

# Fred. Olsen Energy ASA

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## Report for the 3rd quarter 2006

Figures in NOK

**FRED. OLSEN ENERGY ASA (FOE) REPORTS AN OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) OF 519.0 MILLION FOR THE 3RD QUARTER 2006**

### **HIGHLIGHTS FOR THE 3RD QUARTER**

- Revenues were 1,119.1 million
- EBITDA was 519.0 million
- Operating profit (EBIT) was 397.3 million
- Profit before tax was 351.2 million
- Net profit was 347.4 million
- Earnings per share were 5.5 (fully diluted 5.2)
- Settlement with Statoil, receipt of 47 million
- New five months accommodation contract for Borgholm Dolphin

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## Figures in NOK

### FINANCIAL INFORMATION (2nd quarter 2006 in brackets)

Operating revenues in the quarter were 1,119.1 million (1,028.0 million), an increase of 91.1 million compared with the previous quarter. Revenues within the offshore drilling division increased by 97.4 million. The increase in revenues within the offshore drilling division is due to higher dayrates and a settlement of 47 million with Statoil regarding a previous drilling contract for Byford Dolphin. The increase in revenues was partly offset by increased off-hire on Bideford Dolphin due to the breakage of the flex-joint and change of thrusters. Revenues within the engineering and fabrication division were 127.9 million, of which 111.3 million were related to inter-company activities and eliminated in the consolidated accounts.

Operating costs were 600.1 million (572.3 million), an increase of 27.8 million compared with the 2nd quarter. Operating costs within the offshore drilling division increased by 35.1 million. The increase in operating costs within the offshore drilling division is mainly due to higher repair and maintenance costs and higher crew expenses. Operating costs within the engineering and fabrication division were 116.8 million, of which 104.4 million were eliminated in the consolidated accounts.

Operating profit before depreciation (EBITDA) was 519.0 million (455.7 million).

Depreciation amounted to 121.7 million (113.8 million). The increase is mainly due to new investments and higher USD/NOK rate.

Operating profit after depreciation (EBIT) was 397.3 million (341.9 million).

Net financial expenses were 46.1 million (59.0 million).

Profit before tax was 351.2 million (282.9 million)

Net profit, including an estimated tax charge of 3.8 million (4.8 million), was 347.4 million (278.1 million).

Basic earnings per share were 5.5 (4.5). Earnings per share on a fully diluted basis were 5.2 (4.2).

The Company has reached settlement with minority shareholders of the previous Navis ASA regarding proceeding against the Company in connection with the Company's mandatory bid for Navis ASA shares in 2000. As a final settlement against all claims related to the acquisition of Navis ASA the Company has paid an amount of 8 million.

The **offshore drilling division** reported revenues of 1,102.5 million (1,005.1 million) and an EBITDA of 514.8 million (452.5 million).

The **engineering and fabrication division** reported revenues of 127.9 million (140.5 million) and an EBITDA of 11.1 million (6.3 million).

## **Figures in NOK**

### **OPERATIONS**

#### **Drilling Division**

Bideford Dolphin continued operations under a drilling program offshore Norway for Norsk Hydro. A three years drilling contract for the rig has been entered into with Norsk Hydro Produksjon AS from January 2008 to January 2011.

Borgland Dolphin continued operations offshore Norway under the current contract with Statoil, expiring end December 2006. A new three years contract for the rig has been entered into 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 drillship Belford Dolphin continued operations under a three-year drilling contract with ONGC in India, expiring early 2007. A new three years contract has been entered into with Anadarko Petroleum Corporation. 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 operated in a pool with four of the Company's own units) continued its operations for Equator Exploration Ltd. offshore Nigeria. The contract is expected to expire in early 2008.

Byford Dolphin continued operations under its contract with CNR International (U.K.) Limited. The current term contract is estimated to expire in mid 2007. An agreement has been entered into with CNR for an extension of the contract for 275 days thereafter.

Bredford Dolphin continued operations under a contract with Peak Well Management Ltd. in the U.K. North Sea. In January 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 February 2007. The unit will go through a compulsory class renewal survey and upgrade for Norwegian requirements at Remontowa S.A. in Gdansk, Poland prior to commencement of operations in Norway.

Borgsten Dolphin has been operating for Nexen Petroleum UK Ltd. under a short term contract, which will be followed by a 21 months term contract with Tullow Oil plc. commencing in late October 2006.

Borgholm Dolphin continued operations under a contract with Shell U.K. Ltd. in the UK sector of the North Sea. The contract expires in November 2006. In September 2006, a five months contract was entered into for accommodation work in UK sector commencing early January 2007.

## **Figures in NOK**

The upgrade of Blackford Dolphin to a deepwater drilling unit capable of operating in up to 7000 ft. of water depth continued at the Keppel Verolme yard in Rotterdam. A three years drilling contract has been secured with Reliance Industries Ltd. with estimated commencement late in the 4th quarter 2007 following completion of the ongoing deepwater upgrade, commissioning and mobilization to India. As previously reported, due to the tight market situation for equipment and personnel, costs are expected to continue to increase. This will also have an impact on the Company's upgrade projects.

## **Engineering and Fabrication**

The H&W yard continued its operations in engineering, ship repair and shipbuilding. The yard was awarded the contracts for construction of the accommodation- and power modules on Blackford Dolphin. The accommodation module was completed and delivered from the yard in October. The power module is scheduled to be completed in the 4th quarter 2006.

## **Outlook**

Globally, the balance between supply and demand for offshore drilling units tightened in all segments. The high demand for offshore drilling services is expected to continue during the next years.

When the upgrade of Blackford Dolphin is completed, the Group's offshore fleet will consist of two deepwater units (including the Belford Dolphin) and six mid water semi submersible drilling rigs in addition to an accommodation unit. Two of the semi submersible drilling rigs are operating in Norway. Upon completion of the Bredford Dolphin upgrade the Group will have three drilling rigs operating in Norwegian waters. Geographically, the Group currently operates in Norway, the UK, India, Mexico and Nigeria. 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. Borgholm Dolphin is the only unit available for new contracts in the latter half of 2007. The Company is experiencing a strong positive cash flow which is expected to continue for the next years. This places the Company in a good position to expand its drilling services and pay dividend.

Oslo, 23rd October 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	3rd Q 2006	2nd Q 2006	3rd Q 2005	Jan-Sep 2006	Jan-Sep 2005	Year 2005
Operating revenues		1 119,1	1 028,0	800,2	3 083,0	1 985,0	2 882,9
Operating costs		(600,1)	(572,3)	(494,3)	(1 716,8)	(1 407,4)	(1 962,3)
<b>Oper. profit before depr. (EBITDA)</b>		<b>519,0</b>	<b>455,7</b>	<b>305,9</b>	<b>1 366,2</b>	<b>577,6</b>	<b>920,6</b>
Depreciation and amortisation		(121,7)	(113,8)	(166,5)	(359,2)	(462,7)	(618,2)
Oper. profit before other items		397,3	341,9	139,4	1 007,0	114,9	302,4
Other items		-	-	-	-	-	(33,7)
<b>Operating profit (EBIT)</b>		<b>397,3</b>	<b>341,9</b>	<b>139,4</b>	<b>1 007,0</b>	<b>114,9</b>	<b>268,7</b>
Net financing cost		(46,1)	(59,0)	(42,3)	(195,8)	(194,6)	(280,6)
Profit before income taxes		351,2	282,9	97,1	811,2	(79,7)	(11,9)
Income tax benefit (expense)		(3,8)	(4,8)	12,6	(13,6)	36,1	(3,8)
<b>Profit for the period</b>		<b>347,4</b>	<b>278,1</b>	<b>109,7</b>	<b>797,6</b>	<b>(43,6)</b>	<b>(15,7)</b>
<i>EPS :</i>							
Earnings per share		5,5	4,5	1,8	12,9	(0,8)	(0,3)
Diluted earnings per share		5,2	4,2	1,7	12,1	(0,8)	(0,3)

## Unaudited Balance Sheet (NOK mill)

	30 Sep 06	30 June 06	30 Sep 05	31 Dec 05
Intangible assets	98,6	98,6	94,6	98,6
Property, plant & equipment	6 096,2	5 636,4	5 234,3	5 391,0
Other non-current assets	21,0	11,8	101,6	50,0
<b>Total non-current assets</b>	<b>6 215,8</b>	<b>5 746,8</b>	<b>5 430,5</b>	<b>5 539,6</b>
Inventories	170,1	163,5	150,4	177,2
Trade and other receivables	856,1	825,3	560,5	688,1
Other current assets	165,6	108,9	192,1	117,8
Cash and cash equivalents	1 110,1	625,6	633,6	717,1
<b>Total current assets</b>	<b>2 301,9</b>	<b>1 723,3</b>	<b>1 536,6</b>	<b>1 700,2</b>
<b>Total assets</b>	<b>8 517,7</b>	<b>7 470,1</b>	<b>6 967,1</b>	<b>7 239,8</b>
Share capital	1 316,8	1 228,4	1 220,4	1 224,1
Other equity	2 596,1	1 903,3	1 567,3	1 726,5
<b>Total Equity</b>	<b>3 912,9</b>	<b>3 131,7</b>	<b>2 787,7</b>	<b>2 950,6</b>
Non-current interest-bearing loans and borrowings	3 213,2	3 206,2	2 882,1	2 687,4
Other non-current liabilities	279,5	266,4	327,5	289,6
<b>Total non-current liabilities</b>	<b>3 492,7</b>	<b>3 472,6</b>	<b>3 209,6</b>	<b>2 977,0</b>
Other current liabilities	689,6	579,6	580,0	704,3
Current interest-bearing loans and borrowings	422,5	286,2	389,8	607,9
<b>Total current liabilities</b>	<b>1 112,1</b>	<b>865,8</b>	<b>969,8</b>	<b>1 312,2</b>
<b>Total equity and liabilities</b>	<b>8 517,7</b>	<b>7 470,1</b>	<b>6 967,1</b>	<b>7 239,8</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>3rd Q 2006</b>				
Operating revenues	1 102,5	127,9	(111,3)	1 119,1
Operating costs	(587,7)	(116,8)	104,4	(600,1)
<b>Oper. profit before depr. (EBITDA)</b>	<b>514,8</b>	<b>11,1</b>	<b>(6,9)</b>	<b>519,0</b>
Depreciation and amortisation	(120,4)	(1,3)	-	(121,7)
<b>Operating profit (EBIT)</b>	<b>394,4</b>	<b>9,8</b>	<b>(6,9)</b>	<b>397,3</b>
<b>2nd Q 2006</b>				
Operating revenues	1 005,1	140,5	(117,6)	1 028,0
Operating costs	(552,6)	(134,2)	114,5	(572,3)
<b>Oper. profit before depr. (EBITDA)</b>	<b>452,5</b>	<b>6,3</b>	<b>(3,1)</b>	<b>455,7</b>
Depreciation and amortisation	(112,8)	(1,0)	-	(113,8)
<b>Operating profit (EBIT)</b>	<b>339,7</b>	<b>5,3</b>	<b>(3,1)</b>	<b>341,9</b>
<b>3rd Q 2005</b>				
Operating revenues	776,9	24,8	(1,5)	800,2
Operating costs	(471,6)	(23,0)	0,3	(494,3)
<b>Oper. profit before depr. (EBITDA)</b>	<b>305,3</b>	<b>1,8</b>	<b>(1,2)</b>	<b>305,9</b>
Depreciation and amortisation	(165,6)	(0,9)	-	(166,5)
<b>Operating profit (EBIT)</b>	<b>139,7</b>	<b>0,9</b>	<b>(1,2)</b>	<b>139,4</b>
<b>Jan-Sep 2006</b>				
Operating revenues	3 004,6	426,0	(347,6)	3 083,0
Operating costs	(1 649,3)	(402,7)	335,2	(1 716,8)
<b>Oper. profit before depr. (EBITDA)</b>	<b>1 355,3</b>	<b>23,3</b>	<b>(12,4)</b>	<b>1 366,2</b>
Depreciation and amortisation	(355,8)	(3,4)	-	(359,2)
<b>Operating profit (EBIT)</b>	<b>999,5</b>	<b>19,9</b>	<b>(12,4)</b>	<b>1 007,0</b>
<b>Jan-Sep 2005</b>				
Operating revenues	1 884,9	178,6	(78,5)	1 985,0
Operating costs	(1 304,6)	(170,3)	67,5	(1 407,4)
<b>Oper. profit before depr. (EBITDA)</b>	<b>580,3</b>	<b>8,3</b>	<b>(11,0)</b>	<b>577,6</b>
Depreciation and amortization	(459,6)	(3,1)	-	(462,7)
<b>Operating profit (EBIT)</b>	<b>120,7</b>	<b>5,2</b>	<b>(11,0)</b>	<b>114,9</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 amortisation	(614,4)	(3,8)	-	(618,2)
Operating profit (EBIT)	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>

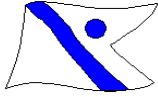
\* Includes Fred. Olsen Energy ASA



# Fred.Olsen Energy ASA

<b>Unaudited Equity (NOK mill)</b>	<b>Note</b>	<b>Jan-Sep 2006</b>	<b>Jan-Sep 2005</b>	<b>Year 2005</b>
<b>Opening balance</b>		<b>2 950,6</b>	<b>2 241,8</b>	<b>2 241,8</b>
Net profit (loss) for the period		797,6	(43,6)	(15,7)
Treasury shares		1,7	273,5	273,5
Equity element convertible bond/converted bonds/Share issue	4	307,8	49,0	55,5
Foreign currency translation adj.		(144,8)	267,0	395,5
<b>Closing balance</b>		<b>3 912,9</b>	<b>2 787,7</b>	<b>2 950,6</b>

<b>Unaudited Cash Flow Statements (NOK mill)</b>		<b>Jan-Sep 2006</b>	<b>Jan-Sep 2005</b>	<b>Year 2005</b>
<b>Cash flows from operating activities</b>				
Profit/(loss) before income tax		811,2	(79,7)	(11,9)
<i>Adjustment for:</i>				
Depreciation and amortisation		359,2	462,7	618,2
Interest expense		156,5	135,0	201,3
Changes in working capital		(117,8)	(234,4)	(257,5)
Cash generated from operations		1 209,1	283,6	550,1
Interest paid		(154,2)	(147,6)	(178,2)
Taxes paid		(11,1)	-	(2,6)
<b>Net cash from operating activities</b>		<b>1 043,8</b>	<b>136,0</b>	<b>369,3</b>
<b>Cash flows from investing activities</b>				
Net investment in fixed assets		(1 163,6)	(390,3)	(535,4)
Payments Navis settlement		(172,7)	-	-
<b>Net cash used to investing activities</b>		<b>(1 336,3)</b>	<b>(390,3)</b>	<b>(535,4)</b>
<b>Cash flows from financing activities</b>				
Borrowing of interest bearing debt		3 318,8	196,2	196,2
Repayments of interest bearing debt		(2 904,5)	(201,7)	(254,9)
Share issue	4	300,7	-	-
Treasury shares		1,7	273,5	273,5
<b>Net cash from financing activities</b>		<b>716,7</b>	<b>268,0</b>	<b>214,8</b>
Foreign currency		(31,2)	21,2	69,7
Net change in cash and cash equivalents		424,2	13,7	48,7
Cash and cash equivalents at the beg. of period		717,1	598,7	598,7
<b>Cash and cash equiv. at the end of period</b>		<b>1 110,1</b>	<b>633,6</b>	<b>717,1</b>



# Fred.Olsen Energy ASA

## **1. Introduction**

The condensed consolidated interim financial statements for 3rd Quarter 2006, ended 30 September 2006, comprise Fred. Olsen Energy ASA and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group for the year ended 31 December 2005 are available upon request from the Company's office in Oslo or at [www.fredolsen-energy.no](http://www.fredolsen-energy.no).

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2005.

These condensed consolidated interim financial statements were approved by the Board of Directors on 23 October 2006.

## **2. Significant accounting policies**

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2005.

## **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 30 September 2005. These are related to adjustments of the restated financial statements in accordance with IFRS for the year ended 2004.

## **4. Bond/Share issue**

Fifteen bondholders holding NOK 300.7 million of the outstanding FOE 02 4.5% 2004/09 subordinated convertible bond amount of NOK 358.8 million accepted the Company's offer to participate in a private placement at NOK 68 per share subject to the bondholders agreeing to waive their conversion rights under the bonds. The private placement of 4,421,449 shares was completed in August. Except for the termination of the conversion right, the amended loan will continue at unchanged terms until the maturity date at 30<sup>th</sup> March 2009. The remaining amount outstanding under the bond issue of NOK 58.1 million will continue to maturity at unchanged terms. Under IFRS, the transaction with the participating bondholders is accounted for as an extinguishment of the original bond related conversion feature in exchange for new bonds and shares at a sales price of NOK 68 per share. The net impact of this transaction of NOK 5.9 million is reported as a financial expense. Interest expense for the new bond is accounted for using the effective interest rate method as required by IFRS.