



Fred.Olsen Production ASA

Report for the 2nd quarter 2009 and Half-yearly Financial Report 2009

Fred.Olsen Production ASA consolidated

Highlights for the 2nd quarter 2009

- Operating revenues were USD 25.8 million (USD 18.9 million)
- Capital gain on sale of Knock Taggart USD 1.3 million
- EBITDA was USD 11.4 million (USD 7.5 million)
- FPSO Knock Allan with oil production under her 10 year contract in Gabon from 1st May 2009
- 100% commercial up-time for units in operation

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Interim Financial 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 2008 are in brackets below.

Financial information

Operating revenues in the quarter were USD 25.8 million (USD 18.9 million) and a capital gain on the sale of FPSO Knock Taggart for scrap was USD 1.3 million. The EBITDA was USD 11.4 million (USD 7.5 million). FPSO Knock Allan contract commencement positively affected the EBITDA with USD 1.4 million compared to same period last year. After depreciation of USD 10.8 million (USD 4.5 million) the 2nd quarter operating result (EBIT) was USD 0.5 million (USD 3.0 million). See note 4 regarding changes in depreciation.

Half year revenues including the capital gain on Knock Taggart, were USD 48.2 million (USD 36.2 million) with an EBITDA of USD 20.4 million (USD 13.0 million). FPSO Knock Allan contract commencement and “standby rate” affected the half year EBITDA by USD 2.7 million. The EBIT for the first six months was USD 1.3 million (USD 4.0 million).

Net financial expenses were USD 0.7 million (USD 0.2 million). For the half year net financial expenses were USD 1.7 million (USD 2.0 million). The result before tax was negative USD 0.1 million (positive USD 2.8 million) in the quarter and negative USD 0.4 million (positive USD 2.0 million) for the first six months. The result after estimated tax was negative USD 0.3 million (positive USD 2.8 million) in 2nd quarter and half-yearly negative USD 0.8 million (positive USD 1.5 million).

In May 2009, the Company purchased a total of 600,000 of its own shares for an average price of NOK 6.20 per share. The holding of own shares are accounted in accordance with IAS 32 – Treasury shares and disclosed in accordance with IAS 1 – Presentation of Financial Statements. For further information, refer to note 6.

Operations

During the quarter FOP operated four units on contracts while one unit was laid up. The Company also operated a management service contract for the MOPU Marc Lorenceau. A 100% commercial uptime was achieved for all operational units in the quarter.

The FPSO Knock Adoon operated 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. Demobilization of the FSO from the Al Shaheen field is scheduled to start in 3rd quarter 2009. The Company is marketing Knock Nevis for future opportunities world-wide.

FPSO Petrôleo Nautipa (indirectly owned 50% by Fred.Olsen Production ASA) operated on a contract for Vaalco at the Etame license offshore Gabon, West Africa.

FSO Knock Dee was laid up awaiting the outcome of the option agreement with El Paso whereby the vessel is exclusively retained for use as a FSO for the Pinauna field offshore Brazil. The option may be declared up until 31st December 2009.

The converted FPSO Knock Allan commenced oil production under her contract with Canadian Natural Resources' (CNR) on the Olowi field in Gabon on 1st May 2009 and achieved 100% commercial uptime in the quarter. Permitted delay rate in accordance with contract was invoiced for the period from the date when FOP provided its notice of readiness on 28th February 2009 until first oil was received on 28th April 2009. This has partly been disputed by the client, and only the undisputed amount included in the YTD income statement. In addition, certain variation order issues from the project period are being discussed with CNR.

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. A commercial offer to extend the service contract has been submitted to the client under a public tender. Outcome of the tender process expected 2H 2009.

Contract status

Vessel/Units	Country of operation	Contract expiry
FPSO		
Knock Adoon	Nigeria	October 2014 + 8 option years
Knock Allan	Gabon	May 2019 + 10 option years
Petrôleo Nautipa	Gabon	September 2015 + 2 option years
FSO		
Knock Dee		Project deferred; El Paso, Brazil has option contract until 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 managment with 30 days notice

Market Outlook

The slow FPSO market continued throughout the first half of 2009 with no new FPSO contracts awarded since August 2008. Most geographical segments are still constrained by the joint impact of an unpredictable oil price, still high development costs and challenging financing conditions. Asia and Brazil have maintained a higher activity level compared with the rest of the market.

There are signs of increasing activity levels and a number of possible business development opportunities for FOP, particularly in the South East Asia region. Globally the market expects 2-3 new contract awards in the FPSO segment during the second half of 2009.

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 from expected and historical results

Business and Operational Risk

With FPSO Knock Allan on contract with CNR, the main business risk exposures are redeployment possibilities for FSO Knock Nevis and FSO Knock Dee, renewal of the service management contract for Marc Lorenceau and political risk in our operating regions.

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 a growing portion of the operating expenses which are denominated in a currency other than the respective functional currencies of Group entities, primarily U.S. Dollars (USD). Per half-year approximately 35% of the operating expenses denominated in non-USD is secured by currency hedges for second half 2009.

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.fpsno>

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 2009 and for the first half year of fiscal 2009.

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 2009 and of the results of the Group’s operations and cash flows for the first half-year of fiscal 2009.

Hvitsten, 13 July 2009
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 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2008 ²⁾
Revenue	25.764	18.858	46.901	36.170	79.729
Gain on sale of fixed assets	1.300	0	1.300	0	0
Revenues	27.064	18.858	48.201	36.170	79.729
Operating expenses	-13.048	-8.390	-22.258	-17.523	-36.999
Other administrative expenses	-2.654	-2.977	-5.582	-5.672	-13.221
Total operating expenses	-15.702	-11.367	-27.840	-23.195	-50.220
Operating profit before depreciation (EBITDA)	11.362	7.491	20.361	12.974	29.509
Depreciation	-10.830	-4.477	-19.052	-8.969	-16.302
Impairment					-22.366
Operating profit (EBIT)	532	3.015	1.309	4.006	-9.160
Interest income	8	1.768	77	3.222	5.771
Interest expense	-666	1.762	-1.528	-1.985	-11.574
Other financial items	-23	-3.728	-270	-3.257	-24.029
Net financial items	-681	-199	-1.721	-2.020	-29.832
Profit before tax	-149	2.816	-412	1.985	-38.991
Income tax expense	-115	-29	-431	-513	-449
Net profit (loss)	-264	2.787	-843	1.473	-39.440
Numbers of shares/diluted numbers of shares (thousands)	105.930	105.930	105.930	105.930	105.930
Basic earnings/(loss) per share (USD)	0,00	0,03	-0,01	0,01	-0,37
Diluted earnings/(loss) per share (USD)	0,00	0,03	-0,01	0,01	-0,37

¹⁾ Unaudited

²⁾ Audited

Balance sheet

(USD 000)

	Notes	FOP ASA 30 June 2009 ¹⁾	FOP ASA 30 June 2008 ¹⁾	FOP ASA 31 Dec 2008 ²⁾
ASSETS				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	411.251	377.522	394.532
Other investments		9.791	4.938	8.514
Deferred tax asset		0	0	0
Total non-current assets		421.042	382.460	403.046
<i>Current assets</i>				
Short-term receivables		36.045	26.610	16.550
Bunker		302	448	451
Cash and cash equivalents		83.365	140.988	103.488
Total current assets		119.711	168.046	120.489
TOTAL ASSETS		540.753	550.506	523.535
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*		-57.798	-17.838	-58.816
Total equity	6	264.300	304.261	263.283
<i>Non-current liabilities</i>				
Interest bearing loan	5	238.414	218.015	227.555
Deferred income		14.215	14.506	12.906
Pension liabilities		1.325	832	1.622
Total non-current liabilities		253.955	233.352	242.083
<i>Current liabilities</i>				
Income tax payable		155	133	-2
Interest bearing short-term debt		2.145	0	1.976
Accruals and other short-term debt		20.198	12.760	16.195
Total current liabilities		22.498	12.893	18.169
Total liabilities		276.452	246.245	260.252
TOTAL EQUITY AND LIABILITIES		540.753	550.506	523.535

*Including own shares, fair value reserves and translation reserves

¹⁾ Unaudited

²⁾ Audited

Condensed consolidated statement of comprehensive income

For the six months ended 30 June

(USD 000)

	Year-to-Date	
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾
Net profit (loss)	-843	1.473
Exchange differences on translation of foreign operations	816	-125
Net gain on available-for-sale financial assets	1.621	0
Total comprehensive income for the period	1.595	1.348

¹⁾ Unaudited

²⁾ Audited

Statement of changes in equity

(USD 000)

	First Half		Year-end
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2008 ²⁾
<i>Equity (beginning of period)</i>	263.282	302.912	302.912
Translation differences	816	-125	-190
Effect of changes in available for sale assets ¹⁾	1.621		
Share re-purchase at par value ²⁾	-93		
Share re-purchase equity effect ²⁾	-484		
Profit (loss) for the period	-843	1.473	-39.440
<i>Equity (end of period)</i>	264.300	304.260	263.282

1) Refer to the discussion provided on fair value reserve in Note 6 – Share Capital for further details.

2) Refer to the discussion provided on own shares in Note 6 – Share Capital for further details.

Cash flow statement

(USD 000)

	Second Quarter		First Half		Full Year
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2008 ²⁾
Net cash flow from operating activities	-4.642	-8.725	710	-681	24.498
Net cash flow from investing activities	6.548	-43.491	-32.532	-69.711	-136.998
Net cash flow from financing activities	10.987	-1.035	11.028	-992	10.128
Net change in cash	12.893	-53.251	-20.794	-71.385	-102.372
Net translation differences	-850	48	670	-124	-6.635
Cash balance at period beginning	71.322	194.191	103.488	212.495	212.495
Cash balance at period ending	83.365	140.988	83.365	140.987	103.488

¹⁾ Unaudited

²⁾ Audited

Notes to the accounts

Note 1 - Basis of presentation

The 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) and the act and regulations for the Norwegian stock exchange.

The interim financial information was approved by the Board of Directors on 13 July 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 financial information should be read together with the consolidated financial statements for Fred.Olsen Production ASA (FOP ASA) as of 31 December 2008, which is 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 2008 FOP ASA consolidated accounts.

Note 3 – Business segments

The following is a reconciliation of the segments’ profit (loss) (EBIT) according to IFRS 8 to the segments’ profit (loss) before income tax:

Reconciliation of the segments' profit (loss)
(EBIT) according to IFRS 8 to the segments'

USD 000

	Vessel Operating Group	Administrative Group	Total Segments	Reconciliation	Consolidated
Six months ended June 30, 2009					
Income Statement					
Revenue from external customers	43.800	7.310	51.111	-2.909	48.201
Segment profit (loss) EBIT according to IFRS 8	-2.138	886	-1.252	2.561	1.309
Total financial items	-3.270	898	-2.372	651	-1.721
Segment profit (loss) before tax expense	<u>-5.408</u>	<u>1.784</u>	<u>-3.624</u>	<u>3.212</u>	<u>-412</u>
Fixed Assets					
Segment assets as at December 31, 2008	394.247	285	394.532		
Changes during the period	16.753	-33	16.720		
Segment assets as at June 30, 2009	<u>411.000</u>	<u>252</u>	<u>411.252</u>		

The Company previously reported segment information according to IAS 14 under which information was presented according to business and geographical segments. As at 1 January 2009, IAS 14 is replaced by IFRS 8 *Operating Segments* and the previous presentation has been replaced to reflect the new standard.

The information presented differs from the former standard in that all operational entities are presented as one segment; they are no longer split according to geographical region. In addition to the operational segment, an administrative segment is presented. Presentation of the two segments highlights how the Group is evaluated and provides information related to performance of its two critical components. Operational information and administrative information are critically evaluated by chief decision makers.

Reconciling items are representative of intercompany transactions that are eliminated upon consolidation.

Note 4 – Property, plant and equipment

(USD 000)

	Vessels & Rigs	Other Fixed Assets	Total Fixed Assets
Carrying amount 1 January 2008	316.433	348	316.780
Additions	3.572	17	3.589
Capitalized on conversion project	112.832	0	112.832
Depreciation for the period	-16.223	-80	-16.302
Impairment of vessels	-22.366	0	-22.366
Carrying amount 31 December 2008	394.247	285	394.531
Additions	11	8	20
Disposals	-2.609	0	-2.609
Capitalized on conversion project	38.361	0	38.361
Depreciation for the period	-19.010	-42	-19.052
Carrying amount 30 June 2009	411.000	252	411.251

Depreciation of FPSO Knock Allan started in 1st quarter 2009. The depreciation of FSO Knock Nevis has been increased by USD 1.1 million/month in 2009 compared to 2008 to reflect the reduced residual value as a consequence of the drop in scrap steel prices last quarter 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 available loan amount depends on the present value of the unit's contracts and their scrap values (the borrowing base). The facility is guaranteed by Fred.Olsen Production ASA, and runs for five years from July 2007 without reductions and thereafter a further five years with semi-annual reductions 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 1.30%. The borrowers are joint and severally liable for the credit facility. As of 30 June 2009 USD 238.4 million was drawn under the credit facility.

Note 6 - Share capital

(USD 000)

	Number of shares (thousands)	Share capital	Own Shares	Share premium reserve	Translation reserve	Fair Value reserve	Total Retained earnings	Shareholders equity
As of 1 January 2008	105.930	17.090	0	305.009	13.848	0	(33.034)	302.912
Net result for the period					-190		-39.440	-39.630
As of 31 December 2008	105.930	17.090	0	305.009	13.658	0	-72.475	263.282
Net result for the period							-843	-843
Purchase of own shares			-93				-484	-577
Translation differences					816			816
Changes in fair values, recognised directly in equity						1.621		1.621
As of 30 June 2009	105.930	17.090	-93	305.009	14.474	1.621	-73.802	264.300

Translation reserve

The reserve represents exchange differences resulting from the consolidation of associated companies having functional currencies other than NOK.

Fair value reserve

The reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized.

Own shares

The purchases of the Company's own shares during the year were made on the basis of an authorization at the extraordinary Annual General Meeting in April 2009 for the Board of Directors to acquire up to 10,593,000 shares, corresponding to 10% of the share capital of the Company. Par value of the shares purchased at 30 June 2009 is \$92,849.

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. Year-to-date transactions between the Group and its associates are disclosed below.

<i>(USD 000)</i>	2009	2008
<i>Management fee</i>		
Associated companies (Fred. Olsen Marine Services AS)	1.506	1.199
<i>Operating expenses</i>		
Associated company (Fred. Olsen & Co.)	319	388
<i>Executive loans (from First Olsen Ltd.)</i>		
Key Management	842	1.146
Chairman of the Board	235	295
<i>Executive loans (from Fred. Olsen Production ASA)</i>		
Key Management	392	394