

REPORT

THIRD QUARTER 2006



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Main figures¹

Operating revenues for the third quarter amounted to USD 0.7 million (USD 5.2 million). Operating profit was USD - 4.0 million (USD -1.5 million), and the appreciating USD contributed to an unrealized foreign exchange loss for the quarter, resulting in net profit of USD - 7.3 million (USD -1.3 million).

As of September 30, 2006, total assets amounted to USD 576.8 million (USD 262.9 million), of which USD 326.0 million was capitalized as construction-in-progress. Cash and cash equivalents amounted to USD 205.9 million (USD 120.6 million).

Business segments

The Group is organized in three business areas: Floating Production; Equipment and Systems; and Drilling.

Floating Production has not yet generated revenues since the activities to date have been related to the design, engineering and construction of the Sevan platforms. This includes the *SSP Piranema*, which has been contracted to Petrobras, and the *SSP Hummingbird*, which has been contracted to Venture Production, both under multi-year charter contracts. It is expected that revenues will be generated from December 2006/first quarter 2007, when the *SSP Piranema* commences its charter contract with Petrobras.

Equipment and Systems consists of the activities of Kanfa AS. Kanfa's primary business activity is related to the provision of services and equipment to the processing plants of the Sevan Platforms. In addition, Kanfa is also serving clients outside of the Sevan Group. As of September 30, this is the only revenue generating business area within the Group.

Kanfa is currently bidding complete topsides to several FPSO contractors for international projects. In addition, the North Sea new-building market is active and Kanfa has been pre-qualified for several packages.

¹ Figures in brackets refer to the corresponding period previous year

The activities within **Drilling** are related to the design, engineering and construction of the first Sevan Drilling Unit which is expected to be completed in the first quarter of 2009. No revenues are expected to be generated from this business area until completion of the unit.

Business activities

Construction projects On the *SSP Piranema*, system testing proceeds according to plan at the Keppel Verolme Shipyard in Rotterdam. The testing and completion activities for the process and marine systems are ongoing. The mobilization schedule remains unchanged. Sail away to Brazil is expected to commence in November 2006, while offshore installation at the Piranema field is estimated at December 2006.

The extraordinary issues previously identified are now well under control, and substantial efforts have been undertaken in order to complete the work. The manpower resources needed to complete the outstanding work have been higher than expected. This also translates into the final phase of construction. The testing and completion activities will therefore be running with a higher manning level than previously planned for, in order to meet the agreed delivery schedule. As a result of this, the Company expects that it will incur an additional USD 25 million in cost on the unit in the final phase of the project.

As previously reported, Sevan has agreed a dayrate adjustment formula with Petrobras, and the effect on the project's Return on Investment (ROI) of the additional cost is therefore expected to be limited.

The Company regards the cost increase on the *SSP Piranema* as an extraordinary situation. Based on the experience gained during the Piranema project, appropriate measures have been taken to improve the execution of the fabrication and assembly phases of the other projects. This includes increasing the scope of work carried out in Europe and changing the project organization.

There are no changes to the cost estimates previously reported on the other units.

As the Company sees it, the relative cost advantage of the Sevan platforms compared to competing units, have been kept, based on the reported cost of such other units.

The construction activities for the *SSP Hummingbird* are progressing according to plan. The hull has now been completed up to main deck level. The living quarters are ready for the outfitting to commence. The processing modules are on schedule. Sail away from the Yantai Raffles Shipyard is expected in February 2007 and offshore installation at the Chestnut Field, UK is expected in August 2007.

The pre-fabrication and block erection for the Sevan production unit no. 3 is ongoing and progressing as planned. Sail away from the Yantai Raffles Shipyard is expected Q2 2007.

The steel cutting for Sevan production unit no. 4 commenced in August. The construction is proceeding according to plan. The Sevan units no. 3 and 4 are based on an SSP 300 design and will be equipped as FPSOs, based on the future client's requirements.

All orders for long-lead items for the *Sevan Driller* have been placed and major sub-contract activities have commenced. The engineering activities are well underway and construction is expected to begin in Q1 2007.

Contract awarded for the Sevan Driller Petrobras America Inc. has awarded Sevan a drilling contract for the Sevan Driller for the US Gulf of Mexico. The rig is designed to include the most advanced drilling capabilities in the industry, based on Sevan's own patented technology. The Sevan Driller will have the capacity of drilling of wells up to 40,000 feet in water depths of up to 12,500 feet, a variable deck load of more than 15,000 metric tons and a high storage capacity of bulk materials. It will be equipped with an internal storage capacity of up to 150,000 barrels of oil. The drilling contract has a duration of six years and is expected to commence in the first quarter of 2009. Revenues which could be generated over the six year period are approximately USD 880 millions, including a bonus arrangement and mobilization fee.

Option Agreement Sevan Marine has previously announced that one of its subsidiaries has signed an option agreement, whereby an oil company has the exclusive right, until December 31, 2006, to contract and charter the Sevan production unit no. 4 for field installation in the UK North Sea during 2009. The parties continue to make progress with respect to determining the topside specifications and certain field specific requirements.

Business Development The Company believes that its patented technology also has potential outside of production and drilling applications. The Company has therefore initiated conceptual work and discussions with potential clients and partners towards determining the possible use of the Sevan platform technology for certain gas applications, including gas to wire.

Establishment in Singapore The Sevan Group has established subsidiaries in Singapore and is in the process of developing an organisation in that region. *SSP Hummingbird*, Sevan production units no. 3 and 4, and the Drilling unit are owned from Singapore. The Group's starting point is that any further building contracts also will be placed with its Singapore subsidiaries. The establishment in Singapore ensures proximity to the shipyards where the rigs are being constructed, allowing for easier supervision of building activities. The Group has also placed emphasis on the fact that Singapore has a stable political and legal system, with favourable framework conditions for the maritime industry. In Singapore, Sevan can form part of and benefit from one of the world's leading maritime environments, which may be valuable for gaining market access and attracting qualified personnel.

Accounting policies

The Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and these financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 for Interim Financial Reporting. For accounting policies applied in the interim



reporting, reference is made to the Annual Financial Statements for 2005.

Change of functional currency The Company and relevant subsidiaries changed its functional currency from NOK to USD effective January 1, 2006. The change was based on an evaluation of the economic environment in which each company operates and the predominance of USD in expected future cash flows.

The opening balances for the year have been restated prospectively in USD in accordance with IAS 21. Prior year statements have been translated for comparative purposes.

Outlook

The floating production and drilling markets remain very strong. Several field development projects are coming to the market, in particular small and medium-sized fields. For drilling, the outlook for the deep water market is good. The Company is discussing project opportunities with potential clients for both production and drilling applications.

Tananger, October 18, 2006
The board of directors
Sevan Marine ASA

Income statement				
<i>Unaudited figures in USD million</i>	Q3 06	30.09.06	Q3 05	30.09.05
Operating revenues	0,7	21,3	5,2	5,9
Operating expenses	-5,6	-34,3	-6,6	-10,4
Forex related to operating	1,1	6,2	0,0	0,0
EBITDA	-3,8	-6,7	-1,4	-4,5
Depreciation	-0,2	-0,5	-0,1	-0,1
Operating profit	-4,0	-7,2	-1,5	-4,6
Income from associated companies	0,1	0,4	0,0	0,0
Financial income/(cost)	3,1	3,4	0,0	0,0
Forex related to financing	-6,3	0,8	0,0	0,0
Net financial items	-3,1	4,6	0,0	0,0
Profit before tax	-7,1	-2,6	-1,5	-4,6
Tax	-0,3	0,0	0,2	0,9
Net profit	-7,3	-2,5	-1,3	-3,7

Balance sheet		
<i>Unaudited figures in USD million</i>	30.09.06	31.12.05
Construction in progress	326,0	144,8
Other fixed assets	7,3	0,7
Intangible assets	11,7	8,3
Investments in associates	0,9	0,5
Deferred income tax assets	8,1	3,7
Other non-current assets	1,7	0,1
Total non-current assets	355,8	158,1
Trade and other receivables	15,1	25,8
Cash and cash equivalents	205,9	72,1
Total current assets	221,0	97,9
Total assets	576,8	256,0
Share capital	4,3	2,7
Other equity	368,3	98,7
Total shareholders' equity	372,7	101,4
Minority Interest	14,3	7,2
Total equity	386,9	108,6
Borrowings	157,9	104,1
Retirement benefit obligations	0,3	0,7
Other long-term liabilities/provisions	0,3	0,4
Total long-term debt	158,5	105,2
Current liabilities	31,4	42,2
Total current liabilities	31,4	42,2
Total liabilities	189,9	147,4
Total shareholders' equity and liab.	576,8	256,0

Cash flow

Cash flow		
<i>Unaudited figures in USD million</i>	30.09.06	30.09.05
Cash flows from operations	-6,0	-0,6
Cash flows from investments	-192,2	-71,1
Cash flows from financing	332,0	181,5
Net cash flow	133,8	109,8
Cash balance at beginning of period	72,1	10,8
Cash balance at end of period	205,9	120,6

Key figures

<i>Unaudited figures</i>	Note	Q3 06	Q3 05	30.09.06	30.09.05
Earnings per share (USD)	1	-0,05	-0,01	-0,02	-0,05
Earnings per share fully diluted (USD)	2	-0,05	-0,01	-0,02	-0,05
Cash flow per share (USD)	3	0,03	-0,04	-0,05	-0,01
Cash flow per share fully diluted (USD)	4	0,03	-0,04	-0,04	-0,01
Operating margin	5	-536 %	-27 %	-34 %	-76 %
Equity ratio	6	65 %	40 %	65 %	40 %
Return on equity	7	-8 %	-5 %	-1 %	-3 %
Return on capital employed	8	0 %	-6 %	-1 %	-12 %
No. of outstanding shares ('000)		144 265	92 227	144 265	92 227
No. of shares fully diluted ('000)		149 723	97 698	149 723	97 698
Average no. of outstanding shares ('000)		144 204	81 990	129 489	79 421
Average no. of shares fully diluted ('000)		149 761	75 931	134 787	86 068
Share price (NOK)		34,50	30,30	34,50	30,30
Market capitalization (KNOK)	9	4 977 143	2 794 478	4 977 143	2 794 478
Number of employees		152	58	152	58

Notes

- 1 Net profit / average no. of outst. shares
- 2 Net profit / average no. of shares fully diluted
- 3 Cash flow from ops. / avg. no. of outst. shares
- 4 Cash flow from ops. / avg. no. of shares fully diluted
- 5 (Operating profit / operating revenues) x 100
- 6 (Total shareholders' equity / total assets) x 100
- 7 (Net profit / avg. equity) x 100, annualized
- 8 (Operating profit + interest income) / (avg. total assets - avg. interest free debt), annualized
- 9 Latest quoted shareprice or share issue price x no. of outstanding shares



The 10 largest shareholders as at October 17, 2006

Shareholder	No of shares	% share
Goldman Sachs Intern Equity Nontreaty Cus	36 853 335	25,53 %
Morgan Stanley & Co. Client Equity Account	14 592 570	10,11 %
Credit Suisse Securi (Europe) Ltd./Firms	7 936 950	5,50 %
Goldman Sachs Equity Nontreaty Cus	6 602 204	4,57 %
Arne Smedal	3 605 687	2,50 %
Morgan Stanley & Co. Client Equity Account	3 472 568	2,41 %
UBS AG, London Branc Equities/Corporate A	3 044 087	2,11 %
Supernova AS	2 943 444	2,04 %
Hallingen AS	2 871 296	1,99 %
Aasen AS	2 804 036	1,94 %

Total 84 726 177 58,70 %

No. of outstanding shares 144 335 762

Foreign ownership 72,6 %

Statement of changes in equity	Share capital	Share premium	Other reserves	Retained Earnings	Minority interest	Total equity
Equity as of December 31, 2005 (KNOK)	18 535	722 485	2 739	-57 439	48 662	734 982
Equity as of December 31, 2005 (KUSD)	2 738	106 739	405	-8 486	7 189	108 585
Proceeds from shares issued	1 577	279 096			8 000	288 673
Share issue cost		-12 909				-12 909
Tax effect of share issue costs				3 593		3 593
ITM options				1 727		1 727
Net profit for the period				-1 585	-920	-2 505
Effect of CF hedge			-434			-434
Currency translation difference			196			196
Equity as of September 30, 2006 (KUSD)	4 315	372 926	166	-4 751	14 269	386 926

Statement of changes in equity	Share capital	Share premium	Other reserves	Retained Earnings	Minority interest	Total equity
Equity as of December 31, 2004 (KNOK)	13 234	201 059	-1 704	-29 731	0	182 858
Equity as of December 31, 2004 (KUSD)	1 955	29 704	-252	-4 392	0	27 015
Proceeds from shares issued	770	79 956			7 202	87 928
Share issue cost		-3 070				-3 070
Tax effect of share issue costs				860		860
ITM options				521		521
Net profit for the period				-3 161	-62	-3 223
Effect of CF hedge			626			626
Currency translation difference			752			752
Equity as of September 30, 2005 (KUSD)	2 725	106 591	1 126	-6 173	7 140	111 409

SEGMENTS												
	Floating Production		Equipment & Systems		Corporate cost		Drilling		Eliminations		Total	
	30.09.06	30.09.05	30.09.06	30.09.05	30.09.06	30.09.05	30.09.06	30.09.05	30.09.06	30.09.05	30.09.06	30.09.05
External revenues	0,0	0,0	21,3	5,9	0,0	0,0	0,0	0,0	0,0	0,0	21,3	5,9
Internal revenues	0,0	0,0	48,2	17,8	0,0	0,0	0,0	0,0	-48,2	-17,8	0,0	0,0
Total revenue	0,0	0,0	69,6	23,7	0,0	0,0	0,0	0,0	-48,2	-17,8	21,3	5,9
Operating expenses	-3,0	-0,3	-69,0	-22,6	-9,4	-4,7	-0,7	0,0	47,9	17,2	-34,3	-10,4
Forex related to operating	6,6	0,0	-0,2	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	6,2	0,0
EBITDA	3,6	-0,3	0,4	1,1	-9,6	-4,7	-0,7	0,0	-0,4	-0,6	-6,7	-4,5
Depreciation	0,0	0,0	-0,1	0,0	-0,4	-0,1	0,0	0,0	0,0	0,0	-0,5	-0,1
Operating profit	3,6	-0,3	0,3	1,1	-10,0	-4,8	-0,7	0,0	-0,4	-0,6	-7,2	-4,6
Income from associated companies	0,0	0,0	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,4	0,0
Financial income/(cost)	-0,8	0,0	-0,2	0,1	9,2	-0,1	0,0	0,0	-4,9	0,0	3,4	0,0
Forex related to financing	-2,2	0,0	0,0	0,0	2,9	0,0	0,1	0,0	0,0	0,0	0,8	0,0
Net financial items	-2,9	0,0	0,2	0,1	12,1	-0,1	0,1	0,0	-4,9	0,0	4,6	0,0
Profit before tax	0,7	-0,3	0,5	1,2	2,1	-4,9	-0,6	0,0	-5,3	-0,6	-2,6	-4,6
Tax *	0,3	0,1	-0,5	-0,3	-1,1	1,1	0,0	0,0	1,4	0,0	0,0	0,9
Net profit	1,0	-0,2	0,0	0,9	1,0	-3,8	-0,6	0,0	-3,9	-0,6	-2,5	-3,7
Segment assets	348,0	79,8	17,9	49,4	468,8	184,6	129,1	0,0	-387,9	-50,9	575,9	262,9
Investment in associates (equity method)	0,0	0,0	0,9	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,9	0,1
Total assets	348,0	79,8	18,8	49,5	468,8	184,6	129,1	0,0	-387,9	-50,9	576,8	263,0
Segment liabilities	261,5	147,1	16,6	46,6	9,3	8,8	2,7	0,0	-100,2	-50,9	189,9	151,6
Total liabilities	261,5	147,1	16,6	46,6	9,3	8,8	2,7	0,0	-100,2	-50,9	189,9	151,6
Capital expenditure	153,1	50,7	0,5	0,0	1,5	12,0	41,9	0,0	-5,3	-1,7	191,7	61,0
Non-cash expenses other than depr.	0,0	0,0	0,0	0,0	1,7	0,6	0,0	0,0	0,0	0,0	1,7	0,6

*The effective tax rate differs from the nominal tax rate because the gains and losses related to translation to USD functionality are non-taxable items.