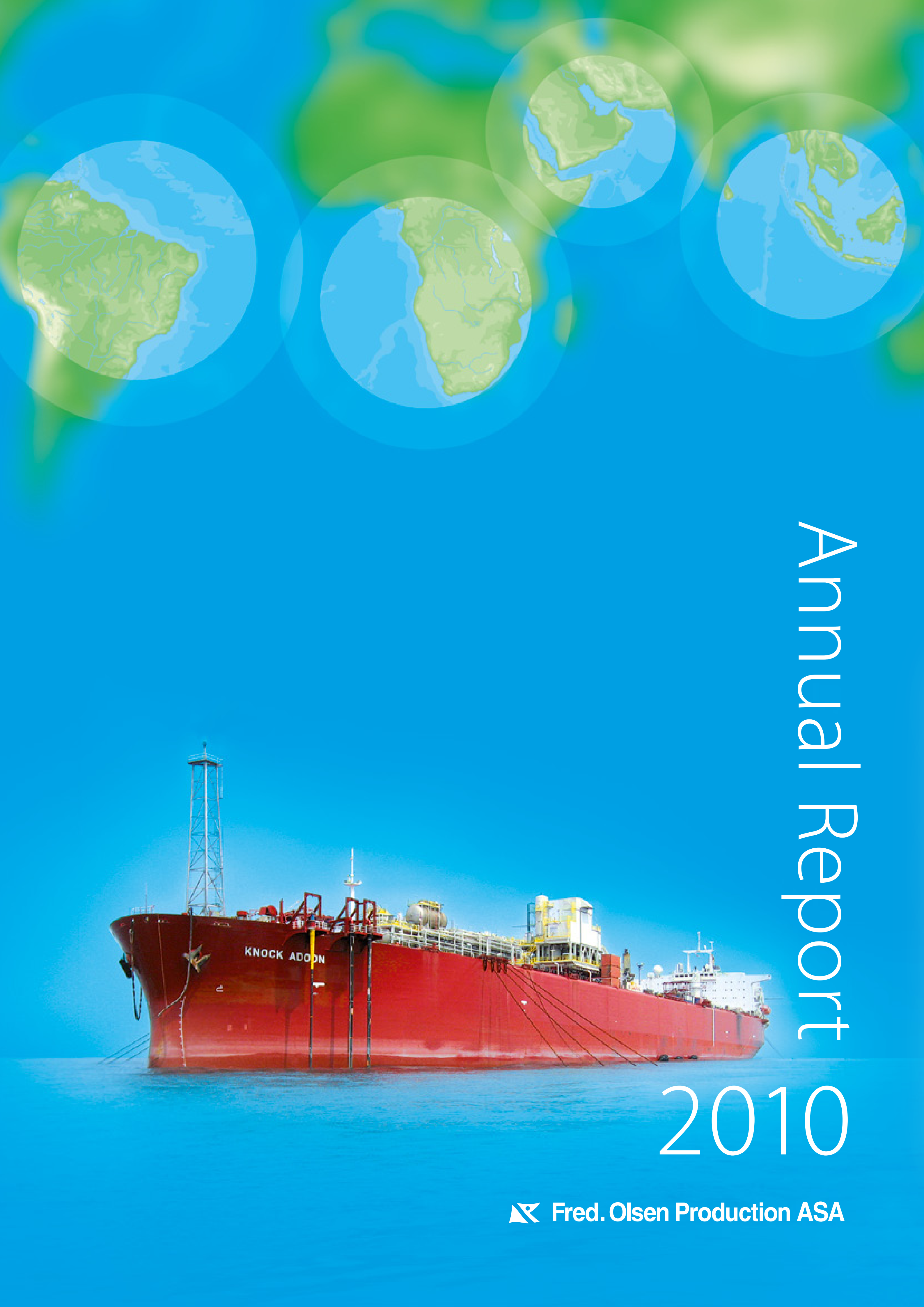


Annual Report 2010

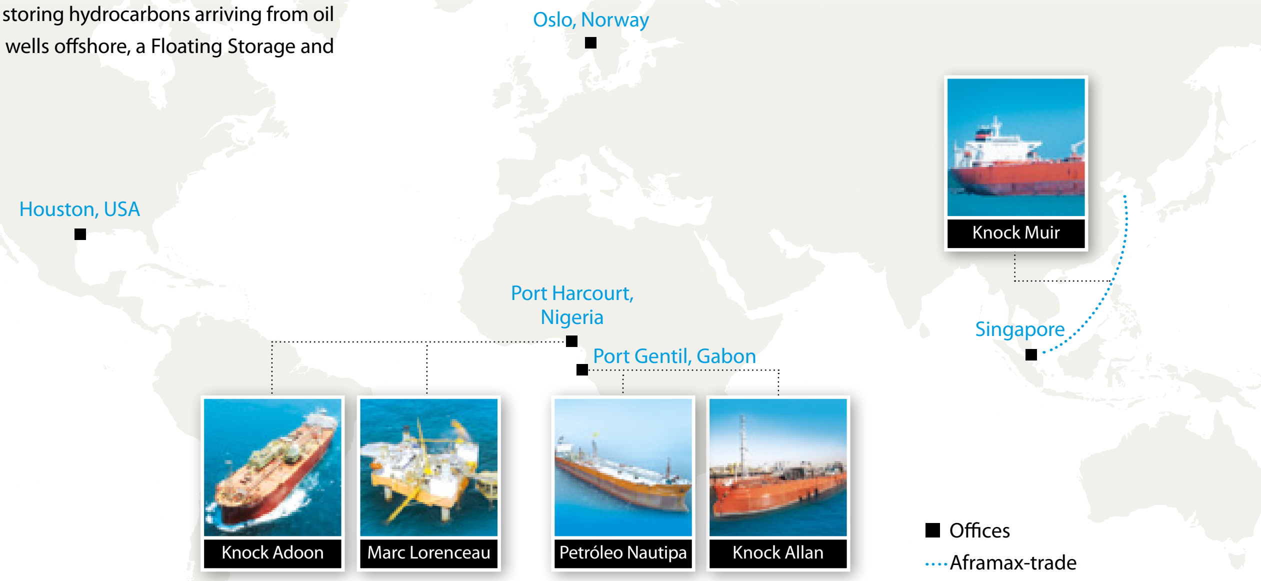
Fred. Olsen Production ASA

Contents

A Brief Presentation

Fred. Olsen Production ASA (the Company) is listed on Oslo Stock Exchange (ticker "FOP"). The Company is based on more than 150 years experience in shipping, more than 35 years in offshore drilling and has been engaged in offshore oil and gas production since 1994.

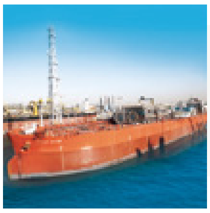
The activities of Fred. Olsen Production and its subsidiaries (the Group) consist of the building, owning and operating floating production and storage facilities, contracted by oil companies for the production of offshore oil & gas fields. Whereas a Floating Production Storage and Offloading (FPSO) is capable of both processing and storing hydrocarbons arriving from oil and gas wells offshore, a Floating Storage and Offloading (FSO) is only providing storage for crude oil that has already been processed at a different location (typically at a processing platform in the vicinity of the FSO). FPSOs are constructed by installing oil and gas processing equipment onto the deck of either an existing crude oil tanker vessels or a new build tanker hull. FPSOs are suitable for most offshore regions throughout the world. In benign waters they are normally moored to the seabed through a spread mooring system keeping the vessel with a fixed heading. In harsher environments with more severe weather conditions they are moored by a turret mooring system which allows the vessel to freely rotate with ocean- and wind forces thus reducing the forces acting on the mooring lines and anchors. The major advantages of FPSOs are that they can be installed in virtually any water depth, they offer great flexibility with respect to storage capacity and equipment weights and deck lay-out and, not the least, they can easily be moved to another location at the end of the field's producing life.

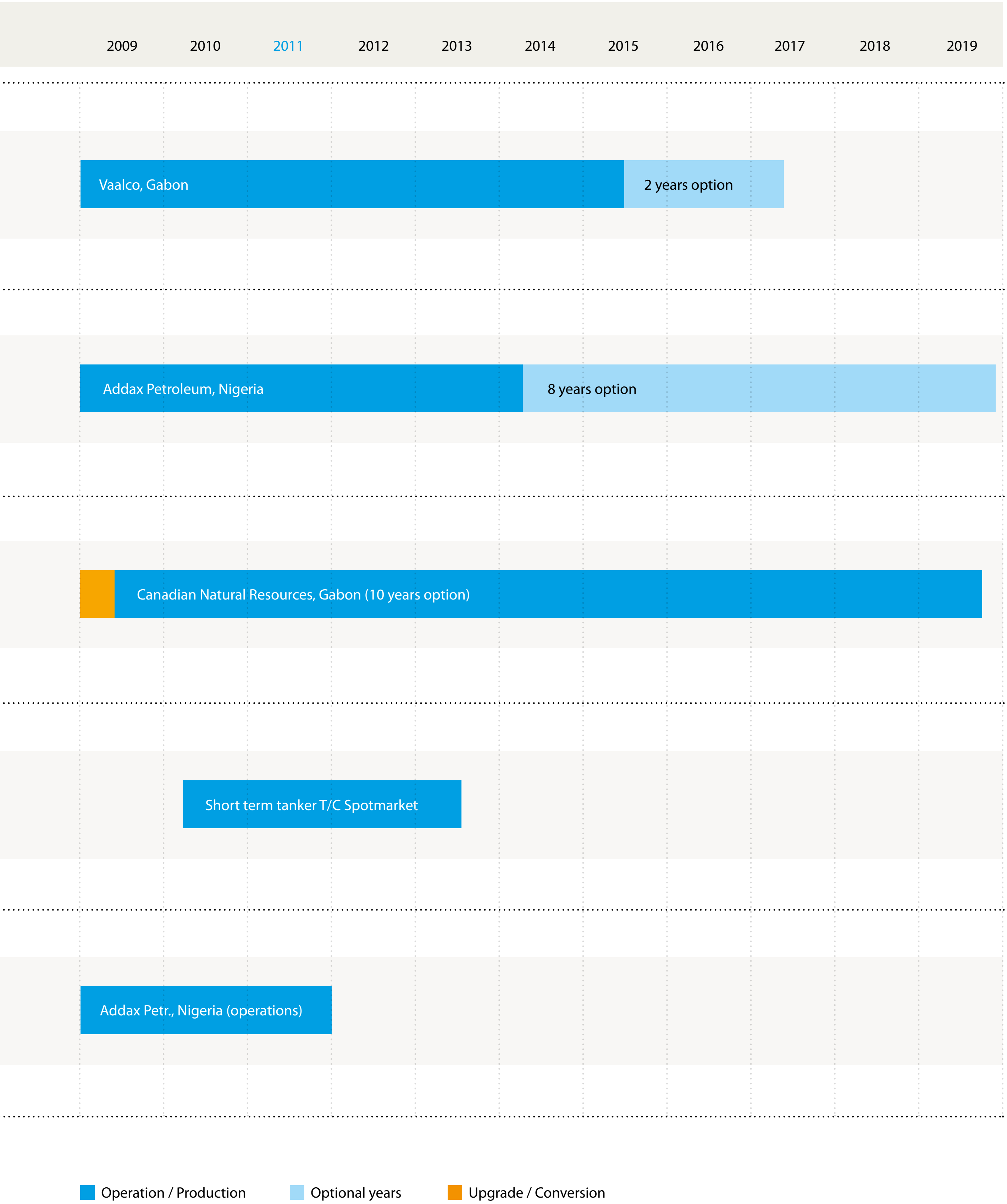


Key figures (amounts in USD 1 000)	Definitions	2010	2009	2008	2007
Total assets		472 364	554 682	523 535	551 479
Book equity		254 719	264 588	263 283	302 918
Market capitalization	1	186 305	130 196	65 081	356 298
Net interest bearing debt	2	119 161	126 860	126 043	6 512
Enterprise value	3	305 466	257 056	191 124	362 810
Interest Bearing Debt/Total assets ratio		0.39	0.43	0.44	0.40
Current ratio	4	3.58	3.68	7.69	18.07
EBITDA -margin	5	45.5 %	44.1 %	37.9 %	30.7 %
Number of shares outstanding		105 930 000	105 930 000	105 930 000	105 930 000
Share price year end	6	10.30	7.10	4.30	18.20
Price/Book	7	0.73	0.49	0.25	1.18
EV/EBITDA		5.76	5.07	6.23	17.40

1. Closing price x number of shares and converted at USD/NOK exchange rate year end
2. Year end; Short-term interest bearing debt + Long term interest bearing debt - cash and cash equivalents
3. Market capitalization + net interest bearing debt
4. Current assets/Current liabilities
5. EBITDA/Revenues
6. Closing price year end in NOK
7. Closing price year end converted at prevailing USD/NOK exchange rate/Book value per share

Fleet Overview

		FPS	Built/ converted	Owner-ship	Deadweight	Storage capacity	Production capacity
	Petróleo Nautipa	FPSO	1975/1998	50%	141,330 tonnes	1.08 million barrels	Oil 30,000 BOPD Total Liquid 30,000 BLPD Gas Handling 10 MMSCFPD
	Knock Adoon	FPSO	1985/2006	100%	244,492 tonnes	1.7 million barrels	Oil 70,000 BOPD Total Liquid 140,000 BLPD Gas Handling 10 MMSCFPD
	Knock Allan	FPSO	1992/2009	100%	145,242 tonnes	1.04 million barrels	25,000 BOPD Gas 85 MMSCFD Power 2 x 27 MW
	Knock Muir	Aframax	1993	100%	97,098 tonnes	657,815 barrels	
	Marc Lorenceau	MOPU	1980/1995	0%	Jack-Up		Total Liquid 70,000 BPD Gas Handling 70 MMSCFPD


2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Vaalco, Gabon
2 years option
Addax Petroleum, Nigeria
8 years option
Canadian Natural Resources, Gabon (10 years option)
Short term tanker T/C Spotmarket
Addax Petr., Nigeria (operations)
Operation / Production
Optional years
Upgrade / Conversion

Fred.Olsen Production Group & Fred.Olsen Production ASA

Board of Director's Report 2010

Fred. Olsen Production ASA (FOP) and its subsidiaries (the "Group") owned and operated a fleet of three Floating Production, Storage and Offloading (FPSO) in the international oil and gas markets. In addition FOP operated a production jack-up (MOPU) for an oil company client and owned one trading tanker aframax size.

The global economic development in 2010 supported an improvement in the international oil and gas markets , including the demand for offshore production services. Oil prices increased gradually during the year.

Overall 2010 has been a year of recovery for the FPSO industry as a whole, with nine contract awards early in the first half-year, but with only one contract award in the second half of the year. Inquiry flow for new oil field developments has steadily improved during the year across all markets, but specifically in Africa which is an important market for FOP. 2010 was also notable as seven of the awards were for redeployment of existing units or turnkey (EPCI) units. Of the ten contracts awarded in the segment in 2010, only three were for new FPSO conversions on lease contract and only one was within FOP's market segment.

On the supply side, the barriers of entry in FOP's segment have been further raised, as client focus on financial strength, project execution capability and operational track record makes the tender prequalification hurdle difficult for less established contractors. Existing units coming off contract continue to provide competition, as evidenced by the increased number of awards to redeployed units in 2010.

The outlook for 2011 is for continued market improvement generally, especially from Africa. However the patchy nature of the improvement and the increased proportion of very large projects point to a limited number of genuine prospects within FOP's market segment that may be awarded in 2011. The longer term picture remains good with a continued trend towards deeper offshore field developments in remote areas that drive the need for floating production solutions. FOP continues to focus on its core markets in West Africa, however with increased attention and resources also directed towards the fast growing Far East market.

Under two of FOP's existing long term FPSO contracts, clients have identified additional reserves and evaluate further tie-backs to FPSO units in operation. Such additional reserves potential could be developed through our units and possibly extending the oil field production horizons and in the shorter term, represent potential for variation orders and upgrades on the existing units.

The Groups operations in 2010 were satisfactory; however there is still work outstanding onboard the FPSO Knock Allan. These issues have however not materially impacted the financial results.

Financially, the 2010 results were negative impacted by the USD 11.5 million impairment write down on the FSO Knock Dee to scrap value as an option employment contract expired by the end of 2nd quarter without being declared.

The company's activities

The parent company of the Group is Fred. Olsen Production ASA (FOP or the Company). The Group manages its activities from offices in Singapore, Norway, Nigeria, Gabon and Houston.

Per 31 December 2010 the Company had approximately 648 shareholders. The twen-

ty largest shareholders held approximately 95% of the shares.

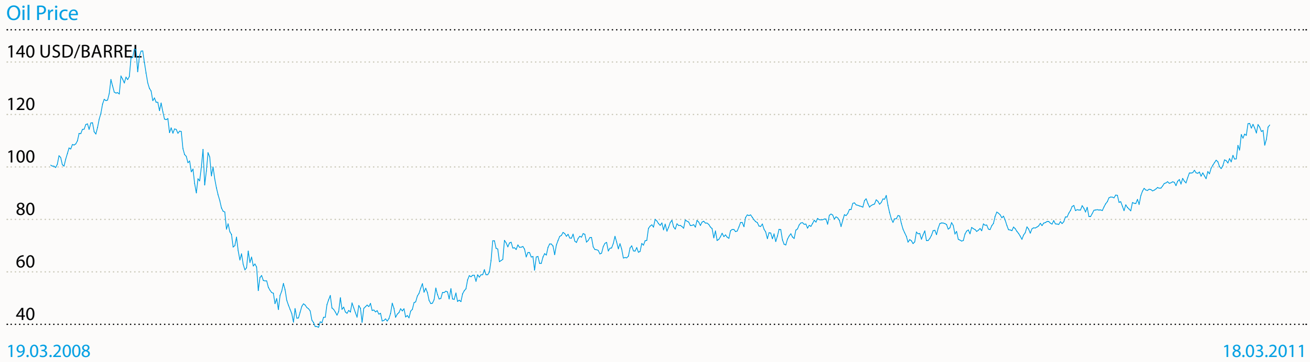
During the year the Group operated three FPSO's . A 99.2% commercial uptime was achieved for the units in operation throughout 2010.

The Company has entered into ship management agreements for the crewing and operation of its FPSOs with Fred. Olsen Marine Services AS, a wholly owned subsidiary of First Olsen Ltd (FOL). The German company Chemikalien Seetransport GmbH provides ship management services for the crewing and operation of the trading tanker Knock Muir, while Knock Tankers Ltd, a wholly owned subsidiary of FOL undertakes the commercial management.

The FPSO Knock Adoon operates under an eight year contract with another eight one year options for Addax Petroleum on OML 123, offshore Nigeria, where she replaced the FPSO Knock Taggart in October 2006.

Tinworth Pte. Ltd. (indirectly owned 50% by Fred. Olsen Production ASA) owns FPSO Petróleo Nautipa which operates on a contract for Vaalco at the Etame license offshore Gabon, West Africa until September 2015 and with options for another one plus one year. FOP is responsible for the operation of the unit.

FPSO Knock Allan operates on a ten year contract with another ten one year options for Canadian Natural Resources (CNR) on the Olowi field offshore Gabon. The contract started 1st May 2009. Issues relating to compressor vibrations and in achieving gas compressor design capacity continued in 2010 with repair work and improvement initiatives. Great focus has been placed on gas compressor improvements with a positive development. These issues are recognized as guarantee claims by the equipment vendor who is engaged in the



repair project. While the FPSO experienced partial shut-downs of gas compressors particularly during second half of the year, oil production has continued but at times at a somewhat reduced output rate. The financial impact of this in 2010 is for accounting purposes estimated to equal eight days of contractual revenue. Repair work was ongoing at year end and commercial uptime of the vessel may also be impacted in 2011.

The management service contract of the production jack-up Marc Lorenceau continued throughout 2010 under a contract that can be terminated on short notice. A new 2 year management agreement has been tendered but not concluded at year end 2010.

The 1993 built aftramax crude oil tanker M/T Chemtrans Lyra (renamed M/T Knock Muir) was acquired in March 2010 as a conversion candidate for future FSO/FPSO projects. Knock Muir has traded in the spot market throughout the year and started a scheduled dry-dock in December which was completed in January 2011.

FSO Knock Dee was sold for green recycling when El Paso did not declare their option to utilize Knock Dee as FSO on the Pinauna field off-shore Brazil.

The Group has an ongoing cooperation with respect to technology with various suppliers and engineering companies, but is to a lesser extent directly engaged in research.

Result and balance sheet

The figures for 2010 provided in the text below are comparable with 2009 figures in brackets.

Gross revenues for the Group were USD 116.8 million (USD 115.0 million). The Group EBITDA (result before depreciation, financial items and tax) was USD 53.1 million (USD 50.7 million). EBIT (result before financial items and tax) was USD 9.4 million (negative USD 10.9 million).

Net financial expenses in the Group were USD 10.8 million (USD 7.4 million). Result after tax for the Group was negative USD 9.9 million in 2010 (negative USD 2.0 million), a decrease of USD 7.9 million.

At year-end, the Group consolidated assets amounted to USD 472.4 million (USD 554.7 million). Net interest bearing debt was USD 118.6 million compared to USD 126.8 million at the end of 2009. The ratio of net interest bearing debt to total assets was 25% at year end.

The Group consolidated equity book value was USD 254.7 million at year end compared to USD 264.6 million by 31 December 2009.

Consolidated cash flow generated from operations was USD 24.3 million in 2010 compared to a cash flow of USD 57.1 million in the previous year.

Investments and financing

Additions to fixed assets amounted to USD 14.3 million in 2010; mainly related to the acquisition of Knock Muir. In 2009 the addition in fixed asset amounted to USD 71.4 million.

The 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 have a revolving reducing credit facility of up to 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 scrap values (the borrowing base). The borrowers are joint and severally liable for the credit facility. The facility is guaranteed by Fred. Olsen Production ASA and runs for five years from July 2007 without reductions and thereafter an additional five years with semi-annual reductions/repayments 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%. As of 31. December USD 182.8 million was drawn under the credit facility.

Financial risk

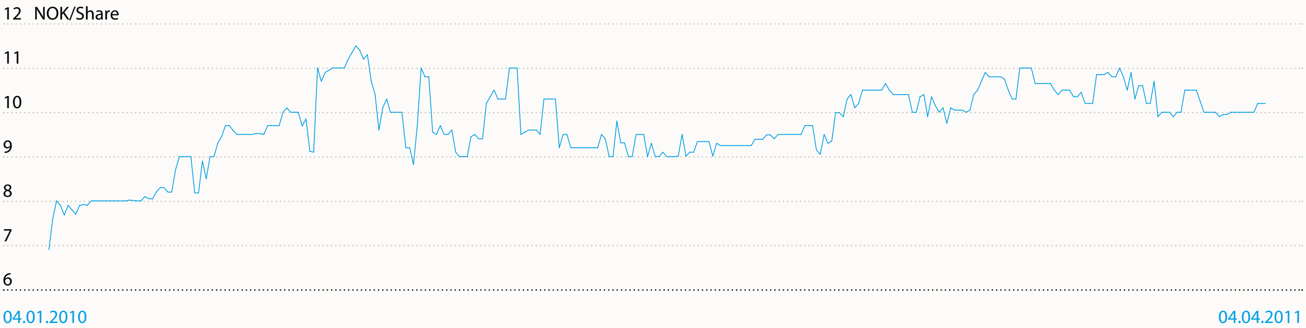
In addition to general business risk, the Group is exposed to certain financial risks related to its activities, such as currency risk, interest rate risk and credit risk. The Group continually monitors its financial risks and manages its exposure in accordance with the Company's risk management strategy.

Operations

With all FPSO units on contracts, the Group's financial position and business exposure mainly relates to the Group's continued performance under existing contracts obligations. The Company's existing contracts include cost escalation clauses which to a degree limits the operating expense exposure. The spot crude oil tanker market has an impact on the financial performance of the Group's trading aframax tanker Knock Muir.

The challenging security conditions in certain geographical areas of operation represent a continuing concern for the operation in these areas. The company is closely following the situation and evaluates contingency plans and safety measures on a continuous basis together with the clients.

Share price Fred. Olsen Production ASA



Foreign exchange

The Company's and the Group's currency exposure is limited as loans, interest expenses and the majority of the operating expenses are in the same currency as the income (USD). Historically, the Group's operating expenses were primarily in USD, however a growing portion of the expenses are denominated in EUR and NOK. As such, the earnings are exposed to fluctuations against the USD in the currency markets.

The Group's functional currency is USD, consequently the consolidated financial statements and the parent company accounts are in USD. The Group holds certain bank accounts in NOK and Naira which when converted to USD will fluctuate with the currency exchange rates at the date of reporting.

Interest rate

The Group loans are exposed to fluctuations in interest rates for USD. At year end 2010 approximately 46% of the debt with a weighted average duration of 5.8 years was based on a fixed average weighted interest rate of 3.8% p.a. plus a bank margin. The remaining portion of the debt was based on floating interest rates; USD LIBOR plus a margin.

Credit

Due to the nature of the Group's operations, revenues and related receivables are typically concentrated amongst a relatively small customer base of international and national oil and gas companies. The Group continuously evaluates the credit risk associated with existing and new clients.

Corporate Governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Codes of Practice for Corporate Governance. The Company's compliance with these guidelines is presented separately in this Annual Report.

Significant legal matters

The dispute between Knock Allan Pte. Ltd. and Canadian Natural Resources Ltd. ("CNR") regarding permitted delay/stand-by hire and variation orders during the conversion phase of FPSO Knock Allan remains unsolved.

Safety, external environment, work environment, organization, gender equality and business ethics

FOP is committed to high standards of safety for personnel, environment and property in all parts of the operation and safety has the highest attention onboard the fleet of offshore units. This is achieved by operational routines with built-in focus on safety and accident prevention, proper selection of safety equipment, planned maintenance of the units, continual training and drills, emergency preparedness and management support.

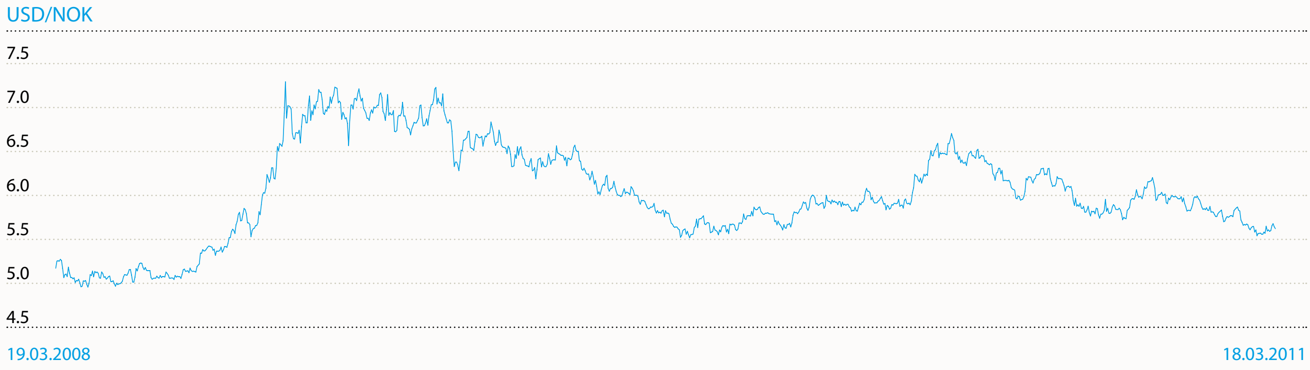
The tanker vessel Knock Muir is fully certified by Lloyds Register and all FPSO units by Det Norske Veritas (DNV). All the units are classed in accordance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the International Safety Management (ISM) Code) issued by International Maritime Organization (IMO) agency of the United Nations concerned with Safety at Sea. Additionally, in order to support the efforts and to underline the Group's commitment to safety, all operations and units have since 2006 been certified by DNV according to the internationally accepted quality standards ISO 9001 - Quality Management System, ISO 14001 - Environmental Protection and OSHAS 18001 – Occupational Health and Safety.

The HSSEQ system is continually improved through use of audit results, analysis of data, corrective and preventive actions, operational experience and management reviews. Further, continual improvement onboard the units are achieved through feedback from regular training, safety meetings, incident reporting, accident prevention committees as well as weekly safety and environmental protection drills involving all personnel onboard. Five Lost Time Injury for the fleet under operation and conversion was reported in 2010, with a corresponding fleet H-value of 2.0 compared to 0.3 in 2009.

The Group's operations affect the external environment through consumption of fossil fuels and emission of greenhouse gases and decanted water. All operations are conducted within international and relevant local rules applicable for the areas where the operation takes place. FOP is committed to environmental protection through all phases of operation, both during normal operation and high focus on accident prevention. Reduction of risk for oil spill or other accidental pollution has high focus and the Group has taken measures to minimize such risk through preventive maintenance and a safe and good operation.

In order to further focus on environmental protection, FOP has introduced an environmental reporting system which allows for better follow up of any emissions and thus increased focus on specific areas for reduction of emissions.

FOP is part of an office sharing arrangement, which is established between other Fred. Olsen related companies. A common working environment committee (Arbeidsmiljøutvalg) is organized between the companies to make improvements to the office and to the office environment. The working environment in the parent company is considered as good.



Board of Director's Report 2010

FOP maintains an overview of sick leaves in accordance with current law and regulations. Sick leave has been low during the past years and ended up at 1.1% in 2010, the same level as the previous year. The parent company encourages participation in physical activities and supports its employees financially to participate in various sports activities. No injuries or accidents ashore were recorded in 2010.

For Fred. Olsen Marine Services personnel we refer to note 6.

The Company has a non-discriminating policy based on gender or cultural background. The Company acknowledges that men are traditionally over-represented in the offshore business, but the business is based on equal development for all employees. Number of employees has been steady for the last years and there are twenty two employees working in the parent company, of which five are women. The Board of Directors consists of four directors, of which two are women. The Management team has seven individuals, including one woman.

The Company has established Codes of Conduct which include guidelines for social responsibility according to the Company's policy. These are regularly communicated throughout the organization and available on the Company's web site www.fpso.no

Parent Company

Result and balance sheet

The parent company's gross revenues were USD 4.4 million compared to USD 5.7 million in 2009. The EBITDA (the result before depreciation, financial items and tax) was negative USD 4.4 million compared to negative USD 4.7 million in 2009.

Net financial expense represented USD 56.6 million compared to a net financial income of USD 29.2 million in 2009. The decrease in financial income is due to the impairment of intercompany investments and write-down of intercompany receivables.

Fred. Olsen Production ASA had a loss after tax of USD 61.3 million for the year compared to a loss of USD 34.1 million in 2009.

Allocation of net result

The Board of Directors has proposed to allocate net loss after tax of USD 61.3 million to Free Reserves.

At year-end total equity was USD 285.6 million. Pending final approval, the share premium fund is transferred to Free Reserves (USD 305 million) and added to retained earnings. As at year-end, retained earnings were USD 250.8 million. The parent company had no external interest bearing debt year end 2010.

The Company's Board of Directors has resolved to propose to the Annual General Meeting on 25th May 2011 to pay a dividend NOK 0.50/share for financial year 2010, a total payment of NOK 20.4 million net of payment to Company owned own shares.

The Company owns 600,000 own shares purchased in May 2009. The average purchase price was NOK 6.20 per share.

Annual General Meeting

The date of the Annual General Meeting is 25 May 2011.

Event after the balance sheet date

No material events effecting the valuation of FOP have appeared after the balance sheet date.

Statement by the Board of Directors and the CEO

Today, we have considered and approved the annual report of Fred. Olsen Production ASA and the consolidated annual report of the Group as of 31 December 2010 and for the year then ended.

To the best of our knowledge and/or understanding the consolidated financial statements for 2010 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements following the Norwegian Accounting Act. It is likewise our understanding that the financial statements for the parent company for 2010 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements in all material respects gives a true and fair view of the assets, liabilities, financial position and result of Fred. Olsen Production ASA and the Fred. Olsen Production Group for the period. On the same basis the Board of Directors' Report includes in all material respects to the best of our knowledge a true and fair review of the development, performance and financial position of Fred. Olsen Production ASA and the Fred. Olsen Production Group together with a description of certain principal risks and uncertainties.

Oslo, 28 March 2011
Fred. Olsen Production ASA

Per-Oscar Lund *Chairman*	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Mårten Lunde *Chief Executive Officer*

Fred. Olsen Production – Group

Consolidated Statement of Comprehensive Income

For the years ended 31 December

Amounts in USD 1 000	Note	2010	2009
REVENUE			
Revenue	3	115 367	107 047
Gain on sale of property, plant and equipment	2	1 407	7 908
TOTAL REVENUE		116 774	114 955
OPERATING EXPENSE			
Salaries and other personnel costs	4, 5	5 544	7 609
Depreciation	2	32 141	39 748
Write down of vessels	2	11 544	-
Other operating expenses	6	58 175	56 690
TOTAL OPERATING EXPENSES		107 404	104 047
OPERATING PROFIT		9 370	10 908
FINANCIAL ITEMS			
Interest income		97	166
Net foreign exchange gain (loss)		-1 026	1 010
Interest expense	9	-7 966	-6 232
Other financial expense	9	-1 894	-2 307
NET FINANCIAL ITEMS		-10 790	-7 363
PROFIT (LOSS) BEFORE TAX		-1 420	3 545
Tax expense	7	-8 528	-5 574
LOSS FOR THE PERIOD		-9 948	-2 029
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		-198	859
Net value gain on available-for-sale financial assets	9	277	3 052
Other comprehensive income (loss) for the year, net of tax		79	3 911
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		-9 869	1 882
Net loss attributable to parent company equity holders		-9 948	-2 029
Total comprehensive income (loss) attributable to parent company equity holders		-9 869	1 882
Basic earnings per share	11	-0.09	-0.02
Diluted earnings per share	11	-0.09	-0.02

The footnotes are an integral part of these financial statements.

Fred. Olsen Production – Group

Consolidated Statement of Financial Position

As at 31 December

Amounts in USD 1 000	Note	2010	2009
ASSETS			
Offshore units, constructions and equipment	2	377 566	413 791
Other long-term receivables		3 139	3 840
Investments in associates	17	49	49
TOTAL NON-CURRENT ASSETS		380 755	417 679
Short-term receivables	13, 18	19 787	16 699
Other investments	9, 17	7 265	6 988
Inventories		870	1 117
Cash and cash equivalents	10	63 687	112 199
TOTAL CURRENT ASSETS		91 609	137 003
TOTAL ASSETS		472 364	554 682
EQUITY AND LIABILITIES			
Share capital		17 090	17 090
Share premium reserve		305 009	305 009
Fair value reserve		3 329	3 052
Translation reserve		14 174	14 372
Retained earnings		-84 882	-74 934
TOTAL EQUITY	11	254 719	264 588
Deferred income	15	7 608	12 892
Pension liabilities	5	3 543	2 481
Interest-bearing loans and borrowings	12	180 138	236 914
De-commissioning provisions	15	750	550
TOTAL NON-CURRENT LIABILITIES		192 040	252 837
Trade payables		496	2 117
Short-term interest-bearing loans and borrowings	12	2 145	2 145
Short-term Group loans	13	-	-
Payroll tax withhold. empl contrib. etc.		1 132	1 143
Taxes payable	7.15	6 977	6 650
Other current liabilities	15	14 855	25 202
TOTAL CURRENT LIABILITIES		25 605	37 257
TOTAL EQUITY AND LIABILITIES		472 364	554 682

The footnotes are an integral part of these financial statements.

Oslo, 28 March 2011

Fred. Olsen Production ASA

Per-Oscar Lund	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Mårten Lunde
Chairman				*Chief Executive Officer*

Fred. Olsen Production – Group

Consolidated Statement of Cash Flows

As at 31 December

Amounts in USD 1 000	Note	2010	2009
Cash flows from operating activities			
Net result after tax		-9 948	-2 029
Adjusted for:			
Depreciation	2	32 141	39 748
Write down of vessels	2	11 544	-
Realised loss on investments	9	-	-
Interest expense		6 303	6 825
Tax expense	7	8 528	5 574
Net (gain) loss on sale of property, plant and equipment	2	-1 407	-7 908
Net foreign exchange (gain) loss		-	-355
Unrealised (gain) loss on interest rate swaps		1 663	-593
Changes in trade and other receivables		-2 388	541
Changes in trade and other payables		-24 601	14 938
Changes in other balance sheet items		2 457	361
Cash generated from operation		24 292	57 102
Interest paid		-4 345	-5 504
Income tax paid		-1 057	-935
Net cash from operating activities		18 890	50 662
Cash flows from investing activities			
Purchases of property, plant and equipment	2	-14 331	-71 449
Proceeds from sale of property, plant and equipment	2	7 117	20 350
Net cash used for investing activities		-7 214	-51 099
Cash flow from financing activities			
Increase in borrowings		2 500	34 500
Settlements of interest rate swaps		-3 217	-1 035
Repayments of interest bearing loans		-59 275	-24 973
Net cash from financing activities		-59 992	8 492
Net changes in cash and cash equivalents		-48 315	8 056
Effects of changes in foreign currency		-198	655
Cash and cash equivalents at 1 January		112 200	103 489
Cash and cash equivalents at 31 December		63 687	112 200

The footnotes are an integral part of these financial statements.

Fred. Olsen Production – Group

Consolidated Statement of Changes in Equity

As at 31 December

Amounts in USD 1 000	2010	2009
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

The footnotes are an integral part of these financial statements.

Fred. Olsen Production – Group

Notes to the Group Accounts

Note 1 - Accounting policies

1. REPORTING ENTITY

Fred. Olsen Production ASA ("the Company") is domiciled in Norway. The address of the Company's registered office is Fred. Olsensgt. 2, 0152 Oslo.

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), adopted by the European Union, and its interpretations, and the disclosure requirements following the Norwegian Accounting Act, stock exchange rules and regulations, that are mandatory and applicable as at 31 December 2010.

The financial statements were approved by the Board of Directors and the Managing Director on 28 March 2011. Final approval of the financial statements is performed by the General Meeting scheduled at 5 May 2011. Until final approval, the Board of Directors has the authority to amend the financial statements.

IFRSs and its interpretations that are issued prior to 28 March 2011 and that are not yet mandatory as at 31 December 2010, are not applied by the Group of companies – i.e. amended or revised IAS 12, 24 and 32, amended or revised IFRS 1 and 7, and amended IFRIC 14. These standards, amendments and interpretations are not expected to have any impact on the reported numbers. Implementation of IFRS 9, which replaces IAS 39, will result in change of measurement categories for financial instruments whereas the implementation of IFRIC 19 will not have an impact.

In fiscal 2010, the Group of companies has applied revised IAS 32, IFRS 1 and IFRIC 19 without any impact on the reported numbers.

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- the defined benefit asset is recognized as the net total of the plan assets at fair value, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

These financial statements are presented in US Dollars (USD), which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand unless stated otherwise.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Critical accounting judgments, estimates and assumptions

I) Income taxes

The Group is subject to income tax in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on the best estimate of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

II) Estimates for vessels and financial assets

The fleet of vessels is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A vessel is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that vessel.

An impairment loss in respect of a vessel measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Generally, individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of the Company.

Associates and jointly controlled entities

Associates are those entities over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting rights of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences, until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

The functional currency of the Group is USD, while the presentation currency used to prepare individual statutory financial statements may differ from the functional currency of the Group.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the foreign currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in other comprehensive income.

Financial statements of operations with other functional currency than USD

The assets and liabilities of foreign subsidiaries with other functional currency than USD, are translated into USD at the foreign exchange rate at the balance sheet date. The revenues and expenses of foreign subsidiaries with other functional currency than USD are translated using average monthly foreign exchange rate, which approximates that foreign exchange rates on the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in other comprehensive income as FCTR.

Related party transactions

In addition to the intra-Group transactions disclosed previously, the Group has transactions with its parent company First Olsen Ltd ("FOL"), other subsidiaries of FOL and other companies in the Bonheur ASA Group (parent company of FOL). The Group receives certain services of administrative, financial and legal character from Fred. Olsen & Co. The transactions are based on the arms length principle and are subject to normal termination clauses.

Financial Instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Available-for-sale financial assets

The Group's investment in equity securities is classified as an available-for-sale financial asset. Subsequent to initial recognition, it is measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit and loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its exposure to foreign currency and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivates that do not qualify for hedge accounting are accounted for as financial instruments held for trading.

Derivative financial instruments are recognised initially at fair value, while related transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised in profit or loss. Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, which is also the present value of the quoted forward price.

Trade and other receivables

Trade and other receivables are recognised at their amortised cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term highly liquid assets that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are recognised at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are recognised at cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Offshore units, vessels under conversion and equipment

Offshore units, vessels under conversion, and equipment are recognised at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets and modifications includes the cost of material, direct labour and other directly attributable costs incurred to bring the asset to a working condition for its intended use. Borrowing costs are capitalised as part of the fixed asset cost price provided that the borrowing cost is directly attributable to the purchase or production of a specific qualifying item of offshore units, vessel under conversion and equipment. Such specific item is one which generally takes in excess of 6 months to be made ready for its intended use. Generally, these items are subject to major development or construction projects.

Subsequent expenditures are capitalised when it is probable that they will give rise to future economic benefits. Other costs are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the profit and loss on a straight-line basis over the estimated useful life of each item of property, plant and equipment. The estimated useful lives, residual values and decommissioning costs are reviewed at each fiscal year-end.

Useful lives

The useful lives for the offshore units are subject to review at each financial year-end. The conditions for determination of useful life are based on the required specifications of the various contracts. The useful lives may change subject to market conditions, and future repairs and upgrades.

Decomposition

Each component of offshore units, constructions and equipment is depreciated separately over the component's useful life. All equipment onboard the unit is integrated in the unit and can not be used separately. Useful lives of equipment onboard normally equal the useful life of the unit itself.

It is Group policy to apply IAS 16 provided that component accounting is compulsory. When and if individual components are identified, different rates or methods of depreciation are evaluated and the most appropriate method is selected. Typically, a straight-line approach is adopted. An FPSO/FSO, inclusive of its component parts, is viewed as one complete asset.

Residual values

Residual values are assessed at the beginning of each accounting year and constitute the basis of the depreciation for the year. Residual values are estimated based on recoverable material reduced by other demobilisation costs related to the unit. Recoverable material is calculated as market steel price multiplied by the recoverable lightweight of the unit. Any changes in residual values are accounted for prospectively as a change in accounting estimate by adjusting depreciation or amortisation in the current and future periods.

Demobilisation costs

For contracts in which the Group has commitments regarding demobilisation not directly related to the vessel, the cost is capitalised as an operating asset at the time the contract is entered into. At the same time, a provision is made for the commitment.

Repair and maintenance

Costs for special periodic and class renewal surveys (SPS/RS) on offshore units, which are required by the class societies, are capitalised and depreciated over the estimated period between surveys; this is generally five years.

Other maintenance and repair costs are expensed as incurred.

Extensive repair and upgrading
When an offshore unit requires extensive upgrading and repair after the termination of its contract, the periodic inspection and repair becomes an integrated part of the total work. Such costs are amortised over the lesser the estimated period to next survey or over the remaining useful life of the vessel. Borrowing costs are included as part of the value of the vessel in the balance sheet if the repair and upgrading period exceeds 6 months. For capitalisation policies related to interest expenses, refer to the discussion on "Borrowing costs" (below).

Impairment of financial assets
The carrying amount of the Group's financial assets, other than inventories and deferred tax assets, are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indications exist, the asset's recoverable amount is estimated. When considering impairment indicators, the Group considers both internal (e.g. negative changes in performance) and external sources (e.g. negative changes in the business environment). These are analyzed by reviewing day rates and broker valuations. The recoverable amount for an asset is the higher of fair market value less costs to sell and value in use; the value in use is calculated as the present value of expected future cash flows for each individual unit. The expected future cash flows are discounted on a pre-tax basis; this is done to ensure that there is consistency between expected future cash flows and the discount rate used.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is recognised if the carrying amount of an asset exceeds the recoverable amount. All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Inventories and consumable spare parts
The Group categorizes spare parts as an asset recorded as a vessel component that is depreciated. Consumables are measured at cost less a reserve for overstocked items. Inventories and bunkers are recorded at the lower of cost less obsolescence and net realisable value.

Pensions
The Company and certain of its subsidiaries have pension plans for employees which provide for a defined pension benefit upon retirement. The benefit to be received by employees depends on many factors including length of service, retirement date and future salary increases. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date reflecting the maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary.

With respect to actuarial gains and losses that arise in calculating the Group's obligation for a given plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal of constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Revenues
Revenue derived from floating production and storage contracts or other assignments are recognised as income in the period that services are rendered at rates established in the relevant contracts. Certain contracts include mobilisation fees payable at the start of the contract. In cases where the fee covers a general upgrade of a vessel or equipment which increases the value of the vessel or equipment beyond the contract period, the fee is recognised as revenue over the contract period; the investment is depreciated over the remaining lifetime of the asset. In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fees are recognised as revenue over the estimated contract period. The related investment is depreciated over the estimated contract period. In cases where the fee covers specific operating expenses at the start-up of the contract, the fees are recognised in the same period as the expenses.

Income tax
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity. The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on best estimate of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, or for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured using the tax rates that are based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Qualifying tonnage tax companies may, under certain conditions, obtain deferred taxation of operating income against an alternative fee based on the registered tonnage of the vessels. Income tax will be payable at the time the company distributes accumulated earnings as dividend to the owners. Thus, the calculation of deferred tax includes untaxed profits from units taxable according to the tonnage tax regulation. No deferred tax related to tonnage tax subsidiaries has been recognised in the financial statements for the year ended 31 December 2010, as no dividend will be distributed from these companies.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Borrowing costs

Borrowing costs are recognised in profit or loss when they occur. Borrowing costs are capitalised as part of the fixed asset cost price provided that the borrowing cost is directly attributable to the purchase or production of a specific item of property, plant and equipment qualifying as property. Such specific item is one which takes more than 6 months to be made ready for its intended use; these items are generally those that are subject to major development or construction projects.

Earnings per share

Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to the shareholders by the weighted average number of ordinary shares outstanding throughout the year, excluding ordinary shares purchased by the company held as treasury shares.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Contractual commitments

Revenue derived from floating production and storage contracts or other assignments are recognised as income in the period that services are rendered at rates established in the relevant contracts.

All contracts are service contracts for the treatment, storage or off-loading of raw oil from a pre-determined offshore oilfield. Particular contracts specify which unit(s) is (are) to be used. The company is responsible for the daily operation and maintenance of the unit and to ensure that necessary personnel and equipment are provided in order to perform the work defined in the contract. The company is responsible for a safe operation.

According to the terms of the contract, the oil company is only obliged to pay when the unit is in operation. The oil company does not control the unit and/or the operation of the unit. The Company retains ownership of the unit throughout the contract period however; there is a purchase option for the lessee in selected contracts.

Cash-flow statement

The cash flow statement reports cash flows during the period classified by operating, investing and financing activities and the Group uses the indirect method to present the cash flow statement.

Events after the balance sheet date

Information about the Group's financial position arising subsequent to the balance sheet date is taken into account in the financial statements. Significant events after the balance sheet date that do not influence the Group's financial position at the balance sheet date, but may have impact on the Group's future financial position, are disclosed.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of vessels is based on discounted cash flows from the existing contracts. Assumptions are made in developing the discounted cash flows and include a designated portion of renewals if deemed probable, in addition to the forecasted future development of current contracts which may or may not be realised. The residual value is calculated as the net scrap steel value less demobilisation/ relocation costs. The discount rate is used reflects the current market assessment of the time value of money and the risks specific to each vessel. As at 31 December 2010, a minimum discount rate of 5.48% was used. In addition independent broker valuations are considered.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss financial assets is determined by reference to their quoted bid price at the reporting date.

If such a quoted bid price does not exist at the balance sheet date, the latest known trading price is used as an estimate of the fair value.

Notes

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the counterparty's credit rating. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 2 - Fixed Assets

Impairment valuations

The Group continuously evaluates its financial assets on an individual basis at each reporting date to determine whether there is objective evidence of impairment. Based on the operational events during the year, the long term contract structure and the long term financing in place, market values are estimated based on discounted future cash flows from the fixed contract periods plus a portion of the option years. Residual value is estimated at scrap values. The market values are estimated on an individual asset basis as well as for the total fleet. After the sale of Knock Dee in 2010, the market value assessments indicated no impairment at year end 2010. Elements of risk as addressed in the Directors Report and note 9 may impact future cash flows, as well as changes to the discount rate can affect the estimated market values.

FSO Knock Dee valuation year end 2009 was based on an option agreement pending final contract and terms. The option agreement was not exercised and since other employment opportunities were not available short-term, FSO Knock Dee was written down by $11,544 million to prevailing residual/scrap value in June 2010.

Discount Rate:

A change in the discount rates used at the reporting date would have increased/reduced the estimated market value of the fleet. The following table quantifies impairment amounts if applicable, had the highlighted pre-tax discount rate been applied.

Amounts in USD 1 000	Impairment if 3.29% discount rate is used	Impairment if 5.48% discount rate is used	Impairment if 7.67% discount rate is used	Impairment if 9.86% discount rate is used
	n/a	n/a	n/a	-12 170

This analysis assumes that all other variables remain constant and is performed at year-end 2010 and is exclusive of Knock Muir.

Gain on Sale of Vessels:

During the year, Knock Dee was sold. Subsequent to the aforementioned write-down on the vessel, the sale triggered a gain on disposal of $1,583. The total net gain on disposals ($1,406) is included in the profit for the year in the statement of comprehensive income which also includes a loss on the sale of vessel equipment (-$177).

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Amounts in USD 1 000	Vessels	Cars	IT equipment	Furniture and fixtures	Total
Cost or deemed cost					
Balance at 1 January 2009	534 362	309	56	95	534 822
Additions	71 337	89	15	8	71 449
Disposals	-115 209	-	-	-33	-115 242
Effects of movements in exchange rates	-	-	-	-	-
Balance at 31 December 2009	490 490	398	71	71	491 029
Balance at 1 January 2010	490 490	398	71	71	491 029
Additions	14 268	63	-	-	14 331
Disposals	-14 292	-144	-	-	-14 436
Effects of movements in exchange rates	-	-	-	-	-
Balance at 31 December 2010	490 466	317	71	71	490 924
Depreciation and impairment losses					
Balance at 1 January 2009	140 114	97	48	30	140 290
Depreciation for the year	39 646	73	15	15	39 748
Write down	-	-	-	-	-
Disposals	-102 800	-	-	-	-102 800
Effect of movements in exchange rates	-	-	-	-	-
Balance at 31 December 2009	76 961	170	63	44	77 238
Balance at 1 January 2010	76 961	170	63	44	77 238
Depreciation for the year	32 057	68	3	13	32 141
Write down	11 544	-	-	-	11 544
Disposals	-7 482	-83	-	-	-7 566
Effect of movements in exchange rates	-	-	-	-	-
Balance at 31 December 2010	113 080	154	66	57	113 357
Carrying amounts					
At 1 January 2009	394 248	212	8	65	394 532
At 31 January 2009	413 529	228	8	26	413 791
At 1 January 2010	413 529	228	8	26	413 791
At 31 December 2010	377 386	163	5	13	377 567
All fixed assets are subject to depreciation on a straight-line basis over their estimated useful life. The following estimated useful lives are used for other assets than vessels:	Ref. next page	5 years	3 years	5 years	

Dismantling expenses

In the consolidated financial statements, an accrual of USD 750 thousand (2009: USD 550 thousand) has been recognised to cover dismantling expenses at the end of the contract. The estimate is based on estimated costs of removing anchoring equipment. No dismantling expenses have been recognised for vessels connected to buoys. No dismantling accruals have been recognised for contracts where demobilisation fees are negotiated in the contract.

Fleet as at 31 December 2009

	dwt	Built (year)	Yard	Next class/renewal
FPSO Knock Adoon	244 492	1985	Mitsubishi Heavy Industries	2011
Depreciated on a straight-line basis to scrap value per October 2018		Conv. 2004	Drydocks World Dubai	
FPSO Petròleo Nautipa		1975	Nippon Kokan K.K	2012
Depreciated on a straight-line basis to scrap value per August 2015	141 330	Conv. 1998	Keppel Shipyard	
FPSO Knock Allan	145 242	1992	Harland & Wolff	2013
Depreciation on a straight line basis to scrap value per February 2024		Conv. 2009	Drydocks World Dubai	
Oil Tanker Knock Muir	97 098	1993	Samsung Heavy Industries	December 31, 2010
Depreciation on a straight-line basis to scrap value per February 2024.			South Korea	

The technical manager for all vessels, with the exception of Knock Muir, is Fred. Olsen Marine Services AS. The technical manager for Knock Muir is Chemikalien Seetransport GmbH.

FPSO = Floating production, storage and offloading vessel
FSO = Floating storage and offloading vessel

Note 3 - Segment information

Adoption of IFRS 8 Operating Segments

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

Functions from which Reportable Segments Derive their Revenues

In prior years, segment information reported externally was analysed on the basis of the types of services provided by the Group's operating division (i.e. floating production and storage), and focused on the geographical location of customers and assets. In contrast, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the function that each underlying company performs. Therefore, the principal categories are the provision of administrative services and the operational performance of the fleet. The Group's reportable segments under IFRS 8 are as follows:

Administrative services
– includes the provision of management and logistics services

Operational performance
– provides an overview of the vessel operating companies. This includes Knock Taggart II Pte. Ltd. which owns the oil tanker Knock Muir.

Information regarding the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

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Segment Information – 2010

Amounts in USD 1 000 Twelve months ended December 31, 2010	Vessel Operating Group	Administrative Group	Total Segments	Intercompany Eliminations	Consolidated
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		

Segment Information – 2009

Amounts in USD 1 000 Twelve months ended December 31, 2009	Vessel Operating Group	Administrative Group	Total Segments	Intercompany Eliminations	Consolidated
Income Statement					
Revenue	107 562	12 981	120 543	-5 588	114 955
Segment profit (loss) EBIT according to IFRS 8	9 465	-2 633	6 833	4 075	10 908
Total financial items	-11 374	9 088	-2 286	-5 077	-7 363
Segment profit (loss) before tax expense	-1 909	6 456	4 547	-1 002	3 545
Fixed Assets					
Segment assets as at December 31, 2008	394 247	285	394 532		
Changes during the period	19 282	-22	19 259		
Segment assets as at December 31, 2009	413 529	263	413 792		

Note 4 - Salaries and personnel expenses

Amounts in USD 1 000	2010	2009
Salaries and personnel expenses		
Salaries	2 534	4 054
Remuneration of bonuses	492	953
Social security tax	833	924
Pension Expenses	1 636	1 556
Other	49	122
Total	5 544	7 609
Number of employees at the end of the year *	24	24
Average number of employees*	24	26
Payment to CEO		
Salary	479	477
Bonus	43	84
Pension expenses	231	217
Total	754	778

Mårten Lunde has been employed since 11 May 2007.

* All employees within the Group are full-time employees. During a fiscal year, each employee represents one full year of service.

Amounts in USD 1 000	2010	2009
Payment to COO		
Salary	398	396
Bonus	38	60
Pension expenses	192	175
Total	628	631

Paal Hylin has been employed since 2 February 2005.

Payment to CFO		
Salary	255	227
Bonus	31	6
Pension expenses	112	94
Total	398	328

Jørn Røkaas has been employed since 1 January 2009.

Board Remuneration		
Per-Oscar Lund (Chairman)	24	25
Anette S. Olsen	16	17
Siv J. Staubo	16	17
Agnar Gravdal	16	17
Jan Peter Valheim (Alternate)	10	10
Total	83	85

Loans to senior management and directors **

On 19 May 2008, the CEO received a secured interest free loan provided by the Group equivalent to approximately $392,000 (NOK 2.3 million). The loan is provided with specified terms of repayment and is due in full upon termination of this position with the Group.

None of the key personnel have agreements beyond the normal term of notice, and this holds true in the case of an acquisition. None of the leading employees receive remuneration from other companies within the Group, no share options are issued in the company.

The CEO has an interest free loan from First Olsen Ltd. of approximately $793,000 (NOK 4.6 million) related to his acquisition of shares in the Company; the COO has an interest free loan from First Olsen Ltd. of approximately $124,000 (NOK 727,000). The Chairman has an interest free loan from First Olsen Ltd. of approximately $257,000 (NOK 1.5 million) related to the acquisition of shares in the Company. Bonuses earned under the Company's bonus scheme (see below) will be applied to the repayment of outstanding loans.

Remuneration of Bonuses

The company has established a bonus system for senior management and key management personnel. The current year bonus expense includes an accrual for bonuses related to fiscal 2010. The actual expense presented is reduced by an adjustment of the prior year accrual. The total accrual for bonuses to all Group employees as at 31 December 2011 is $785,465 (2009: $1,206,000).

In accordance with the Company bonus system, one third of the accrued bonus amount will be paid upon completion and approval of the annual financial report; the remaining unpaid bonus is paid evenly over the subsequent two years.

** Loans to senior management and directors have decreased as compared to the prior year. These loans are held in NOK and have decreased solely as a result of fluctuations in the USD conversion rate.

Note 5 - Pensions

Employees in Fred. Olsen Production ASA (FOP) participate in a defined pension plan providing entitlement to 70% of the salary at the time of retirement (based on length of service) up to a maximum of 12G. In addition, the Company has unfunded (unsecured) pension obligations covering senior executives equal to 66% of salary on retirement, except for CEO who is entitled to 70% on retirement. The general retirement age under the pension plan is 67 years except for four senior managers who have the right to pension upon reaching 65 years of age.

The pension plan is administered by Fred. Olsen & Co's Pensjonskasse. The administration of pension funds is subject to the Financial Supervisory Authority of Norway (Kredittilsynet) rules of capital management. The pension plan assets consist primarily of bonds, certificates and shares in Norwegian stock listed companies. 24 employees were included in the pension plan at 31st December 2010.

The pension plan qualifies under the minimum requirements for mandatory service pension ("Obligatorisk Tjenestepensjon") under the Norwegian law for Company Pensions ("Lov om Foretakspensjon").

Amounts in USD 1 000	2010	2009
Present value of unfunded obligations	-3 913	-3 084
Present value of funded obligations	-4 555	-3 417
Total present value of obligations	-8 468	-6 501
Fair value of plan assets (unfunded)	0	0
Fair value of plan assets (funded)	3 136	2 512
Present value of net obligations	-5 332	-3 989
Unrecognised past service costs (not yet vested)	0	193
Unrecognised actuarial gains and losses	1 396	875
Recognized net liability for defined benefit obligations	-3 936	-2 921
Hereof unfunded pension plans (net liability)	-3 317	-2 568
Hereof funded pension plans (net liabilities)	-618	-353
Recognized net obligation of defined benefit obligations	-3 936	-2 921
Movements in Plan Assets:		
Fair value of plan assets	2 512	1 575
Currency translation	-34	333
Expected return on plan assets	175	123
Contributions to the plan	614	836
Actuarial losses	-132	-355
Fair value of plan assets as at 31 December	3 136	2 512

At the balance sheet date, plan assets are valued according to market rates. This value is updated annually in accordance with statements from the Pension Fund.

Major categories of plan assets in Fred. Olsens & Co's Pension Fund

	2010	2009
Equity instruments	31 %	29 %
Bonds	65 %	68 %
Annuities	1 %	3 %
Other assets	3 %	0 %
Plan assets	100 %	100 %

Movements in the net liability for defined benefit obligations:	Amounts in USD 1 000	
Unfunded obligations:	2010	2009
Net liability for defined benefit obligations at 1 January	-2 568	-1 468
Currency translation	35	-311
Transfer from funded to unfunded obligation	0	0
Expense recognised in the income statement	-784	-791
Net liability at 31 December	-3 317	-2 568
Funded obligations:		
Net liability for defined benefit obligations at 1 January	-353	-155
Currency conversion	4	-33
Transfer from funded to unfunded obligation	0	0
Expense recognised in the income statement	-884	-1 001
Contributions to the plan	614	836
Net liability for funded pension plans at 31 December	-618	-353
Movements in liabilities for defined benefit obligations:		
Unfunded obligations		
Gross liability for defined benefit obligations at 1 January	-3 084	-1 921
Currency conversion	42	-407
Current service costs	-600	-667
Interest on pension liability	-131	-100
Change from funded to unfunded	0	0
Actuarial losses/gains	-140	10
Gross liability at 31 December	-3 913	-3 084
Funded obligations		
Gross liability for defined benefit obligations at 1 January	-3 417	-2 363
Currency conversion	46	-501
Current service costs	-875	-967
Interest on pension liability	-145	-123
Actuarial losses/gains	-163	538
Gross liability at 31 December	-4 555	-3 417
Expense (-) / income recognised in the income statement:		
Unfunded obligations:		
Current service expenses	-600	-667
Past service expenses	0	0
Interest on obligation	-131	-100
Corrections previous years	-53	-24
Total	-784	-791
Funded obligations:		
Current services expenses	-875	-967
Interest on obligation	-145	-123
Recognised actuarial losses	-39	-34
Expected return on plan assets	175	123
Corrections previous years	0	0
Total	-884	-1 001
Net pension expenses	-1 669	-1 791
The pension expense is recognised in the following line in the income statement:		
Salaries and personnel expenses	-1 669	-1 791

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Actuarial assumptions at the balance sheet date expressed as weighted averages.
Assumptions used in the calculation of pension obligations are as follows:

	2010	2009
Discount rate at 31 December	3.90 %	4.30 %
Expected return on plan assets at 31 December	5.00 %	5.30 %
Assumed inflation	2.00 %	2.00 %
Assumed salary increase	4.00 %	4.00 %
Assumed adjustments of pension benefits	4.00 %	4.00 %
Expected pension increases	2.00 %	2.00 %
Social security costs	14.10 %	14.10 %
Mortality table	K2005	K2005

Sensitivity Analysis:

Funded Pension Plans:

A decrease in the discount rate of 0.25% - point (to 3.65%) will have an effect in Service Cost (SC) of 6.1% reduction and reduce the projected benefit obligation (PBO) by 6.0%. A 0.25% - point decrease in expected salary and pension regulation growth (G), will cause a positive effect of 6.6% on the SC and a positive effect of 6.5% on the PBO.

Unfunded Pension Plans:

A 0.25% - point increase in the discount rate (to 4.15%) gives an decrease in SC and PBO of 5.5% respectively; a 0.25% - point change in future salaries and the official pension index (G), gives a 2.8% change in SC and PBO respectively.

Note 6 - Other operating expenses

Amounts in USD 1 000	2010	2009
Directly attributable operational expenses	43 838	41 940
Administration expenses	6 642	6 140
Agency fees	2 533	2 233
Insurance	3 346	3 208
Bunkers	1 053	1 586
Consulting services	566	1 318
Other operating expenses	197	265
Total	58 175	56 690

Directly attributable operational expenses are expenses related to operating the vessels, such as manning expenses, repairs and maintenance, consumables, annual fees to classing agencies, freight and logistics costs and administration expenses to the technical management company.

All FSO/FPSO units are currently operated by Fred. Olsen Marine Services AS (FOM). Through management contracts, FOM is responsible for the daily operations of the vessels, including the crewing function. Crew members on the vessels are employed both by FOM directly and through local crewing agencies.

FOM maintains an overview of sick leaves in accordance with applicable law and regulations. The working environment on board the units is considered as good. Sick leave has been low during the past years and ended up at 2.7% in 2010, the same level as the previous year. Five Lost Time Injuries for the fleet under operation were recorded in 2010 vs. one Lost Time Injury in 2009.

The oil tanker Knock Muir is operated by Chemikalien Seetransport GmbH.

Fees for statutory audit and other services provided by the Group's auditors are partly included as other operating expenses; the remainder is included in administrative expenses. These fees are summarized as follows:

Amounts in USD 1 000	2010	2009
Statutory audit fees	276	346
Tax and assurance services	41	33
Total	317	379

Note 7 - Tax expenses

Amounts in USD 1 000	2010	2009
Tax expense		
Current tax expenses:		
Norway	-	-
Singapore	164	752
Africa	8 364	4 822
Total current tax expense	8 528	5 574
Deferred income tax expense/(gain)		
Total tax expense	8 528	5 574

Tax adjustments for prior periods relate to the timing of statutory income tax filings in foreign subsidiaries.

Current tax expense	-	-
Purchase of shares in subsidiary	-	-
Total taxes payable	-	-

Reconciliation of effective tax rate	2010		2009	
Profit (loss) before tax		-1 420		3 545
Domicile tax using the applicable corporate tax rate	28.0 %	-398	28.0 %	993
Effect of tax rate and tax base in foreign subsidiaries 1)	-623.1 %	8 848	112.4 %	3 983
Change in limitation of deferred tax assets related to tax loss carry forward	-5.5 %	78	16.9 %	598
Total	-600.6 %	8 528	157.2 %	5 574

1) During the year, the effect of withholding taxes and Singapore tax remunerated abroad are accounted for as part of income tax expense. As such, the effect of this change in accounting policy becomes apparent in the reconciliation provided above.

Note 8 - Deferred tax assets and liabilities

	Assets		Liabilities		Net	
Amounts in USD 1 000	2010	2009	2010	2009	2010	2009
Offshore units, constructions and equipment	-	-	-	-	-	-
Long-term liabilities	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Pensions	-	-	-	-	-	-
Tax value of loss carry-forward recognised	-	-	-	-	-	-
Total (assets)/liabilities	-	-	-	-	-	-

Unrecognised deferred tax assets

Unrecognised deferred tax assets relate to the following items:

Amounts in USD 1 000	2010	2009
Deductible temporary differences	24 933	889
Tax loss carry forwards	30 302	12 519
Total unrecognised deferred tax assets	55 234	13 408

Unrecognised deferred tax assets are attributable to Fred. Olsen Production ASA and its Norwegian subsidiaries.

Note 9 - Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

a) credit risk;
b) liquidity risk;
c) market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

Amounts in USD 1 000	Note	2010	2009
Short-term receivables	18	19 787	16 699
Cash and cash equivalents	10	63 687	112 199
Interest rate swaps and currency contracts used for hedging	15	-5 335	-3 854
Total		78 138	125 044

Group management continuously monitors the exposure to credit risk. The credit risk is concentrated among a few large customers in the energy sector; these are mainly international oil companies, and the related credit exposure is deemed to be moderate.

Trade and other receivables

The Group's exposure to credit risk is primarily influenced by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Group's revenues derive from a few customers; 90 percent of all trade receivables are attributable to sales transactions with three customers. Geographically there is a concentration of credit risk to the African and Asian regions, however this risk is mitigated by guarantees provided by parent companies in both North America and Europe.

The maximum exposure to credit risk for total short-term receivables at the reporting date by geographic region was:

Amounts in USD 1 000	2010	2009
Norway	9 984	3 387
Africa	8 756	9 413
Asia	-	8
Other	1 047	3 890
Total	19 787	16 698

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, financial information and in some cases, bank references.

The maximum exposure to credit risk for short-term receivables at the reporting date by type of customer was:

Amounts in USD 1 000	2010	2009
Contractual	19 787	16 699
Total	19 787	16 699

The Group's three most significant customers account for $8,430 of the short-term trade receivables carrying amount at 31 December 2010 (2009: $9,414). An overview of total receivables is provided in note 18.

The four largest customers comprise 99.7 percent of the Group's total customers and have been transacting with the Group for a minimum of five years. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's contractual partners.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance that represents its estimate of incurred losses in respect of trade and other receivables and investments.

The aging of short-term receivables at the reporting date was:

Amounts in USD 1 000	2010	2009
Not past due	13 000	13 680
Past due 0 - 30 days	1 516	335
Past due 31 - 90 days	1 917	13
Past due 91 - 180 days	412	313
Past due 181 - 365 days	688	2 359
More than one year	2 254	-
Total	19 787	16 699

Based on historic default rates and a specific review of receivables on an individual basis, the Group believes that no impairment allowance is necessary in respect of trade receivables.

Investments

The Group owns a minority number of shares of a public limited company incorporated in Singapore which is publicly listed on the Oslo Stock Exchange in Norway. Per year-end the exposure was 5.455 million shares, which amounts to 4.9% of the underlying company's number of outstanding shares. Gains and losses related to fair value adjustments are recognized directly in other comprehensive income as this asset is classified as available for sale (refer to note 17 for details).

The gain attributable to this investment is $0.2 million (gain in 2009: $3.0 million) during the year and is included as changes in fair values in other comprehensive income.

The Group continuously evaluates this exposure. The fair value is determined by using the listed prices of the shares at year-end (refer to note 17 for details).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

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The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements (refer to note 12):

Amounts in USD 1000	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Amounts payable (Bank Loans)	182 283	199 460	2 403	2 403	8 364	7 640	178 650
Amounts payable (Trade A/P)	496	496	248	248			
Amounts payable (Interest rate swaps)	5 335	5 335	804	804	1 608	1 623	497

The amounts are not discounted.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. Changes in oil prices can impact the Group's ability to develop new FPSO/FSO projects in the future. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of Group entities, U.S. Dollars (USD). The currencies in which these transactions primarily are denominated are USD, EURO (EUR) and Norwegian Kroner (NOK).

Per year-end 2010 the Group had no outstanding currency contracts.

Interest rate risk
The Group is exposed to variations in interest rates since its debt is based on floating USD interest rates. Interest rate swap agreements are entered into to manage risk related to fluctuating interest rates. The use of interest rate swaps reduces the fluctuations in interest payable, but the income statement variations may increase since the changes in the fair value of interest rate swaps are included in the income statement each quarter.

Per year end 2010 the Group had three outstanding interest rate swaps. Two swaps run until 2013 and have notional amounts of USD 25.0 million and USD 14.3 million. The last swap has a notional amount of USD 45 million and runs until 2017. The fixed rates payable for the swaps are in the range of 3.21% - 5.05%. The interest rate swaps cover approx. 45% of the Group's gross interest-bearing debt, and the swaps mature on average earlier than the interest-bearing debt.

Per year-end, the total unrealised loss relating to interest rate hedges is USD 5.3 million. The loss has been recognized in the profit and loss statement.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Company's financial performance including the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

The Board of Directors has authorized a program under which the Group may purchase its own shares from the market. The authorization to purchase these shares is for one year and remains valid until the date of the next Annual General Meeting.

Sensitivity analysis
The aim of the interest- and currency risk management activities is to reduce the effects on the Group's earnings from short-term fluctuations of interest rates and currency exchange rates. In the long-term, permanent changes in currency rates and interest rate levels will have an impact on the Group's earnings.

Per year end 2010 it is estimated that an increase/(decrease) of 1.0% of the USD interest rate level will have a positive/(negative) effect on the Group's net result before taxes of approximately USD 1.5 million. This includes the effect of changes in the fair value of outstanding interest rate swaps.

Note 10 - Cash and cash equivalents

Amounts in USD 1 000	2010	2009
Restricted deposit related to payroll tax withholdings	287	310
Bank Deposits	63 400	111 890
Short-term interest bearing investments	-	-
Total cash and cash equivalents	63 687	112 199

Restricted deposit related to payroll tax withholdings is deducted from employees payroll and deposited in a separate bank account.

Note 11 - Capital, shareholder information and earnings per share

Amounts in USD 1 000	Number of share (000's)	Share capital	Own shares	Share premium reserve	Translation on reserve	Fair value reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2009	105 930	17 090	0	305 009	13 659	0	-72 475	302 912
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 values, recognised directly in equity						3 052		3 052
Balance as at 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 loss					-198			-198
Changes in fair values, recognised directly in equity						277		277
Balance as at 31 December 2010	105 930	17 090	-93	305 009	14 174	3 329	-84 789	254 719

As at 31 December 2010, the authorized share capital comprised of 105,930 thousand common shares (2009: 105,930 thousand). The common shares have a par value of NOK 1 (2009: NOK 1); all shares are fully paid.

In fiscal 2010, 61.54% of shares in Fred. Olsen Production ASA are fully paid in and owned by First Olsen Ltd (2009: 61.54%). An overview of the twenty largest shareholders is provided below.

Share Premium Reserve

Refer to the Board of Directors' report and note 2 in the Parent company financial statements for an explanation of the share premium reserve.

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of long term liabilities with no terms of repayment, between the Parent Company and its subsidiaries (see statement of comprehensive income).

Fair value reserve

The reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized (see statement of comprehensive income).

Own shares

The purchases of the Company's own shares during the second quarter of 2009 were made on the basis of an authorization at the extraordinary Annual General Meeting in April 2009 authorizing the Company to acquire up to 10,593,000 shares, corresponding to 10% of the share capital of the Company. The par value of the shares purchased at 31 December 2009 is $92,849 and is this balance is netted with retained earnings in the statement of financial position. Total shares purchased represent 0.6% of the total outstanding shares or a total of 600,000 shares.

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Earnings per share

The calculation of basic earnings per share at 31 December 2010 is based on the loss attributable to ordinary shareholders of $(9,948) thousand (2009: $(2,029) thousand) and a weighted average number of ordinary shares outstanding of 105,930 thousand (2009: 105,930 thousand).

The calculation of diluted earnings per share at 31 December 2010 is based on the loss attributable to ordinary shareholders of $(9,948) thousand (2009: $(2,029) thousand) and a weighted average number of ordinary shares outstanding after the adjustment for the effects of all dilutive potential ordinary shares of 105,930 thousand (2009: 105,930 thousand).

Basic and diluted earnings per share

Outstanding shares	Number of shares (000's)	Par value per share (NOK)	Par value total (NOK 1 000)	Par value total (USD)
Number of shares as at 31 December 2009	105 930	1	105 930	17 090
Number of shares as at 31 December 2010	105 930	1	105 930	17 090

Earnings per share (amounts in USD 1000)	2010	2009
Net (loss) profit	-9 948	-2 029
Weighted average number of ordinary shares:		
at 1 January 2009		105 930
at 31 December 2009		105 930
Weighted average number of ordinary shares:		
at 1 January 2010	105 930	
at 31 December 2010	105 930	
Basic earnings per share	-0.09	-0.02
Diluted earnings per share	-0.09	-0.02

An overview of the top 20 shareholders at 31 December 2010 is as follows:

Shareholder	Country	# shares held	% ownership of shares
First Olsen Ltd.	BMU	65 191 200	61.54 %
Skandinaviska Enskilda Banken (Oslofilialen)	NOR	7 925 135	7.48 %
Geveran Trading Co. Ltd.	CYP	7 546 837	7.12 %
Skandinaviska Enskilda Banken (Client Account)	SWE	4 731 139	4.47 %
Odin Offshore	NOR	3 008 400	2.84 %
Skagen Vekst	NOR	3 000 000	2.83 %
Morgan Stanley & Co.	USA	2 288 600	2.16 %
Sabaro Investments	MCO	1 407 700	1.33 %
Holberg Norge	NOR	1 248 200	1.18 %
Marubeni Corporation	JPN	692 200	0.65 %
Fred. Olsen Production ASA	NOR	600 000	0.57 %
Pactum AS	NOR	500 000	0.47 %
SIX SIS AG 25PCT	CHE	421 965	0.40 %
KLP Aksje Norge	NOR	420 000	0.40 %
Nordea SMB c/o JP Morgan Europe	NOR	406 500	0.38 %
Holberg Norden	NOR	378 500	0.36 %
Kommunal Lanspensjon	NOR	355 700	0.34 %
Onida AS	NOR	350 000	0.33 %
Statoil Pensjon c/o JP Morgan Chase	NOR	249 069	0.24 %
Spar Investor Norge	NOR	200 000	0.19 %
Total (above)		100 921 145	95.27 %
Total shares outstanding		105 930 000	100.00 %

An overview of shares held directly by senior management and members of the Board of Directors at 31 December 2010 is as follows:

Shareholder	Position	# shares held	% ownership of shares
Mårten Lunde *)	CEO	185 000	0.17 %
Paal Hylin	COO	51 000	0.05 %
Jørn Røkaas *)	CFO	0	0.00 %
Per-Oscar Lund	Chairman	89 000	0.08 %
Anette S. Olsen **)	Board	0	0.00 %
Siv J. Staubo	Board	0	0.00 %
Agnar Gravdal	Board	0	0.00 %
Jan Peter Valheim	Board	0	0.00 %
Total (above)		325 000	0.31 %
Total shares outstanding		105 930 000	100.00 %

* As at December 31, 2010, Mårten Lunde and Jørn Røkaas held 38,000 and 28,500 shares respectively through companies owned and/or controlled by them individually.

** Private Fred. Olsen related interests indirectly hold a majority shareholding interest in the company.

Note 12 - Interest-bearing loans and borrowings

Amounts in USD 1 000	2010	2009
Non-current liabilities		
Mortgage loan	180 703	237 848
Current liabilities		
Mortgage loan	2 145	2 145

Debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Total 2010	Current Liability 2011	Non-current liabilities 2012 - 2014	Non-current liabilities 2014 and thereafter
Mortgage loan incl. capitalised loan fees	182 283	1 789	5 495	175 000

The debt repayment schedule presented above is inclusive of capitalised legal fees and credit facility costs incurred to establish the credit facility agreement. Total remaining capitalised costs amount to $564 thousand as at 31 December 2010.

First Olsen Pte. Ltd., Adoon Pte. Ltd., Knock Taggart II Pte. Ltd., Knock Dee Pte. Ltd., Knock Allan Pte. Ltd. and Nautipa AS have a revolving reducing credit facility of up to USD 500 million. The facility is secured by a first priority mortgage in the vessels / units. The available loan amount depends on the present value of the units' contracts and their scrap values (the borrowing base).

The term of the facility is ten years from July 2007, of which the first five are without reductions, thereafter five years with semi-annually reductions of USD 25 million, bringing the facility down to USD 250 million at maturity. All the borrowing companies are joint and severally liable. The Borrowers are required to comply with a financial covenant; the ratio of net interest bearing debt to EBITDA is not to exceed 4.5 on a consolidated basis.

The interest rate is USD Libor with a credit margin of 1.0%. During the first half of fiscal 2010, the applicable interest margin was 1.30%.

Per year-end 2010 USD 182,847,500 (2009: USD 239,992,500) was drawn under the facility.

The credit facility is secured by:
- First priority mortgage in the vessels
- Security in the insurance compensations
- Security in revenues from the vessels
- Security in the borrowing companies' bank accounts
- Guarantee from Fred. Olsen Production ASA
- Security in the shares of the borrowing companies and the Norwegian share-owning companies

Refer to note 9 regarding interest rate hedging.

Note 13 - Related parties

The Parent Company of the Group provides general management, financial and cash management, and accounting and reporting services to its subsidiaries. All such transactions are based on the arm's length principle.

In fiscal 2010, the Group purchased administrative, financial and legal assistance from Fred. Olsen & Co. These services were priced on an arm's length basis.

Fred. Olsen & Co. is a sole proprietorship company rendering services to companies in the Bonheur ASA group.

Overview of transactions with related parties

Amounts in USD 1 000	2010	2009
Management fee		
Associated companies (Fred. Olsen Marine Services AS)	3 574	3 694
Administrative services		
Associated companies (First Olsen Ltd.)	108	110
Associated companies (Knock Tankers Ltd.)	70	50
Operating expenses		
Associated company (Fred. Olsen & Co.)	871	825
Vessel Working Capital		
Associated companies (Fred. Olsen Marine Services AS)	8 707	3 192
Employee loans (from First Olsen Ltd.)		
Key Management	917	930
Chairman of the Board	256	259
Employee loans (from Fred. Olsen Production ASA)		
Key Management	392	392

Intercompany transactions within the Fred. Olsen Production ASA Group companies do not appear in the consolidated financial statements as the effects of such transactions are eliminated upon consolidation.

Gains/losses on restructuring transactions with companies under common control do not appear in the consolidated financial statements as they are reflected in equity.

Group entities include the following companies:

	Country of	Ownership interest	
	incorporation	2010	2009
Fred. Olsen Production (Cyprus) Ltd.	Cyprus	100 %	100 %
Fred. Olsen Production Pte. Ltd.	Singapore	100 %	100 %
Knock Taggart Pte. Ltd.	Singapore	100 %	100 %
Knock Borgen Pte. Ltd.	Singapore	100 %	100 %
Knock Taggart II Pte. Ltd.	Singapore	100 %	100 %
Knock Dee Pte. Ltd.	Singapore	100 %	100 %
Adoon Pte. Ltd.	Singapore	100 %	100 %
Knock Allan Pte. Ltd.	Singapore	100 %	100 %
First Olsen Pte. Ltd.	Singapore	100 %	100 %
Nautipa AS	Norway	100 %	100 %
Taggart AS	Norway	100 %	100 %
Dee AS	Norway	100 %	100 %
Adoon AS	Norway	100 %	100 %
Nevis 1 AS	Norway	100 %	100 %
Allan AS	Norway	100 %	100 %
Tinworth Pte. Ltd.	Singapore	50 %	50 %
Fred. Olsen Production (West Africa) Ltd.	Nigeria	40 %	40 %

Note 14 - Exchange rates

The following exchange rates have been applied in the consolidated financial statements.

Country	Currency	Average rate 2010	Year-end rate 2010	Average rate 2009	Year-end rate 2009
Norway	USD	6.0453	5.8564	6.2898	5.7767

Balance sheet items and income statement items, where applicable, have been translated using the rate at the balance sheet date and average rates for the year, respectively.

Note 15 - Other current liabilities

Amounts in USD 1 000	2010	2009
Expenses associated with commissioning of vessels	2 016	6 681
Expenses associated with scrapping of vessels	-	6 419
Interest rate swaps	5 335	3 854
Current portion of deferred income	2 722	2 722
Accrued interest	404	2 207
Other current liabilities	2 762	1 757
Fuel	1 017	815
Insurance and other claims	598	598
Accruals re. agency fees	-	149
Total	14 855	25 203

The current portion of deferred income is representative of a prepayment received from Addax. The long-term portion of deferred income is $7.487 million (2009: $10.209 million) and will be recognized in the profit and loss over the remaining fixed term of the contract.

Decommissioning provisions have been removed from other current liabilities and presented individually as non-current liabilities.

Withholding tax

Comparisons presented above are exclusive of withholding taxes payable. Withholding taxes are presented as part of taxes payable. The reconciliation is provided as follows:

Amounts in USD 1 000	2009
Income taxes payable	
Withholding tax payable	6 650
Total taxes payable	6 650

	2010
Income taxes payable	17
Withholding tax payable	6 960
Total taxes payable	6 977

Note 16 - Joint ventures

Tinworth Pte. Ltd. operates the FPSO Petròleo Nautipa offshore Gabon. Nautipa AS, a fully owned subsidiary of Fred. Olsen Production ASA, along with Prosafe Nautipa AS a fully owned subsidiary of Prosafe Production SE, each party owning 50 percent in this joint venture.

The Board's composition and guidelines for the company's operation are based on a shareholders' agreement. The shareholders' agreement states that the participants in/owners of the company have joint control of its activities.

Tinworth Pte. Ltd. is accounted for by proportionate consolidation, based on share of ownership.

Amounts in USD 1 000	2010	2009
Assets	21 995	22 413
Liabilities	682	174
Equity	21 313	22 239
Net income	2 074	2 977

Note 17 - Other investments

Non-current investments	Fred. Olsen Production (West Africa) Ltd. (FOPWAL)
Ownership percentage at 31.12.2010	40 %
Purchase price (currency)	USD
Purchase price	44
Carrying amount at 31.12.2010 (USD)	50
Total equity in the company (currency)	USD
Total equity in the company	254
Profit 2010 in the company (currency)	USD
Profit 2010 in the company	96
Ownership percentage at 31.12.2009	40 %
Carrying amount at 31.12.2009 (USD)	50

Investments in associates are accounted for using the equity method.

Amounts in USD 1 000	2010	2009
Balance at 1.1	49	49
Purchase of shares		
Restructuring (sale of shares)	-	-
(Loss)/Profit / Paid out profits		
Balance at 31.12	49	49

For information regarding subsidiaries, refer to note 13 in the Group financial statements. The functional currency for FOPWAL is the Naira.

Current investments

Amounts in USD 1 000	2010	2009
Investments held for trading	7 265	6 988

Current investments reflect the ownership of 5.455 million shares in EOC Ltd.. The investment is equal to 4.9% of the underlying company's total outstanding shares. This asset classified as available for sale and is assessed at fair value through equity.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 9.

Note 18 - Other short term receivables

Amounts in USD 1 000	2010	2009
Trade receivables	8 756	9 421
Other short term receivables	11 031	7 278
Total	19 787	16 699

Note 19 - Contractual commitments

All contracts are long-term service contracts for the production, treatment, storage or offloading of raw oil from a pre-determined offshore oil field. Additionally, all contracts state which units are to be utilized. The company is responsible for daily operation and maintenance of the vessels and to ensure that the necessary personnel and equipment are provided to perform the work defined in the contract.

According to the terms of the contract, the oil company is only obliged to pay when a unit is operative. The oil company does not control the unit and/or the operation of the unit. The company retains ownership of the unit throughout the contract period. However, there is a purchase option for the client in some contracts.

The company has no contracts which are not reflected in the financial accounts for 2010.

The contracts generated revenues of USD 115 million in 2010 (2009: USD 107 million).

Note 20 - Capital commitments

	2010			2009		
Amounts in USD 1 000	Committed	Pre-paid per year end	Remaining	Committed	Pre-paid per year end	Remaining
Fred. Olsen Production						
Purchase of tanker Knock Muir			0	12 000	1 200	10 800
Remaining capital commitments			0			10 800

Note 21 – Events after the balance sheet date

There are no events after the balance sheet date that qualify as subsequent events.

Fred. Olsen Production ASA

Income Statement

For the years ended 31 December

Amounts in USD 1 000	Note	2010	2009
REVENUE			
Administration fees	5	4 208	5 642
Other income		161	36
Gain on sale of vehicle		10	-
TOTAL REVENUE	9	4 379	5 678
OPERATING EXPENSE			
Salaries and other personnel costs	10	5 132	7 189
Consulting services		411	1 123
Depreciation	3	68	83
Directly attributable operating expenses		766	467
Other operating expenses	7	2 504	1 552
TOTAL OPERATING EXPENSES		8 881	10 415
OPERATING LOSS		-4 502	-4 736
FINANCIAL ITEMS			
Net interest (expense) income (external)		-1 885	-26
Net interest income (Group)	5	7 186	8 911
Net foreign exchange gain (loss) (external)		-870	1 882
Net foreign exchange gain (Group)		1	-
Dividend	5	8 500	-
Loss on intercompany receivables	11	-15 996	-
Write down of shares in subsidiary	4	-52 007	-38 720
Other financial items	5, 13	-1 521	-1 207
NET FINANCIAL ITEMS		-56 593	-29 160
LOSS BEFORE TAX		-61 095	-33 897
Tax expense	8	-226	-184
LOSS FOR THE PERIOD		-61 321	-34 080
Attributable to:			
Equity holders of the Parent		-61 321	-34 080
Loss for the period		-61 321	-34 080
Basic earnings per share	2	-0.58	-0.35
Diluted earnings per share	2	-0.58	-0.35

The footnotes are an integral part of these financial statements.

Fred. Olsen Production ASA

Balance Sheet

As at 31 December

Amounts in USD 1 000	Note	2010	2009
ASSETS			
Fixed assets	3	180	245
Shares in subsidiaries	4	73 906	127 462
Group loans receivable	5, 11	210 372	218 340
Loans receivable - associates		392	392
TOTAL NON-CURRENT ASSETS		284 850	346 439
Short-term receivables	5	2 171	3 002
Other current assets		1 272	736
Cash and cash equivalents	6	26 762	52 715
TOTAL CURRENT ASSETS		30 205	56 453
TOTAL ASSETS		315 056	402 892
EQUITY AND LIABILITIES			
Share capital		17 090	17 090
Share premium reserve		0	305 009
Translation reserve		17 680	17 680
Retained earnings		250 833	16 189
TOTAL EQUITY	2	285 602	355 967
Interest bearing long-term Group loans	5	11 912	39 566
Pension liabilities	12	3 543	2 481
TOTAL NON-CURRENT LIABILITIES		15 455	42 047
Trade payables		0	546
Group accounts payable	5	25	25
Payroll tax withhold. empl contrib. etc.		1 132	1 143
Taxes payable		180	180
Dividend payable	2	9 044	0
Other current liabilities		3 617	2 984
TOTAL CURRENT LIABILITIES		13 999	4 878
TOTAL EQUITY AND LIABILITIES		315 056	402 892

The footnotes are an integral part of these financial statements.

Oslo, 28 March 2011

Fred. Olsen Production ASA

Per-Oscar Lund	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Mårten Lunde
Chairman				*Chief Executive Officer*

Fred. Olsen Production ASA

Consolidated Statement of Cash Flows

For the years ended 31 December

Amounts in USD 1 000	Note	2010	2009
Cash flows from operating activities			
Profit before tax		-61 095	-33 897
Adjusted for:			
Depreciation	3	68	83
Changes in trade and other receivables		485	4 282
Realised loss on investments held	4	52 007	38 720
Changes in trade and other payables		10 028	1 834
Net (gain) loss on sale of property, plant and equipment		-5	0
Unrealised (gain) loss on interest rate swaps		511	-1 052
Changes in other balance sheet items		1 062	859
Cash generated from operation		3 061	10 829
Tax paid		-226	-184
Net cash used for operating activities		2 835	10 645
Cash flows from investing activities			
Conversion of Group loans to equity		-7 451	-120 413
Net settlement of intercompany loans		7 968	92 786
Purchases of property, plant and equipment	3	-63	-107
Proceeds from sale of property, plant and equipment		65	-
Purchase of own shares		-	-577
Net cash used for investing activities		519	-28 310
Cash flow from financing activities			
(Decrease)/increase in borrowings		-27 654	9 187
External dividend		-9 044	-
Settlements of interest rate swaps		-1 609	-1 035
Repayment of investment		5 000	-
Dividend from subsidiary		4 000	0
Net cash from financing activities		-29 306	8 152
Net changes in cash and cash equivalents		-25 952	-9 513
Cash and cash equivalents at 1 January		52 715	62 227
Cash and cash equivalents at 31 December		26 762	52 715

The footnotes are an integral part of these financial statements.

Fred. Olsen Production ASA

Notes to the Financial Statement

Note 1 - Accounting principles

The financial statements have been prepared in accordance with the requirements of the Norwegian Accounting Act of 1998 and accounting practise generally accepted in Norway (N-GAAP).

The presentation currency is U.S. Dollars (USD); this is also the Company's functional currency.

Subsidiaries / common controlled activities

Investments in subsidiaries are accounted for using the cost method in the company's accounts. The investments are valued at cost less impairment losses. Write down to fair value will be carried out if the impairment is considered to be permanent and necessary according to generally accepted accounting principles. Impairments are reversed when the indication no longer exists.

Dividends and other distributions are recognised in the same year as they are recognised in the subsidiary accounts. If the dividend is in excess of retained earnings after the purchase, the excess amount is considered to be representative of a reimbursement of invested capital and the dividend payout is deducted from the value of the investment booked in the balance sheet.

Common controlled activities are assessed using the cost method in the company accounts.

Operating sales revenue

Revenues from sale of products are recognised at time of delivery. Revenues from sale of services are recognised during the performance of such services. The share of future sales revenues from services that will be performed are accounted for in the balance sheet as deferred sales revenue and is recognised in future periods when the service is performed.

Classification and assessment of balance sheet items

Current assets and short term debt are comprised of items that are due for payment within one year in addition to items related to the ordinary course of business during the year. Other items are classified as fixed assets or as long term debt accordingly.

Current assets are recognised at the lower of purchased cost or real value. Short term debt is booked at face value at the time of draw down.

Fixed assets are recognised at the acquisition price, however such assets are written down to real value if the fall in value is deemed permanent. Long term debt is booked at face value at the time of draw down.

Estimates

Management has used estimates and assumptions that affect the profit and loss and the valuation of assets and liabilities as at 31 December 2010 in the preparation of the annual report, in accordance with the Norwegian Accounting Act.

Receivables

Customer receivables and other receivables are booked at face value in the balance sheet after deducting provisions for expected future losses on these receivables. Provisions for future losses are made based on individual assessments on each receivable.

Exchange rate

Monetary items in foreign currency are assessed by using the exchange rate at the fiscal year end.

Non-current operating assets

Non-current operating (fixed) assets are booked in the balance sheet and depreciated over the expected lifetime of the asset. Ongoing maintenance directly attributable to the operating assets is expensed as operating costs in the profit and loss account, whilst refurbishments and upgrading expenses are added to the cost price and depreciated on top of the assets original depreciation schedule. If the replacement value of the asset is lower than the value in the balance sheet, a write down to the replacement value is made. Replacement value is the highest of net sales value and the value in continuing use. The value of continuing use is the net present value of future cash flows generated by the asset.

Investments in subsidiary shares are booked according to the acquisition cost method.

Pensions

Pension cost and pension liabilities are calculated using linear accruals of pension which again is based on assumptions on future adjustments of salaries, pension and contribution from the state pension fund, future returns on pension assets as well as actuarial assumption such as death ratios, voluntarily termination of employment etc.. The pension assets are assessed at real values and deducted from net pension liabilities in the balance sheet. Changes in the pension liability caused by changes in the pension plan, is distributed over the remaining accrual period or 15 years. Changes in the pension liability and in the pension assets caused by changes or discrepancies in the calculation assumptions (estimate changes) are distributed over expected average remaining accrual period, if the discrepancy at the beginning of the year exceeds 10% of the larger of gross pension liabilities or pension assets.

When accounting for pension costs, it is the linear accrual profile and expected end salary that is used as the accrual basis. Changes in pension plans are amortised over remaining accrual period. The same applies for estimate changes if estimate changes exceed 10% of the larger of pension liabilities and pension assets (corridor).

Tax

The tax expense in the profit and loss accounts comprises both the period's payable tax and changes to the deferred tax position. Deferred tax is calculated using 28% based on the preliminary difference that exists between accounting values and taxable values, as well as deferrable taxable deficit at fiscal year end. Preliminary differences that are tax increasing or tax decreasing reversing the position in the same period are netted. The deferred tax asset is recorded in the balance sheet if it is more likely than not that tax benefit can be utilized.

When a group contribution is not booked in the profit and loss statement, the tax effect of the group contribution is booked directly against investments in the balance sheet.

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash and cash equivalents include cash, bank deposits and other short term, highly liquid investments that may immediately and with minimal exchange risk, be converted to fixed cash amounts. These instruments characteristically have less than or equal to three months from the date of acquisition.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of USD. The currencies in which these transactions are denominated in are primarily Norwegian Kroner (NOK) and Euros (EUR).

Per year end there are no outstanding currency contracts, however there are interest hedging contracts. Interest hedging is in place to limit exposure to fluctuating interest rates.

Note 2 - Capital and shareholder information

Amounts in USD 1 000	Number of share (000's)	Share capital	Own shares	Share premium reserve	Translation reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2009	105 930	17 090	-	305 009	17 680	50 846	390 625
Net result for the period						-34 080	-34 080
Purchase of own shares			-93			-484	-577
Balance as at 1 January 2010	105 930	17 090	-93	305 009	17 680	16 282	355 967
Net result for the period						-61 321	-61 321
Dividend						-9 044	-9 044
Share premium reserve to free capital				-305 009		305 009	0
Balance as at 31 December 2010	105 930	17 090	-93	0	17 680	250 925	285 602

As at 31 December 2010, the authorized share capital comprised of 105,930 thousand common shares (2009: 105,930 thousand). The common shares have a par value of NOK 1 (2009: NOK 1); all shares are fully paid.

In fiscal 2010, 61.54% of shares in Fred. Olsen Production ASA are fully paid in and owned by First Olsen Ltd (2009: 61.54%). An overview of the twenty largest shareholders is provided below.

Share premium reserve

The reduction of the share premium reserve was approved during the Extraordinary General Meeting held on December 16, 2010. The change will be registered in the Register of Business Enterprises (foretaksregisteret) in the Brønnøysund Register Center.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of long term liabilities, with no terms of repayment, between the Parent Company and its subsidiaries.

Own shares

The purchases of the Company's own shares during the second quarter of 2009 were made on the basis of an authorization at the extraordinary Annual General Meeting in April 2009 authorizing the Company to acquire up to 10,593,000 shares, corresponding to 10% of the share capital of the Company. The par value of the shares purchased at 31 December 2009 is $92,849 and is this balance is netted with retained earnings in the statement of financial position. Total shares purchased represent 0.6% of the total outstanding shares or a total of 600,000 shares.

Earnings per share

The calculation of basic earnings per share at 31 December 2010 is based on the loss attributable to ordinary shareholders of USD -61,321 thousand (2009: USD -34,080 thousand) and a weighted average number of ordinary shares outstanding of 105,930 thousand (2009: 105,930 thousand).

..the note continues on the next page

The calculation of diluted earnings per share at 31 December 2010 is based on the loss attributable to ordinary shareholders of USD -61,321 thousand (2009: USD -34,080 thousand) and a weighted average number of ordinary shares outstanding after the adjustment for the effects of all dilutive potential ordinary shares of 105,930 thousand (2009: 105,930 thousand).

Basic and diluted earnings per share

Outstanding shares	Number of shares (000's)	Par value per share (NOK)	Par value total (NOK 1 000)	Par value total (USD 1 000)
Number of shares as at 31 December 2009	105 930	1	105 930	17 090
Number of shares as at 31 December 2010	105 930	1	105 930	17 090
Earnings per share (amounts in USD 1000)			2 010	2 009
Net (loss) profit			-61 321	-34 080
Weighted average number of ordinary shares:				
at 1 January 2009				105 930
at 31 December 2009				105 930
Weighted average number of ordinary shares:				
at 1 January 2010			105 930	
at 31 December 2010			105 930	
Basic (loss) earnings per share			-0.58	-0.32
Diluted (loss) earnings per share			-0.58	-0.32

An overview of the top 20 shareholders at 31 December 2010 is as follows:

Shareholder	Country	# shares held	% ownership of shares
First Olsen Ltd.	BMU	65 191 200	61.54 %
Skandinaviska Enskilda Banken (Oslofilialen)	NOR	7 925 135	7.48 %
Geveran Trading Co. Ltd.	CYP	7 546 837	7.12 %
Skandinaviska Enskilda Banken (Client Account)	SWE	4 731 139	4.47 %
Odin Offshore	NOR	3 008 400	2.84 %
Skagen Vekst	NOR	3 000 000	2.83 %
Morgan Stanley & Co.	USA	2 288 600	2.16 %
Sabaro Investments	MCO	1 407 700	1.33 %
Holberg Norge	NOR	1 248 200	1.18 %
Marubeni Corporation	JPN	692 200	0.65 %
Fred. Olsen Production ASA	NOR	600 000	0.57 %
Pactum AS	NOR	500 000	0.47 %
SIX SIS AG 25PCT	CHE	421 965	0.40 %
KLP Aksje Norge	NOR	420 000	0.40 %
Nordea SMB c/o JP Morgan Europe	NOR	406 500	0.38 %
Holberg Norden	NOR	378 500	0.36 %
Kommunal Lanspensjon	NOR	355 700	0.34 %
Onida AS	NOR	350 000	0.33 %
Statoil Pensjon c/o JP Morgan Chase	NOR	249 069	0.24 %
Spar Investor Norge	NOR	200 000	0.19 %
Total (above)		100 921 145	95.27 %
Total shares outstanding		105 930 000	100.00 %

An overview of shares held by senior management and members of the Board of Directors at 31 December 2010 is as follows:

Shareholder	Position	# shares held	% ownership of shares
Mårten Lunde*	CEO	185 000	0.17 %
Paal Hylin	COO	51 000	0.05 %
Jørn Røkaas*	CFO	0	0.00 %
Per-Oscar Lund	Chairman	89 000	0.08 %
Anette S. Olsen **	Board	0	0.00 %
Siv J. Staubo	Board	0	0.00 %
Agnar Gravdal	Board	0	0.00 %
Jan Peter Valheim	Board	0	0.00 %
Total (above)		325 000	0.31 %
Total shares outstanding		105 930 000	100.00 %

* As at December 31, 2010, Mårten Lunde and Jørn Røkaas held 38,000 and 28,500 shares respectively through companies owned and/or controlled by them individually.

** Private Fred. Olsen related interests indirectly hold a majority shareholding interest in the company.

Note 3 - Fixed assets

Amounts in USD 1 000	Cars	IT equipment	Furniture and fixtures	Total
Cost or deemed cost				
Balance at 1 January 2009	237	57	71	365
Additions	89	15	3	107
Disposals	0	0	0	0
Balance at 31 December 2009	326	72	74	472
Balance at 1 January 2010	326	72	74	472
Additions	63	0	0	63
Disposals	-144	0	0	-144
Balance at 31 December 2010	245	72	74	392
Depreciation and impairment losses				
Balance at 1 January 2009	64	48	32	144
Depreciation for the year	56	12	15	83
Disposals	0	0	0	0
Balance at 31 December 2009	120	60	47	227
Balance at 1 January 2010	120	60	47	227
Depreciation for the year	52	3	13	68
Disposals	-83	0	0	-83
Balance at 31 December 2010	89	63	59	211
Carrying amounts				
At 1 January 2009	173	9	39	221
At 31 December 2009	206	12	27	245
At 1 January 2010	206	12	27	245
At 31 December 2010	157	9	14	180

All fixed assets are subject to depreciation on a straight-line basis over their estimated useful life. The following estimated useful lives are used:

Cars	5 years
IT equipment	3 years
Furniture	5 years

Note 4 - Subsidiaries and investments in associates

Amounts in 1 000 (currency is specified)

Subsidiaries	Office	Functional currency	% ownership of shares and voting rights	Equity (functional currency)	Net profit (loss) (functional currency)	Historical cost (NOK)	Debt relief (dividend) (USD)	Accumulated write-downs (NOK)	Book values (NOK)
Fred. Olsen Production (Cyprus) Ltd.	Cyprus	USD	100 %	39	-9	65		-	65
FOP Pte. Ltd.	Singapore	USD	100 %	9 655	1 229	0		-	0.001
Knock Taggart Pte. Ltd.	Singapore	USD	100 %	8 405	257	8 000	-6 000	-	2 000
Knock Borgen Pte. Ltd.	Singapore	USD	100 %	6 126	203	6 000	-3 000	-	3 000
Nautipa AS	Oslo	USD	100 %	3 875	-325	12 999		-	12 999
Taggart AS	Oslo	USD	100 %	127	-46	38 720	1 285	40 005	-
Dee AS	Oslo	USD	100 %	-10 563	-12 267	8 720	6 166	14 886	-0.001
Adoon AS	Oslo	USD	100 %	6 048	-485	28 664		-	28 664
Nevis 1 AS	Oslo	USD	100 %	822	-205	35 836		35 836	0.001
Allan AS	Oslo	USD	100 %	20 462	-2 030	27 133		-	27 133
Fred. Olsen Production (West Africa) Ltd.	Nigeria	Naira	40 %	254	96	44		-	44
Total						166 182	-1 549	90 727	73 906

Note 5 - Related parties

The Parent Company of the Group provides general management, financial and cash management, and accounting and reporting services to its subsidiaries. All such transactions are based on the arm's length principle.

In fiscal 2010, the Group purchased administrative, financial and legal assistance from Fred. Olsen & Co. These services were priced on an arm's length basis.

Fred. Olsen & Co. is a sole proprietorship company rendering services to companies in the Bonheur ASA group.

Overview of transactions with related parties

Amounts in USD 1 000	2010	2009
Dividends		
Dividend from Knock Taggart Pte. Ltd. paid to Fred. Olsen Production ASA	4 000	-
Dividend from Fred. Olsen Production Pte. Ltd. paid to Fred. Olsen Production ASA	4 500	-
Administration fee		
Subsidiaries	4 208	5 642
Management fee		
Associated company (Fred. Olsen Marine Services AS)	766	467
Administrative services		
Associated company (First Olsen Ltd.)	108	110
Operating expenses		
Associated company (Fred. Olsen & Co.)	871	825
Interest income		
Subsidiaries	7 186	8 911
Foreign exchange gain (loss)		
Subsidiaries	1	-
Asset - receivable within 1 year		
Subsidiaries	1 981	3 002
Asset - receivable within 5 years		
Subsidiaries	210 372	218 340
Debt - due within 1 year		
Subsidiaries	25	25
Debt - due within 5 years		
Subsidiaries	20 912	39 566
Employee loans (from First Olsen Ltd.)		
Key Management	917	930
Chairman of the Board	256	259
Employee loans (from Fred. Olsen Production ASA)		
Key Management	392	392

Note 6 - Cash and cash equivalents

Amounts in USD 1 000	2010	2009
Restricted deposit related to payroll tax withholdings	287	310
Bank Deposits	26 476	52 405
Short-term interest bearing investments		-
Total cash and cash equivalents	26 762	52 715

Restricted deposit related to payroll tax withholdings is deducted from employees payroll and deposited in a separate bank account.

Note 7 - Operating expenses

Amounts in USD 1 000	2010	2009 (restated)	2009
Administrative support (IT, Legal)	732	631	-
Travel expenses	416	594	594
Sales and marketing expenses	378	46	46
General administrative expenses	376	442	33
Other consulting services	165	196	203
Postage/communication	139	106	147
Office rent	139	194	194
Legal services	98	93	93
Statutory audit fees*	86	108	108
Insurance	85	101	101
Company vehicles	58	74	-
Tax and assurance services*	41	33	33
Recharged to projects	-209	-1 066	-
Total	2 504	1 552	1 552

* These services are provided by KPMG AS and the amounts presented are exclusive of VAT.

The 2009 comparatives have been restated from the prior year in order to provide greater transparency over the types of expenses incurred.

Note 8 - Tax

Amounts in USD 1 000	2010	2009
Net profit before tax	-61 095	4 823
Received group contribution	-	-
Other permanent differences	-38 162	-39 294
Changes in temporary differences	1 593	-1 186
Basis for tax payable	-	-
Tax effect of group contribution	-	-
Changes in deferred tax	-	-
Tax (expense)/income	-	-
Schedule of temporary differences		
Property, plant and equipment	70	22
Foreign debt	2 902	2 065
Receivables	-	-1 495
Loss carryforward	-73 524	-14 165
Provisions	-785	-1 013
Pension Liabilities	-3 936	-2 921
Financial Instruments	-1 825	-
Prior year effect of currency fluctuation	-	-
Sum of temporary differences	-77 098	-17 508
Deferred tax assets (@ 28%)	-21 587	-4 902

Deferred tax assets have not been recognized in the balance sheet as the probability of using them is considered minimal.

The Company is exposed to Section 45 withholding tax in Singapore. The balance presented as tax expense in the current year is reflective of withholding tax remitted to the IRAS Singapore.

In 2008, the Company entered into a dialogue with Skatt Øst in conjunction with a tax inquiry letter. The dialogue was ongoing for fiscal 2007, 2008 and 2009 and was concluded in fiscal 2010 with no material findings.

Note 9 - Revenues

Geographical distribution

Amounts in USD 1 000	2010	2009
Norway	23	-196
Singapore	4 326	5 875
United Kingdom	30	-
Total	4 379	5 678

Note 10 - Salaries and personnel expenses

Amounts in USD 1 000	2010	2009
Salaries and personnel expenses		
Salaries	2 141	3 634
Bonuses	492	953
Social security tax	756	859
Pension Expenses	1 636	1 556
Other	25	102
Total	5 050	7 104
Number of employees at the end of the year*	22	22
Average number of employees*	22	24

Payment to CEO		
Salary	479	477
Bonus	43	84
Pension expenses	231	217
Total	754	778

Mårten Lunde has been employed since 11 May 2007.

Payment to COO		
Salary	398	396
Bonus	38	60
Pension expenses	192	175
Total	628	631

Paal Hylin has been employed since 2 February 2005.

* All employees within the Group are full-time employees. During a fiscal year, each employee represents one full year of service.

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Amounts in USD 1 000	2010	2009
Payment to CFO		
Salary	255	227
Bonus	31	6
Pension expenses	112	94
Total	398	328

Jørn Røkaas has been employed since 1 January 2009.

Board Remuneration		
Per-Oscar Lund	24	25
Anette S. Olsen	16	17
Siv J. Staubo	16	17
Agnar Gravdal	16	17
Jan Peter Valheim	10	10
Total	83	85

Loans to senior management and directors **

On 19 May 2008, the CEO received a secured interest free loan provided by the Group equivalent to approximately $392,000 (NOK 2.3 million). The loan is provided with specified terms of repayment and is due in full upon termination of this position with the Group. None of the key personnel have agreements beyond the normal term of notice, and this holds true in the case of an acquisition. None of the leading employees receive remuneration from other companies within the Group, no share options are issued in the company.

The CEO has an interest free loan from First Olsen Ltd. of approximately $793,000 (NOK 4.6 million) related to his acquisition of shares in the Company; the COO has an interest free loan from First Olsen Ltd. of approximately $124,000 (NOK 727,000). The Chairman has an interest free loan from First Olsen Ltd. of approximately $257,000 (NOK 1.5 million) related to the acquisition of shares in the Company. Bonuses earned under the Company's bonus scheme (see below) will be applied to the repayment of outstanding loans.

Remuneration of Bonuses

The company has established a bonus system for senior management and key management personnel. The current year bonus is represented by an accrual for bonuses related to fiscal 2010. The total accrual for bonuses to all Company employees as at 31 December 2010 is $785,465 (2009: $1,157,000). In accordance with the Company bonus system, one third of the accrued bonus amount will be paid upon completion and approval of the annual financial report; the remaining unpaid bonus is paid evenly over the subsequent two years.

** Loans to senior management and directors have decreased as compared to the prior year. These loans are held in NOK and have decreased solely as a result of fluctuations in the USD conversion rate.

Note 11 - Interest-bearing loans and borrowings

	Total	Current asset	Non-current asset	
Amount in USD 1 000	2010	2011	2012-2014	2014 and thereafter
Loans to subsidiaries	210 372	-	-	210 372

The Company continuously evaluates its subsidiaries cash flows and corresponding ability to pay amounts outstanding. During the year, it was determined that amounts owing from both Knock Dee Pte. Ltd. and Dee AS were not recoverable. These amounts were written off and are disclosed as a loss on intercompany receivables ($15,996 thousand).

Note 12 - Pensions

Employees in Fred. Olsen Production ASA (FOP) participate in a defined pension plan providing entitlement to 70% of the salary at the time of retirement (based on length of service) up to a maximum of 12G. In addition, the Company has unfunded (unsecured) pension obligations covering senior executives equal to 66% of salary on retirement, except for CEO who is entitled to 70% on retirement. The general retirement age under the pension plan is 67 years except for four senior managers who have the right to pension upon reaching 65 years of age.

The pension plan is administered by Fred. Olsen & Co's Pensjonskasse. The administration of pension funds is subject to the Financial Supervisory Authority of Norway (Kredittilsynet) rules of capital management. The pension plan assets consist primarily of bonds, certificates and shares in Norwegian stock listed companies. 22 employees were included in the pension plan at 31st December 2010.

The pension plan qualifies under the minimum requirements for mandatory service pension ("Obligatorisk Tjenestepensjon") under the Norwegian law for Company Pensions ("Lov om Foretakspensjon").

Amounts in USD 1 000	2010	2009
Present value of unfunded obligations	-3 913	-3 084
Present value of funded obligations	-4 555	-3 417
Total present value of obligations	-8 468	-6 501
Fair value of plan assets (unfunded)	0	0
Fair value of plan assets (funded)	3 136	2 512
Present value of net obligations	-5 332	-3 989
Unrecognised past service costs (not yet vested)	0	193
Unrecognised actuarial gains and losses	1 396	875
Recognized net liability for defined benefit obligations	-3 936	-2 921
Hereof unfunded pension plans (net liability)	-3 317	-2 568
Hereof funded pension plans (net liabilities)	-618	-353
Recognized net obligation of defined benefit obligations	-3 936	-2 921

Movements in Plan Assets:		
Fair value of plan assets	2 512	1 575
Currency translation	-34	333
Expected return on plan assets	175	123
Contributions to the plan	614	836
Actuarial losses	-132	-355
Fair value of plan assets as at 31 December	3 136	2 512

At the balance sheet date, plan assets are valued according to market rates. This value is updated annually in accordance with statements from the Pension Fund.

Major categories of plan assets in Fred. Olsens & Co's Pension Fund		
Equity instruments	31 %	29 %
Bonds	65 %	68 %
Annuities	1 %	3 %
Other assets	3 %	0 %
Plan assets	100 %	100 %

..the note continues on the next page

Amounts in USD 1 000:	2010	2009
Movements in the net liability for defined benefit obligations:		
Unfunded obligations		
Net liability for defined benefit obligations at 1 January	-2 568	-1 468
Currency translation	35	-311
Transfer from funded to unfunded obligation	0	0
Expense recognised in the income statement	-784	-791
Net liability at 31 December	-3 317	-2 568
Funded obligations:		
Net liability for defined benefit obligations at 1 January	-353	-155
Currency conversion	4	-33
Transfer from funded to unfunded obligation	0	0
Expense recognised in the income statement	-884	-1 001
Contributions to the plan	614	836
Net liability for funded pension plans at 31 December	-618	-353
Movements in liabilities for defined benefit obligations:		
Unfunded obligations		
Gross liability for defined benefit obligations at 1 January	-3 084	-1 921
Currency conversion	42	-407
Current service costs	-600	-667
Interest on pension liability	-131	-100
Change from funded to unfunded	0	0
Actuarial losses/gains	-140	10
Gross liability at 31 December	-3 913	-3 084
Funded obligations		
Gross liability for defined benefit obligations at 1 January	-3 417	-2 363
Currency conversion	46	-501
Current service costs	-875	-967
Interest on pension liability	-145	-123
Actuarial losses/gains	-163	538
Gross liability at 31 December	-4 555	-3 417
Expense (-) / income recognised in the income statement:		
Unfunded obligations:		
Current service expenses	-600	-667
Past service expenses	0	0
Interest on obligation	-131	-100
Corrections previous years	-53	-24
	-784	-791
Funded obligations:		
Current services expenses	-875	-967
Interest on obligation	-145	-123
Recognised actuarial losses	-39	-34
Expected return on plan assets	175	123
Corrections previous years	0	0
	-884	-1 001
Net pension expenses	-1 669	-1 791

Amounts in USD 1 000:	2010	2009
The pension expense is recognised in the following line in the income statement:		
Salaries and personnel expenses	-1 669	-1 791

Actuarial assumptions at the balance sheet date expressed as weighted averages.
Assumptions used in the calculation of pension obligations are as follows:

Discount rate at 31 December	3.90 %	4.30 %
Expected return on plan assets at 31 December	5.00 %	5.30 %
Assumed inflation	2.00 %	2.00 %
Assumed salary increase	4.00 %	4.00 %
Assumed adjustments of pension benefits	4.00 %	4.00 %
Expected pension increases	2.00 %	2.00 %
Social security costs	14.10 %	14.10 %
Mortality table	K2005	K2005

Sensitivity Analysis:

Funded Pension Plans:

A decrease in the discount rate of 0.25% - point (to 3.65%) will have an effect in Service Cost (SC) of 6.1% reduction and reduce the projected benefit obligation (PBO) by 6.0%. A 0.25% - point decrease in expected salary and pension regulation growth (G), will cause a positive effect of 6.6% on the SC and a positive effect of 6.5% on the PBO.

Unfunded Pension Plans:

A 0.25% - point increase in the discount rate (to 4.15%) gives an decrease in SC and PBO of 5.5% respectively; a 0.25% - point change in future salaries and the official pension index (G), gives a 2.8% change in SC and PBO respectively.

Auditor's Report

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To the Annual Shareholders' Meeting of Fred. Olsen Production ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Fred. Olsen Production ASA, which comprise the financial statements of the parent company Fred. Olsen Production ASA and the consolidated financial statements of Fred. Olsen Production ASA and its subsidiaries. The parent company's and the consolidated financial statements comprise the statement of financial position as at 31 December, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Fred. Olsen Production ASA and of Company ASA and its subsidiaries as at 31

Auditor's Report

Independent auditor's report
Fred. Olsen Production ASA

December, 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 April 2011
KPMG AS

Asbjørn Næss
State Authorised Public Accountant

Corporate Governance

Implementation and reporting on corporate governance

The Company emphasizes the importance of maintaining and further developing its corporate governance policy and supports the principles set out in the Norwegian Code of Practice for Corporate Governance.

Business

According to the Articles of Association, the Company's objective is to develop and market technology and/or manage projects within the oil and gas industry, act as coordinator and/or project manager for oil companies and or others with interest in oil and gas fields, participate in accordance with the above objectives and/or perform such activities for its own account or in cooperation with others

Equity and dividends

The Board of Directors has a general authorization to issue new shares up to a maximum of 10% of the current outstanding share capital of the Company. The authority also comprises share capital increases against other assets than cash, including decisions on merger, and/or acquisitions of other companies. The authority remains valid until the next Ordinary Annual General Meeting.

The Board of Directors has a general authorization to purchase up to a maximum of 10% of the current outstanding share capital of the Company. The maximum and minimum price to be paid shall be NOK 1,- and NOK 30,- respectively. The authority remains valid until the next Ordinary Annual General Meeting.

The Company has not previously paid dividend to its shareholders. The Company's Board of Directors has resolved to propose to the Annual General Meeting on 25th May 2011 to pay a dividend of NOK 0.50/share for financial year 2010. The proposed dividend will not limit the Company's financial ability and flexibility for future business prospects. In general any future dividend will be subject to determination by the Company's Board of Directors based on its results of operations and financial condition, its future business prospects, any applicable legal or contractual restrictions and another factors that the Board of Directors considers relevant.

Equal treatment of shareholders

The Company's shares are listed on Oslo Stock Exchange. Shares have been issued in only one share class. All shares in the Company have equal rights and all shareholders have the right to participate in general meetings. Two out of four Board members are independent of the Company's main shareholder; First Olsen Ltd (owned 50 / 50 by Bonheur ASA and Ganger Rolf ASA).

Freely negotiable shares

The Company has no restrictions on ownership and voting rights.

General meetings

The Annual General Meeting is normally held in May each year. Invitations are sent to shareholders or to the shareholder's security deposit bank. Summons is distributed with at least a 21 days notice period to the shareholders. Shareholders registered in VPS (the Norwegian Registry of Securities) can vote in person or by proxy. The General Meeting elects the Board of Directors, nominates the external auditor, determines the auditor's remuneration, approves the annual result and dividend proposed by the Board of Directors and determines the remuneration to the Board of Directors.

Extraordinary general meeting 2010

An Extraordinary General Meeting on 16th December 2010 resolved to reduce the Company's Share Premium Fund by USD 305 million. This amount was transferred to the Company's Free Reserves. The reason for the restructuring of the Company's equity was to provide the Company with adequate financial flexibility. The equity restructuring was formally recorded and approved by the Corporate Registry in Brønnøysund on 31st March 2011.

Nomination committee

Considering that the main shareholder of the Company controls a majority of the shares, the Board of Directors has decided not to appoint a nomination committee. The composition of the Board of Directors attends to all the shareholders in the Company interests.

Corporate Assembly and Board of Directors, composition and independence

The Company has no Corporate Assembly. In accordance with Norwegian law, the Board of Directors is responsible for managing the Company and for ensuring that the Company's operations are organized in a satisfactory manner. The Company's Articles of Association provide that the Board of Directors shall have no less than three and no more than five members. In accordance with Norwegian law, the CEO and at least half of the members of the Board must either be resident in Norway, or be citizens of and resident in an EU/EEA country. The General Meeting elects the members of the Board. The Board of Directors consists of 4 members who are elected for two year at the time. All of the Directors are independent of the Company's management and two of them are independent also in relation to the Company's main shareholder, First Olsen Ltd. In 2010 the Board of Directors had 9 meetings.

The Board of Directors consists of:

Mr. Per-Oscar Lund, Chairman is a lawyer by education and joined the Fred. Olsen related companies as Managing Director for First Olsen Tankers Ltd. in 1998. This company later changed name to First Olsen Ltd. and is the majority owner of Fred. Olsen Production ASA. Mr. Lund retired as Managing Director for First Olsen Ltd on 1st April 2011 for age of retirement, has extensive experience from shipping and offshore businesses and was previously Managing Director of Western Bulk Shipping ASA (1992-98), Deputy Managing Director of I.M. Skaugen AS (1987-92) and a Vice President in the Wilh. Wilhelmsen Group for many years (1979-87) covering among others the offshore rigs and Barber West Africa Line. He holds several Board of Directors positions, among other as Chairman in Den Norske Krigsforsikring for Skib. Mr. Lund has been member of the Board since 2003 and his current term expires in 2012. Per-Oscar Lund is a Norwegian citizen and is resident in Oslo, Norway.

Mrs. Anette S. Olsen, Director is fifth generation of the Fred. Olsen family and she is the Managing Director of the two Norwegian stock listed companies Bonheur ASA and Ganger Rolf ASA. Mrs. Olsen holds a BA in Business Organization and an MBA. Mrs. Olsen holds chairman and board positions with a number of companies, among others Ganger Rolf ASA and Bonheur ASA, and chairman of Fred. Olsen Energy ASA, First Olsen Ltd, Timex Corporation, Fred. Olsen Renewables AS og AS Norges Handels-og Sjøfartstidende. Mrs. Olsen has been member of the Board since 2007 and her current term expires in 2011. Anette S. Olsen is a Norwegian citizen and is resident in Oslo, Norway.

Ms. Siv Jønland Staubo, Director is presently attending a PhD program in the field of Corporate Governance at the Department of

Corporate Governance

Financial Economy at the Norwegian Business School. She is a senior lecturer in the same department. Ms. Staubo holds a Master of Applied Physics from Heriot-Watt University, Edinburgh, studies in geophysics from Arizona State University, US, and a Master of Finance from the Norwegian Business School. Ms. Staubo has previously worked as a consultant on alternative energy resources and with computer technology for oil exploration. Ms. Staubo is a board member of Camillo Eitzen & Co ASA. Ms. Staubo has been member of the Board since 2007 and her current term expires in 2012. Siv Jønland Staubo is a Norwegian citizen and is resident in Oslo, Norway.

Mr. Agnar Gravdal, Director is currently working as independent consultant after being CEO at the Rosenberg Yard from 2003-2007. In addition, he has many years experience from CEO positions within various companies in the Kværner group, Aker group and Umoe group as well as from development and design of advanced LNG ships. He is chairman of the board in TBL Offshore, board member in Fred. Olsen Energy ASA, SWAY AS, Scanfuel AS and Inwind AS. He holds a Master Degree in Naval Architecture and Marine Engineering from NTNU 1968. Mr. Gravdal has been member of the Board since 2007 and his current term expires in 2011. Agnar Gravdal is a Norwegian citizen, resident in Stavanger, Norway.

Mr. Jan Peter Valheim, Alternate Director is Chief Financial Officer of Fred. Olsen & Co after he resigned from the position as CFO of Fred. Olsen Energy ASA in June 2007, a position he had held since 2002. He has previously held positions in Scribona AB, PC Lan ASA, Saga Petroleum ASA and Fearnley Finans AS. Mr. Valheim is a graduate from BI Norwegian School of Management. Mr. Valheim is a board member of several Fred. Olsen related companies hereunder Fred. Olsen Energy ASA, First Olsen Ltd, Fred. Olsen Renewables AS and Fred. Olsen Cruise Lines Holding Ltd. Mr. Valheim has been alternate director of the Board since 2007 and his current term expires in 2012. Jan Peter Valheim is a Norwegian citizen and is resident in Bærum, Norway.

The work of the board of directors

The Company has implemented guidelines for the conduct of the Board of Directors. The purpose behind these guidelines is to establish a practical tool for the Board in its exercise of good corporate governance. The current composition of Directors reflects adequate competence relative to the main business areas of the Group.

The Board of Directors has appointed an Audit Committee consisting of two Directors whereof one is independent of the main shareholders of the Company. The charter of the audit committee is to assist the Board in fulfilling its responsibilities concerning the financial reporting process, internal controls, management of financial risks, the audit process, and the Company's process for monitoring compliance with applicable laws and regulations. The Audit Committee has meetings with the management and the external auditor. Parts of the meetings with the external auditor will be without participation of the management.

Corporate Governance

The Board of Directors has appointed a Compensation Committee comprising two Directors. The Compensation Committee discusses and recommends to the Board salary and benefits for the Chief Executive Officer as well as the management incentive schemes for the Group.

Risk management and internal control

The Company's risk management- and internal control procedures are reviewed by the Audit Committee in accordance with its charter. The operational risk management and internal control is carried out within each business segment in accordance with the nature of the operations and the government legislation in the relevant jurisdiction. In addition, the Company from time-to-time carries out internal audits related to specific projects. Risk management related to foreign exchange, interest rate management and short-term investments is handled by the parent company on behalf of the subsidiaries, in accordance with established policies and procedures. The Company receives reports on the financial development on a monthly basis.

Security policy for employees and consultants
All personnel in FOP who works in the Fred. Olsen- building in Oslo are comprehended by a security policy covering aspects related to personnel, IT/information/communication and real-estate/ infrastructure. The security policy is monitored by an appointed Executive Security Officer.

Remuneration of the board of directors

An annual fee remunerates each Director. See also note 4.

Executive Management

The Chief Executive Officer (CEO) is appointed by and serves at the discretion of the Board of Directors. He is responsible for the daily management and the operations of the Company. The CEO is not a member of the Board of Directors.

The executive management consists of:
Chief Executive Officer Mårten Lunde, who took up the position as CEO in Fred. Olsen Production at the date of listing the company, 11 May 2007. He left his previous position as CFO in Fred. Olsen & Co which provides management and administrative services to the two companies Ganger Rolf ASA and Bonheur ASA, both listed on Oslo Stock Exchange. Prior to that position Mr. Lunde was the CFO of the stock listed offshore drilling company Fred. Olsen Energy ASA. Previously, Mr. Lunde worked with Petroleum Geo-Services ASA as finance director from 1994 until 1999. His past experience also includes several years within banking and finance. Maarten Lunde is a graduate of the Norwegian School of Business and Economics, Norwegian citizen and resides in Bærum, Norway.

Chief Operating Officer Paal Hylin, has been with FOP since 2005. Mr. Hylin has worked in the offshore oil industry since 1989 and has held senior positions in ExxonMobil and PGS before he joined Fred. Olsen Production. Paal Hyllin has a Master of Science from Norwegian Institute of Technology and a Master of Petroleum Economics from Institut Français du Pétrole, France.

Chief Financial Officer Jørn T. Røkaas, has from 1 January 2009 been CFO in Fred. Olsen Production. Mr. Røkaas has from the date of listing the company, 11 May 2007 been acting CFO of the Company on partial hire from Fred. Olsen & Co. Mr. Røkaas has since 1999 held the position as Vice President Finance in Fred. Olsen & Co which provides management and administrative services to Bonheur ASA and Ganger Rolf ASA. Prior to this Mr. Røkaas had senior management positions within the shipping and maritime companies Agdesidens Rederi AS, Kværner Shipping AS and Irgens Larsen AS. Jørn T. Røkaas is a graduate of the Norwegian School of Management and has a Master of Business Administration from the University of Wisconsin, Madison.

Remuneration of the senior management

In 2008, the Company implemented a general management bonus scheme. The beneficiaries of the cash bonus scheme are the senior management and certain key personnel. Bonuses under the scheme range from 10% to 60% of one's annual salary depending on position and are subject to the Group achieving certain predefined financial criteria such as budget target and/or increase in the market value of the Company's shares as well as achieving defined individual goals and objectives. One third of the accrued bonus amount will be paid upon completion and approval of the annual financial report; the remaining unpaid bonus is paid evenly over the subsequent two years. These criteria are evaluated by the Compensation Committee on an annual basis. For 2010 bonuses of USD 896 thousand including payroll taxes is accrued. See also note 4.

Information and communications

The Company provides information to the market through quarterly and annual reports; investor- and analyst presentations open to the media and by making operational and financial information available on the company's website. Events of importance are made available to the stock market through notification to Oslo Stock Exchange in accordance with the Stock Exchange regulations. Information is provided in English.

Take-overs

In light of the Company's shareholder structure, with the controlling shareholders holding a majority of the shares, the Board of Directors has not found it appropriate to establish separate guidelines to prepare for a take-over situation.

Auditor

The auditor is appointed by the Annual General Meeting which also determines the auditor's fees. The same firm of auditors should as a rule be appointed for all subsidiaries. The auditor should not do any work for the Company which could lead to conflicts of integrity, and the Audit Committee is responsible for ensuring that the auditor's independent role is maintained. In accordance with the requirement that the auditor be independent, the Company is cautious when using an elected external auditor for tasks other than the financial audit required by law. Nevertheless, the auditor may be used for tasks that are naturally related to the audit, such as technical assistance with tax returns, annual accounts, understanding of accounting and tax rules and confirmation of financial information in various contexts. Information about fees paid by the Company to the auditor is provided in the annual report. The Audit Committee is kept informed, on a regular basis, of all work undertaken by the auditor. The auditor provides the Board with an annual written confirmation that a number of requirements, including independence and objectivity are met. The auditor attends meetings of the Audit Committee that deal with the financial statements and to review the report on the auditor's view of the company's accounting principles, risk areas, internal controls routines etc.

Reporter

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