Annual Report 2012

Fred. Olsen Production ASA

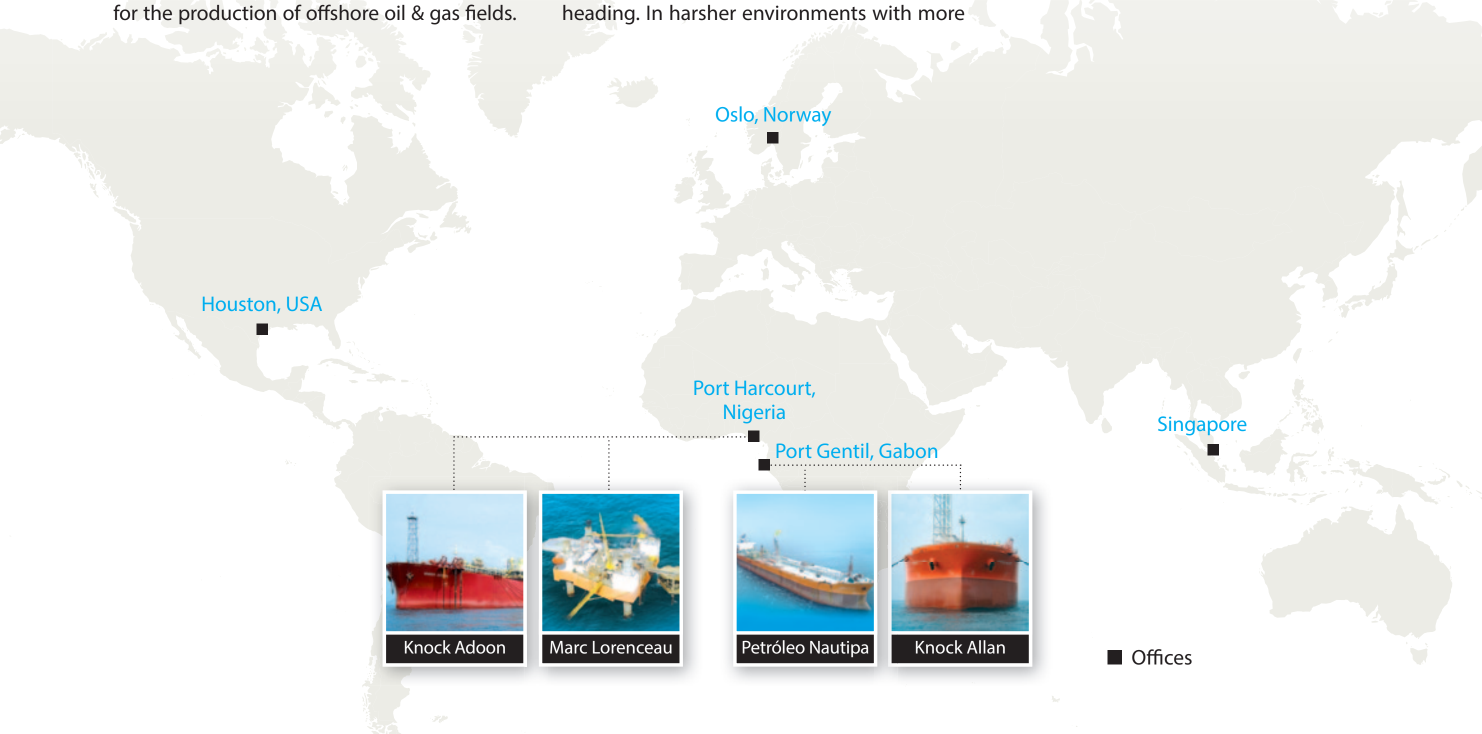
Contents

A Brief Presentation

Fred. Olsen Production ASA (the Company) is listed on Oslo Stock Exchange (ticker "FOP"). The Company is based on more than 160 years experience in shipping, more than 40 years of 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.

A Floating Production Storage and Offloading (FPSO) unit is capable of processing and storing hydrocarbons arriving from oil and gas wells offshore. 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 and capacity, equipment weights and deck lay-out. Most importantly they can easily be moved to another location at the end of the field's producing life.

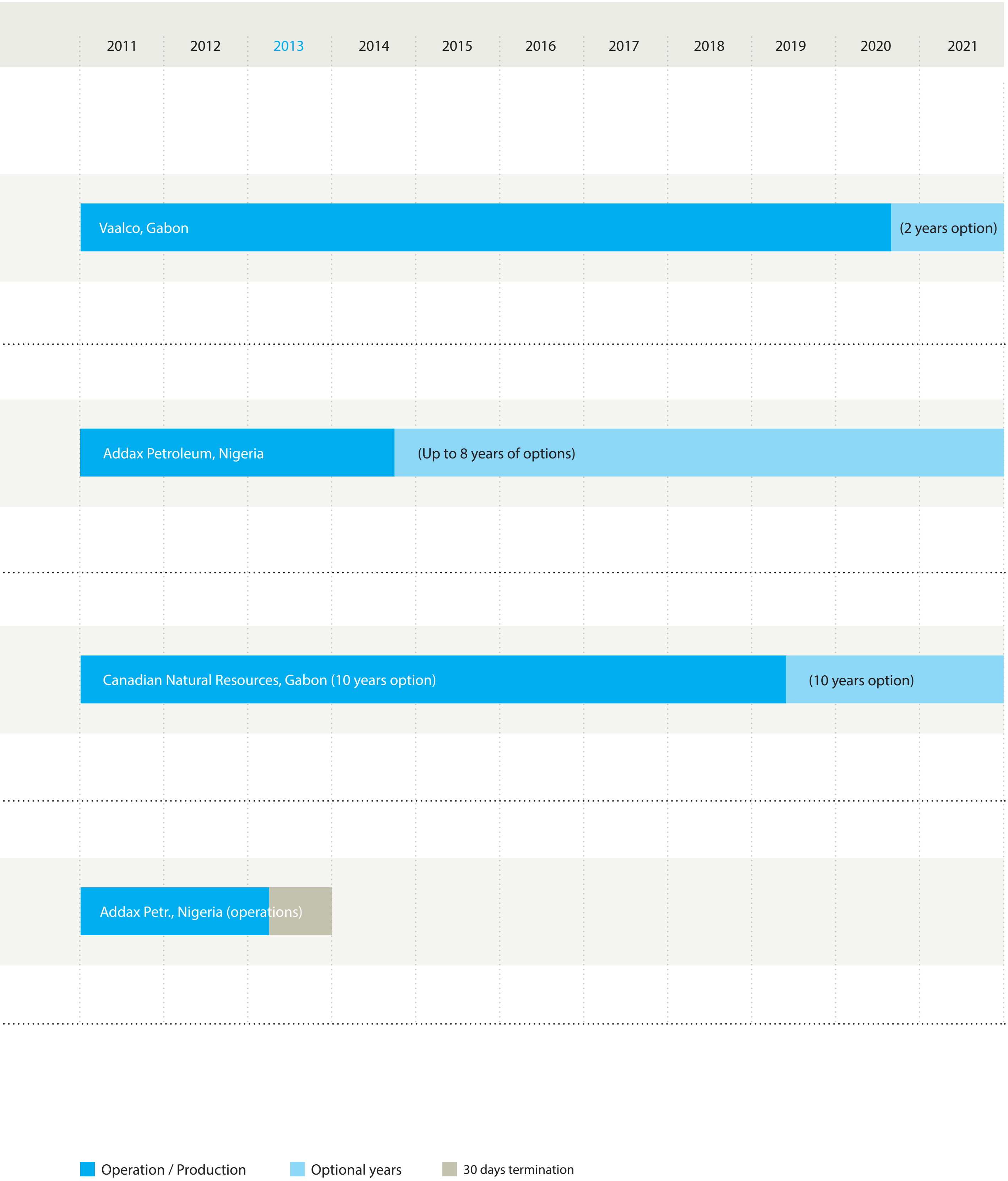


Key figures (amounts in USD 1 000)	Definitions	2012	2011	2010	2009	2008	2007
Total assets		379 631	415 347	472 364	554 682	523 535	551 479
Book equity		213 692	213 440	254 719	264 588	263 283	302 918
Market capitalization	1	163 660	136 993	186 305	130 196	65 081	356 298
Net interest bearing debt	2	71 940	101 704	119 161	126 860	126 043	6 512
Enterprise value	3	235 600	238 697	305 466	257 056	191 124	362 810
Interest Bearing Debt/Total assets ratio		0.37	0.41	0.39	0.43	0.44	0.40
Current ratio	4	5.03	4.49	3.58	3.68	7.69	18.07
EBITDA -margin	5	39.4 %	40.0 %	45.5 %	44.1 %	37.9 %	30.7 %
Number of shares outstanding		105 930 000	105 930 000	105 930 000	105 930 000	105 930 000	105 930 000
Share price year end	6	8.60	7.75	10.30	7.10	4.30	18.20
Price/Book	7	0.77	0.64	0.73	0.49	0.25	1.18
EV/EBITDA		5.28	5.46	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 60,000 BOPD Total Liquid 140,000 BLPD Gas Handling 7 MMSCFPD
	Knock Allan	FPSO	1992/2009	100%	145,242 tonnes	1.04 million barrels	Oil 25,000 BOPD Total liquid 35,000 BLPD Gas Handling 85 MMSCFD
	Marc Lorenceau	MOPU	1980/1995	0%	Jack-Up		Oil 60,000 BOPD Total Liquid 70,000 BLPD Gas Handling 70 MMSCFPD


2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Vaalco, Gabon
(2 years option)
Addax Petroleum, Nigeria
(Up to 8 years of options)
Canadian Natural Resources, Gabon (10 years option)
(10 years option)
Addax Petr., Nigeria (operations)
Operation / Production
Optional years
30 days termination

Fred. Olsen Production Group & Fred. Olsen Production ASA

Board of Director's Report 2012

Fred. Olsen Production ASA (FOP) and its subsidiaries (the "Group") own and operate a fleet of three Floating Production, Storage and Offloading (FPSO) vessels, in the international oil and gas markets. One of which is jointly owned by FOP and BW Offshore on a 50/50 basis. In addition FOP operates a production jack-up (MOPU) for an oil company client.

The main commercial event in 2012 was the 5-year extension of the FPSO Petróleo Nautipa contract with Vaalco Energy until 2020. The charter rates were also renegotiated reflecting a USD 30 million life-extension investment in the unit.

The FPSO market fundamentals remained positive as a result of high energy demand, sustainable oil prices and a more consolidated supply side. However, new projects continued to be delayed and 2012 had the lowest number of FPSO lease contract awards since 2004 with only four (4) new contracts being awarded. The number of projects in West Africa remained very limited, but improved inquiry flow in the region towards the end of the year may indicate a long awaited recovery of this market. Brazil was still dominated by larger projects, with high local-content requirements; while Asia, had a steady level of activity with medium/small projects.

High oil prices and growth in non-Western economies have driven demand in the international oil and gas markets, including the demand for offshore production services, however the oilfield developments with FPSO solutions are still lagging behind. The longer-term trend towards deeper offshore field developments in remote areas continues to drive the need for floating production solutions.

Operations in 2012 were satisfactory with an average commercial up-time close to 100% for the four units operated by FOP. The consolidated FOP Group result is also significantly better than for 2011. However, a one-off write-down of USD 5.6 million on outstanding claims impacted the result negatively.

The previously reported issues relating to the FPSO Knock Allan gas compressors were materially solved in 2012 and the compressors are now delivering in accordance with the contract.

The letter of intent with PTSC, Vietnam from December 2011 did not lead to a final contract being entered into by the parties.

The Group's main focus is to continuously improve the safe and efficient operation and financial results of the existing contracts.

In the 4th quarter, the board initiated a comprehensive review of strategic options available, including merger, sale or continued organic growth. This is still ongoing.

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.

As per the 31 December 2012 the Company had 621 sharehold-

ers with the twenty largest shareholders holding approximately 96% of the shares.

The Company has ship-management agreements for the operation of all its FPSOs and for the MOPU with Fred. Olsen Marine Services AS, a wholly-owned subsidiary of First Olsen Ltd. ("FOL").

The FPSO Knock Adoon operated satisfactorily throughout the year. Knock Adoon is on an eight-year fixed contract with options for the client to extend for a further eight years. The contract commenced in October 2006 for Addax Petroleum on the Antan field, offshore Nigeria.

FPSO Knock Allan commenced its ten-year fixed plus ten option years contract for Canadian Natural Resources (CNR) on the Olowi field offshore Gabon on 1st May 2009.

FPSO Petróleo Nautipa (indirectly owned 50% by Fred. Olsen Production ASA) continued its operations for Vaalco at the Etame license offshore Gabon, West Africa under the renegotiated fixed contract until September 2020 with two option years.

The management service contract on the MOPU Marc Lorenceau continued in 2012 on a short- term, renewable basis, with satisfactorily operation and only a few hours commercial downtime.

Result and balance sheet

The figures for 2012 provided in the text below can be compared to the 2011 figures given in brackets.

Gross revenues for the Group were USD 113.3 million (USD 109.2 million) with earnings before interest, tax, depreciation, amorti-

Oil Price

zation (EBITDA) of USD 44.6 million (USD 43.7 million). The USD 5.6 million in one-off write-downs is included in other administrative expenses.

Earnings before interest and tax (EBIT) were USD 16.2 million (negative USD 12.0 million, including a USD 25 million impairment of FPSO Knock Allan). Net financial expenses were USD 5.4 million (USD 8.1 million). There is no material foreign exchange effect in 2012 (loss of USD 1.4 million).

Profit before tax was USD 10.8 million (loss USD 20.1 million), with a profit after tax of USD 1.9 million (loss USD 28.9 million mainly due to the impairment).

At year-end, the Group consolidated assets amounted to USD 379.6 million (USD 415.3 million). Net interest bearing debt was USD 71.9 million (USD 101.7 million). The ratio of net interest bearing debt to total assets was 19% at year end.

The Group's consolidated equity book value was USD 213.7 million at year end (USD 213.4 million).

The consolidated cash flow generated from operations was USD 44.1 million in 2012 (USD 32.3 million).

Investments and financing

Additions to fixed assets amounted to USD 3.7 million in 2012 (USD 5.2 million). The addition is related to accounting reclassification of the addition of risers on the FPSO Knock Adoon in 2011 from receivable (insurance claim only partly honoured) to fixed asset.

The Singapore FPSO owning companies Adoon Pte. Ltd. and Knock Allan Pte. Ltd., and the Norwegian company Nautipa AS (collectively referred to as "the borrowers") have a revolving reducing credit facility of USD 500 million. The facility is secured by a first priority mortgage on the vessels/units. The available loan amount depends on the present value of the unit's contracts and their scrap values (the borrowing base). The facility is guaranteed by Fred. Olsen Production ASA, and runs for five years from July 2007 without reductions and thereafter a further five years with semi-annual reductions of USD 25 million, bringing the facility down to USD 250 million at maturity.

The interest rate is USD Libor with a credit margin of 1.00%. The borrowers are jointly and severally liable for the credit facility. As at 31 December, USD 140.0 million was drawn under the credit facility. The loan tranche to Nautipa AS was repaid in full in December, and Nautipa AS released as borrower under the facility and vessel security cancelled in 2013.

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.

With all FPSO units on contracts, the Groups financial position and business exposure mainly relates to the Groups continued performance under existing contractual obligations. The Company's existing contracts include cost escalation clauses which to a degree limits the operating expense exposure. For one contract, a revised cost escalation formula was agreed in 2012 reflecting actual domestic crew and cost variations, and foreign exchange currency exposure.

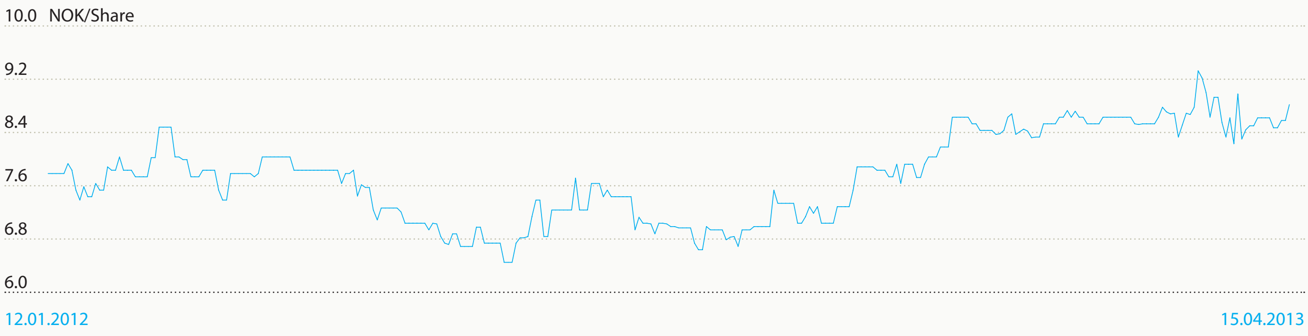
The challenging security conditions in certain geographical areas represent a continuing concern for operations in these areas. The Company is closely following any developments and contingency plans and safety measures are reviewed and updated on a continuous basis together with its clients.

Foreign exchange

The Company and the Group has limited currency exposure related to loans, interest expenses and components of the operating expenses as these costs are transacted in the same currency as the income (USD). Crew expenses and local costs of living create a currency exposure as these costs are transacted in EUR, Naira, Colonial Francs (XAF) and NOK. As such, the earnings are exposed to fluctuations against the USD in the currency markets.

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

Share price Fred. Olsen Production ASA



Interest rate

The Group's loans are exposed to fluctuations in interest rates for USD. At year end 2012 approximately 57% of the debt with a weighted average duration of 2.2 years was based on a fixed average weighted interest rate of 3.8% p.a. plus the credit margin. The hedges have shorter remaining terms than the debt. The remaining portion of the debt was based on floating interest rates; USD LIBOR plus the credit 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

No outstanding legal matters.

Safety, security, 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. Continual improvement through use of audit results, analysis of data, corrective and preventive actions, operational experience, proper selection of safety equipment, planned maintenance of the units and management reviews is taking place. 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, security and environmental protection drills involving all personnel onboard. No Lost Time Injuries for the fleet in operation were reported in 2012 (4) with corresponding lost time accidents frequency (LTA) of zero per one million working hours (1.63 per one million working hours).

All units are fully certified 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 by Det Norske Veritas (DNV). Additionally, in order to support 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. All certificates were renewed in 2012.

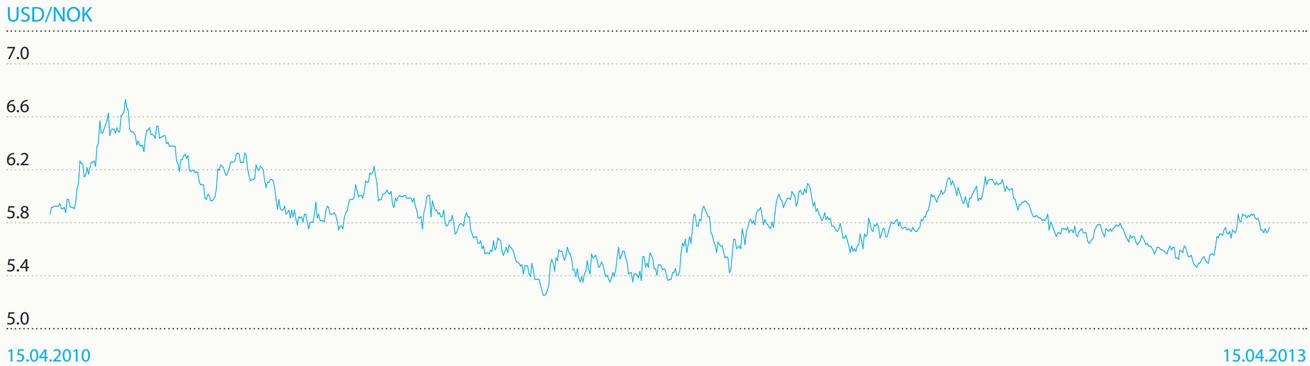
The Group's operations affect the external environment through consumption of fossil fuels and emission of greenhouse gases and decanted water. All operations are conducted within international and relevant local rules applicable for the areas where the relevant operation takes place. FOP is committed to environmental protection through all phases of operations with a high focus on accident prevention. Reduction of risk for oil spills 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 operations.

FOP is part of an office sharing arrangement, which is established between other Fred. Olsen related companies located in Oslo. A common working environment committee (Arbeidsmiljøutvalg) is organized between the companies to continuously improve the working environment.

In accordance with current law and regulations, FOP maintains an overview of sick leaves. Sick leaves has been low during the past years and was 0.6% (0.6%). No injuries or accidents ashore were recorded in 2012 (0).

For Fred. Olsen Marine Services personnel, refer to note 6 in the consolidated financial report.

The Company aims to be an equal opportunity employer offering challenging and motivating jobs to all personnel regardless of nationality, culture, religion and gender, however acknowledges that men are traditionally over-represented in



the offshore business. There was a slight reduction in number of employees during 2012. Eighteen employees are working in the parent company, of which three are women. The Board of Directors consists of four directors, two are women. The Company has established Codes of Conduct, that includes 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 3.6 million (USD 3.8 million). The EBITDA (the result before depreciation, financial items and tax) was negative USD 4.3 million (negative USD 5.4 million). A reduction in administrative expenses accounts for the improvement in comparative EBITDA.

Net financial income represented USD 2.4 million (net financial expense of USD 4.0 million). Fred. Olsen Production ASA had a loss after tax of USD 2.2 million (loss of USD 9.8 million).

Allocation of net result

The net loss after tax of USD 2.2 million is to be allocated as follows:

For dividend	USD 9.5 million
From Free reserves	USD 11.7 million
Total allocated	USD 2.2 million

At year-end total equity was USD 263.4 million and retained earnings were USD 228.6 million. The parent company had no external interest bearing debt at year-end 2012.

Dividend / Annual General Meeting

The Company's Board of Directors has resolved to propose to the Annual General Meeting in May to pay a dividend of NOK 0.50 per share a total payment of NOK 52.4 million net of payment to the Company owned treasury shares.

The date of the Annual General Meeting is 29 May 2013.

Event after the balance sheet date

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

Oslo, 8th April 2013
Fred. Olsen Production ASA

Ivar Brandvold	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Eirik Barclay
Chairman				*Chief Executive Officer*

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 2012 and for the year then ended.

To the best of our knowledge and/or understanding the consolidated financial statements and the Board of Directors report for 2012 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 2012 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.

Oslo, 8th April 2013
Fred. Olsen Production ASA

Ivar Brandvold	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Eirik Barclay
Chairman				*Chief Executive Officer*

Fred. Olsen Production – Group

Consolidated Statement of Comprehensive Income

For the years ended 31 December

Amounts in USD 1 000	Note	2012	2011
REVENUE			
Revenue	3	113 312	110 450
Gain/(loss) on sale of property, plant and equipment	2	2	-1 270
TOTAL REVENUE		113 314	109 180
OPERATING EXPENSE			
Salaries and other personnel costs	4, 5	3 239	6 412
Depreciation	2	28 378	30 708
Write down of vessels	2	-	25 000
Other operating expenses	6	65 485	59 059
TOTAL OPERATING EXPENSES		97 102	121 179
OPERATING PROFIT (LOSS)		16 212	-11 999
FINANCIAL ITEMS			
Interest income		139	127
Net foreign exchange loss		-20	-1 405
Interest expense	9	-3 958	-5 269
Other financial expense	9	-1 539	-1 514
NET FINANCIAL ITEMS		-5 378	-8 061
INCOME (LOSS) BEFORE TAX		10 834	-20 060
Tax expense	7	-8 983	-8 886
GAIN (LOSS) FOR THE PERIOD		1 851	-28 946
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		86	228
Net value loss on available-for-sale financial assets	9	-1 681	-2 669
Impairment of asset classified as available-for-sale		-	-55
Other comprehensive loss for the year, net of tax		-1 595	-2 496
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		256	-31 442
Net loss attributable to parent company equity holders		1 851	-28 946
Total comprehensive income (loss) attributable to parent company equity holders		256	-31 442
Basic earnings per share	11	0.02	-0.27
Diluted earnings per share	11	0.02	-0.27

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	2012	2011
ASSETS			
Offshore units, constructions and equipment	2	285 866	310 593
Other long-term receivables		1 282	2 014
Investments in associates	17	49	49
TOTAL NON-CURRENT ASSETS		287 197	312 656
Short-term receivables	13, 18	20 423	28 299
Other investments	9, 17	2 862	4 542
Inventories		1 089	1 059
Cash and cash equivalents	10	68 060	68 791
TOTAL CURRENT ASSETS		92 434	102 691
TOTAL ASSETS		379 631	415 347
EQUITY AND LIABILITIES			
Share capital		17 090	17 090
Fair value reserve		-1 074	606
Translation reserve		14 486	14 400
Retained earnings		183 191	181 344
TOTAL EQUITY	11	213 692	213 440
Deferred income	15	2 042	4 764
Pension liabilities	5	5 536	5 166
Interest-bearing loans and borrowings	12	140 000	168 350
De-commissioning provisions	2, 15	-	750
TOTAL NON-CURRENT LIABILITIES		147 578	179 030
Trade payables		1 223	806
Short-term interest-bearing loans and borrowings	12	-	2 145
Payroll tax withhold. empl contrib. etc.		910	1 150
Taxes payable	7, 15	4 551	4 274
Other current liabilities	15	11 678	14 502
TOTAL CURRENT LIABILITIES		18 361	22 877
TOTAL EQUITY AND LIABILITIES		379 631	415 347

The footnotes are an integral part of these financial statements.

Oslo, 8th April 2013

Fred. Olsen Production ASA

Ivar Brandvold	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Eirik Barclay
Chairman				*Chief Executive Officer*

Fred. Olsen Production – Group

Consolidated Statement of Cash Flows

As at 31 December

Amounts in USD 1 000	Note	2012	2011
Cash flows from operating activities			
Net result after tax		1 851	-28 946
Adjusted for:			
Depreciation	2	28 378	30 708
Impairment of vessels	2	-	25 000
Interest expense		5 417	5 275
Tax expense	7	8 983	8 886
Net (gain) loss on sale of property, plant and equipment	2	-2	1 270
Unrealised (gain) loss on interest rate swaps		-1 459	-5
Changes in trade and other receivables		12 590	-7 779
Changes in trade and other payables		-11 869	-6 910
Changes in other balance sheet items		182	4 889
Cash generated from operation		44 070	32 388
Interest paid		-2 796	-1 958
Income tax paid		-5 476	-7 789
Net cash from operating activities		35 798	22 640
Cash flows from investing activities			
Purchases of property, plant and equipment	2	-3 688	-5 205
Purchase of investments	11	-	-793
Realised loss on investments		-	55
Proceeds from sale of property, plant and equipment	2	39	11 935
Net cash used for investing activities		-3 649	5 992
Cash flow from financing activities			
Settlements of interest rate swaps		-2 385	-2 695
External dividend		-	-9 044
Repayments of interest bearing loans		-30 495	-11 789
Net cash from financing activities		-32 880	-23 528
Net changes in cash and cash equivalents		-731	5 104
Cash and cash equivalents at 1 January		68 791	63 687
Cash and cash equivalents at 31 December		68 060	68 791

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	2012	2011
Equity (beginning of period)	213 440	254 719
Total comprehensive loss for the period		
Profit/(loss) for the period	1 851	-28 946
Other comprehensive income		
Translation differences	82	226
Effect of changes in available for sale assets	-1 682	-2 669
Impairment of asset classified as available-for-sale	-	-55
Transactions with owners recorded directly in equity		
Share re-purchase at par value	-	-107
Share re-purchase equity effect	-	-686
Dividends distributed	-	-9 044
Equity (end of period)	213 692	213 440

The footnotes are an integral part of these financial statements.

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 2012 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 2012.

The financial statements were approved by the Board of Directors and the Managing Director on 08 April 2013. Final approval of the financial statements is performed by the Annual General Meeting scheduled at 29 April 2012. Until final approval, the Board of Directors has the authority to amend the financial statements.

IFRSs and its interpretations that are issued prior to 08 April 2013 and that are not yet mandatory as at 31.12.2012, are not applied by the Group of companies – i.e. amendments to IFRS 1, 7, 10, 11, 12 and 13, amendments to IAS 27, 28, 32 and IFRIC 20. 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. The amended IAS 19 will result in change of how actuarial gains and losses and the defined benefit obligation are recognised in the statement of comprehensive income and the statement of financial position.

The Group of companies has in 2012 applied amendments to IAS 1 and 12, without 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 Group financial statements are presented in US Dollars (USD). 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.

Notes

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 Group's presentation currency is USD, while the presentation currency used to prepare individual statutory financial statements for subsidiary companies may differ.

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

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 the statement of comprehensive income.

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 statement of comprehensive income.

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.

IAS 19 Employee Benefits (amended)

IAS 19 amended will change the measurement principles of expected return on plan assets and remove the accounting policy choice for recognition of actuarial gains and losses using the corridor method. Actuarial gains and losses will be recognized immediately in other comprehensive income correspondingly affecting the net benefit liability or asset in the statement of financial position. The expected impact on the Group is quantified below.

The effective period is for annual periods beginning on or after 1 January 2013. The following table summarizes the financial effects of IAS 19 restated, if the Group had early adopted the standard.

Restated Consolidated Statement of Financial Position:

Amounts in USD 1 000	31.12.12	31.12.11
Pension assets	-	-
Deferred tax assets	-	-
Employee benefit liability	-3 757	-5 520
Equity	-	-
Changes:		
Pension assets	-	-
Employee benefit liability	1 779	-354
Deferred tax assets	-498	99
Net decrease in retained earnings	1 281	-255
Decrease in pension cost	-2 067	-
Net income in comprehensive income	-	-

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 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 2012, a discount rate of 5.48% was used. In addition independent broker valuations are considered.

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.

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 if applicable. Residual value is estimated at scrap value; alternately a broker estimate is used if applicable. The market values are estimated on an individual asset basis as well as for the total fleet. During the current fiscal year, there is no indication for impairment of any of the individual assets. Market value assessments of cash flow support this assertion.

Elements of risk as addressed in the Directors Report and in note 9 may impact future cash flows; similarly changes to the discount rate can affect the estimated market values.

One of the vessels is more sensitive to impairment and these effects are presented below.

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	-4 587	-13 864

This analysis, which includes all fleet vessels, assumes that all other variables remain constant and is performed at year-end 2012.

The other vessels are less sensitive to impairment and a significantly higher discount rate can be used without triggering an impairment or change.

Gain on Sale of Vehicle:

During the year, an immaterial gain on the sale of a company vehicle was realized and presented as a separate line in the consolidated statement of comprehensive income.

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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 2011	490 465	317	71	71	490 923
Reclassification*	-6 566	9	11	3	-6 543
Additions	5 013	191	-	-	5 205
Disposals	-18 170	-182	-	-	-18 352
Balance at 31 December 2011	470 742	336	82	74	471 233
Balance at 1 January 2012	470 742	336	82	74	471 233
Additions	3 688	-	-	-	3 688
Disposals	-14	-49	-	-	-63
Balance at 31 December 2012	474 416	286	82	74	474 858
Depreciation and impairment losses					
Balance at 1 January 2011	113 080	154	66	57	113 357
Reclassification*	-6 566	9	11	3	-6 543
Depreciation for the year	30 623	68	5	12	30 708
Write down	25 000	-	-	-	25 000
Disposals	-1 769	-113	-	-	-1 882
Balance at 31 December 2011	160 368	118	82	72	160 640
Balance at 1 January 2012	160 368	118	82	72	160 640
Depreciation for the year	28 324	52	-	2	28 378
Write down	-	-	-	-	-
Disposals	-	-26	-	-	-26
Balance at 31 December 2012	188 692	143	82	74	188 992
Carrying amounts					
At 1 January 2011	377 385	163	5	13	377 566
At 31 December 2011	310 374	218	-	1	310 593
At 1 January 2012	310 374	218	-	1	310 593
At 31 December 2012	285 724	143	-	-	285 866
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	

*) In the prior year, amounts previously included in depreciation and impairment losses were reclassified to cost or deemed cost in order to ensure that presentation of fixed assets is consistent with the Group's majority shareholder.

Dismantling expenses

In the consolidated financial statements, an accrual of nil (2011: USD 750 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 2011	dwt	Built (year)	Yard	Next class/renewal
FPSO Knock Adoon	244 500	1985	Mitsubishi Heavy Industries	2016
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	2017
Depreciated on a straight-line basis to scrap value per August 2015	141 330	Conv. 1998	Keppel Shipyard	
FPSO Knock Allan	145 250	1992	Harland & Wolff	2013
Depreciation on a straight line basis to scrap value per February 2024		Conv. 2009	Drydocks World Dubai	

The technical manager for all vessels is Fred. Olsen Marine Services AS.

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

Note 3 - Segment information

IFRS 8 Operating Segments

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.

Functions from which Reportable Segments Derive their Revenues

Prior to 2009, segment information reported externally was analyzed 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. In the prior year comparison, this included Knock Taggart II Pte. Ltd. which owned the oil tanker Knock Muir until its sale in fiscal 2011.

Information regarding the Group's reportable segments is presented on the next page.

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Segment Information – 2012

Amounts in USD 1 000 Twelve months ended December 31, 2012	Vessel Operating Group	Administrative Group	Total Segments	Intercompany Eliminations	Consolidated
Income Statement					
Revenue	106 261	10 423	116 684	-3 370	113 314
Segment profit (loss) EBIT according to IFRS 8	16 489	-2 183	14 307	1 906	16 212
Total financial items	-5 887	2 295	-3 592	-1 786	-5 378
Segment (loss) profit before tax expense	10 603	112	10 714	120	10 835
Fixed Assets					
Segment assets as at December 31, 2011	310 373	220	310 593		
Changes during the period	-24 636	-91	-24 727		
Segment assets as at December 31, 2012	285 737	129	285 866		

Segment Information – 2011

Amounts in USD 1 000 Twelve months ended December 31, 2011	Vessel Operating Group	Administrative Group	Total Segments	Intercompany Eliminations	Consolidated
Income Statement					
Revenue	102 183	10 385	112 568	-3 388	109 180
Segment profit (loss) EBIT according to IFRS 8	-18 590	-9 323	-27 913	15 914	-11 999
Total financial items	-8 467	1 725	-6 742	-1 318	-8 060
Segment (loss) profit before tax expense	-27 057	-7 598	-34 655	14 596	-20 059
Fixed Assets					
Segment assets as at December 31, 2010	377 385	182	377 567		
Impairment of vessels	-25 000		-25 000		
Changes during the period	-42 012	38	-41 974		
Segment assets as at December 31, 2011	310 373	220	310 593		

Note 4 - Salaries and personnel expenses

Amounts in USD 1 000	2012	2011
Salaries and personnel expenses		
Salaries **	1 787	3 007
Remuneration of bonuses	747	347
Social security tax	787	784
Pension Expenses *	-268	2 015
Other	184	259
Total	3 239	6 412
Number of employees at the end of the year **	20	21
Average number of employees **	21	22
Payment to CEO		
Salary	300	432
Bonus	-	106
Pension expenses	240	271
Total	541	809

Eirik Barclay has been employed since 01 January 2012; comparative figures are provided for the former CEO.

* The current year pension expense is offset by a USD 861 thousand change in estimate.

** All employees within the Group are full-time employees. During a fiscal year, each employee represents one full year of service. During 2012, five employees were sub-contracted.

Amounts in USD 1 000	2012	2011
Payment to COO		
Salary	441	433
Bonus	102	93
Pension expenses	265	221
Total	808	747

Paal Hylin has been employed since 2 February 2005.

Payment to CFO		
Salary	302	310
Bonus	68	67
Pension expenses	162	136
Total	532	513

Jørn Røkaas has been employed since 1 January 2009.

Board Remuneration		
Per-Oscar Lund (Chairman - Retired)	-	24
Ivar Brandvold (Chairman)	26	3
Anette S. Olsen	17	18
Siv J. Staubo	17	18
Agnar Gravdal	17	18
Jan Peter Valheim (Alternate)	10	11
Total	88	92

Loans to senior management and directors *

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 COO has an interest free loan from First Olsen Ltd. of approximately $28,000 (NOK 158,000) related to the acquisition of shares in the Company. No other members of senior management or directors have outstanding loans. 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 2012. 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 2012 is $969,850 (2011: $381,464).

Bonuses under the scheme range from 10% to 60% of the relevant employees' annual salary and are subject to the Group achieving certain pre-defined financial criteria such as budget target and individuals achieving personal Key Performance Indicators (KPI's). 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.

* Loans to senior management and directors have decreased as compared to the prior year. These loans are held in NOK and have decreased as a result of voluntary repayment.

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. 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. 19 employees were included in the pension plan at 31st December 2012.

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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	2012	2011
Present value of unfunded obligations	-3 334	-3 734
Present value of funded obligations	-4 733	-5 997
Total present value of obligations	-8 066	-9 731
Fair value of plan assets (unfunded)	-	-
Fair value of plan assets (funded)	4 309	4 211
Present value of net obligations	-3 757	-5 520
Unrecognised past service costs (not yet vested)	-	-
Unrecognised actuarial gains and losses	-1 779	354
Recognized net liability for defined benefit obligations	-5 536	-5 166
Hereof unfunded pension plans (net liability)	-3 816	-4 098
Hereof funded pension plans (net liabilities)	-1 721	-1 068
Recognized net obligation of defined benefit obligations	-5 536	-5 166

Movements in Plan Assets:		
Fair value of plan assets	4 211	3 136
Currency translation	322	-71
Expected return on plan assets	193	183
Contributions to the plan	645	566
Actuarial losses	-1 062	398
Fair value of plan assets as at 31 December	4 309	4 211

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

	2012	2011
Equity instruments	48 %	47 %
Bonds	48 %	50 %
Annuities	1 %	1 %
Other assets	3 %	2 %
Plan assets	100 %	100 %

Movements in the net liability for defined benefit obligations: Amounts in USD 1 000

Unfunded obligations:	2012	2011
Net liability for defined benefit obligations at 1 January	-4 098	-3 317
Currency translation	-315	74
Transfer from funded to unfunded obligation	-	-
Expense recognised in the income statement	596	-856
Net liability at 31 December	-3 816	-4 098
Funded obligations:		
Net liability for defined benefit obligations at 1 January	-1 068	-618
Currency conversion	-82	14
Transfer from funded to unfunded obligation	-	-
Expense recognised in the income statement	-1 216	-1 029
Contributions to the plan	645	566
Net liability for funded pension plans at 31 December	-1 721	-1 068

Movements in liabilities for defined benefit obligations: Amounts in USD 1 000

Unfunded obligations	2012	2011
Gross liability for defined benefit obligations at 1 January	-3 734	-3 913
Correction of previous year	1 777	-
Currency conversion	-286	89
Current service costs	-1 395	-641
Interest on pension liability	-76	-173
Change from funded to unfunded	-	-
Actuarial losses/gains	381	904
Gross liability at 31 December	-3 334	-3 734

Funded obligations		
Gross liability for defined benefit obligations at 1 January	-5 997	-4 555
Currency conversion	-459	103
Current service costs	-1 133	-948
Interest on pension liability	-228	-209
Actuarial losses/gains	3 084	-389
Gross liability at 31 December	-4 733	-5 997

Expense (-) / income recognised in the income statement:

Unfunded obligations:		
Current service expenses	-1 335	-685
Past service expenses	1 978	-
Interest on obligation	-73	-185
Actuarial losses/gains	-	-45
Corrections previous years	-	-
Total	570	-915

Funded obligations:		
Current services expenses	-1 084	-1 013
Interest on obligation	-218	-223
Recognised actuarial losses	-47	-60
Expected return on plan assets	185	196
Corrections previous years	-	-
Total	-1 163	-1 100
Net pension expenses	-593	-2 015

The pension expense is recognised in the following line in the income statement:

Salaries and personnel expenses	-593	-2 015

Actuarial assumptions at the balance sheet date expressed as weighted averages.

Assumptions used in the calculation of pension obligations are as follows:

	2012	2011
Discount rate at 31 December	3.85 %	3.00 %
Expected return on plan assets at 31 December	4.50 %	4.00 %
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

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Sensitivity Analysis:

Funded Pension Plans:

A decrease in the discount rate of 0.25% - point (to 3.60%) will have an effect in Service Cost (SC) of 6.5% reduction and reduce the projected benefit obligation (PBO) by 6.3%. A 0.25% - point increase in expected salary and pension regulation growth (G), will cause an effect of 3.3% and 3.2% on both the SC and PBO respectively.

Unfunded Pension Plans:

A 0.25% - point decrease in the discount rate (to 3.60%) gives an increase in SC and PBO of 6.1% and 5.8% respectively. A 0.25% - point increase in future salaries and the official pension index (G), gives a 3.1% and 2.8% increase in both SC and PBO respectively.

Historical Information:

Amounts in USD 1 000	2012	2011	2010	2009	2008
Present value of the defined benefit obligations	-8 066	-9 731	-8 075	-6 501	-4 182
Fair value of plan assets	4 309	4 211	3 136	2 512	1 575
Deficit in the plan (-)/Excess in the plan	-3 757	-5 520	-4 939	-3 989	-2 607
Experience adjustments arising on plan liabilities	-43.0 %	-5.3 %	3.8 %	-8.4 %	-13.6 %
Experience adjustments arising on plan assets	-24.7 %	9.4 %	-4.2 %	-14.1 %	-22.1 %

Note 6 - Other operating expenses

Amounts in USD 1 000	2012	2011
Directly attributable operational expenses	42 486	42 637
Administration expenses	14 499	8 509
Agency fees	2 562	2 595
Insurance	3 526	3 547
Bunkers	1 842	1 036
Consulting services	244	374
Other operating expenses	327	361
Total	65 485	59 059

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 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 crew sick leave in accordance with applicable laws and regulations. The working environment on board the units is considered to be good. Sick leave has been low during the past years and ended up at 1.7% in 2012, the same level as the previous year. There were no Lost Time Injuries for the fleet under operation recorded in 2012 vs. four Lost Time Injuries in 2011.

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	2012	2011
Statutory audit fees	309	346
Tax and assurance services	3	23
Total	312	369

Note 7 - Tax expenses

Amounts in USD 1 000	2012	2011
Tax expense		
Current tax expenses:		
Norway	-	-
Singapore	342	-72
Africa	8 641	8 958
Total current tax expense	8 983	8 886
Deferred income tax expense/(gain)		
Total tax expense	8 983	8 886

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	2012		2011	
Income (loss) before tax		10 835		-20 059
Domicile tax using the applicable corporate tax rate	28.0 %	3 034	28.0 %	-5 617
Effect of tax rate and tax base in foreign subsidiaries 1)	49.5 %	5 364	-78.1 %	15 675
Change in limitation of deferred tax assets related to tax loss carry forward	5.4 %	585	5.8 %	-1 172
Total	82.9 %	8 983	-44.3 %	8 886

1) The effect of withholding taxes and Singapore tax remunerated abroad are accounted for as part of income tax expense.

Note 8 - Deferred tax assets and liabilities

	Assets		Liabilities		Net	
Amounts in USD 1 000	2012	2011	2012	2011	2012	2011
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	2012	2011
Deductible temporary differences	14 785	16 810
Tax loss carry forwards	45 416	30 596
Total unrecognised deferred tax assets	60 201	47 407

Unrecognized 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 analyze 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 counterparty 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	2012	2011
Short-term receivables	18	20 423	28 299
Cash and cash equivalents	10	68 060	68 791
Interest rate swaps and currency contracts used for hedging	15	-3 871	-5 330
Total		84 613	91 760

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	2012	2011
Norway	7 138	1 669
Africa	8 525	21 868
Asia	4 164	2 460
Other	597	2 301
Total	20 423	28 299

The Group has established a credit policy under which each new customer is analyzed 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	2012	2011
Contractual	20 423	28 299
Total	20 423	28 299

The Group's three most significant customers account for $10,088 of the short-term trade receivables carrying amount at 31 December 2011 (2011: $20,694). An overview of total receivables is provided in note 18.

The four largest customers comprise 65 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	2012	2011
Not past due	19 331	22 220
Past due 0 - 30 days	447	-
Past due 31 - 90 days	21	79
Past due 91 - 180 days	256	134
Past due 181 - 365 days	131	3 577
More than one year	237	2 288
Total	20 423	28 299

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 loss attributable to this investment is $1.7 million (gain in 2011: $2.7 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)	140 000	172 376	914	914	32 181	17 839	120 527
Amounts payable (Trade A/P)	1 223	1 223	612	612			
Amounts payable (Interest Rate Swaps)	3 871	3 871	758	758	673	1 682	-

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 2012 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 2012 the Group had three outstanding interest rate swaps. Two swaps run until 2013 and have notional amounts of USD 19.3 million and USD 25.0 million. The last swap has a notional amount of USD 36 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. 57% 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 unrealized loss relating to interest rate hedges is USD 3.9 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 2012 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 46 thousand. 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	2012	2011
Restricted deposit related to payroll tax withholdings	228	411
Bank Deposits	67 832	68 379
Total cash and cash equivalents	68 060	68 791

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 as at 1 January 2011	105 930	17 090	-93	305 009	14 174	3 329	-84 789	254 719
Net result for the period							-28 946	-28 946
Unrealised foreign currency loss					226			226
Purchase of own shares			-107				-686	-793
Changes in fair values, recognised directly in equity						-2 669		-2 669
Impairment of asset classified as available-for-sale						-55		
Transfer of share premium reserve to free reserves				-305 009			305 009	
Dividends distributed							-9 044	
Balance as at 1 January 2012	105 930	17 090	-200	0	14 400	606	181 544	213 440
Net result for the period							1 851	1 851
Unrealised foreign currency gain					86			86
Changes in fair values, recognised directly in equity						-1 681	-4	-1 685
Balance as at 31 December 2012	105 930	17 090	-200	0	14 486	-1 074	183 391	213 692

As at 31 December 2012, the authorized share capital comprised of 105,930 thousand common shares (2011: 105,930 thousand). The common shares have a par value of NOK 1 (2011: NOK 1); all shares are fully paid.

In fiscal 2012, 61.54% of shares in Fred. Olsen Production ASA are fully paid in and owned by First Olsen Ltd (2011: 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 set 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 Company purchased its own shares during the second quarter of 2009 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 this balance is netted with retained earnings in the statement of financial position.

The Company again purchased its own shares during the third quarter of 2011 on the basis of an authorization at the Annual General Meeting in May 2011 for the Board of Directors to acquire up to 10,593,000 shares, corresponding to 10% of the share capital of the Company. The combined, current year, par value of the shares purchased at 31 December 2011 is $107,107. Total shares purchased represent 1.13% of the total outstanding shares or a total of 1,200,000 shares, and the average purchase price was NOK 6.20 and NOK 7.38 per share respectively.

The balance presented as own shares is presented together with retained earnings in the consolidated statement of financial position.

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Earnings per share

The calculation of basic earnings per share at 31 December 2012 is based on the profit attributable to ordinary shareholders of $1,851 thousand (2011: $(28,946) thousand) and a weighted average number of ordinary shares outstanding of 105,930 thousand (2011: 105,930 thousand).

The calculation of diluted earnings per share at 31 December 2012 is based on the profit attributable to ordinary shareholders of $1,851 thousand (2011: $(28,946) 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 (2011: 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 2011	105 930	1	105 930	17 090
Number of shares as at 31 December 2012	105 930	1	105 930	17 090

Earnings per share (amounts in USD 1000)	2012	2011
Net (loss) profit	1 851	-28 946
Weighted average number of ordinary shares:		
at 1 January 2011		105 930
at 31 December 2011		105 930
Weighted average number of ordinary shares:		
at 1 January 2012	105 930	
at 31 December 2012	105 930	
Basic earnings per share	0.02	-0.27
Diluted earnings per share	0.02	-0.27

An overview of the top 20 shareholders at 31 December 2012 is as follows:

Shareholder	Country	# shares held	% ownership of shares
First Olsen Ltd.	BMU	65 191 200	61.54 %
Geveran Trading Co. Ltd.	CYP	10 338 187	9.76 %
Skandinaviska Enskilda Banken (Oslofilialen)	NOR	7 977 335	7.53 %
Skandinaviska Enskilda Banken (Client Account)	SWE	4 638 107	4.38 %
Odin Offshore	NOR	4 256 642	4.02 %
Skagen Vekst	NOR	3 000 000	2.83 %
Morgan Stanley & Co.	USA	1 422 900	1.34 %
Fred. Olsen Production ASA	NOR	1 200 000	1.13 %
Marubeni Corporation	JPN	692 200	0.65 %
Pactum AS	NOR	500 000	0.47 %
Nordea SMB c/o JP Morgan Europe	NOR	485 376	0.46 %
JP Morgan Chase Bank Nordea	GBR	380 465	0.36 %
SEB London a/c SEB AB/CMU	SWE	316 180	0.30 %
Statoil Pensjon c/o JP Morgan Chase	NOR	249 069	0.24 %
Skandinaviska Eskil SEB/CMU	SWE	244 192	0.23 %
Spar Kapital Investor Norge	NOR	200 000	0.19 %
Mårten Lunde	NOR	185 000	0.17 %
Skagen Vekst III	NOR	153 500	0.14 %
PIMA AS c/o Eirik Flatebø	NOR	150 000	0.14 %
EGD Holding AS	NOR	129 600	0.12 %
Total (above)		101 709 953	96.02 %
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 2012 is as follows:

Shareholder	Position	# shares held	% ownership of shares
Eirik Barclay	CEO	-	0.00 %
Paal Hylin	COO	51 000	0.05 %
Jørn Røkaas*	CFO	-	0.00 %
Ivar Brandvold	Chairman	-	0.00 %
Anette S. Olsen **	Board	-	0.00 %
Siv J. Staubo	Board	-	0.00 %
Agnar Gravdal	Board	-	0.00 %
Jan Peter Valheim	Board	-	0.00 %
Total (above)		51 000	0.05 %
Total shares outstanding		105 930 000	100.00 %

* As at December 31, 2012, Jørn Røkaas held 28,500 shares through a company he owned and/or controlled 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	2012	2011
Non-current liabilities		
Mortgage loan	140 000	168 558
Current liabilities		
Mortgage loan	-	2 145

Debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Total 2012	Current Liability 2013	Non-current liabilities 2014 - 2016	Non-current liabilities 2017 and thereafter
Mortgage loan incl. capitalised loan fees	140 000	-	28 500	111 500

As at 31 July 2012 all legal fees and other capitalized costs incurred to establish the credit facility agreement have been expensed. The debt repayment schedule is presented exclusive of capitalised legal fees and credit facility costs.

Adoon Pte. Ltd., Knock Allan Pte. Ltd. and Nautipa AS (collectively referred to as "the borrowers") have a revolving reducing credit facility of up to USD 475 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 set of financial covenants; 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%.

Per year-end 2012 USD 140,000,000 (2011: USD 170,702,500) 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 2012, 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 of companies.

Overview of transactions with related parties

Amounts in USD 1 000	2012	2011
Management fee		
Associated companies (Fred. Olsen Marine Services AS)	3 252	3 446
Administrative services		
Associated companies (First Olsen Ltd.)	277	64
Associated companies (Knock Tankers Ltd.)	38	53
Operating expenses		
Associated company (Fred. Olsen & Co.)	884	999
Vessel Working Capital		
Associated companies (Fred. Olsen Marine Services AS)	5 836	1 308
Employee loans (from First Olsen Ltd.)		
Key Management	28	78

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	2012	2011
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.	Liquidated		100 %
Adoon Pte. Ltd.	Singapore	100 %	100 %
Knock Allan 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 2012	Year-end rate 2012	Average rate 2011	Year-end rate 2011
Norway	USD	5.8172	5.5664	5.6074	5.9927

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	2012	2011
Expenses associated with commissioning of vessels	-	855
Interest rate swaps	3 871	5 330
Current portion of deferred income	2 722	2 722
Accrued interest	1 258	1 022
Other current liabilities	3 793	3 712
Fuel	-	229
Insurance and other claims	-	598
Accruals re. agency fees	34	34
Total	11 678	14 502

The current portion of deferred income is representative of a prepayment recieved from Addax. The long-term portion of deferred income is $2.041 million (2011: $4.764 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	2012	2011
Income taxes payable	-	-
Withholding tax payable	4 551	4 274
Total taxes payable	4 551	4 274

Note 16 - Joint ventures

Tinworth Pte. Ltd. operates the FPSO Petroléo Nautipa offshore Gabon. Nautipa AS, a fully owned subsidiary of Fred. Olsen Production ASA, along with Prosafe Nautipa AS a fully owned subsidiary of BW Offshore Ltd., 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	2012	2011
Assets	16 733	14 087
Liabilities	1 410	481
Equity	15 323	13 606
Net income	6 717	2 293

Note 17 - Other investments

Non-current investments	Fred. Olsen Production (West Africa) Ltd. (FOPWAL)
Ownership percentage at 31.12.2012	40 %
Purchase price (currency)	USD
Purchase price	44
Carrying amount at 31.12.2012 (USD)	52
Total equity in the company (currency)	USD
Total equity in the company	421
Profit 2012 in the company (currency)	USD
Profit 2012 in the company	70
Ownership percentage at 31.12.2011	40 %
Carrying amount at 31.12.2011 (USD)	49

Investments in associates are accounted for using the equity method.

Amounts in USD 1 000	2012	2011
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	2012	2011
Investments held for trading	2 862	4 542

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	2012	2011
Trade receivables	15 900	21 964
Other short term receivables	4 524	6 335
Total	20 423	28 299

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 oilfield. 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 2012.

The contracts generated revenues of USD 113 million in 2012 (2011: USD 110 million).

In Q4-2012, the Company (as guarantee debtor) and DNB Bank ASA (as guarantor) provided a guarantee amount equivalent to USD 5 million to Citibank Nigeria Limited (as beneficiary) for import duties. As at 14 January 2013, the guarantee was deleted and all parties were released from their obligations.

Note 20 – 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	2012	2011
REVENUE			
Administration fees	5	3 620	3 739
Other income		-	25
Gain on sale of vehicle		2	41
TOTAL REVENUE	9	3 622	3 805
Operating expense			
Salaries and other personnel costs	10	2 695	5 924
Consulting services		192	273
Depreciation	3	54	70
Directly attributable operating expenses	5	551	569
Other operating expenses	7	4 510	2 454
TOTAL OPERATING EXPENSES		8 001	9 290
OPERATING LOSS		-4 379	-5 485
Financial items			
Net interest expense (external)		-518	-823
Net interest income (Group)	5	3 932	5 001
Net foreign exchange loss (external)		-251	-981
Net foreign exchange gain (Group)		-	-
Dividend	5	509	56
Loss on intercompany receivables	11	-	-5 714
Write down of shares in subsidiary	4	-	-373
Other financial items		-1 286	-1 172
NET FINANCIAL ITEMS		2 386	-4 006
LOSS BEFORE TAX		-1 993	-9 492
Tax expense	8	-185	-268
LOSS FOR THE PERIOD		-2 178	-9 760
Attributable to:			
Equity holders of the Parent		-2 178	-9 760
Loss for the period		-2 178	-9 760
Basic earnings per share	2	-0.02	-0.09
Diluted earnings per share	2	-0.02	-0.09

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	2012	2011
ASSETS			
Fixed assets	3	142	233
Shares in subsidiaries	4	70 506	70 506
Group loans receivable	5, 11	185 999	181 841
TOTAL NON-CURRENT ASSETS		256 647	252 580
Short-term receivables	5	4 292	1 255
Other current assets		398	2 196
Cash and cash equivalents	6	21 461	29 945
TOTAL CURRENT ASSETS		26 152	33 396
TOTAL ASSETS		282 798	285 976
EQUITY AND LIABILITIES			
Share capital		17 090	17 090
Translation reserve		17 680	17 680
Retained earnings		228 588	240 281
TOTAL EQUITY	2	263 357	275 050
Interest bearing long-term Group loans	5	885	981
Pension liabilities	12	5 536	5 166
TOTAL NON-CURRENT LIABILITIES		6 421	6 147
Trade payables		20	678
Group accounts payable	5	-	25
Payroll tax withhold. empl contrib. etc.		910	1 151
Taxes payable		180	180
Dividend payable	2	9 515	-
Other current liabilities		2 395	2 745
TOTAL CURRENT LIABILITIES		13 020	4 779
TOTAL EQUITY AND LIABILITIES		282 798	285 976

The footnotes are an integral part of these financial statements.

Oslo, 08 April 2013

Fred. Olsen Production ASA

Ivar Brandvold	Siv Jønland Staubo	Anette S. Olsen	Agnar Gravdal	Eirik Barclay
Chairman				*Chief Executive Officer*

Fred. Olsen Production ASA

Statement of Cash Flows

For the years ended 31 December

Amounts in USD 1 000	Note	2012	2011
Cash flows from operating activities			
Loss before tax		-1 993	-9 491
Adjusted for:			
Depreciation	3	54	70
Changes in trade and other receivables		-1 240	-198
Realised loss on investments held	4	-	373
Changes in trade and other payables		818	-6 855
Net (gain) loss on sale of property, plant and equipment		-2	-41
Unrealised (gain) loss on interest rate swaps		-752	-643
Changes in other balance sheet items		370	1 623
Cash generated from operation		-2 745	-15 162
Tax paid		-185	-268
Net cash used for operating activities		-2 930	-15 430
Cash flows from investing activities			
Conversion of Group loans to equity		-	-373
Net settlement of intercompany loans			28 923
Purchases of property, plant and equipment	3	-	-191
Proceeds from sale of property, plant and equipment		39	110
Purchase of own shares		-	-793
Net cash used for investing activities		39	27 676
Cash flow from financing activities			
(Decrease)/increase in borrowings		-4 254	-10 931
Settlements of interest rate swaps		-1 339	-1 533
Repayment of investment		-	3 400
Net cash from financing activities		-5 593	-9 063
Net changes in cash and cash equivalents		-8 484	3 182
Cash and cash equivalents at 1 January		29 945	26 762
Cash and cash equivalents at 31 December		21 461	29 945

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 2012 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 2011	105 930	17 090	-93	-	17 680	250 925	285 602
Net result for the period						-9 759	-9 759
Purchase of own shares			-107			-686	-793
Balance as at 1 January 2012	105 930	17 090	-200	-	17 680	240 481	275 050
Net result for the period						-2 178	-2 178
Dividend						-9 515	-9 515
Balance as at 31 December 2012	105 930	17 090	-200	-	17 680	228 788	263 357

As at 31 December 2012, the authorized share capital comprised of 105,930 thousand common shares (2011: 105,930 thousand). The common shares have a par value of NOK 1 (2011: NOK 1); all shares are fully paid.

In fiscal 2012, 61.54% of shares in Fred. Olsen Production ASA are fully paid in and owned by First Olsen Ltd (2011: 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 was 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 Company purchased its own shares during the second quarter of 2009 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.

The Company again purchased its own shares during the third quarter of 2011 on the basis of an authorization at the Annual General Meeting in May 2011 for the Board of Directors to acquire up to 10,593,000 shares, corresponding to 10% of the share capital of the Company. The combined, current year, par value of the shares purchased at 31 December 2011 is $107,107.

Total shares purchased represent 1.13% of the total outstanding shares or a total of 1,200,000 shares, and the average purchase price was NOK 6.20 and NOK 7.38 per share respectively.

The balance presented as own shares is presented together with retained earnings in the balance sheet.

..the note continues on the next page

Earnings per share

The calculation of basic earnings per share at 31 December 2012 is based on the loss attributable to ordinary shareholders of USD -2,178 thousand (2011: USD -9,759 thousand) and a weighted average number of ordinary shares outstanding of 105,930 thousand (2010: 105,930 thousand).

The calculation of diluted earnings per share at 31 December 2012 is based on the loss attributable to ordinary shareholders of USD -2,178 thousand (2011: USD -9,759 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 (2011: 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 2011	105 930	1	105 930	17 090
Number of shares as at 31 December 2012	105 930	1	105 930	17 090

Earnings per share (amounts in USD 1000)	2012	2011
Net (loss) profit	-2 178	-9 759
Weighted average number of ordinary shares:		
at 1 January 2011		105 930
at 31 December 2011		105 930
Weighted average number of ordinary shares:		
at 1 January 2012	105 930	
at 31 December 2012	105 930	
Basic (loss) earnings per share	-0.02	-0.09
Diluted (loss) earnings per share	-0.02	-0.09

An overview of the top 20 shareholders at 31 December 2012 is as follows:

Shareholder	Country	# shares held	% ownership of shares
First Olsen Ltd.	BMU	65 191 200	61.54 %
Geveran Trading Co. Ltd.	CYP	10 338 187	9.76 %
Skandinaviska Enskilda Banken (Oslofilialen)	NOR	7 977 335	7.53 %
Skandinaviska Enskilda Banken (Client Account)	SWE	4 638 107	4.38 %
Odin Offshore	NOR	4 256 642	4.02 %
Skagen Vekst	NOR	3 000 000	2.83 %
Morgan Stanley & Co.	USA	1 422 900	1.34 %
Fred. Olsen Production ASA	NOR	1 200 000	1.13 %
Marubeni Corporation	JPN	692 200	0.65 %
Pactum AS	NOR	500 000	0.47 %
Nordea SMB c/o JP Morgan Europe	NOR	485 376	0.46 %
JP Morgan Chase Bank Nordea	GBR	380 465	0.36 %
SEB London a/c SEB AB/CMU	SWE	316 180	0.30 %
Statoil Pensjon c/o JP Morgan Chase	NOR	249 069	0.24 %
Skandinaviska Eskil SEB/CMU	SWE	244 192	0.23 %
Spar Kapital Investor Norge	NOR	200 000	0.19 %
Mårten Lunde	NOR	185 000	0.17 %
Skagen Vekst III	NOR	153 500	0.14 %
PIMA AS c/o Eirik Flatebø	NOR	150 000	0.14 %
EGD Holding AS	NOR	129 600	0.12 %
Total (above)		101 709 953	96.02 %
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 2012 is as follows:

Shareholder	Position	# shares held	% ownership of shares
Eirik Barclay	CEO	-	0.00 %
Paal Hylin	COO	51 000	0.05 %
Jørn Røkaas*	CFO	-	0.00 %
Ivar Brandvold	Chairman	-	0.00 %
Anette S. Olsen **	Board	-	0.00 %
Siv J. Staubo	Board	-	0.00 %
Agnar Gravdal	Board	-	0.00 %
Jan Peter Valheim	Board	-	0.00 %
Total (above)		51 000	0.05 %
Total shares outstanding		105 930 000	100.00 %

* As at December 31, 2012, Jørn Røkaas held 28,500 shares through a company he owned and/or controlled 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 2011	245	72	74	392
Additions	191	-	-	191
Disposals	-182	-	-	-182
Balance at 31 December 2011	255	72	74	401
Balance at 1 January 2012	255	72	74	401
Additions	-	-	-	-
Disposals	-63	-	-	-63
Balance at 31 December 2012	191	72	74	338
Depreciation and impairment losses				
Balance at 1 January 2011	89	63	59	211
Depreciation for the year	53	5	12	70
Disposals	-113	-	-	-113
Balance at 31 December 2011	28	68	71	168
Balance at 1 January 2012	28	68	71	168
Depreciation for the year	48	4	2	54
Disposals	-26	-	-	-26
Balance at 31 December 2012	49	72	74	196
Carrying amounts				
At 1 January 2011	157	9	14	180
At 31 December 2011	227	4	2	233
At 1 January 2012	227	4	2	233
At 31 December 2012	142	-	-	142

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 %	17	-7	65	-	-	65
FOP Pte. Ltd.	Singapore	USD	100 %	9 077	2 139	-	-	-	-
Knock Taggart Pte. Ltd.	Singapore	USD	100 %	762	-418	8 000	-7 200	-	800
Knock Borgen Pte. Ltd.	Singapore	USD	100 %	853	-28	6 000	-5 200	-	800
Nautipa AS	Oslo	USD	100 %	7 836	-114	12 999	-	-	12 999
Taggart AS	Oslo	USD	100 %	3 032	-10 057	38 720	1 285	40 005	-
Dee AS	Oslo	USD	100 %	411	-2 179	8 720	6 166	14 886	-
Adoon AS	Oslo	USD	100 %	5 960	-42	28 664	-	-	28 664
Nevis 1 AS	Oslo	USD	100 %	67	1	35 836	373	36 210	-
Allan AS	Oslo	USD	100 %	17 915	-1 200	27 133	-	-	27 133
Fred. Olsen Production (West Africa) Ltd.	Nigeria	Naira	40 %	421	70	44	-	-	44
Total						166 182	-4 576	91 101	70 506

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 2012, 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	2012	2011
Dividends		
Dividend from Dee AS paid to Fred. Olsen Production ASA	509	-
Dividend from own shares	-	56
Administration fee		
Subsidiaries	3 620	3 739
Management fee		
Associated company (Fred. Olsen Marine Services AS)	551	569
Administrative services		
Associated company (First Olsen Ltd.)	52	64
Associated company (Knock Tankers Ltd.)	38	-
Operating expenses		
Associated company (Fred. Olsen & Co.)	884	999
Interest income		
Subsidiaries	3 932	5 001
Asset - receivable within 1 year		
Subsidiaries	3 389	1 255
Asset - receivable within 5 years		
Subsidiaries	185 999	181 841
Debt - due within 1 year		
Subsidiaries	20	25
Debt - due within 5 years		
Subsidiaries	885	981
Employee loans (from First Olsen Ltd.)		
Key Management	28	78

Note 6 - Cash and cash equivalents

Amounts in USD 1 000	2012	2011
Restricted deposit related to payroll tax withholdings	228	411
Bank Deposits	21 233	29 533
Total cash and cash equivalents	21 461	29 945

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	2012	2011
Administrative support (IT, Legal)	689	773
Other consulting services	163	568
Travel expenses	277	530
General administrative expenses	391	354
Office rent	194	220
Sales and marketing expenses	2 509	159
Statutory audit fees*	107	137
Postage/communication	105	134
Insurance	73	92
Company vehicles	41	82
Tax and assurance services*	3	23
Legal services	1	19
Recharged to projects	-43	-636
Total	4 510	2 454

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

Note 8 - Tax

Amounts in USD 1 000	2012	2011
Net profit before tax	-1 993	-9 491
Received group contribution	-	-
Other permanent differences	338	-388
Changes in temporary differences	-24 419	-5 749
Basis for tax payable	-	-
Tax effect of group contribution	-	-
Changes in deferred tax	-	-
Tax (expense)/income	-	-
Schedule of temporary differences		
Property, plant and equipment	48	74
Foreign debt	-15	-
Receivables	-	-
Loss carryforward	-100 363	-76 192
Provisions	-970	-381
Pension Liabilities	-5 536	-5 166
Financial Instruments	-429	-1 181
Prior year effect of currency fluctuation	-	-
Sum of temporary differences	-107 266	-82 847
Deferred tax assets (@ 28%)	-30 034	-23 197

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.

Note 9 - Revenues

Geographical distribution

Amounts in USD 1 000	2012	2011
Norway	2	41
Singapore	3 620	3 764
United Kingdom	-	-
Total	3 622	3 805

Note 10 - Salaries and personnel expenses

Amounts in USD 1 000	2012	2011
Salaries and personnel expenses		
Salaries **	1 375	2 551
Remuneration of bonuses	747	347
Social security tax	627	704
Pension Expenses *	-268	2 015
Other	125	215
Total	2 606	5 832
Number of employees at the end of the year **	19	19
Average number of employees **	19	20
Payment to CEO		
Salary	300	432
Bonus	-	106
Pension expenses	240	271
Total	541	809

Eirik Barclay has been employed since 01 January 2012; comparative figures are provided for the former CEO.

Payment to COO		
Salary	441	433
Bonus	102	93
Pension expenses	265	221
Total	808	747

Paal Hylin has been employed since 2 February 2005.

* The current year pension expense is offset by a USD 861 thousand change in estimate.
** All employees within the Group are full-time employees. During a fiscal year, each employee represents one full year of service. During 2012, five employees were sub-contracted.

..the note continues on the next page

Amounts in USD 1 000	2012	2011
Payment to CFO		
Salary	302	310
Bonus	68	67
Pension expenses	162	136
Total	532	513

Jørn Røkaas has been employed since 1 January 2009.

Board Remuneration		
Per-Oscar Lund (Chairman - Retired)	-	24
Ivar Brandvold (Chairman)	26	3
Anette S. Olsen	17	18
Siv J. Staubo	17	18
Agnar Gravdal	17	18
Jan Peter Valheim (Alternate)	10	11
Total	88	92

Loans to senior management and directors *

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 COO has an interest free loan from First Olsen Ltd. of approximately $28,000 (NOK 158,000) related to the acquisition of shares in the Company. No other members of senior management or directors have outstanding loans. 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 2012. 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 2012 is $969,850 (2011: $381,464).

Bonuses under the scheme range from 10% to 60% of the relevant employees' annual salary and are subject to the Group achieving certain pre-defined financial criteria such as budget target and individuals achieving personal Key Performance Indicators (KPI's). 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.

* Loans to senior management and directors have decreased as compared to the prior year. These loans are held in NOK and have decreased as a result of voluntary repayment.

Note 11 - Interest-bearing loans and borrowings

	Total	Current asset	Non-current asset	
Amount in USD 1 000	2012	2013	2014-2016	2017 and thereafter
Loans to subsidiaries	185 999	-	-	185 999

The Company continuously evaluates its subsidiaries cash flows and corresponding ability to pay amounts outstanding. During the year, it was determined that all amounts owing from subsidiary companies are recoverable.

Knock Dee Pte Ltd was liquidated during the year, however this did not result in any impairments or debt forgiveness.

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. 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. 19 employees were included in the pension plan at 31st December 2012.

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	2012	2011
Present value of unfunded obligations	-3 334	-3 734
Present value of funded obligations	-4 733	-5 997
Total present value of obligations	-8 066	-9 731
Fair value of plan assets (unfunded)	-	-
Fair value of plan assets (funded)	4 309	4 211
Present value of net obligations	-3 757	-5 520
Unrecognised past service costs (not yet vested)	-	-
Unrecognised actuarial gains and losses	-1 779	354
Recognized net liability for defined benefit obligations	-5 536	-5 166
Hereof unfunded pension plans (net liability)	-3 816	-4 098
Hereof funded pension plans (net liabilities)	-1 721	-1 068
Recognized net obligation of defined benefit obligations	-5 536	-5 166

Movements in Plan Assets:		
Fair value of plan assets	4 211	3 136
Currency translation	322	-71
Expected return on plan assets	193	183
Contributions to the plan	645	566
Actuarial losses	-1 062	398
Fair value of plan assets as at 31 December	4 309	4 211

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	48 %	47 %
Bonds	48 %	50 %
Annuities	1 %	1 %
Other assets	3 %	2 %
Plan assets	100 %	100 %

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Amounts in USD 1 000:	2012	2011
Movements in the net liability for defined benefit obligations:		
Unfunded obligations		
Net liability for defined benefit obligations at 1 January	-4 098	-3 317
Currency translation	-315	74
Transfer from funded to unfunded obligation	-	-
Expense recognised in the income statement	596	-856
Net liability at 31 December	-3 816	-4 098
Funded obligations:		
Net liability for defined benefit obligations at 1 January	-1 068	-618
Currency conversion	-82	14
Transfer from funded to unfunded obligation	-	-
Expense recognised in the income statement	-1 216	-1 029
Contributions to the plan	645	566
Net liability for funded pension plans at 31 December	-1 721	-1 068
Movements in liabilities for defined benefit obligations:		
Unfunded obligations		
Gross liability for defined benefit obligations at 1 January	-3 734	-3 913
Correction of previous year	1 777	-
Currency conversion	-286	89
Current service costs	-1 395	-641
Interest on pension liability	-76	-173
Change from funded to unfunded	-	-
Actuarial losses/gains	381	904
Gross liability at 31 December	-3 334	-3 734
Funded obligations		
Gross liability for defined benefit obligations at 1 January	-5 997	-4 555
Currency conversion	-459	103
Current service costs	-1 133	-948
Interest on pension liability	-228	-209
Actuarial losses/gains	3 084	-389
Gross liability at 31 December	-4 733	-5 997
Expense (-) / income recognised in the income statement:		
Unfunded obligations:		
Current service expenses	-1 335	-685
Past service expenses	1 978	-
Interest on obligation	-73	-185
Actuarial losses/gains	-	-45
Corrections previous years	-	-
Total	570	-915
Funded obligations:		
Current services expenses	-1 084	-1 013
Interest on obligation	-218	-223
Recognised actuarial losses	-47	-60
Expected return on plan assets	185	196
Corrections previous years	-	-
Total	-1 163	-1 100
Net pension expenses	-593	-2 015
The pension expense is recognised in the following line in the income statement:		
Salaries and personnel expenses	-593	-2 015

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

	2012	2011
Discount rate at 31 December	3.85 %	3.00 %
Expected return on plan assets at 31 December	4.50 %	4.00 %
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 3.60%) will have an effect in Service Cost (SC) of 6.5% reduction and reduce the projected benefit obligation (PBO) by 6.3%. A 0.25% - point increase in expected salary and pension regulation growth (G), will cause an effect of 3.3% and 3.2% on both the SC and PBO respectively.

Unfunded Pension Plans:

A 0.25% - point decrease in the discount rate (to 3.60%) gives an increase in SC and PBO of 6.1% and 5.8% respectively. A 0.25% - point increase in future salaries and the official pension index (G), gives a 3.1% and 2.8% increase in both SC and PBO respectively.

Auditor's Report

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

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 financial statements comprise the balance sheet as at 31 December 2012, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2012, 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 parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated 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.

Auditor's Report

KPMG

Independent auditor's report 2012
Fred. Olsen Production ASA

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Fred. Olsen Production ASA as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Fred. Olsen Production ASA and its subsidiaries as at 31 December 2012, and of its financial performance and its 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 and Report on corporate governance

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 and Report on corporate governance concerning the financial statements, the going concern assumption and coverage of the loss 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 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, 15 April 2013
KPMG AS

Asbjørn Næss
Authorized accountant

Corporate Governance

The Board of Director's principals on corporate governance are based on the Norwegian Code of Practice for Corporate Governance (NUES) published in a revised version in the autumn of 2011, applied to the organizational structure of the Fred. Olsen Production Group of Companies (hereafter "the Group") and Fred. Olsen Production ASA (the "Company). The presentation is in the same order of topics as the fifteen items in the recommendation.

1. Presentation of corporate governance

The Group's principles of good corporate governance are based on the principals on the Norwegian Code of Practice for Corporate Governance (NUES) as adapted to the organizational structure of the Group. The Group is focusing on a continuing development of these principals as a contributor towards the Group's long term added value as well as towards the Group's general responsibility towards the society.

Significant parameters in this process are transparency, integrity and responsibility. Transparency points to confidence towards procedures and decision making and the way in which the various activities of the Company are executed. In this connection the Company's policy on information is essential. Integrity is the resulting effect of the norms that characterize the Company and which contribute in securing a proper conduct of the Company's affairs.

A core element of governance has been the implementation of the Codes of Conduct which were jointly developed by the Group and Fred. Olsen Marine Services (FOM). In carrying out their duties, assignments or appointments for the Group, all employees are expected to follow high standards of ethical and non-discriminatory behaviour. Procedure dictates that these Codes of Conduct are to be maintained and as such, these will be reviewed in the upcoming fiscal period.

The operation of FPSOs takes place in a range of countries and jurisdictions with personnel whose background and cultures are multifaceted. We have therefore implemented the Codes of Conduct to be observed by all personnel representing our companies in order to develop a uniform standard of behaviour, maintain our ethical standards and operate a transparent business. These Codes of Conduct provide our representatives with the necessary guidance required to execute responsible decisions in the best interest of the company. The Codes of Conduct are available on the company website www.fpso.no.

2. 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. In carrying out their duties, assignments or appointments for the Group, all employees are expected to follow high standards of ethical and non-discriminatory behaviour.

3. Equity and dividends

Equity

The equity of the Group is addressed in the consolidated financial statement note 11 and for the Company in note 2. The Board considers that the current equity level is satisfactory taking into account the Group and the Company's financial position relative to strategy and risk profile.

The Board of Directors has been provided with an authorization from the General Meeting to issue new shares up to a maximum of 10% of the current outstanding share capital of the Company. This 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 also holds authorization from the General Meeting to purchase up to a maximum of 10% of the Company's own shares ("Treasury Shares"). The maximum and minimum price to be paid shall be NOK 1,- and NOK 30,- respectively. This authority equally remains valid until the next Annual General Meeting. The Company holds 1,200,000 Treasury Shares.

Dividend

When considering dividend payments the Company takes into account the development of the Group and Company's results and otherwise it's investment plans and financial position.

4. Treatment of shareholders and transactions with related parties

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. The Board considers it important to pursue a policy of transparency and caution in relation to related party transactions, and the guidelines of directorship for the Company express that special care shall always be duly exercised in these circumstances. Each Director is obliged to inform the Board about possible conflicts of interest and to declare himself/herself being conflicted in such matters. Information on related parties' transactions is provided in note 13 in the consolidated financial statement.

5. Freely negotiable shares

The Company has no restrictions on ownership and voting rights.

6. 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.

7. Nomination committee

Considering that the main shareholder of the Company controls a majority of the shares, it is the current view of the Board of Directors not to appoint a nomination committee.

8. Board of Directors; composition and independence

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. It follows from Norwegian law that 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 four members who are elected for two year at the time and one Alternate Director. All 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. The Company does not have a Corporate Assembly.

9. The work of the Board of Directors

The Company has implemented guidelines for the conduct of the Board of Directors. These guidelines assist in further defining the responsibilities and duties and the administrative procedures of the Board, including identifying which matters to be subject to Board consideration and rules for convening and holding meetings. As such they provide 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 adopts an annual meeting and activity plan that covers strategy, business activities, operational and financial performance of the Group and the Company and oversight activities. The Board's activity plan for 2012 stipulated six meetings, a total of seven meeting was thus held in 2012. The Board of Directors has appointed two permanent Board Committees as described below.

Audit committee

The Audit Committee consisting of two Directors and the Alternate Director 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.

Compensation committee

The Compensation Committee consists of 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.

The Board of Directors:

Mr. Ivar Brandvold, Chairman is the President and Chief Executive Officer of Fred. Olsen Energy ASA from November 2009. Before joining Fred. Olsen Energy ASA, Mr. Brandvold held the position as Chief Operating Officer of DNO International ASA. He previously has 23 years of experience from Norsk Hydro ASA, of which he has held a number of positions within the company's oil and gas activities, including the overall responsibility for Norsk Hydro's global drilling operations from 2002 to 2007. Mr. Brandvold has a Master of Science degree from The Norwegian Institute of Science and Technology (NTNU) in Trondheim, Norway. Mr. Brandvold has been a member of the board since 2011 and his current term expires in 2014. Mr. Brandvold is a Norwegian citizen, resident in Bergen, Norway

Mrs. Anette S. Olsen, Director is the proprietor of Fred. Olsen & Co. which is in charge of managing 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 in number of companies, among others chairman of Fred. Olsen Energy ASA, First Olsen Ltd., Timex Corporation, Fred. Olsen Renewables AS and NHST Media Group AS. Mrs. Olsen has been member of the Board since 2007 and her current term expires in 2013. Anette S. Olsen is a Norwegian citizen and is resident in Oslo, Norway.

Ms. Siv Jønland Staubo, Director is a researcher and senior lecturer at BI, the Norwegian School of Management. Her main field of research is corporate finance and corporate governance in particular. 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 School of Management. Ms. Staubo has previously worked as a consultant on alternative energy resources and with computer technology for oil exploration. Ms. Staubo is chairman of Jason Shipping ASA and a board member of Blom ASA. Ms. Staubo has been member of the Board since 2007 and her current term expires in 2014. 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 holds positions with several boards amongst others Fred. Olsen Energy ASA, GMC Group AS, ScanFarm 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 2013. Agnar Gravdal is a Norwegian citizen, resident in Stavanger, Norway.

Mr. Jan Peter Valheim, Alternate Director is Chief Financial Officer of Fred. Olsen & Co., a position he has held since he resigned as CFO of Fred. Olsen Energy ASA in June 2007, after having served as such 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 2014. Jan Peter Valheim is a Norwegian citizen and is resident in Bærum, Norway.

Corporate Governance

10. Risk management and internal control

The Board of Directors holds responsibility that proper guidelines and internal control processes are implemented and functional. The Group's risk management is developed to ensure that risk evaluation is a fundamental aspect of all business activities. Continuous evaluation of exposure to risk is essential to identifying and assessing risks at all levels.

The Group's risk management policy works to identify, evaluate and manage risk factors that affect the performance of all business activities. As such, a continuous and systematic process is employed to mitigate potential damages and losses and to capitalize on business opportunities. This policy contributes to the success of both long and short-term strategies.

Risk management is based on the principle that risk evaluation extends to all business activities. The Group has procedures for identifying, assessing, managing and monitoring our primary risk exposures. As part of the cash management policy, the Group may employ the use of derivative instruments such as interest rate swaps and currency contracts to reduce exposure to risk.

The Groups risk management- and internal control procedures are reviewed by the Audit Committee in accordance with its charter. The operational risk management and internal control are carried out within each business segment in accordance with the nature of the operations and the governing legislation in the relevant jurisdiction.

Risk factors

The Group is continuously exposed to strategic, operational and financial risks that could have a materially negative effect on the Groups business, operating results and financial viability. Management currently considers the following risk factors to be the most relevant to the Groups business:

1) Strategic risks

Through its subsidiaries, the Group operates floating production installations in benign waters.

A range of risks, including identification of contract opportunities, are associated with major investment and FSO/FPSO conversion projects. The Group continually monitors risks associated with potential contracts in order to identify cost savings and provide control over capital expenditures.

2) Operational risks

a) HSSEQ

The objective of the HSSEQ System is to provide a safe, secure and healthy working environment, prevent human injury and loss of life, avoid damage to the environment, in particular the marine environment, and to property. The Group is committed to continual improvement and improvement of the HSSEQ system through use of quality policy, quality objectives, audit results, analysis of data, corrective and preventive actions and management review.

Prevention of accidents with subsequent emissions to air or sea has high priority in the daily operation of our offshore units. The operations involve risk for pollution and oil spill and during the year, the Group has continued its efforts in securing safe and reliable operations.

The continuous focus on HSSEQ issues onboard the units comprises regular training, safety meetings, accident prevention committees as well as weekly safety, security and environmental protection drills involving all personnel onboard.

In order to reduce the risk of oil spill or other accidental pollution, the Group takes all reasonable measures to minimize such risk through preventive maintenance and a safe and rational operation.

In fiscal 2012 there were no lost time injuries (LTI's) demonstrating the Groups' continual focus on operational discipline and preventative measures. The effort to monitor and improve the HSSEQ system to mitigate accidents is continuing.

b) Reputation

The Group and FOM are capitalizing on 160 years of combined experience based on a wide range of activities within the shipping and offshore segments. Over an extended period, the Group has built a strong reputation with its counterparties worldwide.

3) Financial risks

Recent global events have brought increased focus on credit, liquidity and market risk. Financial risk management is continuously evaluated by both management and the Board.

Since the Group operates outside of Norway, there is exposure to a unique set of financial risks. Cash management policies, monitoring of financial performance on a monthly basis, and strict budget practises work to manage these risks. The consolidated current ratio has increased as compared to the prior year and is now 6.15.

Internal control

1) Internal audit

The Group does not have a formal internal audit function as part of its internal control system. Instead, the company works closely with FOM to ensure that risks and controls are monitored.

Selected companies in the group are subjected to an internal, risk based evaluation of internal controls to ensure procedures are in place to mitigate risks and to ensure that these controls function as intended. Follow-up reports are prepared as a result of these evaluations to ensure continuous improvement of controls implemented.

Key management and the Board of Directors receive summarized financial reports on a monthly basis in order to monitor business development and related risks.

2) Internationally accepted standards codes

All units and operations are certified by Det Norske Veritas according to the internationally accepted standards code, ISO 9001 - Quality Management System, ISO 14001 - Environmental Protection and OSHAS 18001 - Occupational Health and Safety. In addition, all units and operations are certified by Det Norske Veritas (DNV) according to the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the International Safety Management (ISM) Code) International Maritime Organization agency of the United Nations concerned with Safety at Sea. Compliance is monitored internally by management on an annual basis and externally by DNV on a semi-annual basis.

Security policy for employees and consultants

Personnel who work in the Fred. Olsen-building in Oslo is required to follow a security policy covering areas related to personnel, IT/information/communication and real-estate/ infrastructure. The security policy is monitored by an appointed Executive Security Officer.

11. Remuneration of the board of directors

The Boards remuneration reflects the Board's responsibility, expertise, time commitment and the complexity of the Company and the Group. A fixed annual fee is paid to each Director as fully disclosed in note 4 in the consolidated financial statement.

12. Remuneration of the senior management

The Board has adopted guidelines for remuneration of executive management in accordance with section 6-16a of the Norwegian Public limited Liability Companies Act. These guidelines are communicated to the Annual General Meeting.

The Board's Compensation Committee recommends to the Board of Directors salary and benefits for the Chief Executive Officer and leading personnel as well as management incentive schemes.

The Company has cash bonus scheme covering senior management and certain key personnel which was implemented in 2008 and reevaluated in 2012. See also note 4 in the consolidated financial statement.

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.

Executive management:

Chief Executive Officer Eirik Barclay, was appointed Chief Executive Officer (CEO) on 1. January 2012. Mr. Barclay has worked in the offshore oil industry since 1999. He has previously held the position of CEO in Songa Floating Production and VP, Business Development of BW Offshore. In addition he has worked for Aker Kværner Process Systems and Schlumberger Oilfield Services. Eirik Barclay holds a Master of Science degree from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway and a Master in Energy Management from ESCP/IFP in Paris and BI in Oslo. Mr. Barclay is a Norwegian citizen and is resident in Oslo, Norway.

Chief Operating Officer Paal Hylin, has been with Fred. Olsen Production 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 the Company. Paal Hylin 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 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.

13. 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.

14. Take-overs

In light of the Company's shareholder structure, with the controlling shareholder 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.

15. 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 overseeing that the auditor's independent role is maintained. In accordance with the requirement that the auditor be independent, the Company is cautious when using the 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 fully disclosed in note 6 in the consolidated financial statement. 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.

Headquarters
Fred. Olsens gate 2
N-0152 Oslo, Norway
Phone: +47 22 34 10 00
Fax: +47 22 42 99 46
fpso@fredolsen.no

Port Harcourt Office
FOPWAL
Ari Lehtonen, General Manager
Plot 193 Woji Road - GRA Phase II
Port Harcourt - Nigeria
Phone : +234 84 236424
fopwal@fopwal.no

Houston Office
John Harchar,
Consultant Business Development
Phone: +1 713 977 6008
jharchar@pdq.net

Singapore Office
Carrie Chan, Country Manager
One Temasek Avenue
#36-02 Millenia Tower,
Singapore 039192
Phone: +65 6305 4753
Fax.: +65 6305 4751
carriec@fredolsen.no

Gabon Office
Pedro Martin, Base Manager
Zone Industriel OPRAG
Port Gentil, Gabon
Phone: +47 22 62 76 20
pedro.martins@gabon.fredolsen.com

Fred. Olsen Production ASA