



Fred. Olsen Production ASA

Report for the 1st quarter 2010

Fred. Olsen Production ASA consolidated

Highlights for the 1st quarter

- Operating revenues for the quarter were USD 27.7 million (USD 20.9 million)
- EBITDA was USD 11.5 million (USD 7.2 million)
- EBIT was USD 3.3 million (negative USD 1.0 million)
- Net loss after tax USD 2.9 million (2.4 million)
- The crude oil tanker M/T Chemtrans Lyra renamed Knock Muir delivered to FOP on 3rd March
- 100% commercial up-time for units in operation in 1q 2010

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

Financial information

Comparable figures for the corresponding period in 2009 are in brackets below.

Operating revenues in the quarter were USD 27.7 million (USD 20.9 million). Operating profit before depreciation (EBITDA) was USD 11.5 million (USD 7.2 million).

After depreciation of USD 8.2 million (USD 8.2 million) the 1st quarter operating result (EBIT) was USD 3.3 million (negative USD 1.0 million).

Net financial expenses were USD 3.9 million (USD 1.1 million) including USD 1.2 million on unrealized currency loss and market to market valuation of long term interest rate swaps.

The result before tax was negative USD 0.7 million (negative USD 2.1 million). After tax, the result was negative USD 2.9 million (negative USD 2.4 million).

From 4th quarter 2009 the company 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 quarter FOP operated four of its five units on contracts while the 1993 built Aframax tanker Knock Muir delivered on 3. March, was employed on a short term T/C from 13. March. The company had a management service contract for the operation of MOPU Marc Lorenceau. 100% commercial uptime was achieved for all operational units.

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. The reduced gas lift capacity relating to compressor performance reported in 4q 09 were solved early January and since then compressor performance has been satisfactory.

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

After delivery to FOP in March the Aframax tanker Knock Muir traded in the spot market. The Aframax tanker market was slow during the quarter with rates marginally in excess of operating costs. FSO Knock Dee continued in lay-up under an option agreement with El Paso whereby the vessel is exclusively retained for use as a FSO for the Pinauna field offshore Brazil. The option expires by 30. June 2010

The management service contract on the MOPU Marc Lorenceau continued throughout the quarter. The outcome of the public tender in 2009 regarding a new 2 year management contract is still pending.

Knock Adoon and Marc Lorenceau continued 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.

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	Fujairah	Project deferred; El Paso, Brazil has option contract until 30. June 2010
Tanker		
Knock Muir	South East Asia	Trading in the spot market/short term T/C market
MOPU (on management)		
Marc Lorenceau	Nigeria	Contract expired September 2008, FOP continues management with 30 days notice

Market Outlook

Our outlook for 2010 as a whole remains cautiously optimistic.

Following the flurry of awards late 2009, which reflected a backlog of delayed projects, few new awards have been made in 1q 2010. The inquiry flow continued to improve during the quarter, though still below levels pre 2008 financial crisis. Medium to large scale projects continue to be favored, driven by national oil companies, the larger independents and major oil companies with access to financing. Asia and Brazil are the most active markets..

With fewer FPSO contractors in the market, and with financing limitations restricting activity for some contractors, the competitive picture is improving. This is partly offset by potential competition coming from distressed asset situation, idle units and units soon coming off-contract.

Consolidated statement of comprehensive income

(USD 000)

Notes	First Quarter		Full Year
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ¹⁾
Revenue	27.647	20.941	107.047
Gain on sale of fixed assets	8	0	7.908
Revenues	27.655	20.941	114.955
Operating expenses	-12.708	-10.811	-48.967
Other administrative expenses	-3.452	-2.928	-15.332
Total operating expenses	-16.160	-13.739	-64.299
Operating profit before depreciation (EBITDA)	11.495	7.202	50.656
Depreciation	-8.223	-8.223	-39.748
Operating profit (loss) (EBIT)	3.272	-1.020	10.908
Interest income	13	69	166
Interest expense	-2.491	-863	-6.232
Other financial items	-1.476	-296	-1.298
Net financial items	-3.953	-1.089	-7.363
Loss before tax	-682	-2.110	3.545
Income tax expense	-2.251	-316	-5.574
Net loss for the period	-2.933	-2.426	-2.029
Other comprehensive income			
Exchange differences on translating foreign operations	102	965	859
Net value gain on available-for-sale	2.039	556	3.052
Other comprehensive income (loss) for the year, net of tax	2.141	1.521	3.911
Total comprehensive income (loss) for the year	-792	-905	1.882
Attributable to:			
Equity holders of the Parent	-2.933	-2.426	-2.029
Loss for the period	-2.933	-2.426	-2.029
Numbers of shares/diluted numbers of shares (thousands)	105.930	105.930	105.930
Basic earnings/(loss) per share (USD)	-0,03	-0,02	-0,02
Diluted earnings/(loss) per share (USD)	-0,03	-0,02	-0,02

¹⁾ Unaudited

Consolidated statement of financial position

(USD 000)

	Notes	FOP ASA 31 March 2010 ¹⁾	FOP ASA 31 March 2009 ¹⁾	FOP ASA 31 December 2009 ¹⁾
ASSETS				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	417.553	424.833	413.791
Other investments		12.743	8.897	10.877
Deferred tax asset		0	0	0
Total non-current assets		430.296	433.730	424.667
<i>Current assets</i>				
Short-term receivables		21.152	22.082	16.699
Bunker		1.135	484	1.117
Cash and cash equivalents		61.579	71.322	112.199
Total current assets		83.865	93.888	130.015
TOTAL ASSETS		514.161	527.619	554.682
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*		-58.303	-59.721	-57.511
Total equity	6	263.796	262.377	264.588
<i>Non-current liabilities</i>				
Interest bearing loan	5	197.004	227.597	236.914
Deferred income		11.220	16.518	12.892
Pension liabilities		2.298	1.096	2.481
Non-current provisions		550		550
Total non-current liabilities		211.072	245.212	252.837
<i>Current liabilities</i>				
Income tax payable		7.672	308	6.650
Interest bearing short-term debt		2.145	1.976	2.145
Accruals and other short-term debt		29.476	17.746	28.462
Total current liabilities		39.294	20.030	37.257
Total liabilities		250.366	265.241	290.094
TOTAL EQUITY AND LIABILITIES		514.161	527.619	554.682

*Including own shares, fair value reserves and translation reserves

¹⁾ Unaudited

Consolidated statement of changes in equity

(USD 000)

	Year-to-date		Year-end
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ¹⁾
Equity (beginning of period)	264.588	263.283	263.283
Total comprehensive loss for the period			
Loss for the period	-2.933	-2.426	-2.029
Other comprehensive income			
Translation differences	102	965	859
Effect of changes in available for sale assets	2.039	555	3.052
Transactions with owners recorded directly in equity			
Share re-purchase at par value	0	0	-93
Share re-purchase equity effect	0	0	-484
Equity (end of period)	263.796	262.377	264.588

Cash flow statement

(USD 000)

	First Quarter		Full Year
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ¹⁾
Net cash flow from operating activities	2.366	5.352	50.662
Net cash flow from investing activities	-11.977	-39.080	-51.099
Net cash flow from financing activities	-41.111	41	8.492
Net change in cash	-50.722	-33.687	8.056
Net translation differences	102	1.520	655
Cash balance at period beginning	112.199	103.489	103.489
Cash balance at period ending	61.579	71.322	112.200

¹⁾ Unaudited

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. April 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 31. December 2009, 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. Consequently, revenue was previously presented net of withholding tax incurred.

From fourth quarter in 2009 the group adopted to account for withholding tax under the guidance of International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1); cumulative balances were restated to reflect the change in accounting policy. The effect of this change is that comparative revenue has increased and there is an offsetting increase in income tax expense. The effect of the change in accounting policy is not reflected in the comparative quarterly figures for fiscal 2009 prior to the fourth quarter.

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 2009 FOP ASA consolidated accounts.

Note 3 – Business segments

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

<i>USD 000</i>	Vessel Operating Group	Administrative Group	Total Segments	Reconciliation	Consolidated
Three months ended March 31, 2010					
Income Statement					
Revenue	26.054	2.676	28.729	-1.074	27.655
Segment profit (loss) EBIT according to IFRS 8	3.600	-742	2.858	413	3.272
Total financial items	-1.791	-2.126	-3.917	-37	-3.953
Segment profit (loss) before tax expense	<u>1.810</u>	<u>-2.868</u>	<u>-1.059</u>	<u>377</u>	<u>-682</u>
Fixed Assets					
Segment assets as at December 31, 2009	413.529	263	413.792		
Changes during the period	3.807	-45	3.762		
Segment assets as at March 31, 2010	<u>417.336</u>	<u>218</u>	<u>417.554</u>		

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

Note 4 – Property, plant and equipment

<i>(USD 000)</i>	Vessels	Other Fixed Assets	Total Fixed Assets
Carrying amount 1 January 2009	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
Additions	12.010	0	12.010
Disposals	0	-25	-25
Capitalized on conversion project	0	0	0
Depreciation for the period	-8.204	-19	-8.223
Carrying amount 31 March 2010	417.335	218	417.553

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 31. March USD 199.1 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 2009	105.930	17.090	0	305.009	13.659	0	(72.475)	263.283
Net result for the period							(2.029)	(2.029)
Unrealised foreign currency gain					713		146	859
Purchase of own shares			(93)				(484)	(577)
Changes in fair value, recognised directly in equity						3.052		3.052
As of 31 December 2009	105.930	17.090	(93)	305.009	14.372	3.052	(74.842)	264.588
Net result for the period							(2.933)	(2.933)
Unrealised foreign currency gain							102	102
Changes in fair values, recognised directly in equity						2.039		2.039
As of 31 March 2010	105.930	17.090	(93)	305.009	14.372	5.091	(77.673)	263.796

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 31. March remains USD 92,849.