



Fred.Olsen Production ASA

Report for the 4th quarter 2010 and preliminary result 2010

Fred.Olsen Production ASA consolidated

Highlights for the 4th quarter

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

- Operating revenues for the quarter were USD 28.6 million (USD 28.0 million) and USD 115.4 million for the year (USD 107.0 million)
- 4th quarter EBITDA was USD 11.1 million excluding sales gain (USD 7.7 million) and 2010 EBITDA excluding sales gain was USD 51.7 million (USD 42.8 million)
- 98.9% commercial up-time in 4q (99.2% for the year 2010)
- Proposed dividend payment of NOK 0.50/share

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Financial information

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

Total revenues in the quarter were USD 28.6 million (USD 34.6 million including a capital gain of USD 6.6 million). EBITDA was USD 11.1 million (USD 14.3 million).

After depreciation of USD 7.6 million (USD 10.3 million) the operating profit (EBIT) was USD 3.5 million (USD 4.0 million) for the quarter.

Revenues for 2010 were USD 116.8 million including a capital gain of USD 1.4 million from the sale of Knock Dee in 3q (USD 115.0 million including a capital gain of USD 7.9 million) with an EBITDA of USD 53.1 million (USD 50.7 million). EBIT for 2010 was USD 9.4 million (USD 10.9 million), which included USD 11.5 million as impairment write down on FSO Knock Dee in 2q and subsequent sale. The 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.

4th quarter net financial expenses were USD 0.3 million (USD 2.2 million) and included an unrealized gain of USD 1.3 million in market-to-marked revaluation of fixed interest rate swaps and a foreign exchange gain of USD 0.3 million. For the year net financial expenses were USD 10.8 million (USD 7.4 million). Net financial expenses in 2010 were charged with USD 1.5 million in unrealized marked-to-market revaluation of fixed interest rate swaps (gain USD 0.6 million in 2009) and a foreign exchange loss of USD 1.0 million (gain USD 1.0 million in 2009).

Profit before tax was USD 3.2 million (USD 1.8 million) in the quarter and loss of USD 1.4 million (profit USD 3.5 million) for the year. Net profit after estimated tax was USD 0.7 million (USD 0.3 million) in the quarter and for the full year a net loss after tax of USD 9.9 million (loss USD 2.0 million). In 4th quarter 2009 the company changed its accounting policy in relation to treatment of withholding taxes, see note 2 for further clarification.

In an Extraordinary Shareholders Meeting on 16th December 2010 the company restructured its equity capital by way of transfers of USD 305 million from Share Premium Reserves to Free Reserves. The purpose of the restructuring was to improve the financial flexibility of the company.

The Board has resolved to propose to the Annual General Meeting in May 2011 to pay a dividend of NOK 0.50 per share.

Operations

During the quarter FOP operated all four units on contracts, an average 98.7% commercial uptime was achieved, for 2010 the average commercial uptime was 99.2%.

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 relating to excessive vibrations and capacity utilization, are recognized as a guarantee issue by the equipment vendors who are engaged in the repair project. This work continued during the quarter. An estimated total of 4 days down-time were accrued in 4q for accounting purposes. Repair work continues and the commercial uptime of the vessel may be impacted also in 1q 2011.

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 operated on a six month T/C which expired on 30th November and she then started her planned intermediate class survey and dry-docking at the COSCO Guangdong ship yard, close to Hong Kong. The vessel left the yard on 20th January and is traded in the spot market.

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 project awards expected in 2011. New projects are being developed for West Africa in the mid-range segment, an important market for FOP. The Asian market remains steady. Brazil is very active and dominated by large local consortium projects. Competition reflects fewer contractors realistically positioned to bid and finance projects.

Consolidated statement of comprehensive income

(USD 000)

Notes	Fourth Quarter		Year-to-Date	
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2009 ²⁾
Revenue *)	28 641	27 990	115 367	107 047
Gain on sale of fixed assets		6 608	1 407	7 908
Revenues	28 641	34 599	116 774	114 955
Operating expenses	-13 469	-14 195	-50 770	-48 967
Other administrative expenses	-4 105	-6 078	-12 949	-15 332
Total operating expenses	-17 575	-20 273	-63 719	-64 299
Operating profit before depreciation (EBITDA)	11 067	14 326	53 055	50 656
Depreciation	-7 607	-10 314	-32 141	-39 748
Write-down of vessels		0	-11 544	0
Operating profit (loss) (EBIT)	3 460	4 011	9 370	10 908
Interest income	29	25	97	166
Interest expense	-186	-2 109	-7 966	-6 232
Other financial items	-132	-159	-2 921	-1 298
Net financial items	-289	-2 243	-10 790	-7 363
Profit (loss) before tax	3 171	1 768	-1 420	3 545
Income tax expense *)	-2 516	-1 476	-8 528	-5 574
Net profit (loss) for the period	655	292	-9 948	-2 029
Other comprehensive income				
Exchange differences on translating foreign operations	-224	-564	-198	859
Net value gain on available-for-sale	1 565	585	277	3 052
Other comprehensive income (loss) for the year, net of tax	1 341	21	79	3 911
Total comprehensive income (loss) for the year	1 996	313	-9 869	1 882
Attributable to:				
Equity holders of the Parent	655	292	-9 948	-2 029
Gain (loss) for the period	655	292	-9 948	-2 029
Numbers of shares/diluted numbers of shares (thousands)	105 930	105 930	105 930	105 930
Basic earnings/(loss) per share (USD)	0,01	0,00	-0,09	-0,02
Diluted earnings/(loss) per share (USD)	0,01	0,00	-0,09	-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 31 December 2010 ¹⁾	FOP ASA 31 December 2009 ²⁾
ASSETS			
<i>Non-current assets</i>			
Offshore units, constructions and equipment	4	377 566	413 791
Other investments		10 454	10 877
Deferred tax asset		0	0
Total non-current assets		388 020	424 667
<i>Current assets</i>			
Short-term receivables		19 787	16 699
Bunker		870	1 117
Cash and cash equivalents		63 687	112 199
Total current assets		84 344	130 015
TOTAL ASSETS		472 364	554 682
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		17 090	17 090
Share premium reserve		305 009	305 009
Retained earnings*		-67 379	-57 511
Total equity	6	254 719	264 588
<i>Non-current liabilities</i>			
Interest bearing loan	5	180 138	236 914
Deferred income		7 608	12 892
Pension liabilities		3 543	2 481
Non-current provisions		750	550
Total non-current liabilities		192 040	252 837
<i>Current liabilities</i>			
Tax payable		6 359	6 650
Interest bearing short-term debt		2 145	2 145
Accruals and other short-term debt		17 102	28 462
Total current liabilities		25 605	37 257
Total liabilities		217 645	290 094
TOTAL EQUITY AND LIABILITIES		472 364	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	
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ²⁾
Equity (beginning of period)	264 588	263 283
Total comprehensive loss for the period		
Loss for the period	-9 948	-2 029
Other comprehensive income		
Translation differences	-198	859
Effect of changes in available for sale assets	277	3 052
Transactions with owners recorded directly in equity		
Share re-purchase at par value	0	-93
Share re-purchase equity effect	0	-484
Equity (end of period)	254 719	264 588

Consolidated statement of cash flows

(USD 000)

	Fourth Quarter		Year-to-Date	
	FOP ASA 2010 ¹⁾	FOP ASA 2009 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2009 ²⁾
Net cash flow from operating activities	6 173	32 793	18 891	50 662
Net cash flow from investing activities	-1 778	4 456	-7 214	-51 099
Net cash flow from financing activities	-16 772	-1 918	-59 992	8 492
Net change in cash	-12 376	35 331	-48 314	8 056
Net translation differences	-198	-191	-198	655
Cash balance at period beginning	76 261	77 059	112 199	103 489
Cash balance at period ending	63 687	112 199	63 687	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 14. February 2011.

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
Twelve months ended December 31, 2010					
Income Statement					
Revenue	111 106	9 627	120 733	-3 958	116 774
Segment profit (loss) EBIT according to IFRS 8	6 822	-18 650	-11 828	21 198	9 370
Total financial items	-11 202	-42 532	-53 734	42 944	-10 790
Segment profit (loss) before tax expense	-4 381	-61 181	-65 562	64 142	-1 420
Fixed Assets					
Segment assets as at December 31, 2009	413 529	263	413 792		
Changes during the period	-36 143	-81	-36 224		
Segment assets as at December 31, 2010	377 385	182	377 567		

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	14 268	63	14 331
Disposals	-6 810	-60	-6 870
Depreciation for the period	-32 057	-84	-32 141
Write-down of vessels	-11 544	0	-11 544
Carrying amount 31 December 2010	377 385	182	377 566

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 31. December USD 182.8 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							(9 948)	(9 948)
Unrealised foreign currency gain							-198	-198
Changes in fair values, recognised directly in equity						277		277
As of 31 December 2010	105 930	17 090	(93)	305 009	14 372	3 329	(84 988)	254 719

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.