



Report for the 3rd quarter 2008

Fred. Olsen Production ASA consolidated

Highlights for the 3rd quarter

- Revenues were USD 24.4 million (USD 17.2 million in 3Q 2007)
- EBITDA were USD 9.6 million (USD 3.9 million in 3Q 2007)
- Letter of Intent with El Paso Maritime B.V for the provision of Knock Dee as an FSO on the Pinauna field offshore Brazil. Finalization of technical scope and contractual terms to be completed by 1st November 2008
- Agreement with Bowleven Plc for the provision of FPSO Knock Taggart for the East Orovinare Field offshore Gabon. Final contract subject to reconfirmation by 15th December 2008
- Conversion of FPSO Knock Allan continued during the quarter. Commencement of contract rescheduled from 4q 2008 to 1q 2009
- All units with 100% commercial uptime in the quarter

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General

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

Revenues in the quarter were USD 24.4 million (USD 17.2 million) with an EBITDA of USD 9.6 million (USD 3.9 million). Milestone payment of consultancy service related to riser installation on FPSO Knock Allan and sale of second process plant from FPSO Knock Taggart affected positively the EBITDA by USD 3.3 million. Revenues for the nine months period were USD 60.6 million (USD 50.2 million) with an EBITDA of USD 22.5 million (USD 16.4 million). After depreciation of USD 2.1 million (USD 4.4 million) the operating result (EBIT) for the quarter was USD 7.4 million (negative USD 0.5 million). The EBIT for the first nine months was USD 11.7 million (USD 3.6 million).

Net financial expenses for the quarter were USD 5.7 million (income of USD 0.3 million). For the nine month period net financial expenses were USD 7.8 million (USD 5.0 million). This includes a net unrealized currency gain of USD 2.0 million and a net unrealized loss of USD 0.5 million on interest rate hedges. Net financial expenses also include realized and unrealized losses of USD 9 million on an equity derivative contract relating to an underlying exposure to 4.9% of the outstanding shares in EOC Ltd. The first nine 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 1.7 million (negative USD 0.2 million) and for the first nine months USD 3.9 million (negative USD 1.4 million). The result after estimated tax was USD 1.7 million (negative USD 0.2 million) for the quarter and USD 3.4 million (negative USD 1.4 million) for the first nine months.

Operations

During the quarter and the first nine 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 services for a seventh unit, Marc Lorenceau. A 100% commercial uptime was achieved for all operational units during the nine-month period.

The FPSO Knock Adoon operates on a 8 + 8 option 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 which expires in August 2009. The Company will market Knock Nevis for future opportunities world-wide.

FPSO Petr leo Nautipa (indirectly owned 50% by Fred.Olsen Production ASA) operates on a contract for Vaalco until 2015 with optional 1 + 1 year at the Etame field offshore Gabon, West Africa. FOP took over full technical management of the operation in July.

In August FOP entered into a Letter of Intent (“LOI”) with El Paso Maritime B.V for the provision of Knock Dee as a floating storage and offloading vessel (FSO) at the Pinauna field offshore Brazil for a minimum period of 10 years. According to the terms of the LoI the parties will work together to finalize the technical scope of the services required at the field and the associated contractual terms within 1st November 2008.

Late August FOP entered into an agreement with GGPC Gabon (EOV) Limited, a 100% owned subsidiary of Bowleven Plc (BL) for the provision of FPSO Knock Taggart at the East Orovinyare Field offshore Gabon. Final contract is subject to a confirmation to be provided by BL before 15th December 2008. BL will pay USD 2.5 million as compensation for the option to contract Knock Taggart. Assuming the contract is finally confirmed by BL, the vessel will undergo certain repair and upgrade works with production scheduled to start first quarter 2010. The contract is structured on an evergreen basis with 6 months termination notice. Commercial contract terms are based on a combination of mobilization costs and fixed day-rates with a variable tariff mechanism tied to cumulative oil production and oil price. Based on reservoir expectations the Company estimates that the field will produce for 5-6 years

The FPSO conversion project of the suezmax Knock Allan for Canadian Natural Resources’ (CNR) Olowi field in Gabon continued during the quarter at Dubai World Drydocks with completion of conversion and integration works. This work will be completed in the 4th quarter before commissioning and sail-away to Gabon. Commencement under the contract with CNR has been rescheduled from 4th quarter 2008 to 1st quarter 2009. Net of variation orders and finance items the Company estimate the project cost to about USD 255 million.

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 quarter.

Contract status

Vessel/Units	Country of operation	Contract expiry
FPSO		
Petrôleo Nautipa	Gabon	September 2015 + 2 option years
Knock Taggart	Gabon	"Evergreen contract", to be finally confirmed by 15. December 2008
Knock Adoon	Nigeria	October 2014 + 8 option years
FSO		
Knock Dee	Brazil	Letter of intent for 10 year contract + 5 option years
Knock Nevis	Qatar	August 2009, option for the oil company to terminate with 90 days notice
MOPU (on management)		
Marc Lorenceau	Nigeria	Contract expired September 2008, FOP continues management with 30 days notice
Under conversion		
Knock Allan	Gabon	Commencement Q1 2009, 10 years fixed period + 10 option years

Market Outlook

So far in 2008 a total of 18 contracts have been awarded, of which 11 are leased units. The primary growth has been in the mid-to-high end and especially the EPC segment. Recent uncertainties in the global financial market in combination with oil price instability, may defer future projects. The supply side surplus has been reduced, and several suppliers are indicating a full backlog of projects, pointing to reduced competition and improved margins for future projects.

In addition to the awarded LoI and contract, FOP is pursuing other mid-range project opportunities for new vessels.

Income statement

(USD 000)

	Notes	Third Quarter		Year-to-Date		Full Year
		FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2007 ²⁾
Revenue		24.381	17.173	60.551	50.174	66.831
Revenues		24.381	17.173	60.551	50.174	66.831
Operating expenses		-11.300	-10.478	-28.823	-27.086	-35.697
Other administrative expenses		-3.524	-2.828	-9.196	-6.652	-10.650
Total operating expenses	1	-14.824	-13.306	-38.019	-33.738	-46.347
Operating profit before depreciation (EBITDA)		9.557	3.867	22.532	16.436	20.484
Depreciation		-2.108	-4.372	-10.856	-12.854	-16.929
Operating profit (EBIT)		7.449	-505	11.676	3.582	3.555
Interest income		1.197	2.620	4.418	6.017	9.060
Interest expense		-3.103	-2.266	-5.088	-6.937	-9.936
Other financial items		-3.835	-12	-7.092	-4.105	-5.593
Net financial items		-5.742	342	-7.762	-5.025	-6.469
Profit before tax		1.708	-163	3.914	-1.443	-2.915
Income tax expense			0	-513	0	-406
Net profit (loss)		1.708	-163	3.401	-1.443	-3.320
Numbers of shares/diluted numbers of shares (thousands)		105.930	87.318	105.930	87.318	96.624
Basic earnings/(loss) per share (USD)		0,02	0,00	0,03	-0,02	-0,03
Diluted earnings/(loss) per share (USD)		0,02	0,00	0,03	-0,02	-0,03

¹⁾ Unaudited

²⁾ Audited

Balance sheet

(USD 000)

	Notes	FOP ASA September 2008 ¹⁾	FOP ASA September 2007 ¹⁾	FOP ASA 31 Dec 2007 ²⁾
ASSETS				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	407.531	289.175	316.780
Other investments		4.758	5.087	4.906
Deferred tax asset		0		0
Total non-current assets		412.289	294.262	321.686
<i>Current assets</i>				
Short-term receivables		19.815	13.307	16.631
Bunker		599	667	667
Cash and cash equivalents		124.616	168.111	212.495
Total current assets		145.031	182.085	229.793
TOTAL ASSETS		557.320	476.348	551.479
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital		17.090	17.090	17.090
Share premium reserve		305.009	305.009	305.009
Retained earnings		-15.745	-20.381	-19.187
Total equity	6	306.354	301.717	302.912
<i>Non-current liabilities</i>				
Interest bearing loan	5	218.052	131.417	219.007
Deferred income		13.866	16.377	15.675
Pension liabilities		1.236	662	1.169
Total non-current liabilities		233.154	148.456	235.851
<i>Current liabilities</i>				
Income tax payable		32	0	145
Interest bearing short-term debt		0	13.731	0
Accruals and other short-term debt		17.780	12.443	12.572
Total current liabilities		17.811	26.174	12.717
Total liabilities		250.966	174.630	248.568
TOTAL EQUITY AND LIABILITIES		557.320	476.348	551.479

¹⁾ Unaudited

²⁾ Audited

Statement of changes in equity

(USD 000)

	YTD		Year-end
	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2007 ²⁾
Equity (beginning of period)	302.912	15.814	15.814
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	40	7.592	15.913
Effect related to common control transactions	0	-41.595	-46.844
Share issue, public offering	0	8.188	8.188
Profit (loss) for the period	3.401	-1.443	-3.320
Equity (end of period)	306.353	301.717	302.912

Cash flow statement

(USD 000)

	Third Quarter		YTD		Full Year
	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2007 ²⁾
Net cash flow from operating activities	15.322	15.870	14.641	23.848	9.035
Net cash flow from investing activities	-31.896	-74.296	-101.607	-187.310	-144.280
Net cash flow from financing activities	37	-931	-955	298.437	299.923
Net change in cash	-16.537	-59.357	-87.921	134.974	164.678
Effects of changes in foreign currency	165	0	41	0	14.679
Cash balance at period beginning	140.988	227.468	212.495	33.137	33.137
Cash balance at period ending	124.616	168.111	124.616	168.111	212.494

¹⁾ Unaudited

²⁾ 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 27 October 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	60.551	50.174
	<u>60.551</u>	<u>50.174</u>
Operating result	23.532	16.436
Depreciation	10.856	12.854
Segment assets	557.320	476.348
Segment liabilities	249.966	174.630
Investments	103.297	106.887

Geographical segments (key figures)

	Africa		Asia		Other	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	45.768	35.541	14.612	14.615	171	456
Fixed assets	128.666	136.254	175.379	45.974	237	38
Capital expenditures	2.915	2.133	100.334	104.706	-	70
Investments	49	49	-	-	-	-

Note 4 – Property, plant and equipment

(USD 000)

	Vessels & Rigs	Other Fixed Assets	Total Fixed Assets
Carrying amount 1 January 2007	22.438	155	22.593
Additions	174.657	248	174.905
Capitalized on conversion project	136.212	0	136.212
Depreciation for the period	-16.874	-55	-16.929
Carrying amount 31 December 2007	316.433	348	316.780
Additions	2.738	17	2.755
Capitalized on conversion project	98.853	0	98.853
Depreciation for the period	-10.797	-59	-10.856
Carrying amount 30 September 2008	407.226	306	407.531

In order to comply with International Accounting Standard (IAS) 16, residual values of the vessels are continuously evaluated. Revaluation of these amounts has an impact on balances presented in the third quarter.

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 September 2008 USD 218 million was drawn under the credit facility.

Note 6 - Share capital and earnings per share

<i>(USD 000)</i>	Number of shares (thousands)	Share capital	Share premium reserve	Translation reserve	Retained earnings	Total shareholders' equity
As of 1 January 2007	50	749	0	-833	15.899	15.815
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
As of 31 December 2007	105.930	17.090	305.009	13.848	-33.034	302.912
Net result for the period				40	3.401	3.441
As of 30 September 2008	105.930	17.090	305.009	13.888	-29.634	306.353