



## **SONGA OFFSHORE ASA - REPORT FOR THE THIRD QUARTER 2007**

Songa Offshore ASA consolidated profit after tax for the third quarter 2007 was USD 15.1 million. Accumulated after tax profit was USD 24.8 million.

Revenue for the third quarter was USD 87.3 million. Accumulated revenue was USD 195.0 million.

Operating expenses for the third quarter were USD 34.2 million. Accumulated operating expenses were USD 80.8 million.

EBITDA for the third quarter was USD 53.0 million. Accumulated EBITDA was USD 114.3 million.

Net financial expenses for third quarter were USD 16.0 million. Accumulated net financial expenses were USD 48.1 million.

Earnings per share (EPS) for the third quarter were USD 0.17. Diluted earnings per share (DEPS) for the third quarter were USD 0.16. Accumulated EPS was 0.29 and accumulated DEPS 0.28.

The accounts for Q1 and Q2 have been restated. Certain items relating to the commissioning of Songa Saturn which were initially expensed have been restated and capitalized. This amounts to USD 1.5 million and USD 1.7 million in Q1 and Q2 respectively. Further financial expenses relating to Songa Mercur, which were expensed have now been capitalized. This amounts to USD 1.7 million in Q1 and USD 2.9 million in Q2. Further financial expenses relating to the bond loans are reduced due to a change in the calculation of effective interests. This amounts to USD 1.4 million in Q1 and USD 0.2 million in Q2. Finally the mentioned changes have lead to adjustments to estimated taxes of USD +1.2 million in Q1 and USD -3.8 million in Q2. The net effect is to improve net income for Q1 by USD 5.8 million to 0.8 million, and the same for Q2 by 1.0 million to 8.8 million.

### **Main events in the third quarter**

INPEX has exercised its second 6 month option on Songa Venus. The day rate for this six month extension is contractually set at USD 225,500 per day and estimated completion of the contract will be 25 October 2008.

Santos has exercised its first option on Songa Mercur. The current contract which runs for nine months from 22 July 2007 has been extended by three months through the declared option until July 2008. The day rate for this three month extension is contractually set at USD 300,000 per day. After this Santos has two more options of 6 months each that have to be declared six months in advance of commencement. These options are set to be at market rates at the time they are exercised.

## **The rigs**

Songa Venus has been operating offshore Western Australia since mid November 2006. During the third quarter the rig achieved 84.7% operational efficiency, yielding a YTD rate of 86.3%. The rig was taken out of operations for 13 days during the quarter for a planned maintenance and some upgrading to meet client and governmental requirements. Everything went according to plan.

Songa Saturn started operations offshore Equatorial Guinea late February 2007. During the third quarter the drill ship achieved 95.2% operational efficiency, yielding a YTD rate of 94.7%.

Songa Mercur was up until 1 July undergoing remedial work on cranes in parallel with commissioning and acceptance testing at anchorage outside Singapore. The rig left Singapore 1 July and started operating 17 July 2007. During the third quarter the rig achieved 86.7% operational efficiency.

The Company has started the process of establishing an organization serving the Norwegian and UK sector of the North Sea. Offices and certain key personnel are in place in Stavanger and continuous recruitment will go on through out 2007/2008.

The Company has started the marketing of the Deepsea Trym.

## **Accounting issues**

The investors in BOP 15 Invest exercised their right to convert their shares in the investment company into shares in Songa Offshore ASA in late June. The issuance of shares did not take place until the beginning of July and is accordingly reflected in the equity this quarter.

In addition to the restating of the accounts for Q1 and Q2, we have also changed the format of the P&L this quarter, this in order to give a more relevant specification of revenue and expenses. Restated figures for Q1 and Q2 can be found at the end of this document.

## **Financing**

After the end of the quarter, the Company has come to an agreement with the bondholders of the USD 110 million 9% bond 2005/2010 whereby it purchased the remaining part of the bond at 109% of par value plus accrued unpaid interest. The redemption took place on November 5, and was financed through the existing bank facility. This will in the Board's view create a more flexible debt structure for the Company, given the bond had dividend restrictions. In connection with the redemption of the bond loan the Company also settled its TRS agreement with Nordea, leaving no unused bank facilities after this transaction.

The Company's external debt after the redemption of the USD 110 million bond loan, will be a USD 620 million bank loan (so called reducing revolver), a USD 75 million bond loan which matures in March 2011, and is callable from March 2009, and the USD 125 million convertible bond.

## **Share capital issues**

Investors in BOP 15 DIS controlling 99.5% of the DIS (Songa Offshore owned 0.5%), exercised their right to convert their ownership interests into Songa Offshore shares in late June with the shares being issued in early July. The lease valued at USD 15,300,000 was converted at NOK 35 with NOK / USD exchange rate 5.9034. A total of 2,567,726 shares were issued.

No further conversion of warrants was done during the third quarter, leaving a total of 6,102,017 freely tradable warrants remaining in the market. The warrant program expires in June 2008.

As of 30 September 2007 total outstanding shares in the Company was 87,251,527. Weighted average number of shares in the third quarter was 86,997,576 shares, and year to date the weighted average number of shares was 85,234,101. Adjusted weighted average number of shares, as defined in IFRS for the third quarter, was 101,725,388 and adjusted weighted average number of shares, as defined in IFRS year to date, was 94,821,529.

Deputy Chairman of the Board Einar J. Greve and Member of the Board Jon C. Syvertsen, have exercised options for a total of 1,000,000 shares. The Company decided to settle the options with cash in accordance with instructions given by the General Meeting in May. Remaining options allocated to members of the Board equals right to have 1,500,000 shares issued. Options to members of the Board are fully vested at the time of allocation and can be exercised at any time. The Board has earlier allocated options to employees in a total of 1,758,166. Options to employees are fully vested at 31 December 2007 and can be exercised in January 2008.

The USD 125 million convertible bond loan is convertible into common shares in the Company. The total number of shares, if converted, is 9,349,289, i.e. strike at USD 13.37 per share.

Assuming all warrants and options mentioned above are converted, the Company would on a fully diluted basis have 105,960,999 shares.

Songa Offshore ASA has on several occasions throughout the third quarter increased the Total Return Swap (TRS) with Carnegie Investment Bank AB Norway Branch. During the third quarter the TRS has been increased by 295,000 shares to 2,534,165 shares. As per 8 November 2007 the TRS has been increased a further 140,800 shares to 2,774,965 shares. The swap agreement expires on 21 December 2007.

In October the Company entered into a similar total return swap (TRS) with Nordea Bank Norge ASA. The TRS provides for cash settlement and with shares in Songa Offshore ASA as underlying security. As per 8 November 2007 this TRS is for 700,000 shares and the swap expires on 10 April 2008.

## **Market conditions and outlook**

The demand for drilling rigs is still strong in all segments. Only a minor number of rigs are being delivered in the mid water segment during the next quarters.

The Board notes a strong cost pressure in the industry both with regard to personnel expense levels and suppliers equipment. This is further amplified by the weakening USD against most currencies including AUD, NOK, SGD and GBP.

With the exercise of the options on Mercur and Venus, the two rigs are on contract until late July and late October 2008 respectively. Trym will be available in late 2008/early 2009. Saturn has secured a contract in Libya, and Dee has secured a longer contract in the North Sea. Market opportunities for Venus, Mercur and Trym are being actively investigated. There are several drilling programs that fit well with the specification of the rigs in terms of water depth and BOP capacity. Attractive drilling programs exist in the North Sea and the rest of the world for all three rigs.

Oslo, 8 November, 2007

Board of Directors  
Songa Offshore ASA

Questions should be directed to:

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## **FINANCIAL STATEMENT**

### **1 General information**

Songa Offshore ASA ("the Company") and its subsidiaries (together, "the Group") are engaged in the business of owning and operating offshore drilling rigs and other vessels to be used in the exploration and production of crude oil. The Group operates four semi-submersible rigs and one drill ship. With a highly experienced management team, the Company's vision is to provide a flexible and reliable drilling service to its customers.

The Group is headquartered in Oslo, Norway, and the rig operations are run from Singapore, Perth – Australia and Malabo – Equatorial Guinea.

Per 30 September 2007 the Group had operations in the North Sea, offshore West Africa and offshore Western Australia. The Company has been listed on Oslo Stock Exchange since 26 January 2006. Ticker: "SONG".

Songa Offshore ASA is a public limited company, incorporated in Norway, the address of the registered headquarters is: Haakon VIIIs gate 1, 0161 Oslo, Norway. Enterprise no. 874 761 362

### **2 Basis for preparation**

This condensed interim financial information for the period ended 30 September 2007 has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The interim financial statements are prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

### **3 Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

Songa Offshore Group

**Consolidated income statement**

for the period

(IFRS non audited figures)

Restated

Amounts in USD '000	Q3 2007	Q2 2007	Q3 2006	Jan-Sep 2007	Jan-Sep 2006	Year 2006
Operating revenue	85 840	60 144	4 144	185 194	6 581	25 094
Reimbursables	1 333	1 879	-	4 145	-	-
Other revenue	77	5 058	194	5 666	1 718	19 503
<b>Total revenue</b>	<b>87 250</b>	<b>67 081</b>	<b>4 338</b>	<b>195 005</b>	<b>8 299</b>	<b>44 597</b>
Rig operating expenses	(25 188)	(21 682)	(8 753)	(61 076)	(11 689)	(22 119)
Reimbursables	(1 287)	(1 875)	-	(4 093)	-	-
General and administrative expenses	(7 758)	(6 023)	2 032	(15 585)	(6 260)	(12 617)
<b>Total operating expenses</b>	<b>(34 233)</b>	<b>(29 580)</b>	<b>(6 721)</b>	<b>(80 754)</b>	<b>(17 949)</b>	<b>(34 736)</b>
Depreciation and amortization	(19 320)	(14 005)	(3 823)	(45 050)	(6 286)	(13 812)
Finance income	1 217	1 540	-	3 813	1 025	2 713
Finance costs	(17 277)	(19 215)	(10 262)	(51 930)	(19 016)	(27 377)
<b>Profit/(loss) before tax</b>	<b>17 637</b>	<b>5 821</b>	<b>(16 468)</b>	<b>21 084</b>	<b>(33 927)</b>	<b>(28 615)</b>
Tax income/(expense)	(2 502)	3 000	4 611	3 687	9 500	7 874
<b>Profit/(loss) for the period</b>	<b>15 135</b>	<b>8 821</b>	<b>(11 857)</b>	<b>24 771</b>	<b>(24 427)</b>	<b>(20 741)</b>
<b>Net earnings per share (USD):</b>						
Basic	0,17	0,10	-0,15	0,29	-0,34	-0,28
Dilutive	0,16	0,10	-0,15	0,28	0,34	-0,28

Songa Offshore Group

**Consolidated balance sheet at**

(IFRS - non audited figures)

<i>(USD '000)</i>	Note	30/09/07	30/09/06	31/12/06
<b>ASSETS</b>				
Non-current assets				
Rigs, machinery and equipment		984 601	643 581	712 332
Deferred tax assets		14 441	14 014	12 388
Other long term assets		-	50 150	-
<b>Total non-current assets</b>		<b>999 042</b>	<b>707 745</b>	<b>724 720</b>
Current assets				
Trade and other receivables		14 871	2 827	20 824
Prepayments		8 277	1 082	2 654
Incurred revenue		23 910	-	-
Other assets		3 420	3 515	26 743
Cash and cash equivalents		37 233	8 127	90 621
<b>Total current assets</b>		<b>87 711</b>	<b>15 551</b>	<b>140 842</b>
<b>TOTAL ASSETS</b>		<b>1 086 753</b>	<b>723 296</b>	<b>865 562</b>

Songa Offshore Group

**Consolidated balance sheet at**

(IFRS - non audited figures)

<i>(USD '000)</i>	Note	30/09/07	30/09/06	31/12/06
<b>EQUITY AND LIABILITIES</b>				
Capital and reserves				
Issued capital		13 663	12 201	12 791
Share premium		53 917	146 094	27 469
Reserves		18 318	12 152	14 838
Other equity		156 886	(33 554)	106 500
<b>Total equity</b>		<b>242 784</b>	<b>136 893</b>	<b>161 598</b>
Non-current liabilities				
Bank loan		386 362	199 945	211 389
Bond loans		245 568	181 725	167 889
Other liabilities		254	5 724	6 024
<b>Total non-current liabilities</b>		<b>632 184</b>	<b>387 394</b>	<b>385 302</b>
Current liabilities				
Bank loans		120 000	142 500	190 000
Other external financing		50 278	-	56 142
Trade and other payables		21 171	10 287	6 714
Derivative financial instruments		-	8 497	13 919
Deferred revenues		19 936	20 290	26 056
Interest payable		-	4 879	15 352
Other liabilities		400	12 556	10 479
<b>Total current liabilities</b>		<b>211 785</b>	<b>199 009</b>	<b>318 662</b>
<b>Total liabilities</b>		<b>843 969</b>	<b>586 403</b>	<b>703 964</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 086 753</b>	<b>723 296</b>	<b>865 562</b>

**Songa Offshore Group****Statement of changes in equity**

(IFRS - non audited figures)

Note	Share capital	Share premium	Paid in, not registered share capital	Equity-settled employee benefits reserve	Other equity	Total equity
	<b>9 254</b>	<b>75 984</b>	<b>276</b>	<b>-</b>	<b>(24 946)</b>	<b>60 568</b>
<b>Balance as at 1 January 2006</b>						
Other adjustments	-	-	-	-	(80)	(80)
Translation adjustments	-	-	-	-	(195)	(195)
Net expenses recognised directly in equity	-	-	-	-	(275)	(275)
Loss for the period					(24 427)	(24 427)
Total recognised expense for the year	-	-	-	-	(24 702)	(24 702)
Issue of share capital	956	52 825	-	-	-	53 781
Conversion of warrants not registered at year end 2005	28	248	(276)	-	-	-
Conversion of warrants Jan - Sep	1 963	17 037	-	-	-	19 000
Change in fair value of financial investment	-	-	-	-	16 094	16 094
Recognition of share-based payments	-	-	-	12 152	-	12 152
<b>Balance as at 30 September 2006</b>	<b>12 201</b>	<b>146 094</b>	<b>-</b>	<b>12 152</b>	<b>(33 554)</b>	<b>136 893</b>
	<b>12 791</b>	<b>27 469</b>	<b>-</b>	<b>14 838</b>	<b>106 500</b>	<b>161 598</b>
<b>Balance as at 1 January 2007</b>						
Translation adjustments	-	-	-	-	4 800	4 800
Net expenses recognised directly in equity	-	-	-	-	4 800	4 800
Profit for the period					24 771	24 771
Total recognised expense for the year	-	-	-	-	29 571	29 571
Issue of share capital	822	26 018	-	-	-	26 840
Conversion of warrants Jan - Sep	50	430	-	-	-	480
Recognition of share-based payments	-	-	-	3 480	-	3 480
Recognition of convertible bond loan	-	-	-	-	20 815	20 815
<b>Balance as at 30 September 2007</b>	<b>13 663</b>	<b>53 917</b>	<b>-</b>	<b>18 318</b>	<b>156 886</b>	<b>242 784</b>

**Consolidated statement of cash flows**

(IFRS - non audited figures)

Amounts in USD '000	Restated					
	Q3 2007	Q2 2007	Q3 2006	Jan-Sep 2007	Jan-Sep 2006	Year 2006
Profit (loss) before tax	17 637	975	(16 467)	21 084	(33 928)	(28 615)
Cash flows from operating activities						
Adjustment for:						
Depreciation	19 320	13 982	3 743	45 050	6 206	13 812
Cost of option plans	2 153	448	9 530	3 480	11 687	14 838
Gain on sale of available for sale investment	-	-	-	-	-	(19 022)
Finance costs	17 277	22 346	11 309	51 930	16 963	17 992
Increase/(decrease) in fair value of BOP option	-	1 672	900	(3 045)	1 248	6 671
Change in receivables	(13 010)	1 093	2 928	(257)	(5 006)	(47 803)
Change in payables	3 493	(4 813)	3 299	(895)	13 755	10 689
Change in other liabilities	(31 867)	1 437	(11 319)	(26 392)	-	5 129
Prepaid revenue	5 571	(16 283)	8 540	(6 120)	20 290	26 056
Interest and fees paid	(16 989)	(19 825)	(14 217)	(58 246)	(21 325)	(20 605)
Net cash flow from operating activities	3 585	1 032	(1 754)	26 589	9 890	(20 858)
Cash flows from investing activities						
Purchase of property, plant and equipment	(21 385)	(14 369)	(70 382)	(315 773)	(427 325)	(503 682)
Proceeds from sale of available-for-sale investment	-	-	-	-	-	53 500
Net cash flow used in investing activities	(21 385)	(14 369)	(70 382)	(315 773)	(427 325)	(450 182)
Cash flows from financing activities						
Proceeds from issue of share capital	26 098	87	836	38 194	73 056	107 857
Proceeds from issue of bonds and new bank loan raised	(21 333)	30 523	68 089	197 604	350 286	451 536
Net cash flow from financing activities	4 765	30 610	68 925	235 798	423 342	559 393
Net increase/(decrease) in cash and cash equivalents	(13 035)	17 273	(3 211)	(53 386)	5 907	88 353
Cash and cash equivalents at beginning of period	50 270	32 997	11 338	90 621	2 220	2 220
Effects of exchange rate changes	-	-	-	-	-	48
Cash and cash equivalents at end of period	37 235	50 270	8 127	37 235	8 127	90 621

Songa Offshore Group

**Consolidated income statement - RESTATED\***

for the period

(IFRS - non audited figures)

Amounts in USD '000	Q2 2007	Q1 2007	Jan-Jun 2007
Operating revenue	60 144	39 210	99 354
Reimbursables	1 879	933	2 812
Other revenue	5 058	531	5 589
<b>Total revenue</b>	<b>67 081</b>	<b>40 674</b>	<b>107 755</b>
Rig operating expenses	(21 682)	(14 206)	(35 888)
Reimbursables	(1 875)	(931)	(2 806)
General and administrative expenses	(6 023)	(1 804)	(7 827)
<b>Total operating expenses</b>	<b>(29 580)</b>	<b>(16 941)</b>	<b>(46 521)</b>
Depreciation	(14 005)	(11 725)	(25 730)
Finance income	1 540	1 056	2 596
Finance costs	(19 215)	(15 438)	(34 653)
<b>Profit/(loss) before tax</b>	<b>5 821</b>	<b>(2 374)</b>	<b>3 447</b>
<b>Tax income/(expense)</b>	<b>3 000</b>	<b>3 189</b>	<b>6 189</b>
<b>Profit/(loss) for the period</b>	<b>8 821</b>	<b>815</b>	<b>9 636</b>
<b>Net earnings per share (USD):</b>			
Basic	0,10	0,01	0,11
Dilutive	0,10	0,01	0,11

\* The figures have been restated in order to give a more relevant specification of revenue and expenses, this change has no impact on profit of loss for the periods.

Further late arriving invoices relating to the shipyard stay for Songa Saturn is capitalized with USD 1.5 million in the first quarter and USD 1.7 million in the second quarter. This results in lower OPEX of USD 3.3 million and increased depreciations of USD 35,000.

Further capitalized interest on qualifying assets have been increased with USD 1.7 million in the first quarter and USD 2.9 million in the second quarter, resulting in a reduction in finance cost accordingly.

Further finance costs are reduced due to a change in the calculation of amortized cost on the bond loans. The effect in Q1 is USD 1.4 million relating to Q1 and earlier periods, the effect in Q2 USD 0.2 million.

Further the estimated tax cost has been updated to reflect the changes mentioned above with USD +1.2 million in Q1 and USD -3.8 million in Q2.