



# Fred. Olsen Production ASA

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## Report for the 3<sup>rd</sup> quarter 2009

### Fred. Olsen Production ASA consolidated

#### Highlights for the 3<sup>rd</sup> quarter 2009

- Operating revenues were USD 29.7 million (USD 24.4 million)
- EBITDA was USD 13.2 million (USD 9.6 million)
- FPSO Knock Allan EBITDA contribution was USD 6.1 million
- Final payment of USD 2 million received from upgrade project Knock Nevis which was completed in 2008
- 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 29.7 million (USD 24.4 million). The EBITDA was USD 13.2 million (USD 9.6 million). FPSO Knock Allan first full quarter in operation contributed USD 6.1 millions to the EBITDA. After depreciation of USD 10.4 million (USD 2.1 million) the operating result (EBIT) was USD 2.8 million (USD 7.4 million). See note 4 regarding changes in depreciation.

Revenues for the nine months including the capital gain on Knock Taggart in the second quarter, were USD 77.6 million (USD 60.6 million) with an EBITDA of USD 33.5 million (USD 22.5 million). The EBIT for the first nine months was USD 4.1 million (USD 11.7 million).

Net financial expenses were USD 3.8 million (USD 5.7 million), where of USD 1.1 million was a revaluation cost of the Group’s long term fixed interest swaps. The Group has fixed 48% of the outstanding interest-bearing debt at an average interest rate of 3.7% plus applicable margin with a remaining average duration of 4.75 years. For the nine months net financial expenses were USD 5.5 million (USD 7.8 million). The result before tax was negative USD 1.0 million (positive USD 1.7 million) in the quarter and negative USD 1.4 million (positive USD 3.9 million) for the first nine months. The result after estimated tax was negative USD 1.5 million (positive USD 1.7 million) in 3q and negative USD 2.3 million (positive USD 3.4 million) year to date.

### **Operations**

During the quarter FOP operated three units on contracts, one unit demobilized from its contract in September while one unit was laid up. The Company continued to operate a management service contract for the MOPU Marc Lorenceau. 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.

FPSO Knock Allan operated on contract for Canadian Natural Resources’ (CNR) on the Olowi field offshore Gabon. The contract commenced on 1<sup>st</sup> May 2009. Oil- and gas commissioning was

completed and finalized during the quarter. Knock Allan Pte Ltd and CNR have not reached an agreement over the disputed period for permitted delay/stand-by hire and other variation orders from the project phase

FPSO Petr leo 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 Nevis demobilized from the Al Shaheen field, Qatar on contract expiry on 12<sup>th</sup> August. The USD 2 million end of up-grade project bonus was received from the client. The unit sailed to Fujairah and arrived mid September and is currently undergoing tank cleaning and de-mucking, scheduled to be completed before year end 2009. There is a dispute with the previous client regarding conditions at redelivery of the vessel. The Company is marketing Knock Nevis for future opportunities world-wide - scrapping is also a possible scenario.

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 31<sup>st</sup> December 2009.

The management service contract on the MOPU Marc Lorenceau continued throughout the quarter basis 30 days termination. The outcome of the commercial offer to extend the service contract submitted to the client Addax Petroleum under a public tender in 1H 2009 is not yet clarified.

## Contract status

Vessel/Units	Country of operation	Contract expiry
<b>FPSO</b>		
Knock Adoon	Nigeria	October 2014 + 8 option years
Knock Allan	Gabon	May 2019 + 10 option years
Petr�leo Nautipa	Gabon	September 2015 + 2 option years
<b>FSO</b>		
Knock Dee	Fujairah	Project deferred; El Paso, Brazil has option contract until 31. December 2009
Knock Nevis	Fujairah	Demobilization, available for new employment
<b>MOPU (on management)</b>		
Marc Lorenceau	Nigeria	Contract expired September 2008, FOP continues management with 30 days notice

## Market Outlook

The FPSO market remains slow, but with clear indications of a return to more normal market conditions, including two contract awards announced 3q putting an end to the 12 month contract drought. Formal inquiry numbers are up, particularly in Asia, and early stage inquiries also indicate an improving prospect flow for 2010 in most areas. Africa remains slower to recover reflecting partly the lack of a local capital base and dependence on international financing, although the first leased FPSO contract in 12 months was awarded in Equatorial Guinea.

Improved stability and visibility on the back of gradually recovering economies world wide including emerging markets, continue to be critical factors for oil companies moving ahead with field development plans. However, long lasting effects of the financial crises remains, with tight financing conditions and increased risk aversion. These restrictions affect particularly several possible developments and plans in West Africa.

An increasing pool of idle FPSO's may create some supply side pressure on margins again, balanced to some extent by the reduced number of credible contractors. Globally we expect a further 1-2 contract awards in the fourth quarter 2009.

# Income statement

(USD 000)

Notes	Third Quarter		Year-to-Date		Full Year
	FOP ASA 2009 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2009 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2008 <sup>2)</sup>
Revenue	29 731	24 381	76 269	60 551	79 729
Gain on sale of fixed assets		0	1 300	0	0
<b>Revenues</b>	<b>29 731</b>	<b>24 381</b>	<b>77 569</b>	<b>60 551</b>	<b>79 729</b>
Operating expenses	-12 450	-11 300	-34 772	-28 823	-36 999
Other administrative expenses	-4 099	-3 524	-9 253	-9 196	-13 221
<b>Total operating expenses</b>	<b>-16 548</b>	<b>-14 824</b>	<b>-44 025</b>	<b>-38 019</b>	<b>-50 220</b>
<b>Operating profit before depreciation (EBITDA)</b>	<b>13 182</b>	<b>9 557</b>	<b>33 543</b>	<b>22 532</b>	<b>29 509</b>
Depreciation	-10 382	-2 108	-29 434	-10 856	-16 302
Impairment					-22 366
<b>Operating profit (EBIT)</b>	<b>2 801</b>	<b>7 449</b>	<b>4 110</b>	<b>11 676</b>	<b>-9 160</b>
Interest income	64	1 197	141	4 418	5 771
Interest expense	-2 587	-3 103	-4 115	-5 088	-11 574
Other financial items	-1 244	-3 835	-1 514	-7 092	-24 029
<b>Net financial items</b>	<b>-3 767</b>	<b>-5 742</b>	<b>-5 488</b>	<b>-7 762</b>	<b>-29 832</b>
<b>Profit before tax</b>	<b>-967</b>	<b>1 708</b>	<b>-1 379</b>	<b>3 914</b>	<b>-38 991</b>
Income tax expense	-504		-935	-513	-449
<b>Net profit (loss)</b>	<b>-1 471</b>	<b>1 708</b>	<b>-2 314</b>	<b>3 401</b>	<b>-39 440</b>
Numbers of shares/diluted numbers of shares (thousands)	<b>105 930</b>	<b>105 930</b>	<b>105 930</b>	<b>105 930</b>	<b>105 930</b>
Basic earnings/(loss) per share (USD)	-0,01	0,02	-0,01	0,03	-0,37
Diluted earnings/(loss) per share (USD)	-0,01	0,02	-0,01	0,03	-0,37

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

## Balance sheet

(USD 000)

	Notes	FOP ASA 30 September 2009 <sup>1)</sup>	FOP ASA 30 September 2008 <sup>1)</sup>	FOP ASA 31 Dec 2008 <sup>2)</sup>
<b>ASSETS</b>				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	423 893	407 531	394 532
Other investments		10 463	4 758	8 514
Deferred tax asset		0	0	0
<b>Total non-current assets</b>		<b>434 355</b>	<b>412 289</b>	<b>403 046</b>
<i>Current assets</i>				
Short-term receivables		27 476	19 815	16 550
Bunker		1 083	599	451
Cash and cash equivalents		77 059	124 616	103 488
<b>Total current assets</b>		<b>105 617</b>	<b>145 031</b>	<b>120 489</b>
<b>TOTAL ASSETS</b>		<b>539 973</b>	<b>557 320</b>	<b>523 535</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*		-57 818	-15 745	-58 816
<b>Total equity</b>	6	<b>264 280</b>	<b>306 354</b>	<b>263 283</b>
<i>Non-current liabilities</i>				
Interest bearing loan	5	237 796	218 052	227 555
Deferred income		12 297	13 866	12 906
Pension liabilities		1 781	1 236	1 622
<b>Total non-current liabilities</b>		<b>251 874</b>	<b>233 154</b>	<b>242 083</b>
<i>Current liabilities</i>				
Income tax payable			32	-2
Interest bearing short-term debt		2 145	0	1 976
Accruals and other short-term debt		21 673	17 780	16 195
<b>Total current liabilities</b>		<b>23 819</b>	<b>17 811</b>	<b>18 169</b>
<b>Total liabilities</b>		<b>275 692</b>	<b>250 966</b>	<b>260 252</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>539 973</b>	<b>557 320</b>	<b>523 535</b>

\*Including own shares, fair value reserves and translation reserves

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

## Statement of changes in equity

(USD 000)

	Year-to-date		Year-end
	FOP ASA 2009 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2008 <sup>2)</sup>
<b>Equity (beginning of period)</b>	<b>263 282</b>	<b>302 912</b>	<b>302 912</b>
Translation differences	1 423	40	-190
Effect of changes in available for sale assets <sup>1)</sup>	2 466		
Share re-purchase at par value <sup>2)</sup>	-93		
Share re-purchase equity effect <sup>2)</sup>	-484		
Profit (loss) for the period	-2 314	3 401	-39 440
<b>Equity (end of period)</b>	<b>264 280</b>	<b>306 353</b>	<b>263 282</b>

- 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)

	Third Quarter		Year-to-date		Full Year
	FOP ASA 2009 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2009 <sup>1)</sup>	FOP ASA 2008 <sup>1)</sup>	FOP ASA 2008 <sup>2)</sup>
Net cash flow from operating activities	17 160	15 322	17 870	14 641	24 498
Net cash flow from investing activities	-23 023	-31 896	-55 555	-101 607	-136 998
Net cash flow from financing activities	-618	37	10 410	-955	10 128
<b>Net change in cash</b>	<b>-6 482</b>	<b>-16 537</b>	<b>-27 275</b>	<b>-87 921</b>	<b>-102 372</b>
Net translation differences	176	165	846	41	-6 635
Cash balance at period beginning	83 365	140 988	103 488	212 495	212 495
<b>Cash balance at period ending</b>	<b>77 059</b>	<b>124 616</b>	<b>77 059</b>	<b>124 616</b>	<b>103 488</b>

<sup>1)</sup> Unaudited

<sup>2)</sup> 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 27 October 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

	<b>Vessel Operating Group</b>	<b>Administrative Group</b>	<b>Total Segments</b>	<b>Reconciliation</b>	<b>Consolidated</b>
Nine months ended September 30, 2009					
<b>Income Statement</b>					
Revenue	71 983	9 934	81 917	-4 349	77 569
Segment profit (loss) EBIT according to IFRS 8	848	55	903	3 207	4 110
Total financial items	-6 555	924	-5 631	143	-5 488
Segment profit (loss) before tax expense	<u>-5 708</u>	<u>979</u>	<u>-4 729</u>	<u>3 350</u>	<u>-1 379</u>
<b>Fixed Assets</b>					
Segment assets as at December 31, 2008	394 247	285	394 532		
Changes during the period	29 374	-13	29 361		
Segment assets as at September 30, 2009	<u>423 622</u>	<u>272</u>	<u>423 894</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.

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

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

<i>(USD 000)</i>	<b>Vessels</b>	<b>Other Fixed Assets</b>	<b>Total Fixed Assets</b>
<b><i>Carrying amount 1 January 2008</i></b>	<b><i>316 433</i></b>	<b><i>348</i></b>	<b><i>316 780</i></b>
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
<b><i>Carrying amount 31 December 2008</i></b>	<b><i>394 247</i></b>	<b><i>285</i></b>	<b><i>394 531</i></b>
Additions	11	87	99
Disposals	-2 609	-33	-2 642
Capitalized on conversion project	61 339	0	61 339
Depreciation for the period	-29 367	-67	-29 434
<b><i>Carrying amount 30 June 2009</i></b>	<b><i>423 622</i></b>	<b><i>272</i></b>	<b><i>423 893</i></b>

Depreciation of FPSO Knock Allan started in 1<sup>st</sup> quarter 2009. The depreciation of FSO Knock Nevis was brought to an end when the unit demobilized from the oil-field.

#### **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 September 2009 USD 238.4 million was drawn under the credit facility.

## Note 6 - Share capital

<i>(USD 000)</i>	Number of shares (thousands)	Share capital	Own Shares	Share premium reserve	Translation reserve	Fair Value reserve	Total Retained earnings	Shareholders equity
<b>As of 1 January 2008</b>	<b>105 930</b>	<b>17 090</b>	<b>0</b>	<b>305 009</b>	<b>13 848</b>	<b>0</b>	<b>(33 034)</b>	<b>302 912</b>
Net result for the period					-190		-39 440	-39 630
<b>As of 31 December 2008</b>	<b>105 930</b>	<b>17 090</b>	<b>0</b>	<b>305 009</b>	<b>13 658</b>	<b>0</b>	<b>-72 475</b>	<b>263 282</b>
Net result for the period							-2 314	-2 314
Purchase of own shares			-93				-484	-577
Translation differences					1 423			1 423
Changes in fair values, recognised directly in equity						2 466		2 466
<b>As of 30 September 2009</b>	<b>105 930</b>	<b>17 090</b>	<b>-93</b>	<b>305 009</b>	<b>15 081</b>	<b>2 466</b>	<b>-75 272</b>	<b>264 280</b>

### 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 2q 09 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 September 2009 remains \$92,849.