the NSPS.

Although no commitments have been made on cost to complete and delivery time, the Group was pleased to see the CCAA process coming to an end with respected partners, able to complete the Cecon vessels. A draft term sheet on financing of the completion of the vessels has been received from a well established international bank.

c) Opening new office and new alliance

The Group has announced appointment of new Commercial Director, a new Netherlands office and a vessel alliance with Zafiro Marine following the company's restructuring and progress regarding the company's own newbuild programme in Canada.

The new office in the Netherlands (opening during Q2 2011) will perform a dual role; both expand its existing business as well as develop a new business unit to focus on larger diameter rigid pipelay, heavylift and subsea construction work.

In line with the Company's core skillsets, the group has entered into a strategic alliance with Zafiro Marine to bid for a number of contracts in which the Company is presently engaged in the tendering process. The newest vessel in the Zafiro fleet is the DPIII OCV Sampson with a 1600t fully-revolving crane and large diameter pipelay capability. The alliance with Zafiro Marine gives the Group access to large quality vessels for pipelaying and heavylifting. The office in the Netherlands will provide a new platform for growth and diversification.

MARKET & OUTLOOK

Cecon ASA operates in a cyclical market. A substantial number of installations of both floating and fixed units for oil and gas production are expected to take place in the coming years, and all of these installations will require various kinds of hook-up to existing and new pipeline grids on the sea floor or to offshore loading facilities. The financial crisis seems to have impacted the market were Cecon ASA operates less hard than other markets. The oil majors and most of the independents seem to continue with their developments.

Based on research from outside sources, a positive development in the subsea market is foreseen, and a substantial increase in demand will start coming from the end of 2011 with a continuing increase within the foreseeable future. Tender activity has increased over the last period and the Group expects to see a positive development in the market for its services. The Group expects to be awarded two projects during first half of 2011.

The number of competitors is limited and some of the competitors are major operators in the world wide pipe laying segment. Cecon ASA's cost base and flexibility related to short delivery times give the Group a competitive edge compared with the majors. Short delivery times will be a major competitive advantage in the future, and the Group is developing its strategy in this direction, especially on smaller projects. Advanced documentation and engineering systems combined with use of subcontractors and hired in vessels / own vessel will fulfill this strategy. The three vessels under construction will, when delivered, enable the Group to participate in larger EPCI contracts in both deep and ultra deep waters globally. The growth potential for the services rendered by the Group is regarded very interesting in the years to come.

Oslo, 28 April 2011

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Riulf Rustad	Geir Tore Hjelle	
Chairman	Board member	
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Heidi Petersen	Alex Vicefield	Philippa Wright
Board member	Board member	Board member
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Anil Deshpande	Marianne Lie	Terje P. Tellefsen
Board member	Board member	CEO