



Fred. Olsen Production ASA

Report for the 4th quarter 2008 and preliminary year end result 2008

Fred. Olsen Production ASA consolidated

Highlights for the 4th quarter

- Revenues for the quarter were USD 19.0 million (USD 17.1 million) and USD 79.7 for the year (USD 66.8 million)
- 4th quarter EBITDA was USD 6 million (USD 4 million) and 2008 EBITDA was USD 29.5 million (USD 20.5 million)
- Solid operational performance, year end accounts affected by items related to impairment, unrealized losses on interest rate hedges and currency contracts and loss on the investment in EOC shares
- Conversion of FPSO Knock Allan continued through the quarter, the unit arrived Olowi oil field offshore Gabon on February 6th for hook-up into pre-laid mooring systems.
- The conditional contract for FPSO Knock Taggart for the East Orovinyare Field offshore Gabon with Bowleven Plc expired without being confirmed by client on 15th December
- Letter of Intent with El Paso Maritime B.V was replaced by an option agreement for the provision of Knock Dee as an FSO on the Pinauna field offshore Brazil. Possible contract startup deferred to 4q 2010
- 100% commercial up-time for units in operation

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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

Operating revenues in the quarter were USD 19.0 million (USD 17.1 million) with an EBITDA of USD 6 million (USD 4 million). Full year operating revenues were USD 79.7 million (USD 66.8 million) with an EBITDA of USD 29.5 million (USD 20.5 million)

After ordinary and extraordinary (impairment) depreciation of USD 27.1 million (USD 4.1 million) the 4th quarter operating result (EBIT) was negative USD 21 million (negative USD 0.3 million). The impairment loss of USD 22.4 million is estimated due to the significant drop in residual steel values for FSO Knock Nevis and FPSO Knock Taggart. For the year EBIT was negative USD 9.2 million (USD 3.6 million).

Net financial expenses were USD 22.2 million (positive USD 0.7 million). For the full year the net financial expenses were USD 29.8 million (USD 6.5 million). This includes a net unrealized currency loss of USD 6.5 million on NOK bank accounts and a net unrealized loss of USD 3.8 million on interest rate hedges. Further, it includes a loss of USD 16.6 million on an investment in 4.9% of the shares in EOC Ltd.

The result before tax was negative USD 43.2 million (positive USD 0.4 million). The result before tax for the full year was negative USD 39 million (negative USD 2.9 million). The result after tax was negative USD 43.1 million (negative USD 1.9 million), and negative USD 39.4 million (negative USD 3.3 million) for the year.

Operations

During the year 2008 FOP operated three of its five units on contract with a sixth unit undergoing conversion. The Company also had a management service contract for the operation of MOPU Marc Lorenceau. A 100% commercial uptime was achieved for all operational units during 2008.

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

FSO Knock Nevis continued operation for Maersk Oil in Qatar. The Company is marketing 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 at the Etame license offshore Gabon, West Africa. FOP took over full technical management of the operation in July.

In December Knock Dee Pte Ltd and El Paso Maritime B.V. entered into an option agreement whereby the vessel Knock Dee is exclusively retained for use as a floating storage and offloading vessel (FSO) for the Pinauna field offshore Brazil. Subject to finalization of the FSO Contract and associated agreements, the option may be declared up until 31st December 2009. The parties have agreed an-upfront payment covering the whole option period.

In August, Knock Taggart II Pte Ltd reported that it had entered into a conditional agreement with GGPC Gabon (EOV) Limited, a 100% owned subsidiary of Bowleven Plc (BL) for the provision of FPSO Knock Taggart for the East Orovinyare field offshore Gabon. Final contract was subject to confirmation by BL before 15th December 2008 – such confirmation was not given by BL and the conditional contract was consequently terminated.

The FPSO conversion project of the suezmax Knock Allan for Canadian Natural Resources' (CNR) Olowi field in Gabon continued during the quarter at World Drydocks Dubai. The unit relocated to Cape Town at the end of December to complete certain commissioning tests. Knock Allan has left Cape Town and arrived Gabonese waters on February 6th and immediately started hook up into the pre-laid mooring system at the Olowi field. Commencement under the contract is scheduled for early March. Net of variation orders and finance items the Company estimate the project cost to about USD 265 million, USD 10 million higher than what was reported per 3q 2008.

The management service contract on 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.

The Knock Adoon and Marc Lorenceau continue to operate under challenging security conditions. The company is closely following the situation and evaluates contingency plans and safety measures on a continuous basis together with client.

In 4q FOP received Det Norske Veritas management system certificate as confirmation for conforming to ISO 9001:2000 Quality Management System for our operation and services. Lost Time Injuries for the fleet under operation and conversion was 4 in 2008, with a corresponding fleet H-value of 1.53 compared to 2.6 in 2007.

Contract status

Vessel/Units	Country of operation	Contract expiry
FPSO		
Petròleo Nautipa	Gabon	September 2015 + 2 option years
Knock Taggart		Available
Knock Adoon	Nigeria	October 2014 + 8 option years
FSO		
Knock Dee		Project deferred; El Paso, Brazil has option to contract unit 31.December 2009
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

After a fairly good start, with 18 FPSO contracts awarded in the first 9 months of 2008, the situation in global financial markets combined with oil prices below \$50 per barrel has hit the demand for new FPSO's. Pending awards have been delayed or cancelled. New projects, even with robust economics, are held back due to difficulties in raising finance - both for client and contractor. The number of available FPSO's and the number of contractors offering them has fallen, due to new awards and some speculative contractors pulling out of the market due to financial difficulties. The financial turmoil has also opened some sector consolidation opportunities.

Financing will be a key challenge going forward. This should result in increased selectivity towards robust projects funded by financially strong clients and contractors. The outcome is likely to be fewer FPSO companies chasing fewer opportunities during 2009.

Income statement

(USD 000)

Notes	Fourth Quarter		Year-to-Date	
	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2007 ²⁾
Revenue	19.035	17.116	79.729	66.831
Revenues	19.035	17.116	79.729	66.831
Operating expenses	-9.044	-9.653	-36.999	-35.697
Other administrative expenses	-3.942	-3.386	-13.221	-10.650
Total operating expenses	-12.986	-13.039	-50.220	-46.347
Operating profit before depreciation (EBITDA)	6.049	4.077	29.509	20.484
Depreciation	-4.718	-4.371	-16.302	-16.929
Impairment	-22.366		-22.366	
Operating profit (EBIT)	-21.035	-293	-9.160	3.555
Interest income	1.373	3.014	5.771	9.060
Interest expense	-6.486	-2.999	-11.574	-9.936
Other financial items	-17.054	727	-24.029	-5.593
Net financial items	-22.167	742	-29.832	-6.469
Profit before tax	-43.203	448	-38.991	-2.915
Income tax expense	67	-406	-449	-406
Net profit (loss)	-43.136	43	-39.440	-3.320
Numbers of shares/diluted numbers of shares (thousands)	105.930	96.624	105.930	96.624
Basic earnings/(loss) per share (USD)	-0,41	0,00	-0,37	-0,03
Diluted earnings/(loss) per share (USD)	-0,41	0,00	-0,37	-0,03

¹⁾ Unaudited

²⁾ Audited

Balance sheet

(USD 000)

	Notes	FOP ASA 31 December 2008 ¹⁾	FOP ASA 31 December 2007 ²⁾
ASSETS			
<i>Non-current assets</i>			
Offshore units, constructions and equipment	4	394.532	316.780
Other investments		8.514	4.906
Deferred tax asset		0	0
Total non-current assets		403.046	321.686
<i>Current assets</i>			
Short-term receivables		14.650	16.631
Bunker		451	667
Cash and cash equivalents		103.488	212.495
Total current assets		118.589	229.794
TOTAL ASSETS		521.635	551.479
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		17.090	17.090
Share premium reserve		305.009	305.009
Retained earnings*		-58.816	-19.187
Total equity	6	263.283	302.912
<i>Non-current liabilities</i>			
Interest bearing loan	5	229.531	219.007
Deferred income		12.906	15.675
Pension liabilities		1.622	1.169
Total non-current liabilities		244.059	235.851
<i>Current liabilities</i>			
Income tax payable		-2	145
Interest bearing short-term debt		0	0
Accruals and other short-term debt		14.295	12.572
Total current liabilities		14.293	12.717
Total liabilities		258.352	248.568
TOTAL EQUITY AND LIABILITIES		521.635	551.479

*Including translation reserves

¹⁾ Unaudited

²⁾ Audited

Statement of changes in equity

(USD 000)

	YTD	
	FOP ASA 2008 ¹⁾	FOP ASA 2007 ²⁾
<i>Equity (beginning of period)</i>	<i>302.912</i>	<i>15.814</i>
Debt converted to equity	0	125.986
Share issue, private placement	0	194.200
Cost related to private placement	0	-7.025
Translation differences	-190	15.913
Effect related to common control transactions	0	-46.844
Share issue, public offering	0	8.188
Profit (loss) for the period	-39.440	-3.320
<i>Equity (end of period)</i>	<i>263.282</i>	<i>302.912</i>

Cash flow statement

(USD 000)

	Fourth Quarter		YTD	
	FOP ASA 2008 ¹⁾	FOP ASA 2007 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2007 ²⁾
Net cash flow from operating activities	-13.628	-870	1.014	9.035
Net cash flow from investing activities	-14.814	-31.739	-116.421	-144.279
Net cash flow from financing activities	7.543	76.257	6.588	299.923
<i>Net change in cash</i>	<i>-20.898</i>	<i>43.648</i>	<i>-108.819</i>	<i>164.678</i>
Effects of changes in foreign currency	-230	735	-189	14.679
Cash balance at period beginning	124.616	168.111	212.495	33.137
<i>Cash balance at period ending</i>	<i>103.488</i>	<i>212.494</i>	<i>103.488</i>	<i>212.494</i>

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 9. February 2009.

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	<u>79 729</u>	<u>66 831</u>
	79 729	66 831
Operating result	29 509	20 438
Depreciation	38 669	16 929
Segment assets	394 532	551 479
Segment liabilities	258 352	248 568
Investments	120 406	311 164

Geographical segments (key figures)

	Africa		Asia		Other	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	60 888	47 745	18 606	18 939	235	147
Fixed assets	121 278	135 929	154 969	44 372	221	267
Capital expenditures	3 587	-	114 476	136 212	-	-
Investments	49	49	3 936	-	-	-

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	3.572	17	3.589
Capitalized on conversion project	112.832	0	112.832
Depreciation for the period	-17.423	-80	-17.502
Impairment of vessels	-21.166	-	-21.166
Carrying amount 31 December 2008	394.247	285	394.531

In order to comply with International Accounting Standard (IAS) 16, residual values of the vessels are continuously evaluated. FOP has made an impairment adjustment on two units FSO Knock Nevis and FPSO Knock Taggart on USD 19.2 million and USD 3.1 million respectively due to the significant drop in recycle value for steel. Revaluation of these amounts has an impact on balances presented in the 4q and the full year 2008.

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 from July 2007 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 Borrowers were in December 2008 granted a temporarily waiver until 30 June 2010 for the financial covenant; the ratio of net interest bearing debt to EBITDA be revised to not more than 8.0.

The interest rate is USD Libor with a credit margin of 1.30% during the temporarily waiver period and 1.00% thereafter. The borrowers are joint and severally liable for the credit facility. As of 31. December 2008 USD 229.5 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				-190	-39.440	-39.630
As of 31 December 2008	105.930	17.090	305.009	13.658	-72.475	263.282