



Report for the 3rd quarter 2010

Fred.Olsen Production ASA consolidated

Highlights for the 3rd quarter

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

- Revenues for the quarter were USD 30.2 million (USD 29.7 million)
- EBITDA was USD 15.6 million (USD 13.2 million)
- EBIT was USD 7.6 million (USD 2.8 million)
- Net profit after tax USD 3.8 million (net loss USD 1.5 million)
- Knock Dee sold for green scrapping on 21. August, capital gain USD 1.6 million
- Average 98.9% commercial up-time in 3Q 2010
- 4 days down time on Knock Allan

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Financial information

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

Revenues in the quarter were USD 30.2 million (USD 29.7 million) including a capital gain of USD 1.6 million on the sale of FSO Knock Dee for green scrapping. Impairment on Knock Dee to scrap value was taken in the 2nd quarter as the option to employ Knock Dee on a contract at the Pinauna field offshore Brazil expired without being declared. EBITDA was USD 15.6 million (USD 13.2 million).

After depreciation of USD 8.0 million (USD 10.4 million) the operating profit (EBIT) was USD 7.6 million (USD 2.8 million) for the quarter.

The revenues for the first nine months of 2010 were USD 88.1 million (USD 77.6 million) with an EBITDA of USD 42 million (USD 33.5 million). Year to date EBIT was USD 5.9 million (USD 4.1 million), which includes USD 11.5 million impairment write down on FSO Knock Dee in 2nd quarter and subsequent sale.

Net financial expenses were USD 1.9 million (USD 3.8 million) in 3rd quarter. For the first nine months net financial expenses were USD 10.5 million (USD 5.5 million). Net financial expenses are charged with USD 4.0 million in unrealized marked-to-market revaluation of fixed rate interest swaps and foreign exchange contracts year to date (USD 0.7 million profit). Profit before tax was USD 5.7 million (loss USD 1 million) in the quarter and loss of USD 4.6 million (loss USD 1.4 million) for the first nine months.

Net profit after estimated tax was USD 3.4 million (loss USD 1.5 million) in the quarter and year to date net loss after tax of USD 10.6 million (loss USD 2.3 million). In 4th quarter 2009 the company changed its accounting policy in relation to treatment of withholding taxes, see note 2 for further clarification.

FOP ASA board has today decided to call for an Extraordinary Shareholders Meeting to propose a restructuring of its equity capital by way of transfers from Share Premium Reserves to Free Reserves. The purpose of the proposed restructuring is to improve the financial flexibility of the company.

Operations

During the quarter FOP operated all four units on contracts, an average 98.9% commercial uptime was achieved.

The FPSO Knock Adoon operated on contract for Addax Petroleum on the Antan field, offshore Nigeria, with satisfactory operations during the quarter.

FPSO Knock Allan operated on contract for Canadian Natural Resources (CNR) on the Olowi field offshore Gabon. As previously reported the Company has experienced issues with the compressors installed onboard. The problem, which is related to excessive vibrations, is recognized as a guarantee issue by the equipment vendors who are engaged in the repair project. This work is planned to continue through most of the 4th quarter and may require partial shut-downs of the compressor system. The commercial uptime of the vessel will likely continue to be impacted through this period. During the 3rd quarter a total of 4 days down-time are accrued for accounting purposes.

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 and operated under this charter during the 3rd quarter. The Aframax tanker market was slow during the quarter with rates marginally in excess of operating costs.

The management service contract on the MOPU Marc Lorenceau continued with full commercial uptime in the quarter.

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 |
| Tanker | | |
| Knock Muir | 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

The market for FPSOs is continuing to improve with an increasing number of projects to be awarded during the next coming quarters. Projects for West Africa in the mid-range segment are on the horizon, an important market for FOP.

The majority of contracts awarded so far in 2010 have been for turnkey deliveries, high-end leased units or fast-track redeployment of existing units. Competition remains limited, with fewer contractors realistically positioned to bid and finance projects.

Consolidated statement of comprehensive income

(USD 000)

| Notes | Third 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 *) | 28 837 | 29 731 | 86 726 | 76 269 | 107 047 |
| Gain on sale of fixed assets | 1 407 | | 1 407 | 1 300 | 7 908 |
| Revenues | 30 244 | 29 731 | 88 133 | 77 569 | 114 955 |
| Operating expenses | -11 775 | -12 450 | -37 301 | -34 772 | -48 967 |
| Other administrative expenses | -2 862 | -4 099 | -8 844 | -9 253 | -15 332 |
| Total operating expenses | -14 637 | -16 548 | -46 144 | -44 025 | -64 299 |
| Operating profit before depreciation (EBITDA) | 15 607 | 13 182 | 41 989 | 33 543 | 50 656 |
| Depreciation | -8 029 | -10 382 | -24 534 | -29 434 | -39 748 |
| Write-down of vessels | | 0 | -11 544 | 0 | 0 |
| Operating profit (loss) (EBIT) | 7 577 | 2 801 | 5 910 | 4 110 | 10 908 |
| Interest income | 54 | 64 | 67 | 141 | 166 |
| Interest expense | -2 596 | -2 587 | -7 780 | -4 115 | -6 232 |
| Other financial items | 655 | -1 244 | -2 788 | -1 514 | -1 298 |
| Net financial items | -1 887 | -3 767 | -10 501 | -5 488 | -7 363 |
| Profit (loss) before tax | 5 690 | -967 | -4 591 | -1 379 | 3 545 |
| Income tax expense *) | -1 915 | -504 | -6 012 | -935 | -5 574 |
| Net profit (loss) for the period | 3 775 | -1 471 | -10 603 | -2 314 | -2 029 |
| Other comprehensive income | | | | | |
| Exchange differences on translating foreign operations | -59 | 607 | 26 | 1 423 | 859 |
| Net value gain on available-for-sale | -337 | 845 | -1 288 | 2 466 | 3 052 |
| Other comprehensive income (loss) for the year, net of tax | -396 | 1 452 | -1 262 | 3 889 | 3 911 |
| Total comprehensive income (loss) for the year | 3 379 | -19 | -11 865 | 1 575 | 1 882 |
| Attributable to: | | | | | |
| Equity holders of the Parent | 3 775 | -1 471 | -10 603 | -2 314 | -2 029 |
| Loss for the period | 3 775 | -1 471 | -10 603 | -2 314 | -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) | 0,04 | -0,01 | -0,10 | -0,02 | -0,02 |
| Diluted earnings/(loss) per share (USD) | 0,04 | -0,01 | -0,10 | -0,02 | -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 September 2010 ¹⁾ | FOP ASA 30 September 2009 ¹⁾ | FOP ASA 31 December 2009 ²⁾ |
|---|-------|---|---|--|
| ASSETS | | | | |
| <i>Non-current assets</i> | | | | |
| Offshore units, constructions and equipment | 4 | 384 555 | 423 893 | 413 791 |
| Other investments | | 9 071 | 10 463 | 10 877 |
| Deferred tax asset | | 0 | 0 | 0 |
| Total non-current assets | | 393 626 | 434 355 | 424 667 |
| <i>Current assets</i> | | | | |
| Short-term receivables | | 22 545 | 27 476 | 16 699 |
| Bunker | | 978 | 1 083 | 1 117 |
| Cash and cash equivalents | | 76 261 | 77 059 | 112 199 |
| Total current assets | | 99 784 | 105 617 | 130 015 |
| TOTAL ASSETS | | 493 410 | 539 973 | 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* | | -69 375 | -57 818 | -57 511 |
| Total equity | 6 | 252 723 | 264 280 | 264 588 |
| <i>Non-current liabilities</i> | | | | |
| Interest bearing loan | 5 | 196 112 | 237 796 | 236 914 |
| Deferred income | | 8 574 | 12 297 | 12 892 |
| Pension liabilities | | 3 194 | 1 781 | 2 481 |
| Non-current provisions | | 550 | 0 | 550 |
| Total non-current liabilities | | 208 430 | 251 874 | 252 837 |
| <i>Current liabilities</i> | | | | |
| Income tax payable | | 9 885 | | 6 650 |
| Interest bearing short-term debt | | 2 145 | 2 145 | 2 145 |
| Accruals and other short-term debt | | 20 227 | 21 673 | 28 462 |
| Total current liabilities | | 32 257 | 23 819 | 37 257 |
| Total liabilities | | 240 687 | 275 692 | 290 094 |
| TOTAL EQUITY AND LIABILITIES | | 493 410 | 539 973 | 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 | -10 603 | -2 314 | -2 029 |
| Other comprehensive income | | | |
| Translation differences | 26 | 1 423 | 859 |
| Effect of changes in available for sale assets | -1 288 | 2 466 | 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) | 252 723 | 264 281 | 264 588 |

Consolidated statement of cash flows

(USD 000)

| | Third 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 | 10 727 | 17 160 | 12 718 | 17 870 | 50 662 |
| Net cash flow from investing activities | 7 020 | -23 023 | -5 436 | -55 555 | -51 099 |
| Net cash flow from financing activities | -590 | -618 | -43 220 | 10 410 | 8 492 |
| Net change in cash | 17 158 | -6 481 | -35 938 | -27 275 | 8 056 |
| Net translation differences | -67 | 176 | | 846 | 655 |
| Cash balance at period beginning | 59 170 | 83 365 | 112 199 | 103 489 | 103 489 |
| Cash balance at period ending | 76 261 | 77 060 | 76 261 | 77 060 | 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 25. October 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*:

USD 000

| | Vessel Operating Group | Administrative Group | Total Segments | Reconciliation | Consolidated |
|--|---------------------------------------|---------------------------------|---------------------------|-----------------------|---------------------|
| Nine months ended September 30, 2010 | | | | | |
| Income Statement | | | | | |
| Revenue | 84 431 | 6 847 | 91 278 | -3 145 | 88 133 |
| Segment profit (loss) EBIT according to IFRS 8 | 2 817 | -1 525 | 1 292 | 4 618 | 5 910 |
| Total financial items | -6 898 | -4 008 | -10 906 | 405 | -10 501 |
| Segment profit (loss) before tax expense | -4 081 | -5 532 | -9 613 | 5 022 | -4 591 |
| Fixed Assets | | | | | |
| Segment assets as at December 31, 2009 | 413 529 | 263 | 413 792 | | |
| Changes during the period | -29 175 | -60 | -29 235 | | |
| Segment assets as at September 30, 2010 | 384 354 | 202 | 384 556 | | |

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 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 | 63 | 12 553 |
| Disposals | -5 650 | -60 | -5 710 |
| Depreciation for the period | -24 471 | -63 | -24 534 |
| Write-down of vessels | -11 544 | 0 | -11 544 |
| Carrying amount 30 September 2010 | 384 354 | 202 | 384 555 |

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%, however during 1H 2010 the applicable interest margin was 1.30%. The borrowers are joint and severally liable for the credit facility. As of 30. September 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 | | | | | | | (10 603) | (10 603) |
| Unrealised foreign currency gain | | | | | | | 26 | 26 |
| Changes in fair values, recognised directly in equity | | | | | | (1 288) | | (1 288) |
| As of 30 September 2010 | 105 930 | 17 090 | (93) | 305 009 | 14 372 | 1 764 | (85 418) | 252 723 |

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 is USD 92,849.