



# Fred. Olsen Energy ASA

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## Report for the 1st Quarter 2006

**Figures in NOK**

**FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF 391.5 MILLION FOR THE 1ST QUARTER 2006**

### **HIGHLIGHTS FOR THE 1ST QUARTER**

- Revenues were 935.9 million
- EBITDA was 391.5 million
- Operating profit (EBIT) was 267.8 million
- Profit before tax was 177.1 million
- Net profit was 172.1 million
- Three year contract secured for Blackford Dolphin
- Early redemption of the “FOE 01” bonds of NOK 760 million
- New 7 years credit facility of USD 600 million in place
- The offshore market continues to be strong

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## Figures in NOK

### FINANCIAL INFORMATION (*4th quarter 2005 in brackets*)

Operating revenues in the quarter were 935.9 million (897.9 million), an increase of 38.0 million. Revenues within the offshore drilling division increased by 26.1 million. The increase in revenues within the offshore drilling division is mainly due to higher utilisation and day rates. Further, due to operations not included in the drilling contract for Bideford Dolphin the Company has received 14.9 million as extraordinary compensation from the operator. The increase in revenues was partly offset by 14 days off hire for Byford Dolphin and 7 days for Bulford Dolphin. Revenues within the engineering and fabrication division increased by 129.2 million, of which 117.3 million were related to intercompany activities and eliminated in the consolidated accounts.

Operating costs were 544.4 million (554.9 million), a decrease of 10.5 million. Operating costs within the offshore drilling division decreased by 62.0 million. The decrease in operating costs within the offshore drilling division is mainly due to a reduction of recharged expenses and extraordinary cost items charged in the 4th quarter 2005. Operating costs within the engineering and fabrication division increased by 166.4 million, of which 114.9 million were eliminated in the consolidated accounts.

Operating profit before depreciation (EBITDA) was 391.5 million (343.0 million).

Depreciation amounted to 123.7 million (155.5 million) due to the amended depreciation schedule effective from 1st January 2006.

Operating profit after depreciation (EBIT) was 267.8 million (153.8 million).

Net financial expenses were 90.7 million (86.0 million). The amount includes borrowing costs of 28.0 million, previously capitalized, following the refinancing of the USD 300 million credit facility and the early redemption of the NOK 760 million bonds with a call option premium of 34.5 million related to the early redemption. This was partly offset by gains on financial instruments of 29.2 million.

Profit before tax was 177.1 million (67.8 million).

Net profit, after an estimated tax expense of 5.0 million, was 172.1 million (27.9 million).

On 26th March 2006 the company redeemed the "FOE 01" bonds 2004/09 of NOK 760 million. A new 7 years credit facility of USD 600 million replaced the credit facility of USD 300 million established in July 2004 and the "FOE 01" bonds 2004/09 of NOK 760 million.

As part of the restructuring of the Company's loan portfolio the Company has decided to submit an offer to the holders of the subordinated convertible bond loan FOE 02 4.5% 2004/09 to participate in a private placement of up to 5.34 million shares at NOK 68, - per share, equal to the conversion price, in exchange for a termination of the conversion right. Except for the termination of the conversion right, the loan will continue at unchanged terms until maturity date on 30th March 2009. The initial loan amount was NOK 435 million and outstanding amount at 31.3.2006 is approximately

## Figures in NOK

NOK 363 million. The number of bondholders at 31.3.2006 was 50. Assuming all bonds are converted into shares, the total number of shares of the Company will increase by approximately 5.34 million shares.

Subject to acceptance of the offer the bondholders will release the equity element from the convertible bonds and at the same time maintain the right to receive the annual coupon of 4.5% to maturity. Fred. Olsen Energy ASA will on its part secure a three years subordinated loan at satisfactory terms.

A formal offer as outlined is subject to a resolution by the Annual General Meeting of Fred. Olsen Energy ASA to be held on 29th May 2006.

The **offshore drilling division** reported revenues of 897.0 million (870.9 million) and an EBITDA of 388.0 million (299.9 million).

The **engineering and fabrication division** reported revenues of 157.6 million (28.4 million) and an EBITDA of 5.9 million (43.1 million, including recalculation of pension liabilities of 40.1 million). Revenues of 118.7 million and EBITDA of 2.4 million relate to intercompany transactions.

## OPERATIONS

### Drilling Division

Bideford Dolphin continued operations offshore Norway under a contract with Norsk Hydro estimated to expire mid 2007.

Borgland Dolphin continued operations offshore Norway under the current contract with Statoil, expiring end December 2006. In September 2005 a new contract for the rig was secured with Statoil ASA, on behalf of itself and the other licensees in the Tampen area on the Norwegian continental shelf. The contract period is for three years expiring 31.12.2009.

The deepwater drill ship Belford Dolphin continued operations under a three-year drilling contract with ONGC in India, expiring early 2007. In September 2005, a contract was secured with Anadarko Petroleum Corporation for three years. The new contract will follow in direct continuation from the present Belford Dolphin contract with ONGC.

Borgny Dolphin continued operations under a contract with Pemex in Mexico, expiring early 2008.

Bulford Dolphin (owned by First Olsen Ltd. and being operated in a pool with four of the Company's own units) commenced a drilling programme for Equator Exploration Ltd. offshore West Africa in November 2005. Mainly due to testing of discoveries the contract period has been longer than originally estimated and is now expected to expire in September 2007.

Byford Dolphin continued operations under its contract with CNR International (U.K.) Limited. CNR has exercised the two options and the contract is now estimated

## **Figures in NOK**

to expire in 2nd quarter 2007. An agreement with CNR was entered into in November 2005 on a further extension of the contract of 275 days in direct continuation from the present contract.

Bredford Dolphin continued operations under a contract with Peak Well Management Ltd. in the U.K. North Sea with an estimated duration to 3rd quarter 2006. In January 2006 a drilling contract for the rig was entered into with Drilling Production Technology as, on behalf of themselves and a consortium of licensees on the Norwegian continental shelf. The duration of the contract is three years with estimated commencement in second half 2006 following a compulsory class renewal survey and upgrade for Norwegian requirements. Following completion of the drilling programs in the UK the rig will move to Belfast where preparation work will be carried out for the following 3 years drilling contract in Norway.

Borgsten Dolphin continued operations under a contract with ChevronTexaco North Sea Ltd. under a drilling programme in the U.K. sector of the North Sea. In September 2005 a new contract for the rig was secured with CNR International (U.K) Ltd for an approximate three months drilling programme in the UK North Sea commencing in February 2006. In December 2005 contracts were entered into with Nexen Petroleum UK Ltd. and Tullow Oil plc, respectively, for drilling operations in the UK North Sea. The drilling programmes have an estimated duration of 720 days of combined activity from May 2006 in direct continuation from the unit's existing contract commitments.

Borgholm Dolphin continued operations under a contract with Shell U.K. Ltd. for accommodation support in the UK sector of the North Sea until January 2006. During the quarter further contracts for accommodation support in the UK were entered into with Talisman Energy (UK) Ltd. and Shell U.K Ltd commencing in February 2006 following a short standby period. The contracts will result in combined activity to end October 2006 with options for a further two months extension thereafter.

In March a contract was entered into with Keppel FELS in Singapore for the deepwater upgrade of the semi submersible drilling rig Blackford Dolphin. The upgraded unit will be able to operate in up to 7000 ft. of water with a new high capacity drilling package and an innovative deck layout. The yard work will be undertaken jointly by Keppel FELS and Keppel Shipyard in Singapore and Keppel Verolme in Rotterdam, the Netherlands. Contracts for construction of the accommodation- and power modules have been awarded to the H&W yard. The rig has arrived in Rotterdam and is scheduled for delivery in mid 2007.

A three years drilling contract for Blackford Dolphin was secured in March with Reliance Industries Ltd with commencement after completion of the ongoing deepwater upgrade and mobilization to India.

## **Engineering and Fabrication**

The H&W yard continued its operations in engineering, ship repair and shipbuilding. The yard has been carrying out work related to several ship dockings. The utilisation of the yard as logistics and assembly base for Barrow Windfarm Project continued during the quarter. The yard has been awarded the contracts for construction of the accommodation- and power modules on Blackford Dolphin and will thereafter carry

## **Figures in NOK**

out work related to the class renewal survey of Bredford Dolphin. The core workforce has been stable at 95 employees.

## **Outlook**

Globally, the balance between supply and demand for offshore drilling units tightened in all segments. This development has been reflected in significant increases in day rates. The high demand for offshore drilling services is expected to continue during the next few years as a result of renewed focus on reserve replacement supported by high demand for oil and gas and expectations of continued high-energy prices.

The deepwater upgrade of Blackford Dolphin will make a profitable addition to the Group's fleet of drilling units. When the upgrade has been completed in mid 2007, the offshore fleet will consist of two deepwater units and six mid water semi submersible drilling rigs in addition to an accommodation unit. Two of the semi submersible units are considerably upgraded and qualified for operations in Norway. By late 2006 the Group will have three units operating in Norwegian waters. Geographically, the Group currently operates in Norway, the UK, India, Mexico and West Africa. From 2007 the deepwater region of the US Gulf will also be an area of operation.

All of the Group's operated units, except Blackford Dolphin, which is being upgraded, are on contract. During the last 15 months, the Group has secured new contracts with a total value of approximately USD 2 200 million. The average contract length of the Group's offshore fleet is approximately 27 months. Three units are available for new contracts in 2007, comprising Bideford Dolphin, Bulford Dolphin and Borgholm Dolphin.

Oslo, 27th April 2006  
The Board of Directors  
Fred. Olsen Energy ASA



# Fred.Olsen Energy ASA

Condensed Financial Statements in accordance with IFRS

## Unaudited

### Consolidated Income Statement (NOK mill)

	Note	1st Q 2006	4th Q 2005	1st Q 2005	Year 2005
Operating revenues		935,9	897,9	570,3	2 882,9
Operating costs		(544,4)	(554,9)	(449,3)	(1 962,3)
<b>Oper. profit before depr. (EBITDA)</b>		<b>391,5</b>	<b>343,0</b>	<b>121,0</b>	<b>920,6</b>
Depreciation and amortization	1	(123,7)	(155,5)	(148,0)	(618,2)
Oper. profit before other items		267,8	187,5	(27,0)	302,4
Other items	2	-	(33,7)	-	(33,7)
<b>Operating profit (EBIT)</b>		<b>267,8</b>	<b>153,8</b>	<b>(27,0)</b>	<b>268,7</b>
Net Financing cost		(90,7)	(86,0)	(76,7)	(280,6)
Profit before income taxes and minority interests		177,1	67,8	(103,7)	(11,9)
Income tax benefit (expense)		(5,0)	(39,9)	5,7	(3,8)
<b>Profit for the period</b>		<b>172,1</b>	<b>27,9</b>	<b>(98,0)</b>	<b>(15,7)</b>
<i>EPS :</i>					
Earnings per share		2,8	0,5	(1,7)	(0,3)
Diluted earnings per share		2,6	0,5	(1,7)	(0,3)

## Unaudited

### Balance Sheet (NOK mill)

		31 Mar 06	31 Dec 05	31 Mar 05
Intangible assets		98,6	98,6	112,2
Property, plant & equipment	1	5 586,0	5 391,0	5 109,4
Other non-current assets		10,3	50,0	108,0
<b>Total non-current assets</b>		<b>5 694,9</b>	<b>5 539,6</b>	<b>5 329,6</b>
Inventories		172,3	177,2	126,7
Trade and other receivables		658,1	688,1	444,1
Other current assets		149,8	117,8	167,4
Cash and cash equivalents		643,7	717,1	593,5
<b>Total current assets</b>		<b>1 623,9</b>	<b>1 700,2</b>	<b>1 331,7</b>
<b>Total assets</b>		<b>7 318,8</b>	<b>7 239,8</b>	<b>6 661,3</b>
Share capital		1 227,2	1 224,1	1 208,9
Other equity		1 795,7	1 726,5	1 330,3
<b>Total Equity</b>		<b>3 022,9</b>	<b>2 950,6</b>	<b>2 539,2</b>
Non-current interest-bearing loans and borrowings		3 350,9	2 687,4	2 860,0
Other non-current liabilities		266,0	289,6	369,4
<b>Total non-current liabilities</b>		<b>3 616,9</b>	<b>2 977,0</b>	<b>3 229,4</b>
Other current liabilities		548,7	704,3	638,3
Current interest-bearing loans and borrowings		130,3	607,9	254,4
<b>Total current liabilities</b>		<b>679,0</b>	<b>1 312,2</b>	<b>892,7</b>
<b>Total equity and liabilities</b>		<b>7 318,8</b>	<b>7 239,8</b>	<b>6 661,3</b>



# Fred.Olsen Energy ASA

Condensed Financial Statements in accordance with IFRS

## Unaudited Segment Information

(NOK mill)	Offshore Drilling *	Engineering & Fabrication	Eliminations	FOE Group
<b>1st Q 2006</b>				
Operating revenues	897,0	157,6	(118,7)	935,9
Operating costs	(509,0)	(151,7)	116,3	(544,4)
<b>Oper. profit before depr. (EBITDA)</b>	<b>388,0</b>	<b>5,9</b>	<b>(2,4)</b>	<b>391,5</b>
Depreciation and amortization	(122,6)	(1,1)	-	(123,7)
<b>Operating profit (EBIT)</b>	<b>265,4</b>	<b>4,8</b>	<b>(2,4)</b>	<b>267,8</b>
<b>4th Q 2005</b>				
Operating revenues	870,9	28,4	(1,4)	897,9
Operating costs	(571,0)	14,7	1,4	(554,9)
<b>Oper. profit before depr. (EBITDA)</b>	<b>299,9</b>	<b>43,1</b>	<b>-</b>	<b>343,0</b>
Depreciation and amortization	(154,6)	(0,9)	-	(155,5)
Oper. profit before other items	145,3	42,2	-	187,5
Other items	(33,7)	-	-	(33,7)
<b>Operating profit (EBIT)</b>	<b>111,6</b>	<b>42,2</b>	<b>-</b>	<b>153,8</b>
<b>1st Q 2005</b>				
Operating revenues	524,9	90,8	(45,4)	570,3
Operating costs	(401,5)	(88,0)	40,2	(449,3)
<b>Oper. profit before depr. (EBITDA)</b>	<b>123,4</b>	<b>2,8</b>	<b>(5,2)</b>	<b>121,0</b>
Depreciation and amortization	(146,9)	(1,1)	-	(148,0)
<b>Operating profit (EBIT)</b>	<b>(23,5)</b>	<b>1,7</b>	<b>(5,2)</b>	<b>(27,0)</b>
<b>Year 2005</b>				
Operating revenues	2 755,8	207,0	(79,9)	2 882,9
Operating costs	(1 875,4)	(155,7)	68,8	(1 962,3)
<b>Oper. profit before depr. (EBITDA)</b>	<b>880,4</b>	<b>51,3</b>	<b>(11,1)</b>	<b>920,6</b>
Depreciation and amortization	(614,4)	(3,8)	-	(618,2)
Oper. profit before other items	266,0	47,5	(11,1)	302,4
Other items	(33,7)	-	-	(33,7)
<b>Operating profit (EBIT)</b>	<b>232,3</b>	<b>47,5</b>	<b>(11,1)</b>	<b>268,7</b>

\* Includes Fred. Olsen Energy ASA



# Fred.Olsen Energy ASA

<b>Unaudited</b>					
<b>Equity</b>					
<b>(NOK mill)</b>	<b>Note</b>	<b>1st Q 2006</b>	<b>4th Q 2005</b>	<b>1st Q 2005</b>	<b>Year 2005</b>
<b>Opening balance</b>		<b>2 950,6</b>	<b>2 787,4</b>	<b>2 241,8</b>	<b>2 241,8</b>
Net profit (loss) for the period		172,1	27,9	(98,0)	(15,7)
Treasury shares		1,7	-	272,6	273,5
Equity element convertible bond/converted bonds		9,4	6,5	9,7	55,5
Foreign currency translation adj.		(110,9)	128,8	113,1	395,5
<b>Closing balance</b>		<b>3 022,9</b>	<b>2 950,6</b>	<b>2 539,2</b>	<b>2 950,6</b>

<b>Unaudited</b>					
<b>Cash Flow Statements</b>					
<b>(NOK mill)</b>		<b>1st Q 2006</b>	<b>4th Q 2005</b>	<b>1st Q 2005</b>	<b>Year 2005</b>
<b>Cash flows from operating activities</b>					
Net profit before tax		177,1	67,8	(103,7)	(11,9)
Depreciation and amortization	1	123,7	155,5	148,0	618,2
Changes in working capital		(44,4)	9,3	(66,1)	(237,0)
<b>Net cash flows from operating activities</b>		<b>256,4</b>	<b>232,6</b>	<b>(21,8)</b>	<b>369,3</b>
<b>Cash flows from investing activities</b>					
Net investment in fixed assets		(360,0)	(145,0)	(138,8)	(535,4)
Payments Navis settlement	2	(172,7)	-	-	-
<b>Net cash flows from investing activities</b>		<b>(532,7)</b>	<b>(145,0)</b>	<b>(138,8)</b>	<b>(535,4)</b>
<b>Cash flows from financing activities</b>					
Borrowing of interest bearing debt		2 999,1	-	-	196,2
Repayments of interest bearing debt		(2 780,4)	(53,2)	(134,4)	(254,9)
Treasury shares		1,7	-	272,6	273,5
<b>Net cash flows from financing activities</b>		<b>220,4</b>	<b>(53,2)</b>	<b>138,2</b>	<b>214,8</b>
Foreign currency		(17,5)	49,1	17,2	69,7
Net change in cash and cash equivalents		(55,9)	34,4	(22,4)	48,7
Cash and cash equivalents at the beg. of period		717,1	633,6	598,7	598,7
<b>Cash and cash equiv. at the end of period</b>		<b>643,7</b>	<b>717,1</b>	<b>593,5</b>	<b>717,1</b>



# Fred.Olsen Energy ASA

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*.

These condensed consolidated interim financial statements were approved by the Board of Directors on 27 April 2006.

## Note 1 – Lifetime rigs/drillship

The useful lives of the assets are reviewed at each year end. Management has reviewed each of the rigs by expected usage and considered the scheduled 5 years class renewal surveys (RS) going forward and has determined that an extension of expected lifetime for most of the units is appropriate. The Group's 2<sup>nd</sup> generation units, Byford, Borgny, Borgsten and Bredford will be fully depreciated between 2008 and 2012 according to previous accounting estimates. New estimates of the lifetimes for these units are based on the assumption that they will carry out their next forthcoming class RS and continue to operate five years thereafter. Belford, Bideford, Borgland and Borgholm are either new or substantially upgraded, and have longer expected useful lifetimes than the 2<sup>nd</sup> generation rigs. Using the same principle for these units, two more scheduled class renewal surveys have been assumed followed by five years operation. These revised useful lives were effective from 1 January 2006.

	Estimates	
	Old remaining lifetime	New remaining lifetime as at 1 Jan 2006
Belford	18	20
Bideford	13	14
Borgland	14	14
Byford	3	9
Borgny	7	8
Borgsten	3	9
Bredford	5	11
Borgholm	12	12
Blackford	Under construction	

## Note 2 – Navis settlement

In December 2005 the final tranche of the Navis ASA share purchase in 2000-2001 was settled by a final court assessment. The Company had made provisions of NOK 137 million in previous years and recorded NOK 34 million as an additional cost in 2005 upon settlement. The payment was due in 1<sup>st</sup> Quarter 2006.

## Note 3 – Adjustments of balance sheet as at 1 Jan 05 according to IFRS

Adjustments have been done to the balance sheet compared to the balance sheet reported at 31 March 2005. These are related to adjustments of the restated financial statements in accordance with IFRS for the year ended 2004.