



## Report for the 2<sup>nd</sup> quarter 2008 and Half-yearly Financial Report 2008

### Fred. Olsen Production ASA consolidated

#### Interim Management Report

This interim report has been prepared for Fred. Olsen Production ASA consolidated (the “Group”) as a whole and therefore gives greater emphasis to those matters which are significant to Fred. Olsen Production ASA and its subsidiary undertakings when viewed as a whole.

Fred. Olsen Production ASA was listed on Oslo Stock Exchange in May 2007 (ticker “FOP”). The company has been active in the oil and gas production since 1994.

Comparable figures for the corresponding period in 2007 are in brackets below.

#### Financial information

Operating revenues in the quarter were USD 18.9 million (USD 17.4 million) with an EBITDA of USD 7.5 million (USD 8.2 million). Half-year operating revenues were USD 36.2 million (USD 33 million) with an EBITDA of USD 13.0 million (USD 12.6 million). After depreciation of USD 4.5 million (USD 4.9 million) the operating result (EBIT) for the quarter was USD 3.0 million (USD 3.3 million). The EBIT for the first six months was USD 4.0 million (USD 4.1 million)

Net financial expenses for the quarter were USD 0.2 million (USD 0.8 million). For the half year net financial expenses were USD 2.0 million (USD 5.4 million). This includes a net unrealized currency gain of USD 4.5 million and a net unrealized gain of USD 0.4 million on interest rate hedges. Net financial expenses also include losses of USD 7.7 million relating to the market value of an equity derivative relating to an underlying exposure to 4.9% of the outstanding shares in EOC Ltd. The first six months of last year included USD 4.4 million unrealized currency loss on intra group debt.

The result before tax for the quarter was USD 2.8 million (USD 2.5 million) and for the first six months USD 2.0 million (negative USD 1.3 million). The result after estimated tax was USD 2.8 million (USD 2.5 million) for the quarter. For the half year the result after estimated tax was USD 1.5 million (negative USD 1.3 million).

During the first six months FOP invested USD 69.8 million (USD 204.5 million) whereof USD 67.6 million (USD 31.7 million) into the conversion of the FPSO Knock Allan. The investment was

financed by external debt and accrued funds. Total interest bearing debt at 30.06.2008 amounted to USD 218 million (USD 148.8 million at 30.06.2007) and net interest bearing debt was USD 77 million (negative USD 78.7 million).

## **Operations**

During the quarter and the first six months of 2008 as for the comparable periods last year, FOP operated three of its five units on contract, with a sixth unit undergoing conversion, as well as the management service for a seventh unit. A 100% commercial uptime was achieved for all operational units during the half-year.

The FPSO Knock Adoon operates on a 8 + option 8 year contract for Addax Petroleum on the Antan field, offshore Nigeria, where she replaced the FPSO Knock Taggart in October 2006.

FSO Knock Nevis continued its contract for Maersk Oil in Qatar. The upgrade project announced last year to upgrade the import capacity to a maximum of 450,000 bbls per day was completed during the quarter and FOP received a completion bonus for performing the work of USD1.9 million. This was included in the Group's revenues.

FPSO Petr leo Nautipa (indirectly owned 50% by each of Fred.Olsen Production ASA and Prosafe Production SE) operates for Vaalco at the Etame field offshore Gabon, West Africa. The agreement was extended in 2007 for another 4 years until September 2015 and with options for another 1 + 1 year. During the quarter, FOP and Prosafe agreed that FOP would take over full technical management of the operation. This was completed in July.

FSO Knock Dee together with the FPSO Knock Taggart were actively marketed and participated in tender opportunities for new contracts. Both units shifted lay-up location from Dubai to in Fujairah in March.

The FPSO conversion project of the suezmax Knock Allan for Canadian Natural Resources' Olowi field in Gabon continued during the quarter at Dubai World Drydocks with completion of conversion and integration works. Main equipment items and modules to be supplied by FOP were delivered in Dubai on schedule and the lifting campaigns to get main modules onboard were completed early in the quarter. The yard works is still scheduled for completion in 3<sup>rd</sup> quarter, with scheduled start-up in the 4<sup>th</sup> quarter.

The management of the MOPU Marc Lorenceau, the former Borgen Dolphin, which was sold to Addax Petroleum under a purchase option in 2006, continued operation in Nigeria throughout the half year.

## Contract status

Vessel/Units	Country of operation	Contract expiry
<b>FPSO</b>		
Petrôleo Nautipa	Gabon	September 2015 + 2 option years
Knock Taggart		Marketed for new opportunities.
Knock Adoon	Nigeria	October 2014 + 8 years option
<b>FSO</b>		
Knock Dee		Marketed for new opportunities.
Knock Nevis	Qatar	August 2009, option for the oil company to terminate on 90 days notice
<b>MOPU (on management)</b>		
Marc Lorenceau	Nigeria	September 2008
<b>To be converted</b>		
Knock Allan	Gabon	Commencement 4q 2008, 10 years fixed period and 10 years option

## Market Outlook

The signs of a stronger market for floating production continued during the quarter. This was in line with our comments in the 1<sup>st</sup> quarter report that projects delayed in 2007 due to drilling capacity constraints and development cost increases would be re-activated in 2008. Some of the speculative FPSO conversions have been contracted during the quarter and the supply surplus is reduced. This, in combination with high and stable oil prices, continue to improve the outlook for the FPSO sector.

The Company is pursuing various potential contract opportunities for Knock Dee, Knock Taggart and other mid-range project opportunities for new vessels. The Company is also participating in a tender for the continued management of MOPU Marc Lorenceau.

## Risks and Uncertainties

There are potential risks and uncertainties which may have an impact on the Group's performance over the remaining six months of the financial year and which could cause actual results to differ materially from expected and historical results

### *Business and Operational Risk*

The main business risk exposure are related to the completion of the Knock Allan conversion project, political risk in our operating regions , the supply of qualified personnel and the increase in manning cost for offshore oil services.

### *Commercial Relationships*

The Group benefits from close commercial relationships with a relative small number of national and international oil and gas companies, and continuously monitors the credit risk related to these clients.

### *Currency Risk*

The Group is exposed to currency risk on subcontracts to conversion projects and a growing portion of the operating expenses are denominated in a currency other than the respective functional currencies of Group entities, primarily U.S. Dollars (USD).

Per half-year there were no direct hedges against estimated foreign currency exposure in respect of the remaining investments in the Knock Allan conversion project nor the operating expenses denominated in non-USD. However, the parent company continues to hold a significant cash balance in NOK used to fund and hedge currency exposure related to the conversion project investment and NOK denominated operating expenses.

Further information to assist in understanding the long-term risks and uncertainties of the Group is included in our latest annual report as published on our website: <http://www.fpsso.no>

**Contact persons:** *Mårten Lunde, CEO, maartenl@fredolsen.no*  
*Jørn T. Røkaas, CFO, jorn.rokaas@fredolsen.no*  
*Tlf: +47 22 34 10 00*

## **Statement by the Board of Directors and the CEO**

Today, we have considered and approved the condensed consolidated interim report of Fred. Olsen Production ASA as at 30 June 2008 and for the first half year of fiscal 2008 including condensed consolidated comparative figures as at 30 June 2008 and for the first half-year of fiscal 2007.

The interim report has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU and additional Norwegian disclosure requirements for interim financial reports of listed public limited companies.

We consider the implemented accounting policies to be appropriate and in accordance with applicable accounting standards. Accordingly, it is our view that the interim report provides a true and fair view of the Group of companies’ assets, liabilities and financial position as at 30 June 2008 and as at 30 June 2007 and of the results of the Group’s operations and cash flows for the first half-year of fiscal 2008 and the first half-year of fiscal 2007.

Oslo, 10 July 2008  
Fred. Olsen Production ASA

Per Oscar Lund  
Chairman

Siv Jønland Staubo

Anette Olsen

Agnar Gravdal

Mårten Lunde  
CEO

# Income statement

(USD 000)

	Notes	Second Quarter		Year-to-Date		Full Year
		FOP ASA 2008 <sup>1)</sup>	FOP ASA 2007 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2007 <sup>1)</sup>	FOP ASA 2007 <sup>2)</sup>
Revenue		18.858	17.404	36.170	33.001	66.831
<b>Revenues</b>		<b>18.858</b>	<b>17.404</b>	<b>36.170</b>	<b>33.001</b>	<b>66.831</b>
Operating expenses		-8.390	-7.078	-17.523	-16.607	-35.697
Other administrative expenses		-2.977	-2.086	-5.672	-3.824	-10.650
<b>Total operating expenses</b>	<b>1</b>	<b>-11.367</b>	<b>-9.164</b>	<b>-23.195</b>	<b>-20.432</b>	<b>-46.347</b>
<b>Operating profit before depreciation (EBITDA)</b>		<b>7.491</b>	<b>8.240</b>	<b>12.974</b>	<b>12.569</b>	<b>20.484</b>
Depreciation		-4.477	-4.961	-8.969	-8.482	-16.929
<b>Operating profit (EBIT)</b>		<b>3.015</b>	<b>3.279</b>	<b>4.006</b>	<b>4.087</b>	<b>3.555</b>
Interest income		1.768	2.233	3.222	3.396	9.060
Interest expense		1.762	-2.261	-1.985	-4.671	-9.936
Other financial items		-3.728	-731	-3.257	-4.093	-5.593
<b>Net financial items</b>		<b>-199</b>	<b>-758</b>	<b>-2.020</b>	<b>-5.367</b>	<b>-6.469</b>
<b>Profit before tax</b>		<b>2.816</b>	<b>2.520</b>	<b>1.985</b>	<b>-1.280</b>	<b>-2.915</b>
Income tax expense		-29	0	-513	0	-406
<b>Net profit (loss)</b>		<b>2.787</b>	<b>2.520</b>	<b>1.473</b>	<b>-1.280</b>	<b>-3.320</b>
Numbers of shares/diluted numbers of shares (thousands)		<b>105.930</b>	<b>87.318</b>	<b>105.930</b>	<b>87.318</b>	<b>96.624</b>
Basic earnings/(loss) per share (USD)		0,03	0,03	0,01	-0,01	-0,03
Diluted earnings/(loss) per share (USD)		0,03	0,03	0,01	-0,01	-0,03

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

# Balance sheet

(USD 000)

	Notes	FOP ASA 30 June 2008 <sup>1)</sup>	FOP ASA 30 June 2007 <sup>1)</sup>	FOP ASA 31 Dec 2007 <sup>2)</sup>
<b>ASSETS</b>				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	377.522	218.676	316.780
Other investments		4.938	5.267	4.906
Deferred tax asset		0	239	0
<b>Total non-current assets</b>		<b>382.460</b>	<b>224.183</b>	<b>321.686</b>
<i>Current assets</i>				
Short-term receivables		26.610	28.348	16.631
Bunker		448	1.111	667
Cash and cash equivalents		140.988	227.468	212.495
<b>Total current assets</b>		<b>168.046</b>	<b>256.926</b>	<b>229.793</b>
<b>TOTAL ASSETS</b>		<b>550.506</b>	<b>481.109</b>	<b>551.479</b>
<b>EQUITY AND LIABILITIES</b>				
<i>Equity</i>				
Share capital		17.090	17.090	17.090
Share premium reserve		305.009	305.009	305.009
Retained earnings		-17.838	-25.914	-19.187
<b>Total equity</b>	6	<b>304.261</b>	<b>296.184</b>	<b>302.912</b>
<i>Non-current liabilities</i>				
Interest bearing loan	5	218.015	132.348	219.007
Deferred income		14.506	17.015	15.675
Pension liabilities		832	466	1.169
<b>Total non-current liabilities</b>		<b>233.352</b>	<b>149.829</b>	<b>235.851</b>
<i>Current liabilities</i>				
Income tax payable		133	0	145
Interest bearing short-term debt		0	13.731	0
Accruals and other short-term debt		12.760	21.365	12.572
<b>Total current liabilities</b>		<b>12.893</b>	<b>35.096</b>	<b>12.717</b>
<b>Total liabilities</b>		<b>246.245</b>	<b>184.925</b>	<b>248.568</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>550.506</b>	<b>481.109</b>	<b>551.479</b>

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

## Statement of changes in equity

(USD 000)

	First Half		Year-end
	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2007 <sup>1)</sup>	FOP ASA 2007 <sup>2)</sup>
<b><i>Equity (beginning of period)</i></b>	<b>302 912</b>	<b>15 814</b>	<b>15 814</b>
Debt converted to equity	0	125 986	125 986
Share issue, private placement	0	194 200	194 200
Cost related to private placement	0	-7 025	-7 025
Translation differences	-125	7 155	15 913
Effect related to common control transactions	0	-46 854	-46 844
Share issue, public offering	0	8 188	8 188
Profit (loss) for the period	1 473	-1 280	-3 320
<b><i>Equity (end of period)</i></b>	<b>304 261</b>	<b>296 184</b>	<b>302 912</b>

## Cash flow statement

(USD 000)

	Second Quarter		First Half	Full Year	
	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2007 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2007 <sup>2)</sup>	
Net cash flow from operating activities	-8 725	6 406	-681	7 977	9 035
Net cash flow from investing activities	-43 491	-22 189	-69 711	-113 014	-144 280
Net cash flow from financing activities	-1 035	-5 764	-992	299 368	299 923
<b><i>Net change in cash</i></b>	<b>-53 251</b>	<b>-21 547</b>	<b>-71 384</b>	<b>194 331</b>	<b>164 678</b>
Effects of changes in foreign currency	48	0	-124	0	14 679
Cash balance at period beginning	194 191	249 015	212 495	33 137	33 137
<b><i>Cash balance at period ending</i></b>	<b>140 988</b>	<b>227 468</b>	<b>140 988</b>	<b>227 468</b>	<b>212 494</b>

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

## Notes to the accounts

### **Note 1 – Basis of presentation**

The condensed interim consolidated financial information of Fred.Olsen Production ASA has been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (IAS 34). For prior year comparison, administrative expenses in foreign companies have been shifted from operating expenses to other administrative expenses.

The interim financial information was approved by the Board of Directors on 10 July 2008.

### **Note 2 - Significant accounting principles estimates and assumptions**

The accounting principles used for preparation of the condensed interim consolidated financial information are consistent with the principles which are used for annual reporting. The condensed interim consolidated financial information should be read together with the consolidated financial statement for Fred.Olsen Production ASA as of 31 December 2007, approved by the Board of Directors 26 March 2008, which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU.

The preparation of interim accounts involves the use of appraisals, estimates and assumptions influencing the application of accounting principles and recognized amounts for assets and obligations, revenues and costs. Actual results may differ from these estimates.

The most important appraisals when applying the FOP consolidated accounting principles and the primary sources of estimate uncertainties are the same for the preparation of interim accounts as for the 2007 FOP consolidated accounts.

### **Note 3 – Business segments**

#### **Business segments**

The Group comprises the following main business segments:

- *Floating production and storage.* A floating offshore oil production vessel has facilities for producing, treating and sorting oil from several producing wells. Treated oil is later offloaded into a tanker ship for transport to refineries on land.

#### **Geographical segments**

The floating production and storage segment is managed on a worldwide basis, but operates in two principal geographical areas, specifically Africa and Asia. The Group has established a company in Singapore in order to focus on business development in the Asian region.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and assets. Segment assets are based on the geographical location of the assets. Capital expenditures are based on the location of the company that is actually making the investment.

**Business segments (key figures)**

*USD 000*

	2008	2007
Revenue	36.170	33.001
	36.170	33.001
Operating result	12.974	12.569
Depreciation	8.969	8.482
Segment assets	550.506	481.109
Segment liabilities	246.245	184.925
Investments	69.809	204.610

**Geographical segments (key figures)**

	Africa		Asia		Other	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	25.534	23.006	10.522	9.955	114	295
Fixed assets	130.194	139.334	177.381	47.576	252	95
Capital expenditures	2.038	-	67.657	31.671	-	-
Investments	49	49	-	-	-	-

**Note 4 – Property, plant and equipment**

*(USD 000)*

	Vessels & Rigs	Other Fixed Assets	Total Fixed Assets
<b><i>Carrying amount 1 January 2007</i></b>	<b>22.438</b>	<b>155</b>	<b>22.593</b>
Additions	174.657	248	174.905
Capitalized on conversion project	136.212	0	136.212
Depreciation for the period	-16.874	-55	-16.929
<b><i>Carrying amount 31 December 2007</i></b>	<b>316.433</b>	<b>348</b>	<b>316.780</b>
Additions	2.038	17	2.055
Capitalized on conversion project	67.657	0	67.657
Depreciation for the period	-8.929	-39	-8.969
<b><i>Carrying amount 30 June 2008</i></b>	<b>377.198</b>	<b>325</b>	<b>377.522</b>

In first quarter 2008 the depreciation period for FPSO Petróleo Nautipa was extended with 3 years due to the extension of the project's contract.

**Note 5 - Interest bearing debt**

***USD 500 million credit facility***

The Singapore FSO/FPSO owning companies Knock Taggart II Pte. Ltd., Knock Dee Pte. Ltd., First Olsen Pte. Ltd., Adoon Pte. Ltd., Knock Allan Pte. Ltd. and Nautipa AS have a revolving reducing

credit facility of USD 500 million. The facility is secured by a first priority mortgage on the vessels/units. The facility is guaranteed by Fred.Olsen Production ASA, and runs for five years without reductions/repayments and thereafter a further five years with semi-annual reductions/repayments of USD 25 million, bringing the facility down to USD 250 million at maturity. The interest rate is USD Libor with a credit margin of 0.60 - 0.85%. The borrowers are joint and severally liable for the credit facility. As of 30 June 2008 USD 218 million was drawn under the credit facility.

## Note 6 - Share capital and earnings per share

Share capital (USD 000)	Number of shares (thousands)	Share capital	Share premium reserve	Translation reserve	Retained earnings	Total shareholders' equity
<b>As of 1 January 2007</b>	<b>50</b>	<b>749</b>	<b>0</b>	<b>-833</b>	<b>15.899</b>	<b>15.815</b>
Net result for the period					-3.320	-3.320
Conversion of debt to equity	550	8.826	187.008			195.834
Share split	59.400					0
Common shares issued	44.000	7.193	117.160			124.353
Common shares issued	1.930	322	841			1.163
Unrealised foreign currency gain				14.681		14.681
Effect of common control transactions					-45.613	-45.613
<b>As of 31 December 2007</b>	<b>105.930</b>	<b>17.090</b>	<b>305.009</b>	<b>13.848</b>	<b>-33.034</b>	<b>302.912</b>
Net result for the period				-125	1.473	1.348
<b>As of 30 June 2008</b>	<b>105.930</b>	<b>17.090</b>	<b>305.009</b>	<b>13.723</b>	<b>-31.562</b>	<b>304.260</b>

## Note 7 – Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

(USD 000)	<b>2008</b>	<b>2007</b>
<i>Management fee</i>		
Associated companies (Fred. Olsen Marine Services AS)	1.199	808
<i>Operating expenses</i>		
Associated company (Fred. Olsen & Co.)	388	102
<i>Executive loans (from First Olsen Ltd.)</i>		
Key Management	1.146	1.016
Chairman of the Board	295	339
<i>Executive loans (from Fred. Olsen Production ASA)</i>		
Key Management	394	-