



Report for the 2nd quarter 2011 and half-yearly Financial Report 2011

Fred.Olsen Production ASA consolidated

Highlights for the 2nd quarter

Comparable figures for the corresponding period in 2010 are in brackets below.

- Operating revenues for the quarter were USD 29.6 million (USD 30.2 million)
- EBITDA was USD 12.9 million (USD 14.9 million)
- Profit before tax was USD 1.5 million (loss USD 9.6 million)
- Loss after tax was USD 0.5 million (USD 11.4 million)
- M/T Knock Muir sold and scheduled to be delivered before 20th July 2011
- 100% commercial up-time in 2q

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Financial information

Comparable figures for the corresponding period in 2010 are in brackets below.

Operating revenues in the quarter were USD 29.6 million (USD 30.2). After depreciation of USD 8.0 million (USD 8.3 million and write down of USD 11.5 million) the 2nd quarter operating profit (EBIT) was USD 4.9 million (loss USD 4.9 million).

Half year revenues were USD 56.6 million (USD 57.9 million) with an EBITDA of USD 23.2 million (USD 26.4 million). EBIT for the first six months was USD 7.5 million (negative USD 1.7 million).

Net financial expenses were USD 3.4 million (USD 4.7 million). For the half year net financial expenses were USD 4.6 million (USD 8.6 million). Net financial expenses were charged with USD 0.4 million (USD 1.6 million) in unrealized market-to-market revaluation of fixed rate interest swaps and USD 0.8 million (USD 2.3 million) foreign exchange loss for the half year. Profit before tax was USD 1.5 million (loss USD 9.6 million) in the quarter and USD 3.0 million (loss USD 10.3 million) for the first six months.

Net loss after estimated tax was USD 0.5 million (USD 11.4 million) in 2nd quarter and half-yearly USD 1.2 million (USD 14.4 million).

Operations

During the quarter FOP operated all four units on contracts, an average 100% 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. Compressor works continued during the quarter in close cooperation with the equipment vendors, however no commercial down-time. Repair work will continue and the commercial uptime of the vessel may be impacted in the last two quarters of 2011.

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 with satisfactory operations during the quarter.

The Aframax tanker Knock Muir operated in the spot market. The vessel completed two short voyages in 2q in a weak tanker market. Knock Taggart II Pte Ltd a subsidiary of Fred. Olsen Production ASA entered into contract with Indonesian buyers to sell M/T Knock Muir with delivery between 5th and 20th July 2011. The company will record a book loss of approximately USD 1.3 million in 3q 2011.

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
Petrôleo Nautipa	Gabon	September 2015 + 2 option years
Tanker		
Knock Muir	Asia	Sold and scheduled delivered before July 20. 2011
MOPU (on management)		
Marc Lorenceau	Nigeria	Contract expired September 2008, FOP continues management with 30 days notice

Market Outlook

The total market demand for FPSOs continues the slow upward trend, but the number of lease projects remains below industry expectations. We see a potential for 8-10 lease awards in 2011 - lower than external forecasts which indicate 12-14 lease contracts in 2011. Of the total seven contracts awarded so far in 2011, two are redeployments, three EPC contracts and one direct award.

The number of active prospects being advanced for development continues to improve in West Africa in the mid-range segment, an important market for FOP, while Asia remains steady. Brazil has a continued high project volume, though dominated by large local consortium projects. Political uncertainty continues to delay projects in some countries - primarily related to elections, local content regulations or implementation of new cabotage laws. On the supply side, the competitive picture reflects fewer contractors realistically positioned to bid and finance projects. Subcontractors and yards are reporting increased orders, but there remains good capacity in the market with limited cost growth.

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 after the sale of M/T Knock Muir are renewal of the service management contract for Marc Lorenceau, the political risk in our operating regions and technical and performance 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 the Group has no currency hedges for the second half 2011 non USD-denominated costs.

Interest Rate

The Group loans are exposed to fluctuations in interest rates for USD. Per 30. June 2011 45% of the debt with a weighted average duration of 4.3 years was based on fixed weighted interest rate of 3.9%, while the remaining portion of the debt is exposed to the development in floating USD LIBOR rate

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 2011 and for the first half year of fiscal 2011.

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 2011 and of the results of the Group’s operations and cash flows for the first half-year of fiscal 2011.

Oslo, 11 July 2011
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 2011 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2011 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2010 ²⁾
Revenue	29 556	30 234	56 621	57 881	115 367
Gain on sale of fixed assets	-	-	-	8	1 407
Revenues	29 556	30 234	56 621	57 889	116 774
Operating expenses	-13 542	-12 818	-26 521	-25 526	-50 770
Other administrative expenses	-3 142	-2 529	-6 915	-5 981	-12 949
Total operating expenses	-16 684	-15 347	-33 436	-31 507	-63 719
Operating profit before depreciation (EBITDA)	12 872	14 887	23 185	26 382	53 055
Depreciation	-7 964	-8 282	-15 670	-16 505	-32 141
Write-down of vessels	-	-11 544	-	-11 544	-11 544
Operating profit (loss) (EBIT)	4 908	-4 939	7 515	-1 667	9 370
Interest income	7	1	30	14	97
Interest expense	-2 286	-2 697	-3 074	-5 184	-7 966
Other financial items	-1 132	-1 964	-1 516	-3 443	-2 921
Net financial items	-3 411	-4 660	-4 560	-8 614	-10 790
Profit (loss) before tax	1 497	-9 599	2 955	-10 281	-1 420
Income tax expense	-1 953	-1 845	-4 176	-4 096	-8 528
Net profit (loss) for the period	-456	-11 444	-1 221	-14 377	-9 948
Other comprehensive income					
Exchange differences on translating foreign operations	-12	-17	-51	85	-198
Net value gain on available-for-sale	248	-2 990	-576	-951	277
Other comprehensive income (loss) for the year, net of tax	236	-3 007	-627	-866	79
Total comprehensive income (loss) for the year	-220	-14 451	-1 848	-15 244	-9 869
Attributable to:					
Result attributable to parent company equity holders	-456	-11 444	-1 221	-14 377	-9 948
Total comprehensive result attributable to parent company equity holders	-220	-14 451	-1 848	-15 244	-9 869
Numbers of shares/diluted numbers of shares (thousands)	105 930	105 930	105 930	105 930	105 930
Basic earnings/(loss) per share (USD)	0,00	-0,11	-0,01	-0,14	-0,09
Diluted earnings/(loss) per share (USD)	0,00	-0,11	-0,01	-0,14	-0,09

¹⁾ Unaudited

²⁾ Audited

Consolidated statement of financial position

(USD 000)

	Notes	FOP ASA 30 June 2011 ¹⁾	FOP ASA 30 June 2010 ¹⁾	FOP ASA 31 December 2010 ²⁾
ASSETS				
<i>Non-current assets</i>				
Offshore units, constructions and equipment	4	366 461	398 206	377 566
Other investments		9 393	9 581	10 454
Deferred tax asset		-	-	-
Total non-current assets		375 854	407 787	388 020
<i>Current assets</i>				
Short-term receivables		21 718	23 715	19 787
Bunker		2 058	1 215	870
Cash and cash equivalents		60 853	59 170	63 687
Total current assets		84 629	84 100	84 344
TOTAL ASSETS		460 483	491 887	472 364
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital		17 090	17 090	17 090
Share premium reserve			305 009	305 009
Retained earnings*		226 737	-72 754	-67 379
Total equity	6	243 827	249 344	254 719
<i>Non-current liabilities</i>				
Interest bearing loan	5	179 249	196 022	180 138
Deferred income		6 373	10 472	7 608
Pension liabilities		3 803	2 746	3 543
Non-current provisions		750	550	750
Total non-current liabilities		190 175	209 790	192 040
<i>Current liabilities</i>				
Tax payable		4 148	8 491	6 977
Interest bearing short-term debt		2 145	2 145	2 145
Accruals and other short-term debt		20 189	22 117	16 483
Total current liabilities		26 482	32 753	25 605
Total liabilities		216 657	242 543	217 645
TOTAL EQUITY AND LIABILITIES		460 483	491 887	472 364

*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 2011 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2010 ²⁾
Equity (beginning of period)	254 719	264 588	264 588
Total comprehensive loss for the period			
Loss for the period	-1 221	-14 377	-9 948
Other comprehensive income			
Translation differences	-51	85	-198
Effect of changes in available for sale assets	-576	-951	277
Transactions with owners recorded directly in equity			
Dividends distributed	-9 044	-	-
Equity (end of period)	243 826	249 344	254 719

Consolidated statement of cash flows

(USD 000)

	Second Quarter		Year-to-Date		Full Year
	FOP ASA 2011 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2011 ¹⁾	FOP ASA 2010 ¹⁾	FOP ASA 2010 ²⁾
Net cash flow from operating activities	7 365	-375	13 002	1 991	18 890
Net cash flow from investing activities	-2 279	-480	-4 565	-12 456	-7 214
Net cash flow from financing activities	-10 792	-1 519	-11 270	-42 630	-59 992
Net change in cash	-5 705	-2 374	-2 833	-53 096	-48 316
Net translation differences	-	-35	-	67	-198
Cash balance at period beginning	66 559	61 579	63 687	112 199	112 200
Cash balance at period ending	60 854	59 170	60 854	59 170	63 687

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).

The interim financial information was approved by the Board of Directors on 11. July 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 2010, which is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the 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. The Group accounts for withholding tax under the guidance of International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1); Income Tax Expenses.

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 2010 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	Intercompany Eliminations	Consolidated
Six months ended June 30, 2011					
Income Statement					
Revenue	53 131	5 158	58 288	-1 667	56 621
Segment profit (loss) EBIT according to IFRS 8	-412	6 675	6 263	1 253	7 515
Total financial items	-2 810	-1 687	-4 497	-64	-4 560
Segment profit (loss) before tax expense	<u>-3 222</u>	<u>4 988</u>	<u>1 766</u>	<u>1 189</u>	<u>2 955</u>
Fixed Assets					
Segment assets as at December 31, 2010	377 385	182	377 567		
Changes during the period	-11 065	-41	-11 106		
Segment assets as at June 30, 2011	<u>366 321</u>	<u>141</u>	<u>366 461</u>		

Note 4 – Property, plant and equipment

<i>(USD 000)</i>	Vessels	Other Fixed Assets	Total Fixed Assets
<i>Carrying amount 1 January 2010</i>	413 529	263	413 792
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)	-	(11 544)
<i>Carrying amount 31 December 2010</i>	377 385	182	377 567
Additions	4 564	-	4 564
Disposals	-	-	-
Depreciation for the period	(15 629)	(41)	(15 670)
Write-down of vessels	-	-	-
<i>Carrying amount 30 June 2011</i>	366 321	141	366 461

Note 5 - Interest bearing debt

USD 500 million credit facility

The Singapore FPSO owning companies 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%. The borrowers are joint and severally liable for the credit facility. As of 30. June USD 181.4 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 2010	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 value, recognised directly in equity						277		277
As of 31 December 2010	105 930	17 090	(93)	305 009	14 174	3 329	(84 790)	254 719
Net result for the period							(1 221)	(1 221)
Unrealised foreign currency gain							(51)	(51)
Changes in fair values, recognised directly in equity						(576)		(576)
Transfer of share premium reserve to free reserves				(305 009)			305 009	-
Dividends distributed							(9 044)	(9 044)
As of 30 June 2011	105 930	17 090	(93)	-	14 174	2 753	209 903	243 826

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.

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>	30 June 2011	31 December 2010
<i>Management fee</i>		
Associated companies (Fred. Olsen Marine Services AS)	1 718	3 574
<i>Administrative services</i>		
Associated companies (First Olsen Ltd.)	39	108
Associated companies (Knock Tankers Ltd.)	35	70
<i>Operating expenses</i>		
Associated company (Fred. Olsen & Co.)	515	871
<i>Vessel working capital</i>		
Associated companies (Fred. Olsen Marine Services AS)	5 247	8 707
<i>Employee loans (from First Olsen Ltd.)</i>		
Key Management	996	917
Chairman of the Board	278	256
<i>Executive loans (from Fred. Olsen Production ASA)</i>		
Key Management	392	392