



Fred.Olsen Production ASA

Report for the 4th quarter 2009 and preliminary year end result 2009

Fred.Olsen Production ASA consolidated

Highlights for the 4th quarter

- Operating revenues for the quarter were USD 28.0 million (USD 19.3 million) and USD 107.1 million for the year (USD 80.9 million)
- 4th quarter EBITDA was USD 7.7 million excluding sales gain (USD 6.4 million) and 2009 EBITDA was USD 42.8 million (USD 30.7 million)
- FSO Knock Nevis sold and delivered to new owners in December 2009, capital gain of USD 6.6 million included in the quarter, capital gain for the full year was USD 7.9 million
- Agreement in December to purchase the 1993 built Aframax crude oil tanker M/T Chemtrans Lyra tbn Knock Muir, delivery expected in March 2010
- Option agreement with El Paso Maritime B.V for the provision of Knock Dee as an FSO on the Pinauna field offshore Brazil extended in December with six months until 30. June 2010
- 99.7% commercial up-time for units in operation in 2009, FPSO Knock Allan production in 4q negatively impacted by reduced gas lift capacity

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

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 2008 are in brackets below.

Financial information

Operating revenues in the quarter were USD 28.0 million (USD 19.3 million) excluding a capital gain of USD 6.6 million on the sale of FSO Knock Nevis. EBITDA was USD 14.3 million (USD 6.4 million). Full year revenues were USD 115.0 million including capital gains of USD 7.9 million on Knock Taggart and Knock Nevis (USD 80.9 million) with an EBITDA of USD 50.7 million (USD 30.7 million)

After depreciation of USD 10.3 million (USD 27.1 million including USD 22.4 million impairment on Knock Taggart and Knock Nevis) the 4th quarter operating result (EBIT) was USD 4.0 million (negative USD 20.7 million). For the year EBIT was USD 10.9 million (negative USD 8.0 million).

Net financial expenses were USD 2.2 million (USD 22.2 million) for 4q. For the full year the net financial expenses were USD 7.4 million (USD 29.8 million including USD 6.5 million on unrealized currency loss and USD 16.6 million loss on other financial investments).

The quarterly result before tax was USD 1.8 million (negative USD 42.9 million) and USD 3.5 million (negative USD 37.8 million) for the full year. After tax, the result was USD 0.3 million (negative USD 43.1 million), and negative USD 2.0 million (negative USD 39.4 million) respectively.

The company has changed accounting policy in relation to treatment of local withholding tax under the different units contracts, see note 2 for further clarification.

Operations

During the year 2009 FOP operated four of its five units on contracts, one unit was sold in 4q. In addition the company had a management service contract for the operation of MOPU Marc Lorenceau. 99.7% commercial uptime was achieved for all operational units during 2009.

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 during the quarter on contract for Canadian Natural Resources' (CNR) on the Olowi field offshore Gabon with periodically reduced production due to reduced gas lift capacity relating to compressor performance. This had a negative impact on day rate earned in the quarter. Knock Allan Pte Ltd and CNR have not reached agreement over the disputed period for permitted delay/stand-by hire and other variation orders from the project phase. Points of claim will be served in accordance with the contract's dispute resolution clauses to be solved by London arbitration.

FSO Knock Nevis continued operation for Maersk Oil in Qatar until 12th August 2009. The unit was sold in December 2009 after decommission from the oil field and undergoing de-mucking of the cargo tanks. The capital gain was USD 6.6 million on the sale. The dispute with the previous client regarding conditions at redelivery of the vessel, remains unresolved.

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.

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. El Paso extended in December the option up until 30th June 2010. The option premium covers layup and maintenance cost for the unit.

The management service contract on the MOPU Marc Lorenceau continued throughout 2009. The outcome of the commercial offer to extend the service contract under a public tender in 1H 2009 is still pending.

Knock Adoon and Marc Lorenceau continue to operate under challenging security conditions. The company is closely following the situation and adheres to contingency plans and safety measures, which are continuously evaluated and updated together with the clients.

Lost Time Injuries for the fleet under operation and conversion was one in 2009, with a corresponding fleet H-value of 0.32 compared to 1.53 in 2008.

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
Petr�leo Nautipa	Gabon	September 2015 + 2 option years
FSO		
Knock Dee	Fujairah	Project deferred; El Paso, Brazil has option contract until 30. June 2010
MOPU (on management)		
Marc Lorenceau	Nigeria	Contract expired September 2008, FOP continues management with 30 days notice

Market Outlook

The FPSO lease market picked up significantly during 4q 2009, exceeding our expectations described in our 3q report. In total 6 new lease contracts were awarded, including 3 new conversions and 2 redeployments. This is the highest level of awarded contracts for a single quarter since 2006.

Formal inquiry numbers - the best leading indicator of prospect flow - are up in all market segments except small-mid range FPSO's in Africa. The latter segment is still held back by lack of financing opportunities available to the many players involved in this segment. However, the tendency is that majority of the projects moving forward are medium to large scale FPSO projects. From this it is clear that tight financing and risk aversion is still impacting the market and is likely to do so in the near term.

Despite the contraction in numbers of FPSO contractors, and the largest players having improved its backlog, there is expected to be adequate capacity to support the market demand in the near term. The pool of idle FPSO's is increasing, however, the difficulty in securing redeployment for many of the older units (suited smaller sized developments) will likely lead to further units being scrapped - 3 were scrapped in 2009. We are cautious on the outlook for 2010 as a whole.

Income statement

(USD 000)

Notes	Fourth Quarter		Year-to-Date	
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾
Revenue	27.990	19.347	107.047	80.896
Gain on sale of fixed assets	6.608	0	7.908	0
Revenues	34.599	19.347	114.955	80.896
Operating expenses	-14.195	-9.044	-48.967	-36.999
Other administrative expenses	-6.078	-3.942	-15.332	-13.221
Total operating expenses	-20.273	-12.986	-64.299	-50.220
Operating profit before depreciation (EBITDA)	14.326	6.360	50.656	30.676
Depreciation	-10.314	-4.718	-39.748	-16.302
Impairment		-22.366		-22.366
Operating profit (EBIT)	4.011	-20.724	10.908	-7.993
Interest income	25	1.373	166	5.771
Interest expense	-2.109	-6.486	-6.232	-11.574
Other financial items	-159	-17.054	-1.298	-24.029
Net financial items	-2.243	-22.167	-7.363	-29.832
Profit before tax	1.768	-42.891	3.545	-37.824
Income tax expense	-1.476	-245	-5.574	-1.616
Net profit (loss)	292	-43.136	-2.029	-39.440
Numbers of shares/diluted numbers of shares (thousands)	105.930	105.930	105.930	105.930
Basic earnings/(loss) per share (USD)	0,00	-0,41	-0,01	-0,37
Diluted earnings/(loss) per share (USD)	0,00	-0,41	-0,01	-0,37

¹⁾ Unaudited

²⁾ Audited

Balance sheet

(USD 000)

	Notes	FOP ASA 31 December 2009 ¹⁾	FOP ASA 31 December 2008 ¹⁾
ASSETS			
<i>Non-current assets</i>			
Offshore units, constructions and equipment	4	413.791	394.532
Other investments		10.877	8.514
Deferred tax asset		0	0
Total non-current assets		424.667	403.046
<i>Current assets</i>			
Short-term receivables		16.699	16.550
Bunker		1.117	451
Cash and cash equivalents		112.199	103.488
Total current assets		130.015	120.489
TOTAL ASSETS		554.682	523.535
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		17.090	17.090
Share premium reserve		305.009	305.009
Retained earnings*		-57.511	-58.816
Total equity	6	264.588	263.283
<i>Non-current liabilities</i>			
Interest bearing loan	5	236.914	227.555
Deferred income		12.892	12.906
Pension liabilities		2.481	1.622
Non-current provisions		550	
Total non-current liabilities		252.837	242.083
<i>Current liabilities</i>			
Income tax payable		6.258	1.498
Interest bearing short-term debt		2.145	1.976
Accruals and other short-term debt		28.854	14.695
Total current liabilities		37.257	18.169
Total liabilities		290.094	260.252
TOTAL EQUITY AND LIABILITIES		554.682	523.535

*Including own shares, fair value reserves and translation reserves

¹⁾ Unaudited

²⁾ Audited

Statement of changes in equity

(USD 000)

	Year-to-date	
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ²⁾
Equity (beginning of period)	263.282	302.912
Translation differences	859	-190
Effect of changes in available for sale assets ^{a)}	3.052	
Share re-purchase at par value ^{b)}	-93	
Share re-purchase equity effect ^{b)}	-484	
Profit (loss) for the period	-2.029	-39.440
Equity (end of period)	264.588	263.282

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

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

Cash flow statement

(USD 000)

	Fourth Quarter		Year-to-date	
	FOP ASA 2009 ¹⁾	FOP ASA 2008 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2008 ²⁾
Net cash flow from operating activities	32.793	-13.628	50.662	24.498
Net cash flow from investing activities	4.456	-14.814	-51.099	-136.998
Net cash flow from financing activities	-1.918	7.543	8.492	10.128
Net change in cash	35.331	-20.899	8.056	-102.372
Net translation differences	-191	-230	655	-6.635
Cash balance at period beginning	77.059	124.616	103.488	212.495
Cash balance at period ending	112.199	103.487	112.199	103.488

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 15th February 2010.

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 31st December 2008, which is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU.

Various operational entities within the FOP ASA group of companies are exposed to Nigerian or Gabonese withholding tax on contractual revenue. These costs are contractual and are incurred as a result of doing business. In previously reported periods, it was the group policy to account for this tax exposure under the guidance of International Accounting Standard 18 *Revenue* (IAS 18), specifically IAS 18.8 with regards to excise tax. In prior periods, revenue was presented net of withholding tax incurred.

In the fourth quarter the group has adopted to account for withholding tax under the guidance of International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1). This change in accounting policy is applied in the fourth quarter; both quarterly and cumulative balances presented for 2009 are inclusive of the change in accounting policy; comparative revenue is increased and there is an offsetting increase in income tax expense. This change in accounting policy is also reflected in the restated comparative figures.

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:

USD 000

	Vessel Operating Group	Administrative Group	Total Segments	Reconciliation	Consolidated
Twelve months ended December 31, 2009					
Income Statement					
Revenue	107.562	12.981	120.543	-5.588	114.955
Segment profit (loss) EBIT according to IFRS 8	9.465	-2.633	6.833	4.075	10.908
Total financial items	-11.374	9.088	-2.286	-5.077	-7.363
Segment profit (loss) before tax expense	-1.909	6.456	4.547	-1.002	3.545
Fixed Assets					
Segment assets as at December 31, 2008	394.247	285	394.532		
Changes during the period	19.282	-22	19.259		
Segment assets as at December 31, 2009	413.529	263	413.792		

The Company previously reported segment information according to IAS 14 under which information was presented according to business and geographical segments. As at 1st 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

(USD 000)

	Vessels	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	1	113	114
Disposals	-12 409	-33	-12 442
Capitalized on conversion project	71 336	0	71 336
Depreciation for the period	-39 646	-102	-39 748
Carrying amount 31 December 2009	413 529	263	413 791

Depreciation of FPSO Knock Allan started in 1st 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 (collectively referred to as “the borrowers”) 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 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 31st December 2009 USD 239.9 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	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							-2 029	-2 029
Purchase of own shares			-93				-484	-577
Translation differences					859			859
Changes in fair values, recognised directly in equity						3 052		3 052
As of 31 December 2009	105 930	17 090	-93	305 009	14 517	3 052	-74 988	264 588

Translation reserve

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

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 31st December 2009 remains USD 92,849.