



## **REPORT FOR THE FIRST QUARTER 2010**

Songa Offshore SE ("Songa") total comprehensive income for the first quarter 2010 was USD 33.2 million.

Revenue for the first quarter was USD 164.1 million. This includes mobilization and demobilization revenue of USD 12.6 million.

Total expenses for the first quarter were USD 88.9 million, the figure includes a non operational loss of USD 2.5 million posted under "other gain and loss". The "other gain and loss" is split between loss on flippable swap with USD 1.5 million, USD 1.8 million in currency loss and USD 0.8 million in gain on disposal of assets.

EBITDA for the first quarter was USD 75.2 million. This figure is after taking into effect "other gain and loss".

Net financial expenses for the first quarter were USD 9.4 million.

Earnings per share (EPS) for the first quarter were USD 0.22. Diluted earnings per share (DEPS) for the first quarter were USD 0.22.

Average number of shares for the quarter was 147,567,263, and as per end of the period the outstanding number of shares was 167,712,544.

### **Main events during the first quarter**

In late January 2010, a supply vessel hired by Marathon collided with one of the Group's rigs, Songa Dee. Songa is in the process of determining the extent of damage to the rig. The damage has been temporarily repaired at the rig's current location, and the Class Authorities (DNV) have given the Group a temporary certificate until end September, at which time one needs to conduct permanent repairs. It is expected that the costs related to the repair operations will be fully covered under the existing hull and machinery insurance.

On 27 January 2010 the Company announced it had launched an offering of USD 200,000,000 aggregate principal amount of senior notes with seven year maturity. About a week later the international credit markets were hit by turbulence caused by Greece's sovereign debt situation (and some other European countries). On 12 February Songa confirmed that it has delayed its offering of the senior notes. The decision to delay offering was made due to the volatile market conditions that followed Greece's sovereign debt crisis and in light of a deadline of 12 February 2010 after which its 30 September 2009 results would no longer be sufficiently current to access the capital markets.

On 12 February the Company announced a contract with Shell Development (Australia), which replaced a Letter Of Award ("LOA") from Shell Development (Australia) confirming the use of the Songa Venus for the upcoming 2010 Exploration Drilling Campaign in the Browse Basin in Australia. The program has an estimated duration of 156 days. Shell Development (Australia) will also have the right to exercise up to three additional optional wells with an estimated duration of 50 to 60 days each. The firm program is expected to generate aggregate revenue in excess of USD 40 million. The contract with Shell Development

(Australia) commenced on 2 April 2010, following Songa Venus' five-year Special Periodic Survey in Singapore.

On 16 February Songa Offshore SE completed a private placement of 20,500,000 shares directed towards professional Norwegian and international investors. The placement was made at a price of NOK 29 per share, and the capital increase represents approximately 15% of the outstanding shares in the Company. Gross proceeds from the private placement amount to NOK 594.5 million (USD 100.2 million). The proceeds will be applied towards general business purposes. The share capital increase was resolved by the Board of Directors within the authorised share capital of the Company.

On 7 March the Company announced that a firm contract for use of Songa Mercur had been agreed and signed with Gazflot LLC, a Gazprom subsidiary. The contract covers the use of the Songa Mercur for Gazflot's upcoming drilling campaign offshore Sakhalin Island during the 2010 summer season. The firm part of the contract is set at 180 days including mobilization from and de-mobilization back to Singapore. Total revenue of approximately USD 55-60 million is expected to be generated from the firm part of contract.

On March 10 2010 ESA sent a "Letter of formal notice" to the Ministry of Finance of Norway for failing to comply with its obligations under Articles 31, 34 and 40 of the Agreement on the European Economic Area by imposing immediate taxation on companies that transfer their seat or assets and liabilities to another EEA State and on the shareholders of such companies and for breach of the SE regulation.

In all respects the letter supports the Company's understanding of the rules.

The Norwegian Government is given two months to respond. After the time limit has expired, ESA will consider, in the light of any observations received from the Norwegian Government, whether to deliver a reasoned opinion in accordance with Article 31 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice.

In addition the Company has tried to get a dialog with both the Ministry of Finance and the local tax office in order to secure that they will hold us harmless until this matter is solved. We are still awaiting their response.

On 24 March 2010 the Company entered into an agreement with the shareholders of Deepwater Driller Ltd. ("Deepwater Driller") to invest USD 50 million in new equity into Deepwater Driller and thereby receive a 31.25% ownership in the company (the "Investment"). The Investment is the Company's first entry into the attractive deepwater drilling market. Deepwater Driller owns a 6th generation Friede & Goldman ExD ultra-deepwater semi-submersible drilling rig (previously named Larsen Rig 1) under construction at Jurong Shipyard Pte Ltd, Singapore, with scheduled delivery in April 2011. The Investment was closed on 16 April 2010. The investment is discussed further below.

On 24 March 2010 the Company made a successful completion of a private placement of 10,365,000 shares directed towards professional Norwegian and international investors. The substantially oversubscribed placement was made at a price of NOK 29 per share, and the capital increase represents approximately 6.6% of the outstanding shares in the Company. Gross proceeds from the private placement amount to NOK 300.6 million (USD 49.9 million).

## **The rigs**

Songa Venus has achieved operational efficiency of 97.2% in January. After finalizing its campaign for the ADA consortium 17 January, the rig started mobilizing for Singapore. From 30 January to 22 March the rig went through its SPS in Singapore, the SPS was conducted on time, on budget. After mobilizing back to Australia the rig is currently working for Shell on the northwest coast of Australia.

Songa Mercur has achieved operating efficiency of 98.0% in January and 100% in February while in operation. After finalizing its campaign for Oilex at the end of January the rig

mobilized for its SPS in Singapore. From 12 February Songa Mercur started on its SPS in Singapore. The estimated completion date for the SPS was 29 April, and the rig is now on standby rate, with estimated time of departure 7 May. The SPS has been conducted on time, on budget. Songa Mercur will then start mobilizing for its drilling campaign offshore Sakhalin, Russia, for Gazflot.

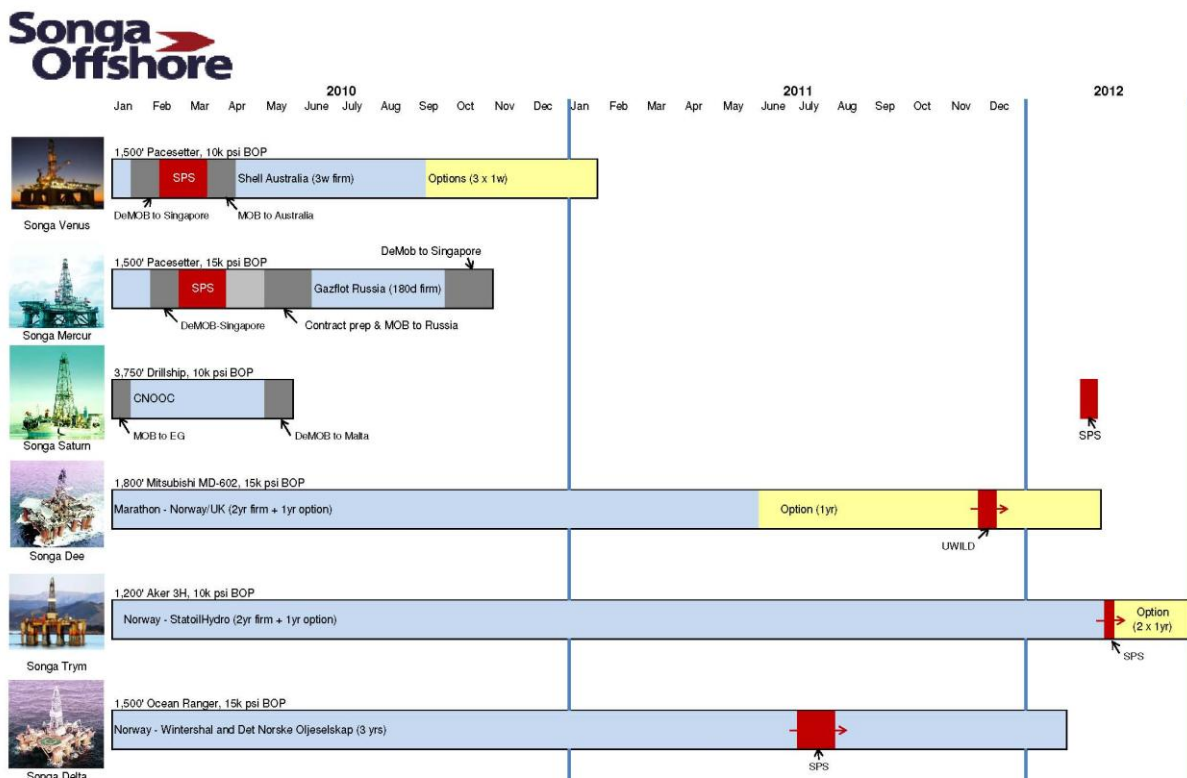
Songa Saturn has achieved operating efficiency of 71.8%, 95.9% and 95.7% in January, February and March respectively. From 15 January the rig has been working for CNOOC offshore Equatorial Guinea. The campaign for CNOOC was finalized 19 April. The drillship is currently mobilizing for Malta.

Songa Delta has achieved operating efficiency of 97.4%, 97.0% and 97.4% in January, February and March respectively. The rig is on contract with Wintershall / Det norske oljeselskap and is currently drilling on the Draupne Field.

Songa Trym has achieved operating efficiency of 96.8%, 96.9% and 97.9% in January, February and March respectively. During the quarter the rig has been operating for Statoil on the Troll Field.

Songa Dee has achieved operating efficiency of 79.1%, 94.1% and 96.8% in January, February and March respectively. During the quarter the rig has been operating for Marathon at the Volund Field.

## Contract status



## **Investment in Deepwater Driller**

The Company has in the past pointed out the need to grow further to reach a minimum critical mass. Our view is that this will be attained at 10 to 12 units. We have over the last year screened the market for second hand units but have been unable to spot any attractive available rigs.

As discussed earlier the Company has invested USD 50 million in Deepwater Driller Ltd, receiving a 31.25% ownership in this company. The Investment is the Company's first entry into the attractive deepwater drilling market. Songa will assume building supervision and commercial management of the rig and can leverage its existing organisation and client relationships towards new contract fixtures in the deepwater segment. The Company will receive a daily contribution of USD 7,500 to cover indirect costs and an incentive fee of 5.0% of the rig's EBITDA.

While Songa is a young company, established as late as 2005, its organisation consists mostly of employees with fifteen to thirty years working experience in the offshore and oil service industry. This includes a substantial amount of people with deepwater experience in the form of engineering, newbuilding supervision and operations experience. The Company is perceived an attractive workplace in the industry by many, and we do see a number of enquiries for positions after we announced the transaction.

The Investment will also position the Company as a more capable drilling contractor amongst current and future customers, and ease efforts to prequalify for contracts.

Further, taking advantage of the Company's franchise value by leveraging our organisation through a non-recourse investment enables the Company to participate in the envisaged consolidation in the industry over the next few years.

Deepwater Driller owns a 6th generation Friede & Goldman ExD ultra-deepwater semi-submersible drilling rig (previously named Larsen Rig 1) under construction at Jurong Shipyard Pte Ltd, Singapore with scheduled delivery in April 2011. We see limited risk as to remaining capex and rig delivery as this unit is the ninth in a series of ten similar ExD semi-submersibles to come out of Jurong. Songa will be taking over the current yard supervision team over the next few weeks or months.

As discussed in the 24 March pressrelease Songa is committed to buying further shares from the other shareholders in Deepwater Driller, subject to Deepwater Driller achieving take-out financing of and an acceptable employment contract for the Rig. For details on the transaction, shareholders are referred to the mentioned press release.

## **Market conditions and outlook**

As reported in the last quarters, activity has been picking up since last summer. As is usual at this point in the business cycle the demand for rig capacity is typically for smaller periods for one to three wells. We expect this to continue to be the case for the next quarters.

On the marketing side, we are focusing on Songa Saturn which will be available for further business within a few weeks. We are also in discussions for further business with regards to all of Songa Mercur, Songa Venus and Songa Dee. While our confidence has continued to improve during the last few months, there is a chance Songa Saturn will have to take waiting time before the next contract.

With well performing assets the Company has posted strong cashflows from operations, which has been used to deleverage the balance sheet. As per quarter-end interest bearing debt was reduced to USD 706 million; with cash of USD 89 million and an unutilised revolver of USD 110 million the Company has managed to re-establish what the Board considers to be a sound balance sheet. The Company has noticed that the banking market has recently

been returning to normal state, at the same time the international corporate bond market has recovered recently. As per today all of the Company's interest bearing debt is due by 2013 at the latest, we therefore see a need to term out part of our debt to the later part of the current decade. The Company will continue to assess the mentioned markets with regard to an optimal time to secure optimal financing.

The investment in Deepwater Driller is seen as a low-risk approach in our continued efforts to build the Company. The investment is non-recourse, as discussed above. In the near future it will be important to build a yard supervision team. The industry outlook in general looks good given the current price of crude, at around USD 85 per barrel. This, together with further contracts on our rigs, as discussed above, means that the Company's prospects in near future are looking increasingly good.

Limassol, 3 May, 2010

Board of Directors  
Songa Offshore SE

Questions should be directed to:  
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Songa Offshore Group

**Condensed consolidated statement of comprehensive income**

for the period ended 31 March 2010

(IFRS non audited figures)

Amounts in USD '000	Q1 2010	Q4 2009	Q1 2009	Jan-Dec 2009
<b>Continuing operations</b>				
Operating revenue	161,973	186,806	140,422	742,901
Reimbursables	1,421	10,686	6,837	37,594
Other revenue	675	855	1,813	4,187
Revenues	164,069	198,347	149,072	784,682
Operating expenses	(74,412)	(80,805)	(49,928)	(276,273)
Reimbursables	(1,291)	(10,604)	(6,752)	(37,361)
General and administrative expenses	(10,628)	(10,460)	(11,943)	(47,846)
Other gain and loss	(2,533)	400	(9,362)	947
Total expenses	(88,864)	(101,469)	(77,985)	(360,533)
EBITDA	75,205	96,878	71,087	424,149
EBITDA %	46%	49%	48%	54%
Depreciation and amortization	(24,539)	(22,754)	(20,413)	(87,000)
EBIT	50,666	74,124	50,674	337,149
EBIT %	31%	37%	34%	43%
Finance income	113	76	71	403
Finance costs	(9,540)	(11,039)	(14,240)	(52,214)
Profit (loss) before tax	41,239	63,161	36,505	285,338
Income tax (charge) credit	(8,056)	(8,481)	(13,133)	(24,628)
Profit (loss) for the period from continuing operations	33,183	54,680	23,372	260,710
Other comprehensive income	-	-	-	-
Total comprehensive income	33,183	54,680	23,372	260,710
Earnings (loss) per share (USD) from continuing operations				
Basic	0.22	0.40	0.23	2.08
Diluted	0.22	0.40	0.21	2.00

Songa Offshore Group

**Condensed consolidated statement of financial position at 31 March 2010**

(IFRS - non audited figures)

<i>(USD '000)</i>	31/03/2010	31/12/2009
<b>ASSETS</b>		
Non-current assets		
Rigs, machinery and equipment	1,413,965	1,410,312
Deferred tax assets	46,723	46,722
<b>Total non-current assets</b>	<b>1,460,688</b>	<b>1,457,034</b>
Current assets		
Trade and other receivables	134,362	148,404
Prepayments	5,876	6,145
Incurred revenue	19,138	13,019
Other assets	9,066	7,638
Cash and cash equivalents	89,355	87,957
<b>Total current assets</b>	<b>257,797</b>	<b>263,163</b>
<b>TOTAL ASSETS</b>	<b>1,718,485</b>	<b>1,720,197</b>

**Condensed consolidated statement of financial position at 31 March 2010**

(IFRS - non audited figures)

<i>(USD '000)</i>	31/03/2010	31/12/2009
<b>EQUITY AND LIABILITIES</b>		
Capital and reserves		
Issued capital	26,075	21,476
Share premium	371,564	230,118
Reserves	15,585	15,585
Other equity	474,529	441,348
<b>Total equity</b>	<b>887,753</b>	<b>708,527</b>
Non-current liabilities		
Bank loan	407,530	537,639
Bond loans	62,088	87,488
Other long term liabilities	2,609	2,933
<b>Total non-current liabilities</b>	<b>472,227</b>	<b>628,060</b>
Current liabilities		
Bank loans	213,333	264,466
Bond loans	23,430	-
Trade and other payables	22,505	25,688
Tax payable	39,835	35,424
Derivative financial instruments	11,177	10,938
Deferred revenues	17,223	9,546
Other liabilities	31,002	37,548
<b>Total current liabilities</b>	<b>358,505</b>	<b>383,610</b>
<b>Total liabilities</b>	<b>830,732</b>	<b>1,011,670</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,718,485</b>	<b>1,720,197</b>

**Songa Offshore Group****Condensed consolidated statement of changes in equity for the period ended 31 March 2010**

(IFRS - non audited figures)

Amounts in USD '000

	Share capital	Share premium	Paid in, not registered share capital	Equity-settled employee benefits reserve	Recognition of convertible bond loan	Other equity	Total equity
<b>Balance as at 1 January 2009</b>	<b>16,630</b>	<b>120,496</b>	<b>-</b>	<b>15,585</b>	<b>20,815</b>	<b>161,763</b>	<b>335,289</b>
Adjustments recognized directly to equity						-	-
Total comprehensive income for the period						23,372	23,372
Issue of share capital			-	-		-	-
Recognition of share-based payments	-	-	-	919			919
<b>Balance as at 31 March 2009</b>	<b>16,630</b>	<b>120,496</b>	<b>-</b>	<b>16,504</b>	<b>20,815</b>	<b>185,135</b>	<b>359,581</b>
<b>Balance as at 1 January 2010</b>	<b>21,476</b>	<b>230,118</b>	<b>-</b>	<b>15,585</b>		<b>441,348</b>	<b>708,527</b>
Adjustments recognized directly to equity							-
Total comprehensive income for the period						33,183	33,183
Issue of share capital	4,598	141,445	-	-		-	146,043
<b>Balance as at 31 March 2010</b>	<b>26,074</b>	<b>371,563</b>	<b>-</b>	<b>15,585</b>	<b>-</b>	<b>474,531</b>	<b>887,753</b>

Songa Offshore Group

**Consolidated statement of cash flows for the period  
ended 31 March 2010**

(IFRS - non audited figures)

Amounts in USD '000	3/31/2010	3/31/2009
Cash flows from operating activities:		
Profit before tax	39,819	36,505
Adjustment for:		
Depreciation	24,539	20,413
Cost of option plans	257	919
Finance costs	9,540	14,240
Other gain/loss	2,533	9,362
Movements in working capital:		
Change in receivables	(6,764)	(52,145)
Change in payables	(3,183)	5,421
Change in other liabilities	2,460	2,923
Cash generated from operations	69,201	37,638
Taxes paid	(1,773)	(3,801)
Interest and fees paid	(11,275)	(12,448)
Cash effect from other gains and losses	(1,474)	(5,134)
Net cash generated by operating activities	54,679	16,255
Cash used in investing activities:		
Purchase of property, plant and equipment	(28,192)	5,813
Proceeds from sale of property, plant and equipment		-
Net cash used in investing activities	(28,192)	5,813
Cash generated by financing activities:		
Proceeds from issue of share capital	146,044	-
Proceeds from issue of bonds and new bank loan raised	-	9,600
Repayment of bonds and bank loans	(171,133)	(54,400)
Net cash used/generated in financing activities	(25,089)	(44,800)
Net increase/(decrease) in cash and cash equivalents	1,398	(22,732)
Cash and cash equivalents at 1 January	87,957	58,501
Cash and cash equivalents at 31 March	89,355	35,769

## **FINANCIAL STATEMENTS**

### **1 General information**

In furtherance of a shareholder-approved plan to redomicile to Cyprus, on 12 December 2008, Songa Offshore ASA was converted into a European public company limited by shares ("Societas Europaea" or "SE") in accordance with Article 2 no. 1 of the European Council Regulation no. 2157/2001 (the "SE Regulation") and Section 5 of the Norwegian Act on European Companies of April 1, 2005 (the "SE Act"). The conversion into an SE was effected through a merger between Songa Offshore ASA and Songa Offshore Cyprus Plc. Effective 11 May 2009, the survivor of the merger, Songa Offshore SE, transferred its registered office to Cyprus in accordance with Article 8 of the SE Regulation and Section 7 of the SE Act (the "redomiciliation").

Songa Offshore SE is a public limited liability company, subject to the laws and regulations of the Cyprus Companies Law, Cap. 113. The address of its registered office is: 8, John Kennedy Street, IRIS House, Off. 740B. The Company's shares have been listed on the Oslo Stock Exchange since 26 January 2006 (Ticker: "SONG").

Songa Offshore SE ("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 hydrocarbons. The Group owns five 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 Limassol, Cyprus, and the rig operations are run from Singapore, Perth – Australia, Limassol – Cyprus, Stavanger – Norway and Malabo – Equatorial Guinea.

As of 31 March 2010 the Group had operations in the North Sea, offshore West Africa and offshore North/Western Australia.

### **2 Basis for preparation**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting". These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2009. The Company does not consider that its drilling operations are affected by seasonality factors.

### **3 Accounting policies**

The condensed financial statements have been prepared under the historical cost convention except from the revaluation of certain financial instruments.

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2010.

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2009.

## 4 Rigs, machinery and equipment

USD '000	Rigs and drill ship	Fixtures and equipment	Total
<b>Period ended 31 March 2010</b>			
Opening net book amount at 1 January 2010	1,408,877	1,435	1,410,312
Additions	28,085	107	28,192
Book value before depreciations	1,436,962	1,542	1,438,504
Total depreciation charge	(24,433)	(106)	(24,539)
Closing net book amount	1,412,529	1	1,413,965
<b>Period ended 31 March 2010</b>			
Cost	1,651,867	2,585	1,654,452
Accumulated depreciation	(239,338)	(1,149)	(240,487)
Net carrying amount	1,412,529	1,436	1,413,965

Estimated lifetime	4-25 years	3-10 year
Depreciation rates	4%-25%	10%-33%
Depreciation method	Straight line	Straight line

## 5 Borrowings

The outstanding debt as of 31 March 2010 amounted to USD 706.4 million consists of the following:

- USD 620.9 million amount outstanding of the USD 1,050.0 million bank senior secured credit facility that the Company entered into in August 2008;
- USD 23.4 million amount outstanding under the secured fixed rate bond issued in March 2006, which carries a fixed rate of interest of 9.75%;
- USD 62.1 million amount outstanding under the three-year floating rate bond issued in June 2009 with a coupon of LIBOR + 12%.

As of 31 March there was USD 89.4 million of cash and cash equivalents and USD 110.0 million in unutilized drawing rights under the revolving credit facility.

## 6 Share capital

As of 31 March 2010 total outstanding shares in the Company was 167,712,544. Weighted average number of shares in the first quarter was 147,567,263 and adjusted weighted average number of shares, as defined in IFRS in the fourth quarter was 147,567,263.

The total share capital as of 31 March was EUR 18,448,379.84 equal to a nominal value EUR 0.11 per share

## **7 Approval of interim financial statements**

These interim condensed consolidated financial statements were approved by the Board of Directors on 30 April 2010.