



Fred.Olsen Production ASA

Report for the 2nd quarter 2010 and half-yearly Financial Report 2010

Fred.Olsen Production ASA consolidated

Highlights for the 2nd quarter

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

- Revenues for the quarter were USD 30.2 million (USD 27.1 million)
- EBITDA was USD 14.9 million (USD 11.4 million)
- Knock Dee impairment write down USD 11.5 million – option contract not declared
- After the impairment EBIT was negative USD 4.9 million (positive USD 0.5 million)
- Net loss after tax USD 11.4 million (net loss USD 0.3 million)
- Knock Nevis redelivery compensation USD 2.5 million settled with client
- 99% commercial up-time for units in operation in 2q 2010

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Financial information

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

Operating revenues in the quarter were USD 30.2 million (USD 27.1 million including a USD 1.3 million capital gain). Revenues in the quarter included a USD 2.5 million compensation from Maersk Oil Qatar Ltd relating to the redelivery condition of FSO Knock Nevis when her contract expired in August 2009. This was the final settlement of a dispute reported in previous quarters. EBITDA was USD 14.9 million (USD 11.4 million).

After depreciation of USD 8.3 million (USD 10.8 million) and USD 11.5 million as impairment write down on FSO Knock Dee the 2nd quarter operating loss (EBIT) was USD 4.9 million (profit USD 0.5 million). The Knock Dee impairment down to scrap value was taken in the quarter as the option to employ Knock Dee on a contract at the Pinauna field offshore Brazil expired without being declared.

Half year revenues including the compensation on Knock Nevis, were USD 57.9 million (USD 48.2 million) with an EBITDA of USD 26.4 million (USD 20.4 million). EBIT for the first six months was negative USD 1.7 million (positive USD 1.3 million).

Net financial expenses were USD 4.7 million (USD 0.7 million). For the half year net financial expenses were USD 8.6 million (USD 1.7 million). Net financial expenses were charged with USD 2.2 million in unrealized market-to-market revaluation of fixed rate interest swaps and foreign exchange contracts in q2 and USD 3.3 million for the half year. Loss before tax was USD 9.6 million (loss USD 0.1 million) in the quarter and USD 10.3 million (loss USD 0.4 million) for the first six months.

Net loss after estimated tax was USD 11.4 million (loss USD 0.3 million) in 2nd quarter and half-yearly USD 14.4 million (loss USD 0.8 million). In 4th quarter 2009 the company changed its accounting policy in relation to treatment of withholding taxes, see note 2 for further clarification.

Operations

During the quarter FOP operated four of its five units on contracts. The management service contract for the operation of MOPU Marc Lorenceau continued through the quarter. 99.2% commercial uptime was achieved for all operational units.

The FPSO Knock Adoon operated on contract for Addax Petroleum on the Antan field, offshore Nigeria. Satisfactory commercial uptime was achieved in spite of operational issues relating to floating oil-export hose and subsea riser equipment.

FPSO Knock Allan operated during the quarter on contract for Canadian Natural Resources' (CNR) on the Olowi field offshore Gabon. Also Knock Allan achieved 100% commercial uptime under the contract. Previously reported issues relating to gas compressor performance reappeared during the quarter with consequent reduction of gas lift capacity. Work to resolve the issues will continue during 3rd quarter in close cooperation with suppliers.

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 with satisfactory operations during the quarter.

The Aframax tanker Knock Muir entered into a six month T/C on 9th June. 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 was exclusively retained for use as a FSO for the Pinauna field offshore Brazil. The option expired on 30th June without being declared.

The management service contract on the MOPU Marc Lorenceau continued throughout the quarter. Due to repair of a critical component the commercial uptime was reduced to 96.7% in 2nd 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 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
Petr�leo Nautipa	Gabon	September 2015 + 2 option years
FSO		
Knock Dee	Fujairah	No contract commitments
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

We maintain an outlook for 2010 which is cautiously optimistic as markets continue to show some improvement with an increasing number of inquiries. However, a significant proportion of the contract activity so far in 2010 has been for turnkey deliveries, high-end leased units or fast-track redeployment of existing units. Opportunities in the mid-range segment are limited at present but are expected to pick up during 2H 2010 with potential contract award prior to year end. Competition is more restricted, with fewer contractors realistically positioned to bid and finance projects.

Risks and Uncertainties

The Company's operations contain inherent 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. The Company works on a continuous basis to manage such risks and uncertainties.

Business and Operational Risk

The main business risks exposures are renewal of the service management contract for Marc Lorenceau, the political risk in our operating regions and technical exposure to systems and equipment on the units.

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 65% of the operating expenses denominated in non-USD is secured by currency hedges for second half 2010.

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.no>

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 2010 and for the first half year of fiscal 2010.

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.

To the best of our knowledge 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 2010 and of the results of the Group's operations and cash flows for the first half-year of fiscal 2010.

Hvitsten, 12 July 2010
Fred. Olsen Production ASA

Per Oscar Lund
Chairman

Siv Jønland Staubo

Anette Olsen

Agnar Gravdal

Mårten Lunde
CEO

Consolidated statement of comprehensive income

(USD 000)

Notes	Second Quarter		Year-to-Date		Full Year
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ²⁾
Revenue *)	30 234	25 764	57 881	46 901	107 047
Gain on sale of fixed assets	0	1 300	8	1 300	7 908
Revenues	30 234	27 064	57 889	48 201	114 955
Operating expenses	-12 818	-13 048	-25 526	-22 258	-48 967
Other administrative expenses	-2 529	-2 654	-5 981	-5 582	-15 332
Total operating expenses	-15 347	-15 702	-31 507	-27 840	-64 299
Operating profit before depreciation (EBITDA)	14 887	11 362	26 382	20 361	50 656
Depreciation	-8 282	-10 830	-16 505	-19 052	-39 748
Write-down of vessels	-11 544	0	-11 544	0	0
Operating profit (loss) (EBIT)	-4 939	532	-1 667	1 309	10 908
Interest income	1	8	14	77	166
Interest expense	-2 697	-666	-5 184	-1 528	-6 232
Other financial items	-1 964	-23	-3 443	-270	-1 298
Net financial items	-4 660	-681	-8 614	-1 721	-7 363
Loss before tax	-9 599	-149	-10 281	-412	3 545
Income tax expense *)	-1 845	-115	-4 096	-431	-5 574
Net loss for the period	-11 444	-264	-14 377	-843	-2 029
Other comprehensive income					
Exchange differences on translating foreign operations	-17	-149	85	816	859
Net value gain on available-for-sale	-2 990	1 066	-951	1 621	3 052
Other comprehensive income (loss) for the year, net of tax	-3 007	917	-866	2 437	3 911
Total comprehensive income (loss) for the year	-14 451	653	-15 244	1 594	1 882
Attributable to:					
Equity holders of the Parent	-11 444	-264	-14 377	-843	-2 029
Loss for the period	-11 444	-264	-14 377	-843	-2 029
Numbers of shares/diluted numbers of shares (thousands)	105 930	105 930	105 930	105 930	105 930
Basic earnings/(loss) per share (USD)	-0,14	0,00	-0,14	-0,01	-0,02
Diluted earnings/(loss) per share (USD)	-0,14	0,00	-0,14	-0,01	-0,02

¹⁾ Unaudited

²⁾ Audited

*) Figures are not fully comparable 2010 vs. 2009, see note 2

Consolidated statement of financial position
(USD 000)

	Notes	FOP ASA 30 June 2010 ¹⁾	FOP ASA 30 June 2009 ¹⁾	FOP ASA 31 December 2009 ²⁾
ASSETS				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	398.206	411.251	413.791
Other investments		9.581	9.791	10.877
Deferred tax asset		0	0	0
Total non-current assets		407.787	421.042	424.667
<i>Current assets</i>				
Short-term receivables		23.715	36.045	16.699
Bunker		1.215	302	1.117
Cash and cash equivalents		59.170	83.365	112.199
Total current assets		84.100	119.711	130.015
TOTAL ASSETS		491.887	540.753	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*		-72.754	-57.798	-57.511
Total equity	6	249.344	264.300	264.588
<i>Non-current liabilities</i>				
Interest bearing loan	5	196.022	238.414	236.914
Deferred income		10.472	14.215	12.892
Pension liabilities		2.746	1.325	2.481
Non-current provisions		550	0	550
Total non-current liabilities		209.790	253.955	252.837
<i>Current liabilities</i>				
Income tax payable		8.491	155	6.650
Interest bearing short-term debt		2.145	2.145	2.145
Accruals and other short-term debt		22.117	20.198	28.462
Total current liabilities		32.753	22.498	37.257
Total liabilities		242.543	276.452	290.094
TOTAL EQUITY AND LIABILITIES		491.887	540.753	554.682

*Including own shares, fair value reserves and translation reserves

¹⁾ Unaudited

²⁾ Audited

Consolidated statement of changes in equity

(USD 000)

	Year-to-date		Year-end
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ²⁾
Equity (beginning of period)	264.588	263.283	263.283
Total comprehensive loss for the period			
Loss for the period	-14.377	-843	-2.029
Other comprehensive income			
Translation differences	85	816	859
Effect of changes in available for sale assets	-951	1.621	3.052
Transactions with owners recorded directly in equity			
Share re-purchase at par value	0	-93	-93
Share re-purchase equity effect	0	-484	-484
Equity (end of period)	249.344	264.300	264.588

Consolidated statement of cash flows

(USD 000)

	Second Quarter		Year-to-Date		Full Year
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2009 ²⁾
Net cash flow from operating activities	-375	-4.642	1.991	710	50.662
Net cash flow from investing activities	-480	6.548	-12.456	-32.532	-51.099
Net cash flow from financing activities	-1.519	10.987	-42.630	11.028	8.492
Net change in cash	-2.374	12.893	-53.096	-20.794	8.056
Net translation differences	-35	-850	67	670	655
Cash balance at period beginning	61.579	71.322	112.199	103.489	103.489
Cash balance at period ending	59.170	83.365	59.170	83.365	112.200

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 12. July 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
Six months ended June 30, 2010					
Income Statement					
Revenue	55.943	4.042	59.985	-2.096	57.889
Segment profit (loss) EBIT according to IFRS 8	-4.416	-1.657	-6.073	4.406	-1.667
Total financial items	-4.686	-4.374	-9.060	446	-8.614
Segment profit (loss) before tax expense	<u>-9.103</u>	<u>-6.030</u>	<u>-15.133</u>	<u>4.852</u>	<u>-10.281</u>
Fixed Assets					
Segment assets as at December 31, 2009	413.529	263	413.792		
Changes during the period	-15.518	-66	-15.584		
Segment assets as at June 30, 2010	<u>398.011</u>	<u>197</u>	<u>398.207</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	12.490	0	12.490
Disposals	0	-25	-25
Depreciation for the period	-16.464	-41	-16.505
Write-down of vessels	-11.544	0	-11.544
Carrying amount 30 June 2010	398.011	197	398.206

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 interest rate is USD Libor with a credit margin of 1.00% from 1. July 2010. During 1H 2010 the applicable interest margin was 1.30%. The borrowers are joint and severally liable for the credit facility. As of 30. June USD 198.9 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 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							(14.377)	(14.377)
Unrealised foreign currency gain							85	85
Changes in fair values, recognised directly in equity						(951)		(951)
As of 30 June 2010	105.930	17.090	(93)	305.009	14.372	2.101	(89.135)	249.344

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 (600,000 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. June remains USD 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>	2010	2009
<i>Vessel operating expenses</i>		
Associated companies (Fred. Olsen Marine Services AS)	17.669	15.126
<i>Management fee</i>		
Associated companies (Fred. Olsen Marine Services AS)	1.948	1.506
<i>Administrative services</i>		
Associated companies (First Olsen Ltd.)	49	51
Associated companies (Knock Tankers Ltd.)	35	-
<i>Operating expenses</i>		
Associated company (Fred. Olsen & Co.)	449	319
<i>Executive loans (from First Olsen Ltd.)</i>		
Key Management	831	842
Chairman of the Board	232	235
<i>Executive loans (from Fred. Olsen Production ASA)</i>		
Key Management	392	394