

# Second Quarter 2010



**Prosafe  
Production**

[www.prosafeproduction.com](http://www.prosafeproduction.com)



## CONDENSED INTERIM FINANCIAL STATEMENT QUARTER ENDED 30 JUNE 2010

### HIGHLIGHTS

- Operating result before depreciation of USD 59.7 million
- Robust operational performance
- Board advises shareholders to reject BW Offshore's voluntary offer

### Main figures

*(Figures in brackets refer to the corresponding period of 2009)*

Operating revenues for the second quarter of 2010 amounted to USD 106.5 million (USD 80.5 million).

Operating profit before depreciation was USD 59.7 million (USD 48.1 million) for the quarter. The main reasons for the growth are FPSO *Cidade de São Mateus* which started contributing during second quarter 2009 and FPSO *Ningaloo Vision*, which has been on dayrate since the beginning of January 2010 and as such has contributed fully for second quarter 2010. This has been partly offset by the scheduled decline in the dayrate for FPSO *Umuroa*.

Operating result for the quarter came in at USD 23.7 million (USD 28.5 million).

Interest expenses amounted to USD 11.7 million (USD 11.1 million) for the quarter. Other financial items amounted to USD -0.5 million (USD -0.7 million).

The tax cost equalled USD 5.9 million (USD 3.7 million), of which changes in deferred tax, mainly relating to the Australian operations, amounted to USD 2.9 million.

The net result from continued business for the quarter was USD 5.7 million (USD 13.1 million).

As a result of the Letter of Intent with National Oilwell Varco, the turret and swivel business is classified as a disposal group held for sale and a discontinued business. The turret and swivel

business has not earlier been classified as a separate business as no external sales have been conducted. The net result from discontinued business for the quarter was USD -1.3 million (USD -0.9 million).

Total net profit for the quarter amounted to USD 4.4 million (USD 12.2 million).

The operating profit before depreciation for the six months ended 30 June 2010 amounted to USD 116.7 million (USD 85.2 million), while the net result was USD 16.5 million (USD 18.5 million).

Total assets amounted to USD 2,033 million (USD 2,083 million) as of 30 June 2010. The reduction in book value is mainly attributable to impairment charge booked in fourth quarter of 2009 as well as depreciation over the period. Equity amounted to USD 808 million (USD 848 million), resulting in a book equity ratio of 40% (41%). As a consequence of the Letter of Intent to sell the turret and swivel business, USD 62.8 million has been classified as assets held for sale. Most of this relates to goodwill.

Net interest-bearing debt amounted to USD 995 million (USD 1,011 million).

### Voluntary offer from BW Offshore

On 21 June BW Offshore announced that it intended to present a voluntary offer for the outstanding shares of Prosafe Production by the week starting on 12 July. The offer was not formally put forward until 27 July through the publication of an offer document. The higher of two offer prices is conditional upon completion of the sale of the turret and swivel business. As it is unlikely that closing of the sale will take place as

long as the offer stands, the relevant offer price is to be regarded as 1.2 BWO share plus NOK 2.0 in cash per PROD share. The Board has unanimously decided to advise the shareholders of Prosafe Production not to accept the offer, as it is not deemed to reflect the underlying values of the company.

The Board continues to evaluate the Company's strategic and financial options in order to maximize value for all shareholders of the Company, including actively pursuing alternative bidders to present an alternative offer for the shares of Prosafe Production.

### **Lol to sell turret and swivel business**

In March Prosafe Production entered into a Letter of Intent with National Oilwell Varco (NOV) to sell the turret and swivel business for USD 165 million plus a deferred element related to third party sales of the disposed business.

As a consequence of BW Offshore's announced voluntary offer to acquire all outstanding shares in Prosafe Production, National Oilwell Varco requested an extension of the Letter of Intent until after the announced offer has been concluded and the future ownership structure of Prosafe Production clarified. After careful evaluation, Prosafe Production announced 30 June 2010, that it had decided to grant such an extension, still with the intention to close a transaction during the third quarter.

### **Operations**

Including some planned shutdowns all units operated as normal in the quarter and the combined uptime was 98.9 per cent (98.4 per cent).

### **Outlook**

With the oil price stabilising around USD 70-80 per barrel oil companies' spending on exploration and production should continue to be at a high level. Deep waters, remote areas and marginal fields, which are all areas where the FPSO concept is well suited, will account for an increasing part of this spending. Adding on the high number of development prospects already in the pipeline, this bodes well for the demand for FPSOs over the coming years.

There have been substantial changes to the supply side of the FPSO industry over the last few years, as a number of contractors have withdrawn from the market for different reasons. While 20-30 companies bid actively for contracts in 2006/07, there currently are around ten players likely to seek new projects in the near term. As such, the combined execution capacity of the industry has been significantly reduced and competition seems to have eased.

The combination of a less complex competitive landscape and a positive demand picture should lead to an improved risk/reward profile in the FPSO industry.

Limassol, 15 August 2010

The Board of Directors of Prosafe Production Public Limited

### CONDENSED INCOME STATEMENT

(unaudited figures in USD million)	Note	Q2 10	Q2 09	Six months ended 30/06/2010	Six months ended 30/06/2009
Operating revenues		106.5	80.5	211.8	141.1
Operating expenses		(46.8)	(32.4)	(95.1)	(55.8)
<b>Operating profit before depreciation</b>		<b>59.7</b>	<b>48.1</b>	<b>116.7</b>	<b>85.2</b>
Depreciation		(36.0)	(19.6)	(68.6)	(33.3)
Impairment		0.0	0.0	0.0	(0.0)
<b>Operating profit</b>		<b>23.7</b>	<b>28.5</b>	<b>48.1</b>	<b>51.9</b>
Interest income		0.0	0.1	0.1	0.3
Interest expenses		(11.7)	(11.1)	(22.9)	(22.5)
Other financial items		(0.5)	(0.7)	(1.3)	(3.1)
<b>Net financial items</b>		<b>(12.1)</b>	<b>(11.7)</b>	<b>(24.1)</b>	<b>(25.3)</b>
<b>Profit before taxes</b>		<b>11.6</b>	<b>16.8</b>	<b>24.0</b>	<b>26.6</b>
Taxes		(5.9)	(3.7)	(7.5)	(7.9)
<b>Net profit (loss) from continuing operations</b>		<b>5.7</b>	<b>13.1</b>	<b>16.5</b>	<b>18.6</b>
<b>Discontinued operations</b>					
Net profit (loss) from discontinued operations	3	(1.3)	(0.9)	(2.1)	(1.3)
<b>Net profit (loss) for the period</b>		<b>4.4</b>	<b>12.2</b>	<b>14.4</b>	<b>17.3</b>
Earnings per share from continuing operations		0.02	0.05	0.06	0.07
Earnings per share diluted from continuing operations		0.02	0.05	0.06	0.07
Earnings per share		0.02	0.05	0.06	0.07
Earnings per share diluted		0.02	0.05	0.06	0.07

### STATEMENT OF COMPREHENSIVE INCOME

(unaudited figures in USD million)	Note	Q2 10	Q2 09	Six months ended 30/06/2010	Six months ended 30/06/2009
<b>Net profit (loss)</b>		<b>4.4</b>	<b>12.2</b>	<b>14.4</b>	<b>17.3</b>
Net gains/losses on cash flow hedges		(12.6)	21.5	(18.9)	24.6
Foreign currency translation		(0.6)	0.2	(1.2)	0.2
<b>Other comprehensive income</b>		<b>(13.2)</b>	<b>21.7</b>	<b>(20.1)</b>	<b>24.9</b>
<b>Total comprehensive income</b>		<b>(8.8)</b>	<b>33.9</b>	<b>(5.7)</b>	<b>42.2</b>

## CONDENSED BALANCE SHEET

(unaudited figures in USD million)	Note	30/06/10	30/06/09	31/12/09
Goodwill		65.5	128.3	128.3
Ships		1,700.1	1,738.7	1,756.2
Other non-current assets		7.2	14.0	7.3
<b>Total non-current assets</b>		<b>1,772.8</b>	<b>1,881.0</b>	<b>1,891.8</b>
Cash and deposits		101.9	111.4	133.8
Other current assets		96.0	90.9	71.0
<b>Total current assets</b>		<b>197.9</b>	<b>202.3</b>	<b>204.8</b>
Assets classified as held for sale	3	62.8	0.0	0.0
<b>Total assets</b>		<b>2,033.5</b>	<b>2,083.3</b>	<b>2,096.6</b>
Share capital	5	25.5	25.5	25.5
Other equity		782.5	822.4	788.2
<b>Total equity</b>		<b>808.0</b>	<b>847.9</b>	<b>813.7</b>
Interest-free long-term liabilities		59.6	1.3	38.3
Interest-bearing long-term debt	4	930.8	1,106.5	1,001.1
<b>Total long-term liabilities</b>		<b>990.4</b>	<b>1,107.8</b>	<b>1,039.4</b>
Other interest-free current liabilities		69.5	111.6	92.9
Current interest-bearing debt	4	165.6	16.0	150.6
<b>Total current liabilities</b>		<b>235.2</b>	<b>127.6</b>	<b>243.5</b>
<b>Total equity and liabilities</b>		<b>2,033.5</b>	<b>2,083.3</b>	<b>2,096.6</b>

## CONDENSED CASH FLOW STATEMENT

(unaudited figures in USD million)	Note	Six months ended 30/06/2010	Six months ended 30/06/2009	2009
Profit before taxes from continuing operations		24.0	26.6	12.1
Profit (loss) from discontinued operations	3	(2.1)	(1.3)	(2.5)
Unrealised currency loss (gain)		1.3	0.0	(0.9)
Depreciation		68.6	33.3	83.7
Impairment		0.0	0.0	46.7
Taxes paid		(6.1)	(6.7)	(12.7)
Change in working capital		(48.3)	(34.7)	(8.1)
Other items from operating activities		19.4	18.5	33.3
<b>Net cash flow from operating activities</b>		<b>56.7</b>	<b>35.7</b>	<b>151.6</b>
Acquisition of tangible assets		(11.5)	(203.7)	(317.6)
Interest received		0.1	0.3	0.7
<b>Net cash flow from investing activities</b>		<b>(11.4)</b>	<b>(203.4)</b>	<b>(316.9)</b>
Proceeds from new interest-bearing debt	4	20.0	100.0	235.0
Repayment of interest-bearing debt	4	(76.1)	(10.1)	(107.6)
Interest paid		(21.2)	(21.8)	(39.2)
<b>Net cash flow from financing activities</b>		<b>(77.2)</b>	<b>68.2</b>	<b>88.1</b>
<b>Net cash flow</b>		<b>(31.9)</b>	<b>(99.6)</b>	<b>(77.2)</b>
Cash and deposits at beginning of period		133.8	211.0	211.0
<b>Cash and deposits at end of period</b>		<b>101.9</b>	<b>111.4</b>	<b>133.8</b>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

(unaudited figures in USD million)	Six months ended 30/06/2010	Six months ended 30/06/2009	2009
Equity at the beginning of period	813.7	805.7	805.7
Total comprehensive income for the period	(5.7)	42.2	8.0
<b>Equity at the end of period</b>	<b>808.0</b>	<b>847.9</b>	<b>813.7</b>

## KEY FINANCIAL FIGURES

	Notes to key figures	Q2 10	Q1 10	Q4 09	Six months ended 30/06/2010
EBITDA margin		56.0%	54.1%	55.8%	55.1%
Operating margin		22.2%	23.2%	-29.3%	22.7%
Return on capital employed	1	4.8%	5.0%	-5.4%	4.9%
Return on equity	2	2.8%	5.3%	-20.3%	4.0%
Equity ratio	3	39.7%	39.2%	38.8%	39.7%
Earnings per share (USD)	4	0.02	0.04	(0.16)	0.06
Earnings per share adjusted (USD)	5	0.02	0.04	0.02	0.06
Working capital (USD million)	6	(37.3)	(3.8)	(38.7)	(37.3)
Net interest-bearing debt (USD million)		994.5	1,012.1	1,017.9	994.5
Market capitalisation (USD million)		521	630	547	521
Share price (NOK)		13.25	14.75	12.45	13.25
Book equity per share (USD)		3.17	3.20	3.19	3.17
Number of shares (million)		255.2	255.2	255.2	255.2
Average number of shares (million)		255.2	255.2	255.2	255.2
USD/NOK exchange rate		6.49	5.97	5.81	6.49

### Notes to key figures

1. Operating profit / [Average total assets - Average interest-free current debt] (Annualised)
2. Net profit / Average book equity (Annualised)
3. Book equity / Total assets
4. Net profit / Average number of outstanding and potential shares
5. Figures adjusted for effects from impairment charge
6. Current assets - current liabilities.

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT

Prosafe Production Public Limited is a public limited company registered in Limassol, Cyprus. The company is listed on the Oslo Stock Exchange with the ticker code PROD.

The interim condensed financial information of Prosafe Production for the quarter ended 30 June, 2010 were approved by the Board of Directors on 15 August, 2010.

#### 1. BASIS FOR PREPARATION

The condensed interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The condensed interim financial information does not include all the information and disclosures required in the annual financial information and should be read in conjunction with the consolidated financial statements for 2009. The accounting policies adopted in the preparation of the interim condensed financial information are consistent with those followed in the preparation of the consolidated financial statements for 2009.

#### 2. SEGMENT INFORMATION

Prosafe Production is a leading owner and operator of floating production and storage vessels and does only have one operating segment.

#### 3. DISPOSAL OF TURRET AND SWIVEL BUSINESS

Prosafe Production announced 22 March 2010 that it had entered into a Letter of Intent with National Oilwell Varco (NOV) to sell the turret and swivel business for USD 165 million. In addition there will be a deferred payment corresponding to 10% of the sold business' third-party sales for a period of seven years. In connection with the transaction, Prosafe Production will enter into an exclusive seven-year supply agreement with NOV, which secures access to turret and swivel solutions at competitive terms.

As a consequence of BW Offshore's voluntary offer to acquire all outstanding shares in Prosafe Production Public Limited, National Oilwell Varco requested an extension of the Letter of Intent until after the announced offer has been concluded and the future ownership structure of Prosafe Production clarified. Prosafe Production Announced 30 June 2010, that after careful evaluation, the Company had decided to grant such an extension, still with the intention to close a transaction during the 3rd quarter.

As of 30 June 2010, the turret and swivel business is classified as a disposal group held for sale and a discontinued business. The turret and swivel business has not earlier been classified as a separate business as no external sales to third parties has been conducted. The net loss in the income statement represents operating expenses and depreciation of assets related to this business.

The assets classified as held for sale as of 30 June 2010 does in all majority relate to goodwill that will be disposed of as part of a sale of the turret and swivel business.



## 4. SECURED INTEREST-BEARING DEBT

Prosafe Production had the following secured interest-bearing debt as at 30 June 2010:

(unaudited figures in USD million)	Q2 10	Q2 09	2009
USD 1200 mill facility	969.2	1,050.0	1,043.6
<i>Umuroa</i> facility	118.3	61.5	98.1
<i>Petróleo Nautipa</i> facility	8.9	11.1	10.0
<b>Total interest-bearing debt</b>	<b>1,096.4</b>	<b>1,122.6</b>	<b>1,151.7</b>

Prosafe Production Public Limited as borrower has entered into a senior secured revolving credit facility dated 5 May 2008, with a total initial availability of USD 1200 million where Nordea Norge ASA act as facility agent on behalf of a number of lenders. The loan period is seven years with the final maturity date 5 May 2015. The revolving credit facility has financial covenants related to liquidity, leverage ratio, equity ratio, working capital and collateral maintenance, and include a standard change of control clause that can be triggered if a party exceeds 30% ownership.

Prosafe Production Services Pte Ltd (acting through its New Zealand branch) as borrower has entered into a senior secured reducing revolving credit facility agreement dated 30 October 2009, with a total initial availability of USD 130 million related to the FPSO *Umuroa*. The loan period is six years with the final maturity date 3 November 2015. The revolving credit facility has financial covenants related to liquidity, leverage ratio, equity ratio and working capital, and include a standard change of control clause that can be triggered if a party exceeds 30 % ownership.

The *Petróleo Nautipa* facility is a credit facility related to the FPSO *Petróleo Nautipa*. The facility matures in December 2012.

## 5. EQUITY

The number of authorised shares issued and fully paid as at 30 June 2010 were 255,201,764. There has been no change to the number of shares issued in the second quarter of 2010.

As at 30 June 2010 Prosafe Production Public Limited has no holding of own shares.

## 6. RELATED PARTY

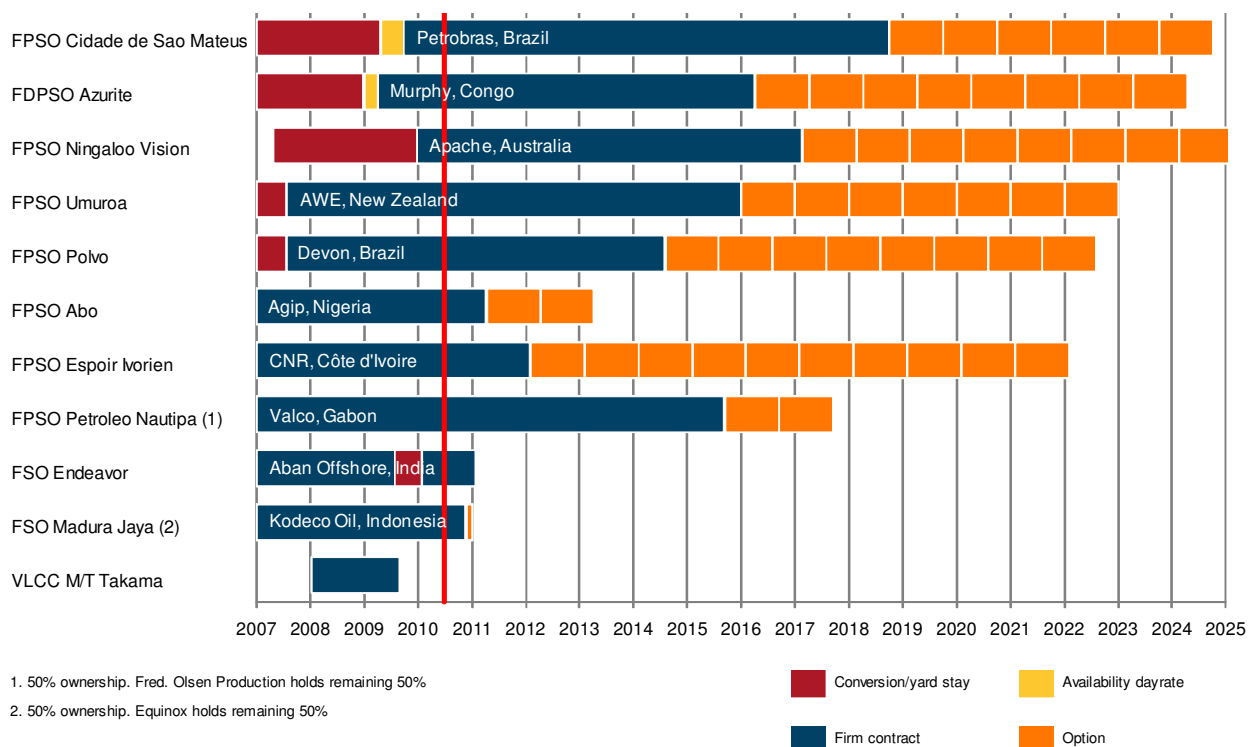
Shares held by members of the board and management group	30/06/10
<b>Members of the board</b>	
Ronny Johan Langeland	10,000
Arne Austreid	93,500
<b>Management</b>	
Bjørn Henriksen	306,000
Roy Hallås	155,930
Sven Børre Larsen	39,000

## SHAREHOLDERS as at 30 June 2010

	No. of shares	Ownership
BW OFFSHORE CYPRUS LIMITED (1)	44,500,000	17.44%
PROSAFE HOLDING LTD.	19,778,137	7.75%
BW EUROHOLDINGS LTD	15,332,280	6.01%
BW OFFSHORE CYPRUS LTD	11,432,990	4.48%
FOLKETRYGDFONDET	9,946,285	3.90%
MORGAN STANLEY & CO INTERNAT. PLC	9,874,638	3.87%
AWILCO INVEST AS	8,012,600	3.14%
BROWN BROTHERS HARRIMAN & CO	7,500,000	2.94%
RBC DEXIA INVESTOR SERVICES TRUST	7,120,861	2.79%
ORKLA ASA	6,600,000	2.59%
PARETO AKSJE NORGE	5,959,686	2.34%
PROSAFE SE	5,596,997	2.19%
UBS AG, LONDON BRANCH	5,453,069	2.14%
BW LPG FPSO I LTD	5,000,000	1.96%
HSBC BANK PLC	4,418,441	1.73%
ODIN OFFSHORE	3,932,000	1.54%
STATE STREET BANK AND TRUST CO.	3,667,731	1.44%
BANK OF NEW YORK MELLON SA/NV	3,234,217	1.27%
PARETO AKTIV	2,827,050	1.11%
BANK OF NEW YORK MELLON	2,758,039	1.08%
MORGAN STANLEY & CO INC. NEW YORK	2,490,324	0.98%
BNP PARIBAS SECS SERVICES PARIS	1,929,081	0.76%
GOLDMAN SACHS & CO - EQUITY	1,915,641	0.75%
GMO FOREIGN FUND	1,852,574	0.73%
UBS LIMITED	1,781,693	0.70%

1) BW Offshore Ltd is controlled by BW Euroholdings Ltd's parent company BW Group Ltd. In total they own 76,265,270 shares in Prosafe Production Public Ltd, which constitutes 29.88% of the shares outstanding.

## CONTRACT STATUS



### **STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE FINANCIAL STATEMENTS**

(In accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the board of directors and the company officials responsible for the interim financial statements of Prosafe Production Public Limited (the 'Company') for the period of six months ended 30 June 2010, confirm that, to the best of our knowledge,

- a) the enclosed condensed set of financial statements,
  - i. have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and the requirements of the Cyprus Companies Law, and
  - ii. give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company, and
- b) the interim management report provides a fair review of the information required by Cyprus Companies Law.

Limassol, 15 August 2010

Ronny Johan Langeland  
Chairman

Christian Brinch  
Non-executive Director

Arne Austreid  
Non-executive Director

Michael Raymond Parker  
Non-executive Director

Carine Smith Ihenacho  
Non-executive Director

Christakis Klerides  
Non-executive Director

Bjørn Henriksen  
President and CEO

Sven Børre Larsen  
Executive VP and CFO



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