



FIRST QUARTER 2011

Consolidated Interim Financial Report

CECON ASA

Cecon ASA – 1st Quarter 2011**Highlights of Q1 2011:***Highlights of the quarter Q1/2011*

- Revised and Amended Term sheet approved by the board in January 2011 for the refinancing of bond loans, closing in March 2011
- Full subscription of new bond issue
- Revenue: NOK 0.056 million
- EBITDA: NOK -14.377 million
- Loss for the period: NOK 70.408 million whereof NOK 28.600 million is non-capitalized interest on vessels under construction loan

Subsequent events:

- Davie Yards prolongation of CCAA, potential takeover of assets by Fincantieri
- Opening of new office and new alliance in the Netherlands

Operation

The main activity has been engineering and front end project work. No offshore construction work has been carried out in this quarter. Significant work has also been carried out in preparations and submissions of tenders and other market activities.

Period Results

The Q1 period result for operations shows an EBIT of NOK -15.542 million from revenue of NOK 0.056 million. Net financial loss amounts to NOK 54.866 million giving a pre tax loss of NOK 70.408 million. The financial cost of NOK 54.866 million in Q1/2011 is mostly related to interest on USD 10 (NOK 14.710 million) and USD 100 million bond loan (NOK 5.094 million), the 1st priority shipbuilding loan from EDC (NOK 22.657 million) and unrealized foreign exchange loss (NOK 3.161 million).

Financial information*Information regarding functional currency*

These consolidated financial statements are presented in NOK. Cecon Shipping 1 AS, Cecon Shipping 2 AS and Cecon Shipping 3 AS have USD as their functional currency. Cecon ASA's functional currency is NOK. There is a continuous evaluation process to resolve the correct functional currency for Cecon ASA under IFRS.

Consolidation

The subsidiaries are consolidated in the unaudited figures as per 31 March 2011 and Q1/2011.

Overall operational risk

The Group is operating within the oil industry service sector, and the activity is dependent on the international oil price. Since major oil suppliers/reserves in the world are located in political unstable areas and are very exposed to world's financial markets, the overall market activity may alter fairly quickly. There are no appropriate means to control these risks, but through selection of reputable clients the Group tries to limit the exposure.

Currency Exchange risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of Group entities, primarily NOK, USD, GBP and EUR.

Hedging of the currency exchange risk will be performed when appropriate.

The short term effect of currency exchange risks on day to day operations given the income, major costs, investments and financing being in USD, GBP and EUR will normally be minor.

The new-building financing is denominated in USD as are the contracts for the 3 hulls.

Market and Outlook

Cecon ASA operates in a cyclical market. A substantial number of installations of both floating and fixed units for oil and gas production are expected to take place in the coming years, and all of these installations will require various kinds of hook-up to existing and new pipeline grids on the sea floor or to offshore loading facilities. The financial crisis seems to have impacted the market where Cecon ASA operates less hard than other markets. The oil majors and most of the independents seem to continue with their developments.

Based on research from outside sources, a positive development in the subsea market is foreseen, and a substantial increase in demand will start coming from the end of 2011 with a continuing increase within the foreseeable future. Tender activity has increased over the last period and the Group expects to see a positive development in the market for its services. The Group expects to be awarded two projects during first half of 2011.

The number of competitors is limited and some of the competitors are major operators in the world wide pipe laying segment. Cecon ASA's cost base and flexibility related to short delivery times give the Group a competitive edge compared with the majors. Short delivery times will be a major competitive advantage in the future, and the Group is developing its strategy in this direction, especially on smaller projects. Advanced documentation and engineering systems combined with use of subcontractors and hired in vessels / own vessel will fulfill this strategy. The three vessels under construction will, when delivered, enable the Group to participate in larger EPCI contracts in both deep and ultra deep waters globally. The growth potential for the services rendered by the Group is regarded very interesting in the years to come.

Davie Yards Inc. (New-buildings and yard funding situation)

The yard is still under creditor protection under the Canadian Companies' Creditors Arrangement Act ("CCAA"). The Group has been/is working with both foreign and Canadian companies to try to seek a good solution for the vessels under construction during to the CCAA process. The yard has obtained several prolongation of the CCAA period from the Quebec courts. It is expected that further prolongations will be granted to be able to find a take-over party for the yards assets, and henceforth complete the vessels under construction. Cecon ASA is highly confident that a solution regarding the delivery of the vessels will be in place in the near future.

The Group's financing

To fulfil the Group's commitments under the construction agreements the Group is dependent on additional financing. Due to uncertainty around the yard, this financing has not yet been established, but it may come forth from different sources. This financing will have to be negotiated after new ownership of the yard/assets has been established, and a contract for completion between the "new" yard and the Group is completed.

Interest on the EDC loan for the 6 months periods ending 31 January 2010, 31 July 2010 and 31 January 2011 has not been paid. Due to both the current cash flow situation and the uncertainty on the Davie Yard Inc. situation, the Group has requested to postpone the payments, but the date for payment has not yet been agreed. The limited recourse clause in the loan agreement with EDC includes a refund guarantee until the vessels are delivered respectively. Pledged security for the outstanding amount due on 31 January 2010 has been issued.

The Group's liquidity has been strengthened as a result of the refinancing, but it is still quite strained. The major reason for this situation is continued late payments by the Group's major clients and absence of new projects. The trade receivables have been confirmed by the clients, therefore no provisions have been made this year. The Group expects full payment to be received. However there is an uncertainty regarding when to expect complete payment, and this situation causes problems for the planning of the Group's available liquidity requirements.

During October 2010 an agreement was made with bondholders of the USD 100 million loan and the USD 10 million loan on a complete restructuring. This work was far more time consuming than expected, and the closing took place in March 2011. Both loans plus accrued unpaid interest were converted to equity in the parent company and a new five year USD 74.125 million bond loan at 8 % interest p.a. First year's interest will be added to the principal and be paid at the end of the 5 year period. In addition the Group issued a USD 7 million cash flow loan. This is a 2 year loan at 5 % interest p.a. There are restrictions on distribution of the loan to the Group. The money is held at Escrow. This loan combined with new EPCI projects and gradual payments of confirmed receivables will solve the liquidity issue.

Subsequent events

Prolongation of CCAA at Davie Yards Inc.

Davie Yards Inc. has obtained further prolongations of the CCAA, and awarded exclusivity to a group lead by Fincantieri of Italy. This exclusivity is to assess all solutions for the yard including a Due Dilligence process. An anticipated solution is that the group will take over the yards assets, and continue operation by completing the Cecon vessels on behalf of Cecon. The driving force behind the take over is to pursue its efforts to qualify for the National Shipbuilding Procurement Strategy ("NSPS"), and to develop and eventually submit a plan of arrangement to its creditors under CCAA.

Davie is continuously working on the qualification process to become one of the dedicated shipyard for the construction of large ships under the NSPS.

Opening new office and new alliance

The Group has announced appointment of new Commercial Director, a new Netherlands office and a vessel alliance with Zafiro Marine following the Group's restructuring and progress regarding the Group's own newbuild programme in Canada.

The new office in the Netherlands (opening during Q2 2011) will perform a dual role; both expand its existing business as well as develop a new business unit to focus on larger diameter rigid pipelay, heavylift and subsea construction work.

In line with the Group's core skillsets, the Group has entered into a strategic alliance with Zafiro Marine to bid for a number of contracts in which the Group is presently engaged in the tendering process. The newest vessel in the Zafiro fleet is the DPIII OCV Sampson with a 1600t fully-revolving crane and large diameter pipelay capability. The alliance with Zafiro Marine gives the Group access to large quality vessels for pipelaying and heavylifting. The office in the Netherlands will provide a new platform for growth and diversification.

Operating revenue and result (unaudited)

Revenues from operations per Q1/2011 are NOK 0.056 million compared to NOK 8.313 million for the same period in 2010. Operating loss from operations is NOK 15.542 million and NOK 4.216 million respectively.

Additional information

For further information on operating activities, corporate governance, risk exposure etc see the Group's Annual report for 2010.

Going concern considerations

The going concern evaluation has been – and is continuously being – performed by the management and the board. The accounts have been prepared on the assumption of a going concern.

The following items are influencing the evaluation of the going concern situation; the financial problems at Davie Yards resulting in uncertainty related to the ability of the yard to complete the vessels, the financing of cost overrun at the yard, and agreement with financial creditors for the further financing of the vessels. Major efforts have been dedicated during 2010/2011 to try to resolve the situation. A draft term sheet for the financing of the completion of the vessels has been received from a well reputed international bank, and further opportunities are available for the same financing requirements.

Expected payments of outstanding receivables combined with USD 7 million from the restructuring eliminate Cash flow requirements for the ongoing business.

If the Group should be unsuccessful in completing the vessels currently under construction at Davie Yards, normal operations with EPCI projects with chartered vessels will continue, and on this basis the restructured and the new bond loan will be serviced.

The Group has full focus on the above mentioned challenges, and the restructuring of the bond loans was the key element for securing the going concern evaluation.

Additional detailed ongoing concern considerations can be found in the annual accounts disclosed on 28 April 2011. See also recent disclosed Company updates.

Arendal, 25 May 2011

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Chairman
(Sign)

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Interim income statement

(Consolidated - all figures in TNOK)

Unaudited

	Q1 2011	Q1 2010	31.12.2010
Revenues	56	8 313	9 452
Project costs	-34	-6 536	-10 480
Employee benefit expenses	-6 484	-6 781	-27 277
Depreciation and amortisation	-1 166	-1 209	-6 657
Impairment	0	0	-142 400
Other expenses	-7 915	-2 793	-15 064
Operating profit	-15 542	-9 006	-192 426
Finance income	1 685	3 496	4 641
Finance cost	-56 276	-8 108	-166 126
Share of (loss)/profit of associates	-275	396	-236
Finance income - net	-54 866	-4 216	-161 721
Profit before income tax	-70 408	-13 222	-354 147
Income tax expense	0	4 012	0
Profit for the period	-70 408	-9 210	-354 147
Attributable to:			
Equity	-70 408	-9 210	-354 147
Earnings per share for profit attributable to equity holders of the parent (expressed in NOK per share)			
Basic	-0.6740	-0.0930	-3.5767
Diluted	-0.6740	-0.0930	-3.5767

Interim statement of comprehensive income

(Consolidated - all figures in TNOK)

Unaudited

	Q1 2011	Q1 2010	31.12.2010
Profit for the period	-70 408	-9 210	-354 147
Other comprehensive income			
Exchange differences on translation of foreign entities	-8 955	14 371	9 691
Other comprehensive income for the period	-79 363	14 371	-344 457
Total comprehensive income for the period	-79 363	5 161	-344 457

All comprehensive income is attributable to equity holders of the parent.

Interim balance sheet

(Consolidated - all figures in TNOK)

Unaudited

	31 Mar 2011	31 Mar 2010	31 Dec 2010
ASSETS			
Non-current assets			
Vessels under construction	1 922 139	2 209 335	2 024 866
Property, plant & equipment	38 118	45 637	39 132
Intangible assets	463	215	501
Investments in associates	2 252	5 534	2 527
Other financial assets	1 357	126	1 549
Other receivables	1 312	426	389
Total non-current assets	1 965 640	2 261 309	2 068 964
Current assets			
Trade and other receivables	107 931	151 355	125 275
Other current financial assets	0	0	200
Cash and cash equivalents	32 690	8 438	1 452
Total current assets	140 621	159 793	126 927
Total assets	2 106 261	2 421 102	2 195 891
EQUITY			
Capital and reserves attributable to equity holder of the company			
Share capital	7 426	4 951	4 951
Share premium	1 217 880	874 811	874 811
Other paid in equity	1 392	35 901	31 298
Retained earnings	-860 648	-466 266	-811 203
Total equity	366 050	449 397	99 857
LIABILITIES			
Non-current liabilities			
Interest bearing loan	0	0	0
Bond loan	454 550	0	0
Total non-current liabilities	454 550	0	0
Current liabilities			
Short term loan / bond loan	0	639 701	658 590
Interest bearing loan	1 104 986	1 198 172	1 161 992
Trade and other payables	180 674	133 832	275 451
Total current liabilities	1 285 661	1 971 705	2 096 033
Total Liabilities	1 740 211	1 971 705	2 096 033
Total equity and liabilities	2 106 261	2 421 102	2 195 891

Interim statement of changes in equity

(Consolidated - all figures in TNOK)

Attributable to equity holders of the parent						
	Share capital	Share premium	Other paid in equity	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2009	3 808	807 214	716	152 916	28 033	992 687
Profit for the period	0	0	0	0	-485 090	-485 090
Other comprehensive income	0	0	0	-132 686	0	-132 686
Total comprehensive income	0	0	0	-132 686	-485 090	-617 776
Private placement June 2009	381	15 614	0	0	0	15 995
Private placement December 2009	762	55 601	0	0	0	56 363
Issuing cost – net	0	-3 618	0	0	0	-3 618
Employee share option scheme	0	0	509	0	0	509
Balance at 31 December 2009	4 951	874 811	1 225	20 230	-457 056	444 160
Balance at 1 January 2010	4 951	874 811	1 225	20 230	-457 057	444 160
Profit for the period	0	0	0	0	-354 147	-354 147
Other comprehensive income	0	0	0	9 690	0	9 690
Total comprehensive income	0	0	0	9 690	-354 147	-344 457
Employee share option scheme	0	0	153	0	0	153
Balance at 31 December 2010	4 951	874 811	1 378	29 920	-811 203	99 857
Balance at 1 January 2011	4 951	874 811	1 378	29 920	-811 203	99 856
Profit for the period	0	0	0	0	-70 408	-70 408
Other comprehensive income	0	0	0	-8 955	0	-8 955
Total comprehensive income	0	0	0	-8 955	-70 408	-79 363
Private placement March	2 475	343 069	0	0	0	345 544
Employee share option scheme	0	0	13	0	0	716
Balance at 31 March 2011	7 426	1 217 880	1 392	20 965	-881 612	366 050

Cash flow statement

(Consolidated - all figures in TNOK)

Unaudited

Period ended 31
Mar 2011

2010

Cash flow from operating activities:

Profit before tax	-70 408	-354 147
<i>Non-cash adjustments to reconcile profit before tax to net cash flows:</i>		
Depreciation of property, plant and equipment	1 128	4 632
Amortisation of intangible assets	38	141
Loss on disposal of equipment	0	1 884
Share-based payment transaction expense	13	153
Share of profit of associates	0	-77
Share of loss of associates	275	313
Impairment of vessels under construction	0	142 400
Finance income	956	-3 418
Finance cost	51 072	165 999
Changes in trade and other receivables	13 839	-7 715
Changes in trade and other payables	2 563	25 692
Cash flow from operating activities - net	-525	-24 143

Cash flow from investing activities:

Acquisition of associate, net of cash acquired	0	0
Purchases of property, plant and equipment	-114	-7 177
Sale of property, plant and equipment	0	411
Other investing cash flow - net	0	806
Cash flow from investing activities - net:	-114	-5 960

Cash flow from financing activities:

Proceeds from the issue of ordinary shares	0	0
Transaction costs of issue of shares	0	0
Interest earned	0	79
Interest paid	-17	-5 802
Proceeds from borrowings	34 893	4 901
Repayment of borrowings	-3 000	-6 432
Cash flow from financing activities - net:	31 876	-7 254

Net increase in cash equivalent and bank overdraft:

Net foreign exchange difference	0	0
Cash and cash equivalent and bank overdraft at start of period	1 452	38 810
Cash and cash equivalent and bank overdraft at end of period	32 690	1 452

Selected notes and disclosures

A general description of the Group, and the principal accounting policies applied in the preparation of these IFRS Financial statements and financial statements, are presented in the Annual IFRS Financial Statements for 2010. These Financial Statements should be read in conjunction with the Annual IFRS Financial Statements for the year ended 31 December 2010 as they provide an update of previously reported information.

New-building program

The Group entered into the construction contracts for hulls 717 and 718 with Davie Quebec Inc. ("Davie") in Q1/2007 original at USD 132.6 million each. During Q3/2007 the Group entered into the construction contracts for ship no. 3, hull 719. The original contract price for the vessel is USD 144.4 million which is a fixed price including a 400t crane vs the 250t crane on the two first vessels. The vessels are of a Vik-Sandvik vs. 4220 design which is easily adaptable during construction for use as, e.g., Pipelay, ROV, Subsea construction, Seismic vessel, etc. To improve the yard's capitalization and ensure delivery of the three vessels, the Group has agreed to a cost increase of USD 63 million for the three vessels (717; USD 155 million, 718; USD 152.5 million and 719; USD 165.1 respectively). Financial problems at the yard were revealed in February 2010 when Davie entered creditor protection in Canada. The severe financial problems at the yard expose the Group to a significant risk of not getting the vessels delivered. Despite all efforts made by the Group there are no assurances that further delays and additional cost-overruns will not occur and such events, if occurring, could have a major adverse impact on the Group.

Refund Guarantee / Limited recourse

Offshore Holding AS (previously Davie AS) has provided the Group with a refund guarantee in the amount of USD 18,500,000 to secure the payment obligation of the Davie Yards Inc. in the event the contract is lawfully cancelled. The same refund guarantee shall secure the hulls 717, 718 and 719 with a maximum of USD 4.641 million per hull.

The loan agreement with Export Development Canada Inc. (EDC) includes a limited recourse. Default by Manufacturer (Davie Yards Inc.) will not open for recourse on either parent or delivered vessels. Security will be vessels under construction and appurtenant equipment.

The vessels will, pursuant to the construction contracts at all times be the property of the Group in all stages of construction, and all materials, components, machinery and equipment purchased and/or delivered at Davie for the fitting or affixing to the Vessels or for use in the construction or equipping of the Vessel (or any part thereof) or appropriated for its construction shall become the Group's property.

Cash and cash equivalents

Cash and Cash equivalents consist of cash at bank amounting to TNOK 32,690.

Trade and other payables

Trade and other payables amount to TNOK 107,931. The Group follows the generally accepted practice of percentage-of-completion basis for recognizing accrued contract revenues. As of 31 March 2011 non-accrued billed revenues amount to TNOK 0.

Currency

As of 31 March 2010 the Group had a net foreign exchange loss on TNOK 2,056 mainly on the reduction of NOK value on receivables and increased value of NOK on payables. USD, GBP and EUR denominated items will fluctuate with USD/NOK, GBP/NOK and EUR/NOK exchange rate. Major operational cost, investments and debt are in EUR, GBP and USD.

Other receivables

Other receivables amount to TNOK 1,312.

Vessels under construction

Instalments and direct costs in Vessels under construction amount to TNOK 1,922,139, after impairment in 2009 and 2010 of TNOK 678,592.

Share Capital

The total share capital of 148,515,800 shares are issued and paid up as of 31 March 2011.

Classification loan

The Group has not paid due interest on the interest-bearing EDC loan, this loan is therefore classified as long term debt in this financial report.

Contractual yard payments – construction contracts

The new-buildings, which are expected to be delivered in 2012, have the following payment- and funding profile:

	2007	2008	2009	2010	2011/2012	Total
Contractual yard payments TNOK	790,344	465,405	1,049,280	0	444,480	2,749,509
Outstanding payments at NOK 6,00 = 1 USD	Paid	Paid	Paid	-	Outstanding	

The price increase of USD 63 million (agreed in 2009 is included in the figures above).

Related parties

Transactions in the period and balances with related parties at 31 December 2010 only relate to hire of offshore personnel from Cect Oilfield Services AS and consultancy services, pipe supply and welding from Reellay AS, as described in notes to the Annual IFRS Financial Statements for 2010.

Financial Statements

The financial statements have been prepared in accordance with IAS 34: The presentation of and classifications of items in the Financial statements are consistent with the Annual IFRS Financial Statements of 2010.