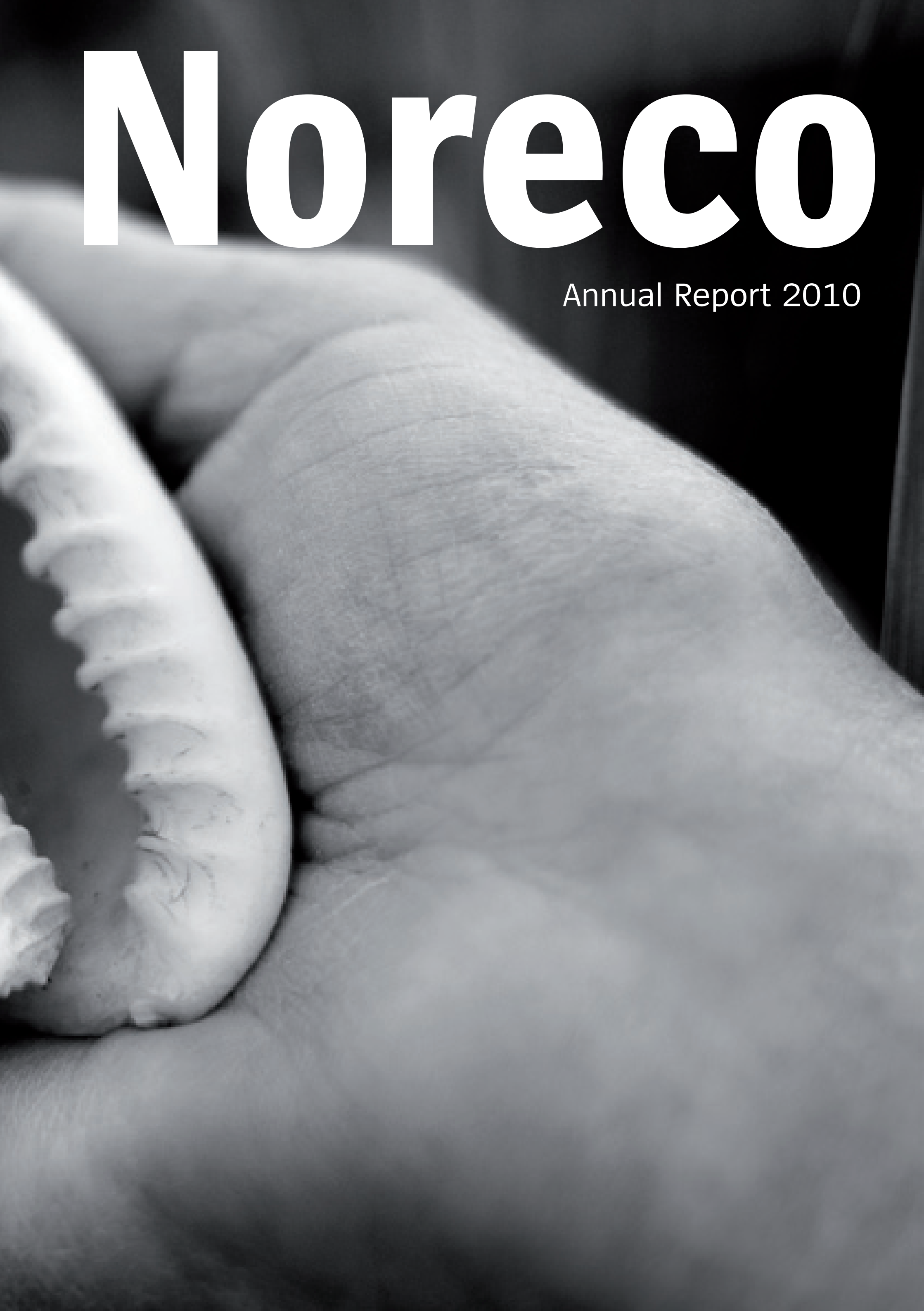
Noreco

Annual Report 2010



This year

Contents

Our corporate history

- Founded in Stavanger, Norway on 28 January 2005 by Takla Energy AS, Melberg Invest AS, IKM Gruppen AS and Melberg Partners AS
- Secured 550 mill NOK private equity funding from HitecVision Private Equity, Lyse Energi, 3i, founders and management in October 2005
- Experienced management team and highly competent operational and technical staff recruited in 2005 and 2006
- Pre-qualified as licensee on the Norwegian Continental Shelf in January 2006
- Awarded first licenses in Norway in January 2006
- Acquired first licenses in February 2006
- Pre-qualified as operator on the Norwegian Continental Shelf in December 2006
- Awarded first operated license in January 2007
- Acquired of 100 % of the shares of the Oslo Børs listed oil company Altinex ASA in August 2007
- Initiated trading on Oslo Børs 9 November 2007
- Acquired Talisman Oil Denmark Limited in April 2008
- New record oil and gas production of for the Company set in December 2008 at 16.100 barrels per day
- Awarded first licenses in UK in January 2009
- Three significant discoveries at Gita, Grosbeak and Gygrid in Q2 2009
- First plan for development in Norway (Oselvar) approved 19 June 2009
- Drills first operated well in Norway August 2009
- Celebrates five year anniversary 28 January 2010
- Awarded four licenses in APA 2009
- First oil on Nini East February 2010
- Divestment of Grosbeak, in September 2010
- Huntington field development approved November 2010

Milestones

2010

Exploration:
- One discovery (Zidane)
- Three dry wells (Frusalen, Dalsnuten, Barchan)

Developments:
- Approved Huntington field development and signed FPSO contract with Sevan
- South Arne Phase III approved

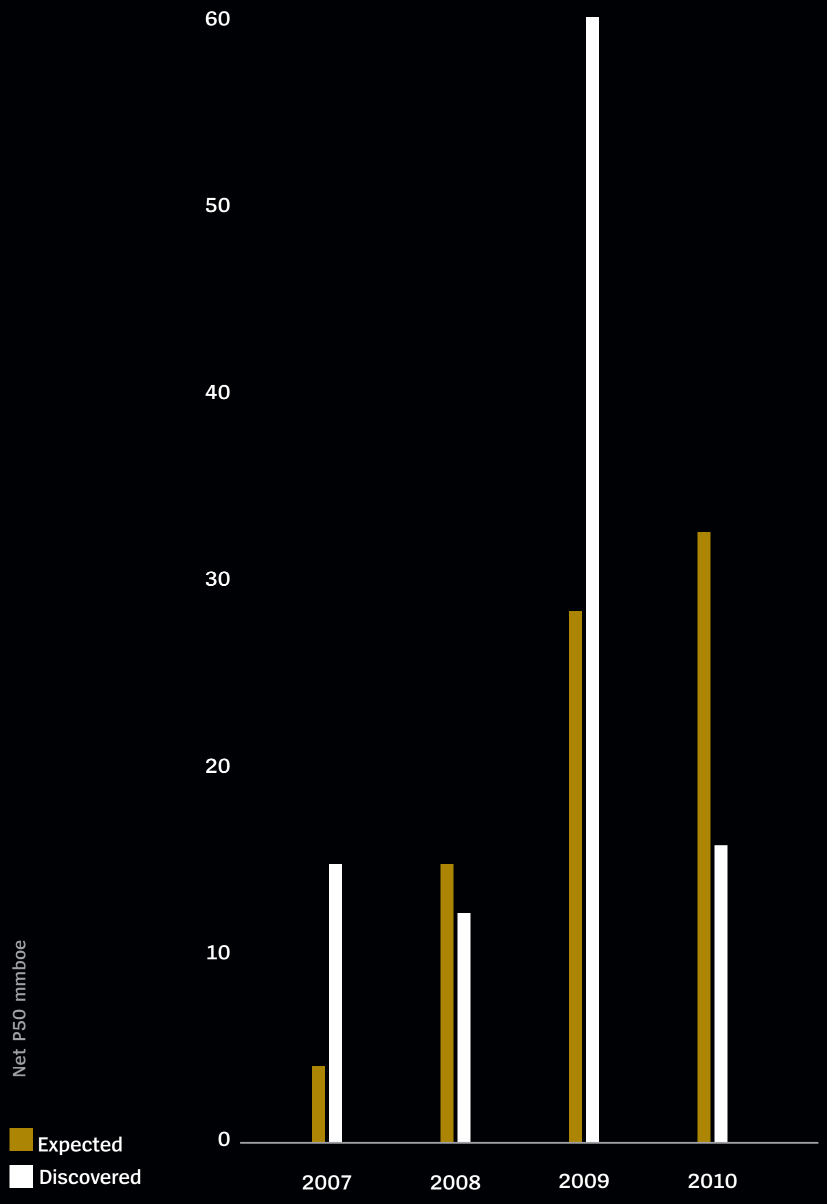
Portfolio management
- Sale of Grosbeak
- Farmed in to 2/05 in Denmark, PL392 Dalsnuten and PL440 Ronaldo in Norway

Production:
- The Siri well SCB1 was shut in from April 2010, causing reduced production
- Continued high production from the Brage and South Arne field

Finance
- Renewed and expanded loan facility (exploration loan facility NOK 1,550 million and reserve based loan facility USD 320 million)
- Successfully completed a new three year bond issue totaling NOK 700 million

Exploration track record

Net million barrels oil equivalents discovered vs expected



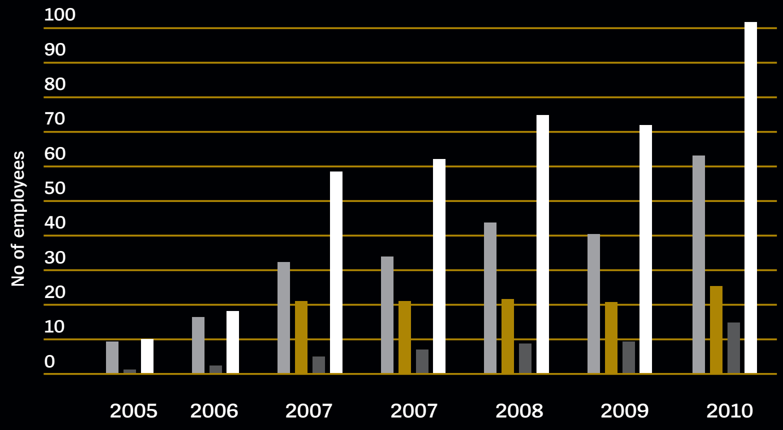
The Key Figures

to understand Noreco

IFRS (NOK 1 000)	**2010**	**2009**	**2008**
Profit and loss			
Operating income	2 146 462	1 546 516	2 523 531
EBITDA	699 027	284 628	1 540 359
EBIT	61 217	(355 098)	823 560
Profit before tax	(423 814)	(935 872)	267 967
Net result	**4 525**	**(367 989)**	**120 213**
Balance sheet			
Non-current assets	9 665 248	9 919 260	9 908 989
Current assets	3 001 901	1 928 939	2 378 793
Total assets	**12 667 149**	**11 848 199**	**12 287 781**
Equity	3 713 152	3 722 223	2 996 486
Liability	8 953 997	8 125 975	9 291 295
Total equity and liabilities	**12 667 149**	**11 848 199**	**12 287 781**

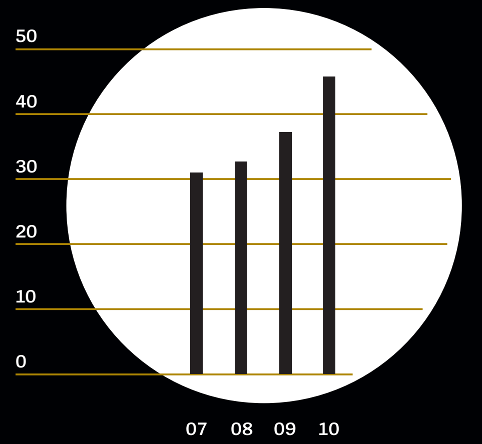
2010 great
and small

Employees in Noreco



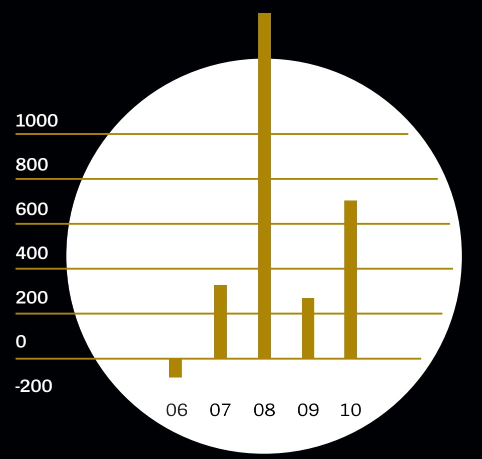
Norwegian Danish Other Total

Oil and gas reserves

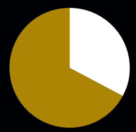


(million boe)

EBITDA

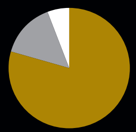


Female and male split:



- Male
- Female

Reserves and resource distribution:



- Risked exploration resources
- Contingent resources
- 2P reserves

Dear shareholder

CEO letter

Noreco has faced many challenges, and at the same time made significant progress in 2010. Oil production started in February from the newly developed Nini East field, and the development of the Oselvar field continued according to plan and within budget. In the autumn we sanctioned both the Huntington and the South Arne phase III development projects which will add to our production from 2012 and onwards. Important progress was also made on Gygrid and Nemo, paving the way for development decisions in the not too distant future.

On the exploration side, we were less successful than we hoped for. Due to delays in drilling schedules, the number of wells completed was below plan, and discovered volumes were below our expectations. However, we did have one successful discovery this year in the Zidane 1 well (announced in September) and we will be following up on this success with another well, Zidane 2, in 2011. It is the HoweverIt is nature of our business to drill some dry wells, but success definitely tastes better than failure.

Our producing assets performed better in 2010 than the year before. We are still working with facility issues at Siri, which have caused significant delays in our production and which remain challenging, but which will eventually be solved. New wells at both Brage and South Arne contributed positively, and prove that there can be significant value potential also in mature fields.

As the world has recovered from recession and oil prices have strengthened considerably, the market for oil and gas assets is also recovering. In 2010 we were able to deliver asset transactions, most notably the Grosbeak sale. Asset sales are a natural part of our business model. We believe that they underscore the value creating possibilities from exploration and they contribute to the funding of our continued exploration and development activities. We will continue to pursue monetisation of individual assets or asset packages with interested parties.

Looking into 2011, we will see Noreco continuing its transition into a company with a balanced portfolio that is active on all of its focus areas. We will be investing more this year in developments than we ever have – investments that will bring new production on stream in 2012 and 2013. We will also explore more this year than we ever have, and our opportunity set will continue to expand as we mature and add to our portfolio.

In October we commenced a broad review of our strategic alternatives to enhance shareholder value. During the winter we were in dialogue with a number of interested parties and we examined different structural alternatives, including mergers and sale of all or parts of the company. In March 2011 we concluded that the most value creating alternative for the company and its shareholders is for Noreco to continue as an independent E&P company.

We are confident that we should focus on investing and high grading our portfolio going forward and thereby deliver shareholder value. We are currently producing around 10 000 barrels of oil equivalents per day from eight fields in Denmark and Norway. We will add significant new production from ongoing field developments during 2012. This will provide the company with very strong cash flow and an improved financial position. At the same time we will execute our substantial exploration programme and participate in a large number of wells over the next couple of years.

2011 and beyond will definitely be active and exiting times for Noreco.

Best regards

Einar Gjelsvik
CEO, Noreco

Our management team

2010

1 Einar Gjelsvik (38)

Stavanger

CEO

Joined Noreco in Jan 2006. Has more than ten years experience from the Norwegian and international oil and gas business. Held various positions in BP, including Business development analyst and business planning and performance management team leader. Holds a MSc in Business Administration, Strategic Management, a MSc, Chemical Engineering and is a level III candidate in the CFA program.

Einar Gjelsvik holds 119 993 shares in Noreco.

4 Kjetil Bakken (39)

Stavanger

Vice President Strategy & Investor Relations

Bakken joined Noreco in 2009. He previously was partner equity research in Fondsfinans, and has held positions in Norsk Hydro in investor relations and financial analysis. Bakken has an MBA Finance degree from the Norwegian School of Economics and Business Administration.

Kjetil Bakken holds 15 416 shares in Noreco.

7 Stig Frøysland (54)

Stavanger

Vice President HSE/HR

Joined Altinex Oil in Aug 2007. Has 20 years E&P experience from Norsk Hydro both in Norway and internationally where he held various senior HSE management positions. Has been involved in strategic and tutorial work related to company culture building and quality. Holds an EMBA MBA with Oslo Business School/Nanyang University, Singapore, and holds a Diploma in HSE from Loughborough University, a degree from the Norwegian Police University College and studies in Law from Bergen University.

Stig Frøysland holds 121 180 shares in Noreco.

2 Rebekka Glasser Herlofsen (40)

Oslo

CFO

Glasser Herlofsen holds a Master of Science in Economics and Business Administration from NHH (Norwegian School of Economics and Business Administration). She worked as an independent consultant and professional board member. Herlofsen was Director of the Business Development Division and a member of the management team in BW Gas ASA from 2005 to 2009 and held various leading positions in the same company from 1999 to 2005. Herlofsen also has experience from the corporate finance department of Enskilda Securities in Oslo and London. She is also a member of the boards of Cermaq ASA, Odim ASA and the T. Klaveness Group ASA.

Rebekka Glasser Herlofsen holds 30 000 shares in Noreco.

5 Thor Arne Olsen (55)

Stavanger

Vice President Commercial

Vice President Commercial, since Jan 2006. Holds close to 30 years of commercial experience and previous positions include Business Development/A&D Manager for BP Norway, Commercial manager for Amoco Norway in addition to key positions across the upstream value chain in Norway and internationally. Holds a MSc in Business and Administration.

Thor Arne Olsen holds 1 368 048 shares in Noreco.

8 Birte N Borrevik (52)

Stavanger

Vice President Projects & Technology

Joined Noreco in Oct 2006. Holds more than 25 years of Drilling and Project experience, in Norway and internationally including positions as exploration drilling manager for BP and project general manager Valhall Flank Development. Holds a BSc in Petroleum Engineering from the University of Stavanger.

Birte N Borrevik holds 215 933 shares in Noreco.

3 Ellen Sandra Bratland (50)

Stavanger

COO

Bratland joined Noreco in 2008. She holds a Civil Engineering degree in Chemical Engineering from the Norwegian University of Science and Technology, Trondheim and a M.Sc. from University of Idaho. She joined Statoil in 1986, and Shell from 1989-2008, and has experience from process engineering, operations, HSE and business development.

Ellen S Bratland holds 61 010 shares in Noreco.

6 Lars Fosvold (49)

Stavanger

Vice President Exploration

Joined Noreco in December 2005. Has worked in the oil and gas industry since 1986 in Norway and internationally. Has held various specialist and leading geoscience positions in the total value chain from exploration to development and production with several major oil companies. Holds a BSc (Hons) in Applied Geology from the University of Strathclyde in Scotland.

Lars Fosvold holds 136 111 shares in Noreco.

If you stand still,
something will pass you by.
If you're in the wrong place,
nothing will happen.
Insight changes reality,
and reality changes fast.

Strategy

Noreco believes there is value in being part of the whole upstream value chain, and the business model is to reinvest profits from the producing assets into the growth of the Company through exploration, developments and acquisitions.

The geographic focus for Noreco is North West Europe, where we have expertise, there is substantial exploration potential and the infrastructure is in place.

We are investing in capacity for further growth, and will continue to recruit highly motivated oil and gas professionals who will participate in the value creation of the company.

Business development
We believe that significant value can be generated through inorganic activity, and plan to continue our active approach to acquisitions, mergers and divestitures. Transactions will be considered provided that they support the strategic direction and create value for our shareholders. The active high grading of the exploration portfolio continues to be a key part of Noreco's strategy.

Our view is that to run a successful exploration program, it is important to select carefully which wells to drill and which opportunities not to pursue. This high grading is made on the basis of thorough geo-science work and economic evaluations.

THE STRATEGY TO ACHIEVE THIS VISION IS THREEFOLD:

Create value through exploration

Monetise value through development and sale

Optimise value creation from production assets

Values

Noreco is more than simply a collection of people and assets; we have a set of beliefs about how we will act and what is important to us. These are the values that represent us and what we stand for. During the first half of 2008, we went through an important process where all employees were engaged to establish and agree on the values for Noreco. This process was important in many aspects, and encouraged everyone to raise consciousness of our values.

Each and every one of us are responsible for living the values, and the process gave us the added benefit of a positive atmosphere, where everyone is respected and valuable.

Courage
We have the courage to pursue our vision and live our values

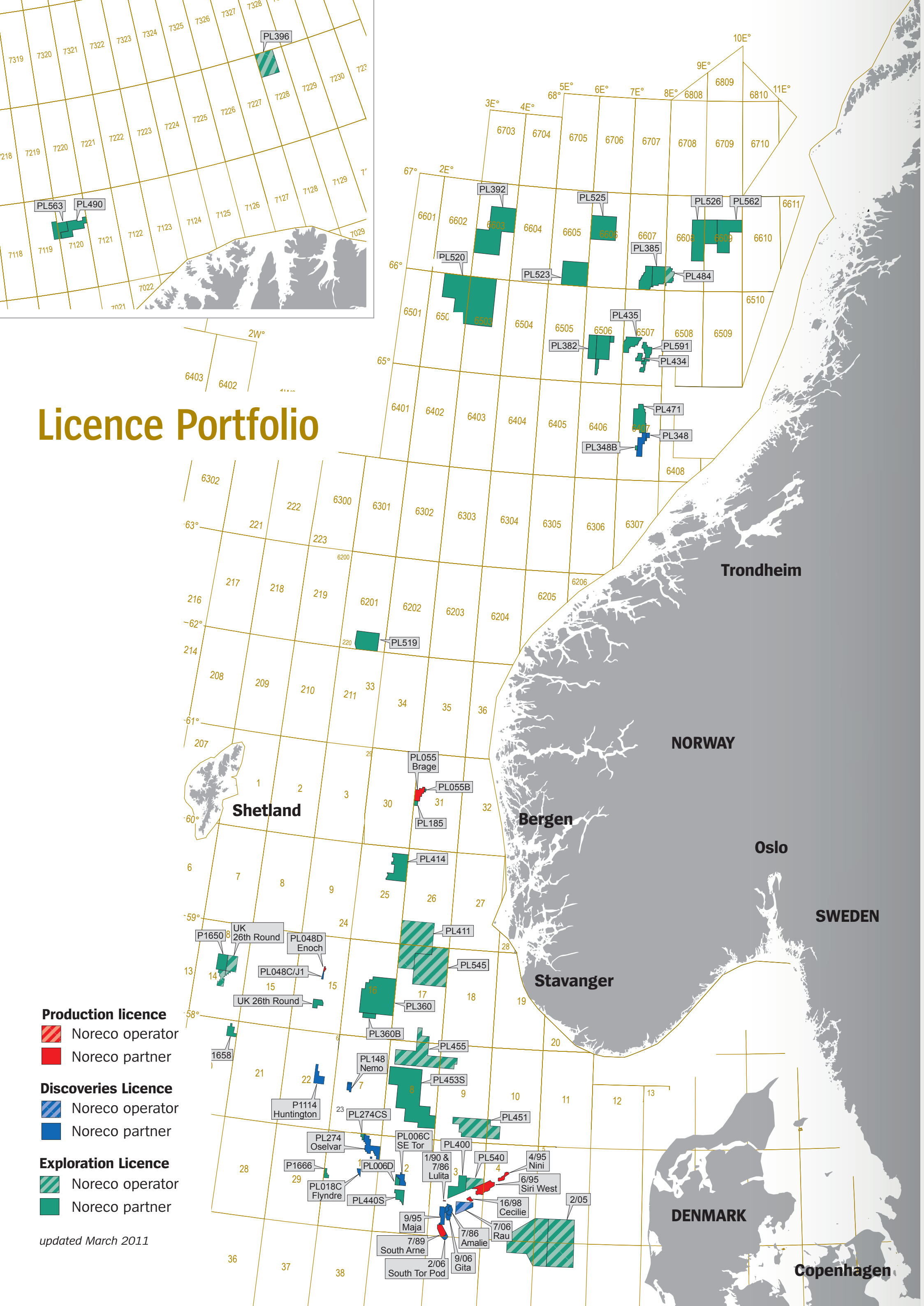
Respect
Our culture builds on trust and fosters open and honest communication, where the individual's opinion is recognised and valued

Professional
We achieve outstanding results by proactively using our skills and experience to deliver our promises

Innovate
Our culture encourages creativity and innovation through cooperation, where each individual's contribution makes a difference

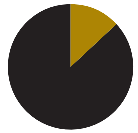
Challenge
We embrace challenge to continuously improve our results and performance, enabling a culture where teams and individuals excel

Licence Portfolio



PRODUCTION

Brage



Noreco 12.26/13.20 %

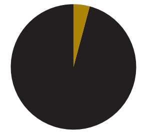
The Brage field is located in the Norwegian part of the North Sea 120 kilometers west of Bergen in water depths of 130-170 meters.

The field was discovered in 1980 and is operated by Statoil. Production started in 1993 and the maximum production rate of more than 120 000 boed was achieved in 1996. The Brage production facilities consist of an integrated production, drilling and accommodation platform. The crude oil is exported to the Sture terminal via the Oseberg Transportation System. Gas is exported through the Statpipe system to Kårstø. The integrated platform drilling unit allows for drilling of additional development and exploration wells in order to continuously enhance the oil recovery from the field and to tap potential additional resources in adjacent prospects.

The Bowmore well drilled in 2008 produced consistently through 2009. In 2010 this well started to increase water production. Three new wells were completed during the year. Two of these wells were drilled into the Statfjord formation, and were completed in February and May 2010. The latter will be converted to a water injector in 2011. The third well was a producer drilled into the Fensfjord formation and completed in October. The Brage drilling program continues through 2011 and further drilling of new infill wells is being planned for 2012.

The Brage field produced an average of 30 900 boed gross in 2010.

Enoch



Noreco 4.36 %

The Enoch field is located in the central part of the Norwegian North Sea and came on stream in May 2007.

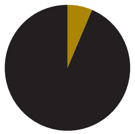
The field straddles the Norwegian/UK border and Talisman is operator for the unitised field. Enoch is developed as a single well subsea tie-back to the Brae A platform on the UKCS. Produced oil is transported in the Forties pipeline system to Cruden Bay in Scotland, and gas is delivered and sold at the Brae platform.

The production performance from the Enoch reservoir has been better than anticipated, with very little pressure decline indicating good pressure support. The water cut has started to increase. The production regularity in 2010 has been lower than planned mainly due to technical problems at the host facility including reduced gas lift capacity in periods.

The Enoch field produced an average of 4 100 boed gross in 2010.

South Arne

The South Arne field is located in the Danish part of the North Sea, and is operated by Hess Corporation.



Noreco 6.56 %

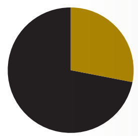
Oil production from the field commenced in July 1999 and gas export commenced later in the year. The platform is an integrated production and accommodation platform, where the oil and gas from the South Arne reservoir are separated, processed and exported. The oil is stored in a subsea storage tank and transferred to shuttle tankers via an offshore loading system for onward transport to refineries in North West Europe. The field is developed with a total of 21 production/injection wells that are producing from a low permeability chalk reservoir.

The overall production level in 2010 was influenced by reduced water injection during the drilling of two new production wells, reduced well maintenance activity due to drilling rig interference, and added production from the two new producers completed during November. The new production wells, SA-20 and -21 which are testing the flank potential and the less prolific Ekofisk formation immediately above the main producing horizon, respectively, have shown encouraging potential. In addition to the contribution from the new production wells, the experience gained has given valuable input to the planning of the next major development on South Arne, the Phase III development project. The South Arne field produced an average of 21 771 boed gross in 2010.

For the South Arne Phase III development project, the Field Development Plan (FDP) was approved by the Danish authorities in September. The FDP comprises drilling and completion of 11 new producers and injectors as well as installation of two new unmanned wellhead platforms and interfield pipelines controlled from the Central South Arne processing and export platform. Total investments are estimated to be in the range of NOK 6 billion spread over the next few years. The project was sanctioned by the partnership in November and the project is now in the execution phase with major contracts being awarded and with planning, design and procurement initiated. First oil is expected January 2013.

Lulita

The Lulita oil and gas field is located in the Danish part of the North Sea, and was discovered in 1992.



Noreco 28.20 %

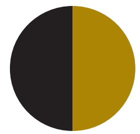
The reservoir is located in Middle Jurassic sandstone and has been developed with two extended reach wells from the Harald platform. Following processing on Harald, oil/condensate is transported to Gorm via Tyra East. The gas is exported to Tyra East via a separate pipeline. The field is operated by Maersk Oil & Gas AS.

The production from Lulita in 2010 was stable except for planned maintenance and upgrade operations on the host platform Harald due to the tie-in of the new across the border Trym subsea development.

The Lulita field produced an average of 898 boed gross in 2010.

Siri

The Siri field is located in the Danish part of the North Sea, and started production in 1999.



Noreco 50.00 %

The Siri platform is an integrated production and accommodation platform placed on top of an oil storage tank resting on the seabed at a water depth of 65 meters. The oil is produced to the seabed storage tank and via a floating loading buoy transported by shuttle tanker to refineries in North West Europe. The field consists of three reservoirs. The field is operated by Dong Energy.

The Siri platform and facilities is serving the satellites Nini, Nini East and Cecilie. The Siri facilities provide processing, lift gas, injection water, power and oil export facilities for all of these fields.

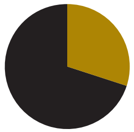
The Siri field has been produced with simultaneous water and gas injection for pressure support and optimized recovery This has during recent years changed to water alternate gas injection. Produced gas is injected into the reservoirs as no gas export is available. The Siri wells are produced with gas lift to ensure that the wells can be produced efficiently even at high watercuts.

The production at the Siri platform was temporarily shutdown on 31 August 2009 as a routine inspection revealed cracks in a subsea water buffer tank connected to main storage tank. The shutdown included all production from the Siri, Nini and Cecilie fields. A temporary solution to support the Siri platform was installed, and production from the platform commenced on 24 January 2010. A permanent solution is still in the planning phase.

Production from Siri in 2010 was below expectations. One important reason has been the shut-in of the production well SCB-1 since April due to malfunction of a safety valve. The operator has so far not been able to repair the well, and the final solution will most likely involve a full work-over of the well, which may take place later in 2011. Another main reason for Siri producing below expectations was an unforeseen restriction in the Siri platform's gas handling capacity following the startup of the Nini East field in February. This has been solved in January 2011 through a revamp of the gas compressor, and the gas handling capacity is now considered to be sufficient. The upgrade has increased the gas handling capacity by 40 %. Gas handling capacity was previously the restricting capacity on Siri.

The Siri field produced an average of 4 932 boed gross in 2010.

Nini



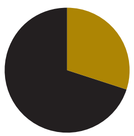
Noreco 30.00 %

The Nini oil field is located in the Danish part of the North Sea, 32 km northeast of the Siri field and is operated by Dong Energy.

Nini was discovered in 2000, and production commenced in August 2003. The field is developed with an unmanned platform as a satellite to the Siri platform. Nini consists of three reservoirs. The Nini reservoirs are produced with water injection for pressure support and with gas lift to the producers. A water injection pipeline from Siri provides injection water, and a high pressure gas line is providing lifting gas to the producers.

Production from Nini in 2010 was negatively impacted by the gas handling capacity issues at the Siri platform following first oil from Nini East. The field produced an average of 3 393 boed gross in 2010.

Nini East



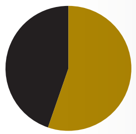
Noreco 30.00 %

The Nini East field is located in the Danish part of the North Sea, some 7 km east of the producing Nini NA platform. It is operated by Dong Energy.

Nini East is developed with an unmanned wellhead platform which is connected via the Nini NA platform to the Siri platform. The development was approved by the Danish Energy Agency in January 2008. The Nini East platform was installed in July 2009, and the first phase of the production drilling was completed in December 2009. The field started producing 24 February 2010 with two oil production wells and one water injector. Another water injector will be drilled in 2011.

The Nini East field produced an average of 5 992 boed gross in 2010. This was below the reservoir potential, and was caused partly by the previously mentioned gas handling restrictions at the Siri platform, and partly by a somewhat conservative water injection approach.

Cecilie



Noreco 61.00 %

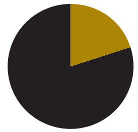
The Cecilie field is located in the Danish part of the North Sea, and was discovered in 2000. Production commenced in 2003, with Dong Energy as the operator.

The Cecilie field is a satellite to the Siri platform, which provides injection water, lift gas, processing, storage, and export services for Cecilie. The field consists of two reservoirs, Cecilie and Connie.

Like its sister fields, Cecilie also suffered unstable production in 2010 as a result of the gas handling issues at Siri. The Cecilie field produced an average of 563 boed gross in 2010.

DEVELOPMENTS

Huntington



Noreco 20.00 %

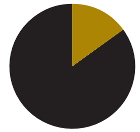
The Huntington field is located in the central part of the UK North Sea, with E.ON Ruhrgas as operator.

Three discoveries in three horizons have been made in the license; the Forties formation, the Fulmar formation and the Triassic Skagerrak formation.

In 2010 the licence partners decided to develop Huntington Forties with a floating production vessel (FPSO), and entered a contract with Sevan Marine for leasing the Sevan Voyageur. The contract is for an initial period of five years, with options for further extensions. Subsea wells will be connected to the FPSO, where the oil will be stabilized and stored. Produced water will be injected into the reservoir for pressure support. The oil is exported from the field with shuttle tankers, while the gas will be exported through the CATS pipeline system.

The Department of Energy and Climate Change (DECC) approved the Field Development Plan for Huntigton Forties in November 2010. Production is expected to commence during the first quarter 2012.

Oselvar



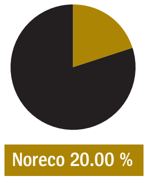
Noreco 15.00 %

The Oselvar field was discovered by Elf in 1991, and is located in the southern part of the Norwegian North Sea in proximity to producing oil fields such as Ula, Gyda and Blane. The operator is Dong Energy.

The Plan for Development and Operations for the Oselvar field was approved by Norwegian authorities in June 2009, and the development is now underway. The field is being developed with three production wells drilled from a four-slot subsea template tied back with a multiphase pipeline to the Ula platform for processing. The oil will be exported through the Ula platform, while the gas will be injected into the Ula reservoir to enhance recovery. Planned production start of the Oselvar field is fourth quarter 2011.

The development project for Oselvar has progressed according to plan. Most of the subsea equipment fabrication has been completed, and installation of the subsea template was done in August. A successful shutdown of Ula was also performed, with preparations for connecting the Oselvar module.

Nemo

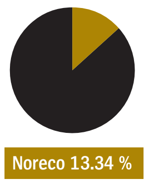


The Nemo discovery was made in 1992 in upper jurassic sandstone. Noreco has a 20 percent interest. The operator is Lundin Petroleum.

An appraisal well was drilled and completed in February 2008, confirming the resource estimates of 20-30 million barrels oil equivalents for the Nemo discovery, and at the same time it strengthened the case for an upside potential.

The license partners are currently performing pre-FEED engineering to improve the definition of the preferred development options, including host platform. Given a positive conclusion from these activities, a Plan for Development and Operations (PDO) may be submitted during 2011, with a potential production start in 2013.

Flyndre

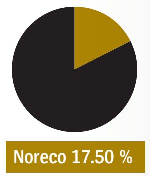


The Flyndre discovery was made in 1974, and has proven hydrocarbons in Paleocene sandstones and in Cretaceous chalk straddling the UK/Norway border.

Flyndre is located in licence PL018C. Noreco has an interest of 13.338 percent, and Maersk Oil is the operator. Several production tests with good oil rates have been carried out.

The operator is currently working on plans for development of the Paleocene Balmoral formation. This formation is stretching across both the Norwegian licence PL018C and two licences on the UK side. It is therefore expected that a unitisation will be necessary before the field can be developed. Concept selection is expected to take place in the first half of 2011, and consequently a development plan may be submitted to the authorities during the second half of the year.

Gygrid

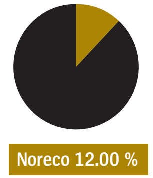


The Gygrid discovery is located in the Norwegian Sea between the Draugen and Njord producing fields. Noreco has an interest of 17.5 percent. Statoil is the operator. A decision to submit a development plan (PDO) is expected during the first half of 2011.

Gygrid is part of licence PL348 at the Halten Terrace in the Norwegian Sea, 19 kilometres away from the Njord production platform. Gygrid was dicovered in 2009 in Jurassic sandstone, in the Tilje and Ile formations. Several smaller discoveries have been made in the same licence, and a significant exploration potential still remains. During 2010 different development solutions have been evaluated, and field development studies have been initiated. New seismic data for Gygrid was gathered during summer 2010, and the reprocessed data are being interpreted while geologic models are being built. The licence partners are expected to select concept for development early in 2011 and to submit a development plan by the summer. This may result in production start early 2013.

DISCOVERIES

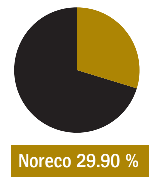
Gita PL 9/06 & 9/95 (Gita and Maja licenses)



In 2007 Noreco entered into an agreement with Chevron Denmark to farm into licenses 9/06 and 9/95 – the Gita/Maja licences operated by Maersk OIl & Gas AS.

At the Gita discovery in Denmark (Noreco 12%), a seismic re-processing campaign, involving four different surveys and aiming at pre-stack depth migration to improve depth imaging, progressed well during 2010. Final results are expected in the second half of 2011, leading to a reduced depth uncertainty and providing a better foundation for placing appraisal wells targeting both the Middle Jurassic Gita discovery as well as Upper Jurassic prospective areas. Noreco's target is to continue the planning of appraisal wells and start drilling those in 2012.

Amalie PL 7/86

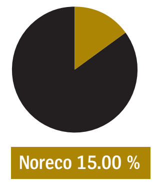


The Amalie Jurassic and Lower Cretaceous is located 20 km North East of the South Arne producing field (Noreco interest 6.6%) in the Danish part of the North Sea, and was discovered in 1991.

Since the Amalie discovery was made, several gas fields including Gita and Svane have been discovered in the area, forming the basis for a possible area development of the resources in form of a stand-alone concept or as tie-backs to existing infrastructure e.g the South Arne or the Harald field.

A conditional development plan for the field was submitted to the Danish Energy Authority (DEA) in December 2001. The execution of the plan awaits an economically viable plan in terms of technology as well export offtake. Ongoing appraisal plans on the nearby Svane gas discovery in similar settings may unlock the Amalie potential. Meanwhile the license during 2010 has updated and reviewed the subsurface understanding.

South East Tor PL006C



This license (Noreco 15%) is located in the Norwegian Southern North Sea, where chalk reservoirs are proven in several giant oil fields such as Ekofisk and Valhall. The discovery is located in a structural trap. Further appraisal drilling is required to delineate the reservoir and to better define the reserve base for a development plan.

Work has in 2010 been underway in the license to mature further appraisal with expected execution in 2012. At this point the discovery is anticipated to be economic with envisaged development being a subsea tie-back to one of the neighbouring producing fields.

EXPLORATION RESULTS

Four exploration wells were drilled during 2010, targeting an expected net risked volume of 36.5 million barrels of oil equivalents.

Prospect	License	Operator	Noreco WI	Rig	Expected Net Risked P50	Result
Frusalen	PL476	DetNorske	30%	Songa Delta	3.65	Dry
Zidane 1	PL435	RWE Dea	20%	Bredford Dolphin	11.48	Gas Discovery
Dalsnuten	PL392	Shell	10%	Aker Barents	14.23	Target not reached
Barchan	PL400	Lundin	30%	Mærsk Guardian	7.17	Dry

The first exploration well, 6507/11-10 was drilled on the Frusalen prospect in license PL476 awarded in the APA 2007 awards. The well was located five kilometres northeast of the Midgard gas and condensate discovery. The well was designed to test the Middle Jurassic Fangst Group reservoirs on a structural closure in block 6507/11. The well was drilled to a total vertical depth of 2290 meters. Although the reservoir interval was thinner than expected, the reservoir properties were good, however no movable hydrocarbons were encountered. The well was completed on 16 February 2010.

The second exploration well drilled in 2010 was the first exploration well drilled in license PL435 (6507/-14S), awarded in the APA 2006 licensing round; and was designed to test the presence of gas-bearing Middle Jurassic reservoirs of the Fangst Group, in a fault bound structural horst block in the Zidane 1 prospect. A gas column of 150 metres in the Fangst Group was encountered, and a comprehensive data acquisition programme was conducted which included a production test. During testing a maximum flow rate of 1.2 million Sm3 per day was achieved. The discovery is located 13 kilometres northwest of the Heidrun facilities and 15 kilometres southeast of the Viktoria gas discovery. The well results were very encouraging and current resource estimates range between 5 and 18 billion Sm3 of gas. The results have also significantly de-risked a second prospect identified on the license, Zidane 2 which is expected to be drilled in 2011.

On 23 August 2010, Noreco entered into a commercial agreement with BG Norge to acquire a 10 percent working interest in the PL392 license. The license is located in the Vøring Basin, approximately 40 kilometres northwest of the Gro gas discovery. The first well on the license (6603/5-1) was spudded on 6 September 2010, and was designed to be the first well to test Jurassic reservoirs in the Vøring Basin. The well was plugged and abandoned on 22 December 2010 after failing to reach the Jurassic interval. The well was drilled to a total depth of 5254 meters in Early Cretaceous rocks. Although disappointing, the well has provided key data for further exploration of the Vøring Basin, and significant remaining potential is mapped on the license although re-evaluation is needed prior to further drilling.

On 2 November the exploration well 3/8-1 was spudded in license PL400. The well was designed to test the Permian Rotliegendes formation on a structural closure in Block 3/8 in the Norwegian Central Graben. The well was drilled to a total depth of 4020 metres, and proved the presence of a reservoir interval with poorer than expected reservoir properties, no hydrocarbons were encountered, and the well was plugged and abandoned.

SEISMIC ACQUISITION CAMPAIGNS

During 2010 Noreco has been involved in numerous seismic acquisition campaigns and reprocessing of several previously acquired seismic surveys. These data will be used to further decrease the uncertainties associated with risk and resource estimations, and aid in the development of new exploration plays.

Reprocessing

DK:	Gita/Maya 3D
UK:	P1645 3D
UK:	P1650 3D
Nor:	PL274 3D
Nor:	PL396 3D + inversion
Nor:	PL471 3D
Nor:	PL519 3D
Nor:	PL520 2D
Nor:	PL526 3D + inversion
Nor:	PL540 3D + inversion

Acquisition & Processing

UK:	P1650 CSEM
Nor:	PL484 3D
Nor:	PL520 3D
Nor:	PL523 3D
Nor:	PL525 3D
Nor:	PL545 2D site survey
Nor:	PL562 3D
Nor:	PL563 3D (80% completed in 2010, outstanding area to be completed in 2011)

EXPLORATION

Portfolio Changes
In the course of 2010 the following changes have been made to Noreco's license portfolio:

- On 19 January Noreco was awarded 4 new licenses, two of which as operator through the APA 2010 license awards:

License	Operator	Noreco WI	Location
PL540	Noreco	50%	Norwegian Central Graben
PL545	Noreco	50%	Ling Graben
PL562	E.ON Ruhrgas	20%	Nordland Ridge
PL563	Lundin	20%	Barents Sea

- On 16 March Noreco acquired a 50 percent working interest and operatorship of the PL396 production license located in the eastern Barents Sea. The license was previously operated by Discover Petroleum, with an 80% working interest, Petoro held the remaining 20%. Discover Petroleum now known as Front Exploration has retained 30%.

- On 1 June Noreco farmed into the Danish license 02/05 through a commercial agreement with Elko Energy. The license is located in the Danish Central Graben and contains the Rocky prospect. Noreco together with Elko Energy identified a potential drilling target, the Luna prospect which was located in open acreage to the west of the 02/05 license, and the partnership applied for this acreage with the intention to drill the Luna prospect in 2011. This acreage was awarded in January 2011.

- On 1 September, Noreco entered into a commercial agreement with E.ON Ruhrgas to acquire a 20% working interest in the PL434 license located on the Haltenbanken area. Noreco will carry E.ON Ruhrgas' costs of the exploration well targeting the Ronaldo prospect to be drilled in 2011.

- On 28 October Noreco was awarded two exploration licenses in the UK Central Graben and Outer Moray Firth. Noreco is operator of the latter license.

During 2010 the following licenses have been relinquished:

- PL316CS
- PL391
- PL417
- PL458

In addition Noreco was a 20% equity holder of the PL447 license. Noreco pulled out of the license on 20 April. Det Norske took over Noreco's interests in the license. No wells have since been drilled on the license.

Annual Statement of Reserves

2010

Noreco's classification of reserves follows the SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS) published in 2007. The system is a recognized resource classification system in accordance to the Oslo Børs Circular 9/2009 "Listing and disclosure requirements for oil and natural gas companies".

The SPE-PRMS uses "reserves", "contingent resources" and "prospective resources" to classify hydrocarbon resource of varying technical maturity. The maturity within each class is also described to help guide classification of a given asset.

Details of SPE-PRMS can be found here: http://www.spe.org/industry/reserves/prms.php.

RESERVES

In this document Noreco reports its own estimates of reserves. The estimates are made by senior staff with extensive experience in reserves estimation. Quality control of the methodology and results is part of the company's internal reserves estimation procedures. Economic limit tests have been performed based on a market forward oil price as of end 2010 as well as the company's best assumptions of future operating costs.

In addition Noreco uses an external company (DeGolyer and MacNaughton) to perform an independent reserves analysis. Both the in-house and the independent reserves estimation follow SPE-PRMS.

Noreco has reserves from a total of 10 fields. More general information on the fields is available on Noreco's homepage www.noreco.com and in the company's annual reports.

The Noreco reserves overview is shown in Table 1 and 2. The division is as suggested in Oslo Børs Circular 9/2009 Annex III, and the SPE-PRMS reserves categories used is shown in brackets.

Siri/Stine, DCS, operated by Dong, Noreco 50%
The reserves for the Siri and Stine fields are based on decline analysis of the existing production wells.

Nini, DCS, operated by Dong, Noreco 30%
The reserves assessment of the Nini field is based on decline analysis of existing wells.

Nini East, DCS, operated by Dong, Noreco 30%
The Nini East field started production in February 2010. The reserves assessment of Nini East is based on detailed reservoir modeling calibrated to the results of the three Nini East wells drilled during 2009 as well as production experience gained during 2010. A new injector is being drilled in 2011 but per 31.12.2010 the reserves associated with this extra well was categorized as "justified for development". The Nini East development is bringing new reserves across the Siri platform, and is extending the field life for the Siri, Stine and Nini fields by sharing of operating cost for the fields.

Cecilie, DCS, operated by Dong, Noreco 61%
The reserves for the Cecilie field are based on decline analysis of existing wells.

Lulita, DCS, operated by Dong, Noreco 28.2%
The 2P reserves for the Lulita field are based on decline analysis. The earlier restriction of producing Lulita across the Harald platform has been removed. Noreco has, in alignment with the Harald operator, increased the reserves for Lulita. The Lulita field is produced with a single well and there is a potential for infill drilling (sidetrack). However, no firm plan exists and consequently there are no undeveloped reserves booked for Lulita.

South Arne, DCS, operated by Hess, Noreco 6.56%
The reserves of the South Arne field are based on assessment of the field's production performance and review of reservoir modeling results. The developed reserves include remedial well activity to restore and improve production from existing wells, as well as the two new producers drilled in 2010.

The South Arne Phase III project has been approved in 2010 and is now categorised as reserves. Noreco expects that South Arne will produce oil far beyond 2026. The production after license expiry in 2026 is treated as "justified for development (SPE-PRMS)" as a license extension permit can be expected. This tail production includes reserves from both existing wells and the future wells linked to the Phase III project.

Brage, NCS, operated by Statoil, Noreco 12.26% in Brage Unit, 13.2% in Sognefjord
The reserves assessment for the Brage field is based on detailed decline analysis for most wells. Where decline analysis is not possible, reservoir models have been used to estimate reserves. The reserves are based on continued drilling on Brage into 2012, with drilling of one Brent well (approved for development) and one Sognefjord infill producer (justified for development) in 2011. The two Statfjord wells drilled in 2010 have come in below expectations while the last Fensfjord well is above expectations. The 2P reserves are similar to last year's reserves after subtracting for 2010 production.

Enoch, NCS, operated by Talisman, Noreco 4.36%
The Enoch field reserves are calculated from the expected production performance for the Enoch development with the existing development and assessment of various production scenarios based on reservoir modeling.

The 2P reserves are similar to last year's reserves after subtracting for 2010 production.

Developed Assets (on production) as of 31.12.2010

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Siri	6.1	-	6.1	50	3.0	11.5	-	11.5	50	5.8
Nini	3.8	-	3.8	30	1.1	5.5	-	5.5	30	1.7
Nini East	8.9	-	8.9	30	2.7	12.7	-	12.7	30	3.8
Cecilie	1.0	-	1.0	61	0.6	2.0	-	2.0	61	1.2
Lulita	1.7	7.1	3.0	28.2	0.8	2.1	8.4	3.6	28.2	1.0
South Arne	54.0	60.3	64.7	6.56	4.2	62.6	66.5	74.5	6.56	4.9
Brage U	16.7	14.2	19.3	12.26	2.4	26.7	29.3	31.9	12.26	3.9
Brage SF	5.0	-	5.0	13.2	0.7	10.1	-	10.1	13.2	1.3
Enoch	5.1	0.2	5.1	4.36	0.2	7.3	0.6	7.4	4.36	0.3
Total					15.8					23.9

Under development (approved for development) as of 31.12.2010

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
South Arne	22.5	29.6	27.8	6.56	1.8	32.4	40.8	39.7	6.56	2.6
Brage U	1.0	1.3	1.2	12.26	0.1	1.8	2.4	2.2	12.26	0.3
Oselvar	17.0	97.9	34.4	15	5.2	25.1	160.8	53.9	15	8.1
Huntington	24.5	10.9	26.4	20	5.3	39.6	20.5	43.3	20	8.7
Total					12.4					19.6

Non-developed assets (justified for development) as of 31.12.2010

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Nini East	1.2	-	1.2	30	0.4	1.7	-	1.7	30	0.5
South Arne	12.3	14.7	15.0	6.56	1.0	16.0	18.9	19.3	6.56	1.3
Brage SF	2.9	-	2.9	13.2	0.4	3.7	-	3.7	13.2	0.5
Total					1.7					2.3

Total reserves as of 31.12.2010

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Siri	6.1	-	6.1	50	3.0	11.5	-	11.5	50	5.8
Nini	3.8	-	3.8	30	1.1	5.5	-	5.5	30	1.7
Nini East	10.1	-	10.1	30	3.0	14.4	-	14.4	30	4.3
Cecilie	1.0	-	1.0	61	0.6	2.0	-	2.0	61	1.2
Lulita	1.7	7.1	3.0	28.2	0.8	2.1	8.4	3.6	28.2	1.0
South Arne	88.8	104.6	107.5	6.56	7.1	110.9	126.3	133.4	6.56	8.8
Brage U	17.7	15.5	20.5	12.26	2.5	28.4	31.7	34.1	12.26	4.2
Brage SF	7.9	-	7.9	13.2	1.0	13.8	-	13.8	13.2	1.8
Enoch	5.1	0.2	5.1	4.36	0.2	7.3	0.6	7.4	4.36	0.3
Oselvar	17.0	97.9	34.4	15	5.2	25.1	160.8	53.9	15	8.1
Huntington	24.5	10.9	26.4	20	5.3	39.6	20.5	43.3	20	8.7
Total					30.0					45.8

Reserves development

	Developed assets (on production)		Under development (approved for development)		Non-developed assets (justified for development)		Total	
	1P	2P	1P	2P	1P	2P	1P	2P
Balance as of 31.12.2009	17.0	26.5	5.7	8.9	1.1	1.8	23.9	37.2
Production	(4.1)	(4.1)					(4.1)	(4.1)
Aquisitions/disposals								
Extensions and discoveries								
New developments			7.3	11.5			7.3	11.5
Revisions of previous estimates	2.9	1.5	(0.6)	(0.8)	0.6	0.5	2.9	1.2
Balance as of 31.12.2010	15.8	23.9	12.4	19.6	1.7	2.3	30.0	45.8

The Siri/Stine, Nini, Nini East and Cecilie reserves are all produced via the Siri platform. The overall 2P reserves are similar to last year's reserves after subtracting for 2010 production.

Oselvar, NCS, operated by Dong, Noreco 15%
The reserves assessment of the Oselvar field is based on detailed reservoir modeling and uncertainty study performed in conjunction with the plan for development and operation (PDO) in 2009. The reserves are virtually unchanged from last year's ASR. During 2010 the Oselvar field development has progressed according to schedule and is aiming for start of production late in 2011.

Huntington Forties UKCS, operated by E.ON Ruhrgas Noreco 20%
The Huntington Forties field development plan (FDP) was approved during 2010 and the project is now in the execution phase. The production and injection wells will be connected to the Sevan Marine Voyageur FPSO, and the contingent resources reported in last year's ASR have now been moved to reserves.

The field is extensively appraised. The main remaining uncertainty in the Huntington Forties reservoir is the oil in place and expected performance of the lower part of the reservoir, the so-called low resistivity zone. Logs across this zones indicates high water saturation, while a test conducted over the interval proved good oil rates with only moderate amounts of water.

Noreco's reserve estimate of the Huntington Forties reservoir is based on the company's own reservoir modeling. In Noreco's interpretation, based on the low resistivity zone well test and field analogue information, the low resistivity zone will contribute significantly to the Huntington Forties reserves. The FDP base case is more conservative on this point and hence carries somewhat lower reserves than Noreco. The 2P reserves are reduced compared to the contingent resources reported in last year's ASR. This is partly due to reservoir model revision and partly due to an updated economic limit test.

The deeper Huntington discoveries are not part of the current FDP and are therefore kept as contingent resources. By linking additional resources to the FPSO, a likely side effect will be extended production life and consequently increased reserves for Huntington Forties.

CONTINGENT RESOURCES

Noreco's contingent resources are from discoveries in various stages of maturation towards development on the Norwegian Continental Shelf, Danish Continental Shelf and UK continental shelf.

During 2010, the main changes are the maturation of South Arne Phase III and Huntington Forties into reserves as well as the addition of the Zidane-1 discovery. Portfolio management has resulted in sale of the Grosbeak discovery.

In accordance with guidelines from Oslo Stock Exchange, Noreco does not quantify contingent resources in this year's ASR. The following summary shows the status for contingent resources with high impact for Noreco or which are very close to being reclassified to reserves.

9/95 Gita (DCS), operated by Mærsk, Noreco 12%
The Gita-1X well indicated significant hydrocarbon potential in a Middle Jurassic reservoir and is closely correlated with reservoir proven and tested in the Amalie discovery. The neighboring Amalie discovery (Noreco 29.9%) and Gita may be connected.

The license will work with new re-processed seismic data and appraisal planning during 2011.

PL348 Gygrid (NCS), operated by Statoil, Noreco 17.5%
The Gygrid discovery is located in the PL348 license situated approximately 13 km west of the Draugen facilities.

The discovery well was drilled in 2009 and encountered light oil in both the Ile and Tilje Formations of the Fangst Group. Statoil as operator is planning a fast-track subsea tieback development of the discovery with possibly two production wells and a water injector.

Concept selection and submittal of a Plan for Development and Operation (PDO) is planned in 2011.

PL148 Nemo (NCS), operated by Lundin, Noreco 20%
During 2010 a subsea development and tie-in to the Pierce FPSO (UKCS) was selected as the concept for Nemo. The partnership will work towards submitting a PDO in 2011.

PL435 Zidane (NCS), operated by RWE, Noreco 20%
The 6507/7-14s exploration well drilled during 2010 proved that the Zidane-1 structure contained gas. The license starts in 2011 a feasibility study for the possible development. The neighboring structure Zidane-2 is a natural part of such a development and is the next target in the license, with drilling scheduled for 2011.

P1114 Huntington Fulmar UKCS, operated by E.ON Ruhrgas, Noreco 20%
The Huntington Fulmar discovery is not part of the ongoing Huntington Forties development and is hence kept as contingent resources. A plan for Fulmar will be matured during 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The reported reserves estimates are based on standard industry practices and methodology such as decline analysis, reservoir modelling and geological and geophysical analysis. The evaluations and assessments have been performed by engineers with extensive industry experience, and the methodology and results have been quality controlled as part of the company's internal reserves estimation procedures.

A third party independent assessment has been performed by DeGolyer and MacNaughton on all of Noreco's fields categorized as reserves. The assessment is based on input data provided by Noreco, as well as full access to subsurface data and license documentation. DeGolyer and MacNaughton forms an independent view on reserves on this basis. The independent review concludes with a reserves estimate that is within 2% of Noreco's 2P estimate and hence serves as a verification of the Noreco reserves estimate.

The information included herein may contain certain forward-looking statements that address activities, events or developments that Noreco expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by Noreco, which are beyond its control and are subject to certain additional risks and uncertainties. As a result of these factors, actual events may differ materially from those indicated in or implied by such forward-looking statements.

The 2P reserves estimate represents the expected outcome for the fields based on the performance observed to date, the company's understanding of the fields and the planned activities in the licenses. The 2P reserve estimate for the Noreco portfolio is 45.8 mmboe compared to 37.2 mmboe in the year end 2009 reserves statement. This increase is mainly due to South Arne Phase III and the Huntington Forties developments. Adjusted for 2010 production this represents an increase in 2P reserves of 12.6 mmboe in 2010, and a 2P reserves replacement ratio above 300%.

Through the reserves and contingent resource basis described above, Noreco is well positioned to grow production and reserves from its own portfolio over the next few years.

Einar Gjelsvik
CEO, Noreco

Sit down before facts
like a little child.
Forget everthing else.
At the end of the day,
insight changes reality.

Health, Safety Environment and Quality

Noreco will conduct all our activities with great respect for the people we touch and the environment we are in, and will at all times have a strong focus on health, safety, environment and quality (HSE&Q), recognising that our people represent the cornerstone of delivering Noreco's vision and strategy. We will strive towards our vision; zero accidents, zero incidents and zero long term impact to the environment. Our commitment is to protect our people from harm and create a work environment that facilitates excellent business results by creating and maintaining a HSE&Q culture in the Company where all employees feel responsible for their own well being and the well being of others. Our focus is to build our employees' HSE&Q competence so that we continuously build on our HSE&Q culture.

Management System

The process based Management System in Noreco is essential and sets the foundation for all our activities. It is developed to ensure that we are in compliance with authority requirements, run our business efficiently and ensure high quality on all our deliveries. Noreco's management system has three dimensions that assist the handling of risks. The three dimensions are;

a) the rules, regulations and internal work processes that we shall comply with,
b) continuous training and development of the people within the organisation, and
c) our company culture.

The company culture is in many ways the most important aspect, as it reflects how we perform and deliver our work processes, how we use our knowledge, and how the employees behave towards their own and others' work. Noreco actively manages and improves its HSEQ performance through the Management System, and constantly improves skill levels for safe and effective operations. The Management System in Noreco is in line with ISO 9001 and ISO 14000, and in 2011 we will certify the Management System in accordance with these standards.

HSEQ Program

Each year the Company develops and implements a HSEQ program to ensure continuity, commitment and direction. Moreover, this program allows management to monitor progress and success according to HSEQ objectives, and to monitor compliance with the Noreco management system. The development of the HSEQ program is an activity that includes the whole organisation – building on the HSE awareness culture and training of our employees.

For 2011 the HSEQ program has the following main objectives:

- Continue to build the Noreco culture which in practice is demonstrated by the value-based attitude and behaviour.
- Actively influence partners' HSEQ performance and culture through a proactive, positive and supportive approach.
- Demonstrate compliance and business improvement by use of the management system in all business decisions.
- Continued effort to prevent major accidents trough systematic risk management in all decision making.

Quality Management

As a part of the HSEQ programme, Noreco develops a yearly Quality Plan. The activities on the Quality Plan are based on objectives in the HSEQ plan, risk assessments, input from license representatives, experience transfer from other operators and industry focus. The Quality Plan for 2010 contained eight activities that were all successfully completed.

In order to ensure continuity in our business performance, the basis for the Quality Plan 2010 have been transferred, further developed and included in the Quality Plan for 2011.

Emergency preparedness

An important part of the vision to build a leading independent oil and gas company is to have an in-house emergency preparedness organisation. Emergency preparedness is important to Noreco because it enables the Company to handle its responsibilities, reputation and control of any situation in which it influences the outcome. Quality and the ability to improve organisation, technology and personnel on all levels of the organisation are key factors in the emergency training and Noreco has built significant competence and capacity in this area. More than one third of the staff are trained and continuously drilled in Emergency Response. This also makes Noreco's organisation trained and able to handle other unplanned situations. As part of the preparations for the Noreco operated exploration well Svaneøgle in license PL545 and application for consent to drill, Noreco's emergency preparedness organisation was audited by the Petroleum Safety Authorities. As a result Noreco received very positive feedback regarding competence and robustness in its emergency preparedness organisation.

Safe operations

Noreco is a member of the West Alpha Consortium (semi-submersible drilling rig) together with four other operators. Noreco plays an active role and leads the HSE consortium. Noreco is responsible as a License holder/Operator and we are dependent on having a good relationship with suppliers and partners. Therefore, we execute the see-to duty actively when planning and operating Noreco wells, to be able to follow up and influence our partners/suppliers systems and processes. Noreco has during 2010 implemented Synergi to register and follow up incidents and non-conformities. During 2011 Noreco will also use Synergi to handle non-conformities, and to plan, register and follow up on Audits.

The Noreco operated well Svaneøgle was drilled in Q1 2011. Noreco's well planning team is using a stage-gate work process for well delivery, which is part of the Noreco Management System. Noreco's application for consent to the Petroleum Safety Authorities and the Discharge Application to the Norwegian Pollution Control Authority were accepted as scheduled and the consents were given.

Preventing major accidents

Noreco believes that preventing major accidents is an integrated part of the management and strategy of Noreco.

To ensure the control of the potential for major accidents, Noreco has established a general practice to identify and follow up on risk related to our business. An Enterprise Risk Register that categorises risks is established on management level. Activities to reduce risks are identified, and responsibility is given to the manager in charge. The Enterprise Risk Register is presented to the Board on a regular basis. Noreco will work continuously to increase risk knowledge as basis for decisions at all levels, and will during 2011 implement a Risk Management Tool for controlling and monitoring risks and opportunities in all projects, and in Noreco as an enterprise.

Environment
Noreco will work to safeguard the environment by minimising waste, emissions and other long term negative impact to the environment, and by preventing and minimising occurrence of damage or pollution from our activities. In 2010 Noreco has prepared a new environmental strategy that is presently under implementation in the management system. A certification process against the ISO 14001 Environmental Management Standard is an integrated element of this strategy.

Professional networks
Noreco participates in several professional networks within HSE&Q and is represented in different committees and working groups in The Norwegian Oil Industry Association (OLF) and in Danish Operators. One of Noreco's contributions is to transfer experience from the OLF work to similar challenges handled by the different committees in Danish Operators.

Noreco is also a member of The Norwegian Clean Seas Association for Operating Companies (NOFO). Through this membership Noreco obtains access to the latest technology and competence within oil spill response, and NOFO is a key collaborator when drilling the Svaneøgle well. Operative personnel from Noreco participate in NOFO-seminars to obtain the latest competency within the area.

PERSONELL

Noreco is a knowledge-based company with expertise within the areas of geology, geophysics, petrophysics, reservoar, drilling, HSE&Q and finance. During 2010 we employed 24 new staff members; a growth of 31%.

Per 31.12.10, Noreco had 101 employees and approximately 25 consultants. The work force is experienced, with an average age of 44 years old. 33% are women, and 12 nationalities are represented in the organisation.

Participation and commitment
Our goal is to be an attractive employer with high ethical standards, where the employees are motivated and engaged. Noreco's employees should be motivated and rewarded through the success of the company, and are engaged through the opportunity to influence their own working situation, and by inviting to open dialouge with management. Employees are also involved in the shaping of the company strategy, and contribute to the decision-making processes.

Noreco's employees have two permanent representatives in the board. The companys' work environment committee has employee and employer representatives both from the Norwegian and Danish offices. All staff members are invited to participate in the companys strategy meetings, and management maintains a close dialouge with all staff, both on a formal and informal level.

Competence
During the past year, Noreco has experienced a large growth in the number of employees, and further capacity and competense is hired according to the development of our activities. It is important for the company to maintain recruitment and the right composition of competence, ensuring we are ahead on the activities the company will undertake.

Noreco believes that investing in talented staff through developing competence in existing staff, is value-adding, and a criteria to acheive our business goals. In addition to management- and introduction-courses, we maintain and develop professional competence.

In 2010, Noreco spent significant means on the employee's career opportunities through continued education and other training programmes. Noreco supports both industry related and techincal training, in addtion to further personal competence development, by contributing financially and/or through leave of absence.

Flexibility and work life balance
Noreco shows sensitivity to the work life balance, and practices flexible working hours for employees.

Rewards and benefits
Noreco offers competitive health and life insurance covering employees, a pension plan and a long-term incentive arrangement. The incentive arrangement gives every employee the opportunity to actively participate in the future value-adding growth of the company.

Industry and specialist committee
Noreco participates in several professional networks within personnell, employment politics and competence. Noreco is a member of the OLF and is represented in OLF's committee for employer politics and competence. Noreco is also a member of HR Norway.

Office facilities
In April 2010, we moved into new offices in Mediegården in the centre of Stavanger. By having our head office in the centre of Stavanger and only having bicycle parking, we encourage environmentally friendly and healthy transport to and from the office for our employees. All of our offices have a green profile, and this is a continuous process wich demands evironmentally friendly consciousness both from us and our suppliers.

Health
Noreco has a low percentage of sick leave, 2 %. Employees are offered preventative measures in form of medical check-ups, physiotherapy and the opportunity to map their health profile. The Noreco Sports Club is financially supported by the company, to contribute to an active lifestyle for employees.

Dear shareholder

Information 2010

Noreco trades under the ticker code NOR on the Oslo Stock Exchange (Oslo Børs).

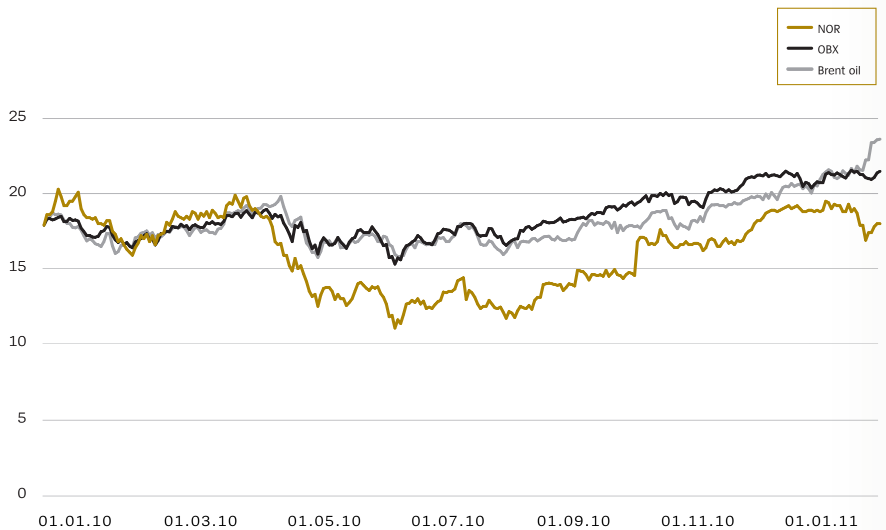
Noreco's share price increased from NOK 17.90 at the end of 2009 to NOK 18.40 at the end of 2010. Earnings per share amounted to NOK 0,02 per share. Noreco has not previously paid dividends, and due to a significant investment programme the company does not expect to pay ordinary dividends to its shareholders in the near future. However, the company aims over time to give shareholders competitive return on capital.

Average daily volume of Noreco shares traded on the Oslo Børs in 2010 was close to one million.

As of 31 December 2010 Noreco's share capital was NOK 753 417 945.70 divided on 243 038 047 shares, each with a nominal value of NOK 3.10.
As of 31 December 2010 Noreco had a total of 2 413 shareholders divided into 2 200 Norwegian and 213 foreign owners. The shareholders as of the end of 2010 are shown in note 22 to the accounts. Noreco has a convertible loan of NOK 218.5 million outstanding, with a conversion price of NOK 22.25.

The Company issued 608 241 shares in 2010, primarily related to the incentive programme.

A number of research analysts follow the Company. An updated list of analysts can be found on *www.noreco.com*.



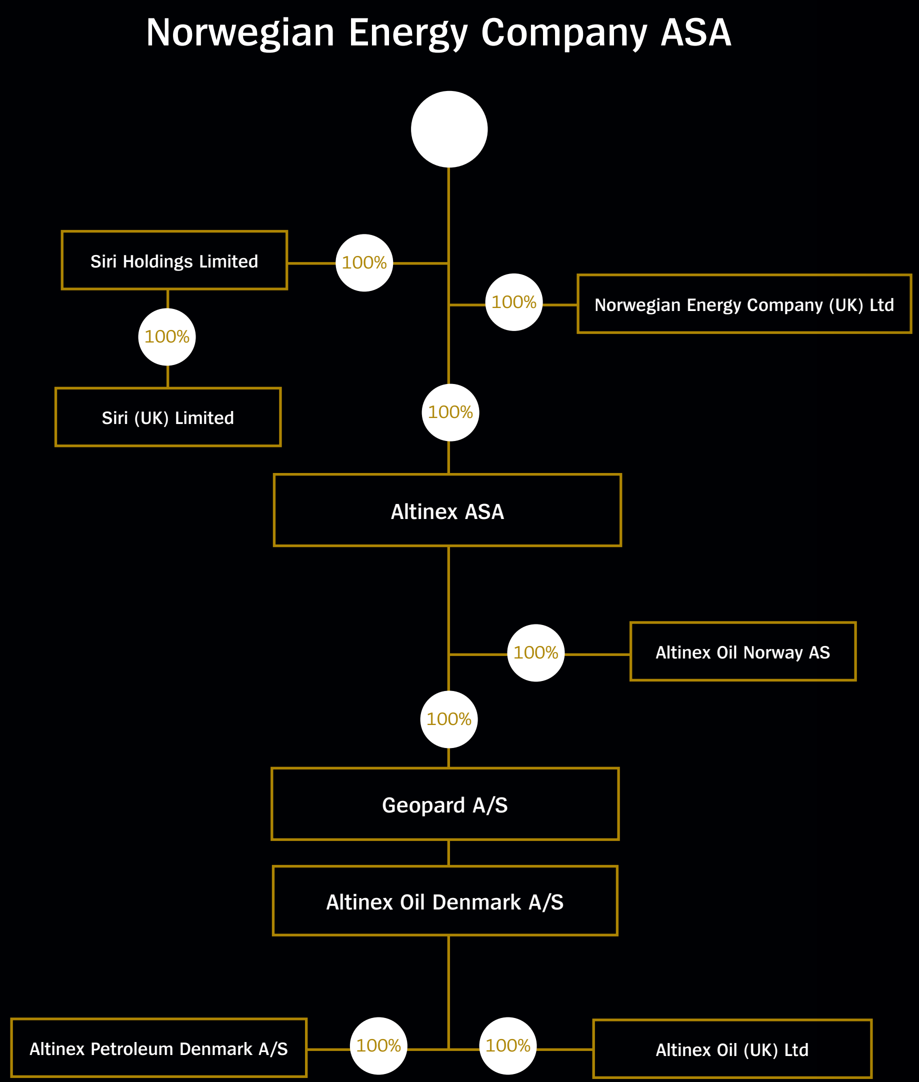
Top 20 shareholders

per 28 March 2011

Investor	No of shares	% of top 20	% of total
Goldman Sachs Int. - Equity	25 315 209	17.0 %	10.4 %
Lyse Energi AS	23 647 460	15.9 %	9.7 %
IKM Industri-Invest AS	14 586 584	9.8 %	6.0 %
Folketrygdfondet	10 748 654	7.2 %	4.4 %
UBS AG, London Branch	9 223 578	6.2 %	3.8 %
Bank Of New York Mellon SA/NV	9 221 046	6.2 %	3.8 %
Credit Suisse Securities (USA) LLC	7 540 957	5.1 %	3.1 %
Awilco Invest AS - Pant	7 435 578	5.0 %	3.0 %
OM Holding AS	6 208 190	4.2 %	2.5 %
Skagen Vekst	5 713 731	3.8 %	2.3 %
Frode Teigen	4 250 000	2.9 %	1.7 %
Moragan Stanley & Co Internat. PLC	4 244 785	2.9 %	1.7 %
Varma Mutual Pension Insurance	3 012 339	2.0 %	1.2 %
JP Morgan Chase Bank	2 929 150	2.0 %	1.2 %
Bank Of New York Mellon SA/NV	2 896 977	2.0 %	1.2 %
Nordea Bank Norge AS Securities Operation	2 871 200	1.9 %	1.2 %
JP Morgan Chase Bank	2 589 830	1.7 %	1.1 %
Kommunal Landspensjonskasse	2 296 341	1.5 %	0.9 %
DNB NOR Norge SELEKTV (III) VPF	2 034 921	1.4 %	0.8 %
SEB Enskilda ASA Egenhandelskonto	1 750 000	1.2 %	0.7 %
Total number owned by top 20	**148 567 530**	**100,0 %**	**60.9 %**
Total number of shares	243 842 914		

Every new day has its impulses.
Our choices are based on who we are,
what we know
and what we want.
Insight changes reality.

Noreco Group



Corporate governance

Implementation and reporting on corporate governance
Noreco is committed to maintain a high standard of corporate governance and believe that effective corporate governance is essential to its success.

Noreco endeavours to exercise a corporate governance policy built on Norwegian corporate law, and that follows the Norwegian Code of Practice for Corporate Governance of 21 October 2010 (hereinafter the ”Code”), However, as of the date of this annual report, the Company is not in full compliance with the Code.

The Company is deviating from the Code in the following matters:

- *not all members of the Board of Directors (the “Board”), all members of the nomination committee or the auditor will normally attend the general meeting; and*
- *the chairman of the Board acts as chairman for the General Meeting.*

The Company's Board has the overall responsibility for corporate governance in Noreco and ensures that the Company implements sound corporate governance. The Board has established a remuneration and corporate governance committee consisting of three of the members of the Board. This committee reviews and assesses on a regular basis the Company's corporate governance policies and procedures, and recommends any proposed changes to the Board for approval. The Board has defined Noreco's basic corporate values, and its ethical guidelines and guidelines for corporate social responsibility are in accordance with these values.

Further information on and an English translation of the Code are available on www.ncgb.no.

The Public Limited Liability Companies Act (hereinafter the "PLCA") and the Securities Trading Act are available in unofficial English translations on www.oslobors.no/ob_eng/Oslo-Boers/Regulations/Acts.

Noreco's business and main strategy
Noreco has grown from being a small privately owned E&P company into a larger publicly owned independent E&P company listed on Oslo Stock Exchange. From inception, the Company has combined strong commercial principles with a long-term growth perspective. Confidence in Noreco and its businesses is essential for the Company's competitiveness and value creation.

In accordance with Noreco's Articles of Association section 3, "The business of the Company is exploration, production and sale related to oil and gas activities. The Company will obtain participating interests in production licences by participating in licence rounds and through acquisition of participating interests".

The Company's vision is to be one of the leading independent energy companies whose activities are focused on Northwest Europe (mainly Norway, Denmark and

United Kingdom). Noreco provides value creation for all its shareholders by building an optimised portfolio of exploration, development and production assets.
To achieve its vision, Noreco is actively participating in exploration rounds and acquisition activity, as well as building on core areas were Noreco has the understanding and knowledge to develop unique value creating options for the Company and its shareholders. Further, Noreco endeavours to create values in the core areas through competence and commitment to generate activity and take risk. Noreco's employees, and their competence and commitment to succeed, is at the centre of the Company's strategy. Noreco will ensure that the Company has and maintains competitive competence in all key disciplines, and that it has the necessary capacity to both deliver value creation on Noreco's assets and sustainable growth in portfolio and capability.

Noreco believes that its integrity and standards are critical to the Company's sustainability and value as a company, and that success is both about achieving the right results and delivering in the right way. Noreco's business decisions and actions are made in accordance with the following values:

- *Being a good corporate citizen*
- *Caring for Noreco's people and the environment*
- *Developing Noreco's people and competence*
- *Committing to competitive performance*
- *Conducting its business with integrity and honesty*

The Company's ethical guidelines and the guidelines on corporate social responsibility (CSR) are based on the values mentioned above. The CSR statement as approved by the board 14. March 2011 is to be found on the Company's website, http://www.noreco.com/en/About-us/Corporate-governance/CSR/

Equity and dividends
The Company's equity is considered to be adequate to Noreco's objectives, strategies and risk profile.

Noreco has not previously paid any dividends, and it does not expect to pay ordinary dividends to its shareholders in the near future. However, the Company aims over time to give shareholders a competitive return on capital relative to the underlying risk. Any future dividend payment will be subject to determination based on the Company's results and other factors the Board finds relevant.

Any proposal by the Board concerning dividends must be approved by Noreco's shareholders at the General Meeting. Thus, the Company's policy concerning dividends is predictable and corresponding with its objectives, strategies and risk profile.

The Board currently possesses one authorisation to undertake an increase of the Company's share capital.
The authorisation may only be used in connection with Noreco's current incentive programs for employees in the Group. The authorisation is valid until and including 1 June 2011.

The Board is authorised to acquire shares in the Company. The authorisation may only be used in connection with Noreco's current incentive programs for employees in the Group. The authorisation is valid until and including 1 June 2011.

Equal treatment of shareholders
Noreco has only one class of shares and each share in the Company carries one vote at general meetings.

According to the authorisation to undertake an increase of the Company's share capital, the Board is further authorised to waive the preferential rights pursuant to Section 10-4 of the PLCA. Any decision to waive the preferential right of existing shareholders to subscribe for shares in an event of an increase in share capital must be justified. Where the Board resolves to carry out an increase in the share capital and waive the pre-emption rights of the existing shareholders on the basis of a mandate granted to the board, an explanation should be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital.

The repurchase of own shares will be carried out through the Oslo Stock Exchange or at prevailing stock exchange prices if carried out in any other way.

Transactions with close associates
In 2010 there have been no significant transactions with closely related parties.

If the Company should enter into a not immaterial transaction with associated parties within Noreco or with companies in which a Director or leading employee of Noreco or close associates of these have a direct or indirect vested interest, those concerned shall immediately notify the Board.

Any such transaction must be approved by the CEO and the Board, and where required also as soon as possible publicly disclosed to the market.

If a transaction, which is not immaterial, is entered into between the Company and shareholders, a shareholder's parent company, member of the Board, member of the executive management or close associates of such parties, or related companies with minority shareholders, the Board will, where deemed necessary, seek to arrange an independent valuation to be obtained from an independent third party, unless the General Meeting shall consider the matter pursuant to the provisions of the PLCA.

Freely negotiable shares
The Noreco shares are freely negotiable and the Articles of Association do not impose any restriction on the transfer of shares. Noreco is listed on the Oslo Stock Exchange.

General Meetings
The General Meeting is Noreco's highest corporate body. The Board strives to ensure that the General Meeting is an effective forum for communication between the Board and the shareholders. Therefore, Noreco encourages all shareholders to exercise their right to participate in the General Meeting.

The General Meeting will normally be held in April or May each year.

The calling notice will be distributed to all shareholders no later than 21 days before the General Meeting, cf. the Company's Articles of Association section 10.

Noreco endeavours in general to make the detailed support information, the resolutions to be considered at the General Meeting and the nomination committee's recommen¬dations and report, available on Noreco's website no later than 21 days prior to the General Meeting. The resolutions and the supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting.

The calling notice includes a reference to Noreco's website where the notice calling the meeting and other supporting documents are made available. As the supporting documents are made accessible for the shareholders on the Company's web-pages, the documents will normally not be enclosed in the calling notice sent to the shareholders, cf. Noreco's Articles of Association section 13.

Further, the right for shareholders to propose resolutions in respect of matters to be dealt with by the general meeting will be described on the website. As the right for shareholders to propose resolutions is described on Noreco's website, it is not specifically included in the calling notice.

According to Noreco's Articles of Association section 9, shareholders must give written notice to the Company of their intention to attend the General Meeting by the date stated in the calling notice, which date must be at least two working days before the General Meeting. Shareholders, who are unable to be present, are encouraged to participate by proxy, and a person who will be available to vote on behalf of shareholders as their proxy will be nominated. Such proxy which allows separate voting instructions to be given for each matter to be considered by the meeting and for each of the candi¬dates nominated for election is enclosed in the calling notice. To the extent necessary, members of the Board the Nomination Committee and the auditor will strive to be present at the General Meeting.

Noreco will endeavour to arrange elections in such manners that the general meeting may vote separately for each candidate nominated for election to the Noreco's corporate bodies.

The Board decides the agenda for the General Meeting. However, the main agenda items are determined by the requirements of the PLCA and requirements in Noreco's Articles of Association. The chairman of the Board will also act as chairman for the General Meeting. The shareholders have found it adequate that the chairman of the Board also acts as chairman for the General Meeting, and this is stipulated in the Company's Articles of Association. The Code requires an independent chairperson for General Meetings.

The Board may decide to allow electronic participation in general meetings, and will consider this before each general meeting.

Nomination committee

The Nomination Committee consists of three members elected by the General Meeting, whereas two of the members are independent of the Board and the management. The service shall be two years unless the General Meeting determines that the period shall be shorter, cf. Noreco's Articles of Association section 7.

The Articles of Association states that: "the Nomination Committee shall prepare a motion for the Annual General Meeting relating to:

- *Election of members of the Board and the chairperson of the Board.*
- *Election of the members of the Nomination Committee and the chairperson of the Committee.*
- *The remuneration of the Directors and the members of the Nomination Committee.*
- *Any amendments of the Nomination Committee's Mandate and Charter".*

The tasks of the Nomination Committee are further described in the Company's Nomination Committee guidelines.

The members of the Nomination Committee are currently Ole Melberg (chairperson), Eimund Nygaard and Aasulv Tveitereid. The committee had no meetings in 2010. Board candidates are selected considering the competence, experience, capacity and diversity of each individual and the Group as a whole. Its recommendations will normally be explained. The nomination committee also proposes the remuneration of the directors to the General Meeting, reflecting the responsibility, competence, time and complexity of the work involved.

The remuneration is a fixed amount, which does not depend on results or involve options. The General Meeting makes all decisions.

Information regarding deadlines for proposals for members of the Board and the Nomination Committee will be posted on Noreco's website.

Corporate assembly

Noreco does not have a corporate assembly as it is not required to.

The Board: Composition and Independence

The Board is organised in accordance with the PLCA and the Company's Articles of Association, and the Board currently exists of seven members, whereas three are women. The current shareholder elected directors were appointed at the General Meeting held on 6 May 2010. Two directors and four deputies, all representing the employees of the Company, were elected during 2010 as representatives for the employees. The chairman of the Board is elected by the General Meeting.

The directors are elected for a two-year period, cf. PLCA section 6-6, unless the General Meeting decides otherwise. This period of service is not deviated in Noreco's Articles of Association.

All the directors elected by the shareholders have a wide experience and represent both industry specific and professional expertise from national and international companies. Further information on each director is available on www.noreco.com/about_us/board. In Noreco's opinion, all the shareholder elected directors are independent of the Company's executive management and material business contacts.

All of the directors are directly or indirectly currently holding shares in Noreco.

Employee elected directors and deputies have options to buy or subscribe for shares in the Company. No decision to issue options to the shareholder elected directors has been made.

The work of the Board
In 2010 the Board held 12 board meetings. During 2010, an average of 5.5 directors participated in the board meetings.

The Board has the overall and ultimate responsibility for the management of Noreco and for supervising its day-to-day management and activities in general. Their main duties are to develop Noreco's strategy and monitor its implementation. The Board also exercises supervision responsibilities to ensure that the Company manages its business and assets in a prudent and satisfactory manner, and that an appropriate level of internal control and risk management systems is upheld.

In accordance with the provisions of the PLCA, the terms of reference for the Board are set out in a formal mandate that includes specific rules on the work of the board and decision-making. The chairman of the Board is responsible for ensuring that the work of the Board is carried out in an effective and proper manner in accordance with the relevant legislation. In order to ensure an independent approach by the Board when considering matters of a material nature in which the chairman has, or has had, an active involvement, some other director will take the chair in such matters.

The Board prepares annually a work plan for the upcoming year especially emphasising their objectives, strategies and implementation.

The Board issues a mandate for the work of the CEO. There is a clear division of responsibilities between the Board and the executive personnel. The CEO is responsible for the operational management of the Group and reports to the Board on a regular basis.

The Board is informed of Noreco's financial position and ensures adequate control of the Company's activities, accounts and asset management. The Board receives monthly reports on the Company's commercial and financial status. The Company also follows the timetable laid down by the Oslo Stock Exchange concerning publication of interim and annual reports.

The Board has established an audit committee consisting of three members elected by and among the Board.

Lars Takla, Therese Log Bergjord and Aasulv Tveitereid are currently the members of the committee. In addition, the Company's CFO is attending the audit committee meetings. The Board has resolved a charter stating the purpose and responsibilities of the committee. According to the audit committee charter, the audit committee shall, inter alia, act as preparatory body in connection with the supervisory role of the Board with respect to financial control and review and external audit of Noreco's financial statements and propose to the Board, who then propose to the General Meeting, the election of the independent auditor of the Company.

Further, a remuneration and corporate governance committee has been established. The committee consists of three members elected by and among the Board and the committee's purpose and responsibilities are stated in a charter approved by the Board. Lars Takla, John Hogan and Rebekka Glasser Herlofsen have been the members of the committee. The remuneration and corporate governance committee charter states, inter alia, that the remuneration and corporate governance committee shall act as preparatory body in connection with the supervisory role of the Board with respect to remuneration compensation and other benefits of Noreco's CEO and other senior executives and make proposals for long-term incentive schemes applicable to the Company's CEO and other senior executives.

The Board carries out an annual evaluation of its own work, competence and performance. A similar evaluation of the CEO is also carried out annually. Further, the Board carries out an annual risk- and internal control review evaluating inter alia the Company's reporting routines, monitoring, internal audit functions and Noreco's ability to cope with a variety of potential changes.

In order to ensure a more independent consideration of matters of a material character in which the chairman of the board is, or has been, personally involved, the board's consideration of such matters should be chaired by some other member of the board.

Risk management and internal control
The Noreco management system covers all areas of operation of the Company. The system is divided into four levels and is described in the Noreco Management Manual.

Level 1 describes the Company's vision and values, level 2 is the management documents and level 3 general requirements in work processes flow diagrams and procedures and 4 contains supporting documentation (e.g. guidelines).

Management documents for risk management, internal control and financial reporting are covered in level 2 in the management system. Noreco's risk management process covers all types of risks, opportunities and threats. The financial manual describes how financial management and reporting is performed in Noreco.

The Board carries out an annual review of the Company's main areas of business and its internal control system. Noreco's management conduct day-to-day follow-up of financial management and reporting. The Board's audit committee assesses the integrity of the Company's accounts, and prepares for the board items related to financial review and control and external audit of accounts.

Non-conformances are systematically followed up and corrective measures initiated.

The internal control systems encompass the Company's corporate values, ethical guidelines and guidelines for corporate social responsibility.

Remuneration of the Board
The Nomination Committee proposes the remuneration of the directors. The General Meeting approves the remuneration to the directors and reflects the responsibility, qualifications, time commitment and the complexity of their tasks and Noreco in general. The remuneration of the directors is not linked to the Company's performance. The Company has not granted share options to the directors elected by the shareholders. The remuneration to the directors is included in the notes to the annual accounts.

No directors elected by the shareholders have assumed special tasks for the Company beyond what is described in this document, and no such director has received any compensation from Noreco other than ordinary Board remuneration.

Remuneration of the executive personnel
The remuneration committee reviews and advises on proposals made by the CEO with regard to the remuneration payable to executive personnel, and presents it to the Board.

The remuneration payable to executive personnel is deter¬mined on the basis of competence, experience and achieved results. The performance-related remuneration to the executive personnel is subject to an absolute limit. The Board prepares guidelines concerning remuneration and presents these for the General Meeting in accordance with the PLCA and the Code.

The executive personnel, as well as other employees, have performance-related bonus programmes. Further information is included in the notes to the annual accounts.

An incentive scheme for the executive personnel and other employees, under which options exercisable into ordinary shares in Noreco are granted, has been approved by the shareholders in an Extraordinary General Meeting held 14 January 2008.

Information and communications
Noreco will on a regular basis keep shareholders and investors informed about commercial and financial development and performance. Such information will also be made available on Noreco's website simultaneously with the informing of shareholders. Noreco is committed to ensuring that the participants in the stock market receive the same information at the same time.

Hence, key value drivers and risks will be disclosed through Thompson Reuters on www.newsweb.no as soon as it becomes known to the Board and the executive management. There are special rules related to publishing of drilling results.

The annual financial report is distributed to the shareholders before the General Meeting. Quarterly earnings releases are published within two months following the end of the quarter. Presentations of the Quarterly earnings are communicated directly via the internet. Noreco publishes an annual financial calendar which can be consulted on the Oslo Stock Exchange web site, through news agencies and on the Noreco website.

The Board performs the financial and other reporting and their contact with shareholders outside the General Meeting with basis in the requirement for openness and equal treatment for all participants in the market, and in line with its internal guidelines for the Company's contact with shareholders other than through general meetings.

Noreco strives to ensure that the information provided in announcements to the market, reports, presentations and meetings at all times will give the correct picture of Noreco's current position in all relevant matters.

Take-Overs
Noreco's Articles of Association do not contain any restrictions, limitations or defence mechanisms on acquiring the Company's shares.

In accordance with the Securities Trading Act and the Code, the Board has prepared internal guidelines for the event of a take-over bid.

In the event of a take-over bid, the Board will, in accordance with its overall responsibility for corporate governance, act for the benefit of all Company shareholders. The Board will not seek to hinder or obstruct takeover bids for Noreco's activities or shares unless there are particular reasons for this.

If an offer is made for the shares of Noreco, the Board will make a recommendation on whether the shareholders should or should not accept the offer. The Board should arrange a valuation from an independent expert which includes an explanation, and this statement should be made public no later than at the time of the public disclosure of the Board's statement.

Auditor
Year-end accounts are audited. The audit committee receives a report from the auditor after year-end audits for the year concerned, and the auditor presents to the audit committee a review of the Company's internal control procedures.

Yearly, the auditor presents to the Board a review of the Company's internal control procedures.

The auditor participates in the meetings of the Board that deal with annual accounts.

The Board regularly reviews the relationship to ensure that the auditor is fulfilling an independent and satisfactory control function. The Board reports the remuneration of the auditor at the General Meeting for the approval of the shareholders.

The Board strives to meet with the auditor at least once a year at which neither the chief executive officer nor any other member of the executive management is present.

The Board has established guidelines in respect of the use of the auditor by the Company’s executive management for services other than the audit.

Director’s report

2010 in review

Director's report 2010

Noreco
Noreco is an independent Norwegian oil- and gas company with a vision to become a leading independent oil- and gas company in Northwest Europe. The company's strategy is driven by exploration for oil and gas, as a significant part of the value creation in the industry is generated through finding hydrocarbons. Noreco believes that a balanced portfolio of exploration, development and producing assets increases the value creation over time. This is why the company also has activities related to production and development of oil and gas fields. Noreco's activities are focused in Northwest Europe, and the company today has activities in Norway, Denmark and the UK, with offices in Stavanger (head office), Oslo and Copenhagen.

Highlights
Noreco made important progress toward its vision and goals in 2010. Reserves increased as a result of new field development decisions, and the exploration portfolio was further expanded and matured. The organisation's capacity and competencies were also further developed in 2010. In addition, 2010 brought challenges for some of Noreco's producing fields, which led to lower than expected production for the year.

Noreco participated in four exploration wells in 2010, after having sold license PL378 with the Grosbeak discovery and the Gnatcatcher prospect, both originally on Noreco's drilling plan. The four wells resulted in one discovery, the Zidane-1 gas field northwest of the Heidrun field in Haltenbanken. The license contains another prospect, Zidane-2, which is planned for drilling in 2011. The Zidane-1 is in itself a commercially interesting discovery, and a second significant discovery in the license could potentially pave the way for a standalone development solution.

Through 2010, Noreco has continued developing its exploration portfolio on the Norwegian, UK and Danish continental shelves. On the Norwegian Continental Shelf, the company was awarded three licenses in the Awards in Predefined Areas round (APA) for 2010. The awards are a combination of additional acreage and new exploration areas. The company has also applied for licenses in the 21st licensing round, which has not yet been awarded. On the Danish Continental Shelf, Noreco applied for and was awarded new exploration acreage in license 1/11. The license is an expansion of license 02/05. In the 21st licensing round on the UK continental shelf, Noreco was awarded two exploration licenses, including one operatorship.

Noreco has considered several opportunities for acquisitions and sales of exploration licenses throughout 2010. In March, Noreco entered into an agreement to take over 50 percent and the operatorship in license PL396 in the Barents Sea. The license contains the Eik prospect which is planned for drilling in 2012. In June 2010, Noreco bought 47 percent of license 02/05 on the Danish continental shelf. Noreco has through this agreement become operator for the license, and will drill the Luna prospect during 2011. In August Noreco purchased a 10 percent share in license PL392 with the Dalsnuten prospect which was drilled in the fourth quarter without encountering hydrocarbons. Also in the third quarter Noreco farmed into a 20 percent share in license PL434 containing the Ronaldo prospect, where drilling commenced in February 2011.

Noreco's exploration programme for 2011 consists of around 10 wells. Total exploration cost for this programme is estimated to NOK 1.0-1.1 billion.

During 2010, the partners in the Huntington field on the UK Continental Shelf decided to develop the field with a floating production unit (FPSO) and a subsea infrastructure that includes wells, pipelines and control systems. The field is expected to come on stream early in 2012, and will represent a significant addition to Noreco's oil production.

Good progress has been made in the work to bring the oil discoveries Gygrid and Nemo closer to final development decisions, which is expected to take place during 2011. In the third quarter, Noreco entered into an agreement to sell its share in the Oselvar development to Marubeni. In March 2011 it became clear that Marubeni did not fulfill requirements applicable to a licensee on the Norwegian Continental Shelf, which was a prerequisite to the transaction, and Noreco therefore chose to terminate the agreement. See also note 32 in the annual accounts for further details.

On the Danish Continental Shelf, the Nini East development came on stream in February 2010. The field is a satellite to the Siri field, and generates good profitability on a standalone basis. In addition Nini East contributes to extending the economic life of the other fields in the Siri area. On the South Arne field, the partnership sanctioned the development of South Arne Phase III. The development comprises installation of a satellite platform and a riser platform, and the drilling of eleven new production and injection wells. The development was approved by the partnership in the fourth quarter, and is expected to come on stream late 2012.

Noreco had an average net production of 11 275 barrels of oil equivalents per day (boed) in 2010. The company's production generates revenues which represent important contributions to the financing of the company's development and exploration activities. The production is dominated by the Siri area fields on the Danish continental shelf, and the Brage field in Norway.

After production had started from the new Nini East field in February, the field's gas composition turned out to be lighter than expected. Consequently the gas compressors on Siri did not have sufficient capacity and production from the Siri area fields was constrained throughout the year. The problem was solved in January 2011 with a gas compressor upgrade.

In April 2010, the production well SCB-1 at Siri was shut down due to malfunction of a safety valve in the well. The well produced around 3 000 boed gross before it was shut down and represented a significant contribution to Noreco's total production. Several attempts to repair the valve have been made without success, and the operator is now planning to replace the valve later in 2011.

As previously reported, in 2009 a routine inspection revealed cracks in a water tank that forms part of the subsea tank structure at the Siri platform. A temporary solution was established that allowed production to be resumed in January 2010. This solution has been working as intended and has been stable since it was installed. The partnership is working on finding a more permanent solution to ensure safe operations for the life of the field, and a decision is expected in 2011.

In the first half of 2010, production from the Brage field was high and stable. Continued strong production from the Bowmore segment combined with good regularity gave production levels above 40 000 boed gross for Brage before the summer of 2010. During the third quarter the Bowmore well started declining, and at the end of the year the field produced in the range of 25 000 boed.

Financial results for 2010
The financial results for 2010 represent a significant improvement compared to 2009. This was driven by higher production and stronger oil prices, and by the sale of the Grosbeak oil discovery.
The company's average daily production in 2010 from eight producing fields was 11 275 boed compared to 10 125 boed in 2009. Average achieved oil price in 2010 was USD 76.5 per barrel of oil equivalent (boe), up from USD 69 per boe in 2009. Income from expected insurance recovery related to the shutdown of the Siri area fields was NOK 37 million in 2010, versus NOK 115 million in 2009. Total revenues in 2010 amounted to NOK 2 146 million, including NOK 199 million related to the Grosbeak sale, up from NOK 1 547 million the previous year.

Exploration and evaluation expenses were NOK 616 million. The main components were the dry exploration wells Frusalen, Dalsnuten and Barchan, in addition to a comprehensive seismic acquisition program which will give support to future drilling decisions.

The net operating result (EBIT) for 2010 was NOK 61 million, up from NOK -355 million in 2009. The company's ordinary result before tax (EBT) was NOK -423 million, compared to NOK -935 million in 2009. Net result for 2010 was NOK 5 million, compared to NOK -368 the year before.

Net cash flow from operations in 2010 amounted to NOK 1,065 million, up from NOK 18 million in 2009. Net cash flow from investment activities in 2010 was NOK -911 million, compared to NOK -962 for the previous year. Interest bearing debt amounted to NOK 4,893 million at the end of 2010, compared to NOK 4 391 million one year earlier. Total deposits were NOK 892 million at the end of 2010, compared to NOK 660 million in 2009.

In December 2010 the company issued a NOK 700 million bond. At the same time the company repurchased NOK 147 million of the ALXO02 bond. The remaining NOK 153 million of this bond was repaid upon maturity in February 2011. Noreco's access to financing through the company's bank facilities was also strengthened during the year, through extensions of the existing reserve based facility and an increase of the exploration facility from NOK 1 050 million to NOK 1 550 million. The borrowing capacity under the reserve based facility is expected to be positively impacted by the addition of reserves from new field developments to the borrowing base during 2011. See note 25 and 32 for details.

Noreco in October announced it had commenced a broad review of its strategic alternatives to enhance shareholder value. Through this review, Noreco and its advisors were in dialogue with a number of interested parties and examined different structural alternatives, including mergers and sale of all or parts of the company.

After a thorough evaluation of such alternatives and the offers and interest received, and considering the substantial value creation potential in the company's portfolio together with the significant improvements in market fundamentals for oil, the board concluded that a sale of all or parts of the company would not represent the most value creating alternative for the company and its shareholders.

Noreco is in a strong growth mode and will in 2011 be investing significant amounts in exploration wells and field developments. The financing of these investments will come from existing cash reserves, existing and potential new debt instruments, in addition to cash flow from operations and potential asset sales. Based on current business plans, the board's view is that the above mentioned cash sources represent sufficient liquidity to meet the company's expected liquidity requirements.

The accounts for 2010 have been prepared based on the assumption that Noreco will continue as a going concern and the board confirms that the present conditions fulfil this requirement.

The board believes that the accounts give an accurate picture of the company's assets, liabilities, financial position and financial performance.

The market
During 2010, the oil price has increased from USD 61 per barrel to USD 91 per barrel. The oil price has strengthened further in 2011. The board expects continued increase in oil demand, which in combination with restrictions on the supply side will support a continued high oil price both in 2011 and for the longer term. Over time, high oil prices are expected to trigger increased activity both within exploration drilling and field developments. This will be reflected in increased competition for new exploration acreage, a tighter market for specialists and oil services such as drilling rigs

and seismology, and consequently and increasing cost levels for bringing new oil to the market. High oil prices will contribute to high profitability for oil producing companies, and will lead to increased valuation of oil and gas assets in general. The market for oil and gas assets strengthened in 2010, but still consists of relatively few buyers, and more marketing and an active approach to the buyer side is needed to undertake transactions that are rational for both buyers and sellers. Noreco did in 2010 enter into agreements to sell its interests in the Grosbeak discovery, the Oselvar field under development and the producing field Enoch (The Oselvar and Enoch transaction has subsequently been terminated). These transactions were agreed at prices which Noreco considered to be fair, and the prices were also broadly in line with external analyst valuations of the assets. Noreco has also farmed in to licenses to increase its exposure in prioritised exploration areas.

Financial risk
The main financial risk factors for Noreco are related to oil prices, production interruption, exchange rates, interest levels and debt service. The financial risk management is performed by a central financial- and accounting function, and the risk management has as its goal to minimise possible negative impact on the company's financial results. Financial derivative instruments are used to mitigate certain risk exposures.

Noreco buys oil put options to manage the risk of falling oil prices. The put options secure a given minimum price for a given volume of oil, while the company stays fully exposed to increased oil prices. The current program has a duration of two years and covers 150 000 barrels per quarter at a strike price of USD 60 per barrel. The put options that expired in 2010 gave a very limited payoff as the actual oil prices were mostly higher than the strike price of the options. Furthermore, a part of Noreco's currency exposure is secured through forward contracts. Part of the company's exposure towards changes in the interest level is eliminated through interest swaps. More information on the financial risk management can be found in the notes to the accounts.

Production of oil and gas is the main earnings driver for Noreco. The operation of production installations is exposed to risks of breakdown and delays as result of technical problems or other unforeseen events. Production of oil and gas is also associated with the risk of the wells not being able to deliver the anticipated production or of it becoming more expensive to operate the fields than anticipated, as well as the risk of long-term technical breakdown. Noreco's production is also dominated by a limited number of fields. Such risks are reduced by continued focus on reservoir understanding and on technical integrity of the production facilities. In addition, the company has an extensive insurance package covering physical damage (the installations), wells (loss of well control), liability, pollution, removal of debris and business interruption.

The five-month production shutdown on the Siri platform in 2009 was an example of such a risk, causing both loss of production and repair costs. Noreco has filed insurance claims to cover loss of production income and the costs of the temporary solution which allowed production to be resumed. In sum this amounts to NOK 355 million which has been recognised as current receivables in the balance sheet. This represents the company's best estimates for expected insurance settlement for costs and production losses per 31.12.2010. The company has not yet received any compensation related to these insurance claims. Based on technical documentation, extensive third party evaluations and prevailing insurance agreements, the board is however confident in the insurance claim. No provisions have been made for the permanent solution as the technical concept has not yet been decided and timing is uncertain, however it is likely to involve substantial costs.

Noreco is involved in capital intensive exploration and development projects. The funding of these activities basically comes from three sources; cash flow from operations, proceeds from asset sales, and debt financing. The company is continuously working with portfolio management to balance these factors. Unforeseen events may however impact both the sources and uses of cash to an extent where the capital requirements could exceed the company's existing financial capacity.

Health, environment and safety
Noreco performs all its activities with focus on and respect for people and the environment. The board believes this is a key condition for creating value in a very demanding business. The company's vision for health, environment, safety and quality (HSEQ) is zero accidents and zero unwanted incidents in all our operated and non-operated activities. The company strives towards performing all its activities with no harm to people or the environment.

The company's employees are key for achieving the company's goals and visions also within HSEQ. The company's HSEQ management is integrated in the management system for all activities in the company, which is regularly updated. The employees are also actively engaged in living up to and following the HSEQ culture.

Noreco actively follows up the HSEQ work in all its licenses. This involves follow-up of incidents in the license control committees and inspections on the facilities. Noreco keeps a log of statistics and an overview of HSEQ incidents, including follow-up plans on the activities.

Activities related to exploration, development and production of oil and gas may cause emissions to the sea and air. Noreco's' operations are in accordance with all regulatory requirements. There were no breaches of these requirements in Noreco's operated activity in 2010.

Personnel resources and working environment
In Noreco's business model, the employees form the foundation for the value creation in the company. In 2010 Noreco has increased the number of employees and strengthened the competence base in the company to be able to handle an increasing activity level and new specialist challenges. At the end of 2010 the company had 101 employees, distributed between offices in Norway and Denmark.

In total 12 different nationalities are represented in the workforce, and 33 percent of the employees are women. Noreco's top management includes one woman. The company's board of directors has consisted of three women and four men, whereof two women and three men are elected by shareholders.

At the end of 2010, 33 percent of the employees are women, compared to 32 percent in 2009, and it is a purpose to increase the share of women going forward. In the top management there were until October two women and six men. For the whole company, eight of the managing positions (representing 28 percent) are occupied by women. This is an increase from five women in 2009. There is an equal number of female and male employees representing the work environment committee (WEC) and the company's board of directors.

Noreco pays equal salaries and gives equal compensation for women and men in positions at the same level. Women are slightly underrepresented in managing positions compared to the company's overall gender mix. This causes the average salary in the company to be lower for women than for men. By increasing the number of women in the company, the number of female candidates for management positions in the future will also increase. In 2010, 12 women were recruited. The company arranges for and supports the further education of employees. There is a completely even distribution of women and men utilising this arrangement.

To monitor and avoid discrimination, the company has a system for whistle blowing in place, in addition to annual work environment surveys. The results of these surveys are very positive and there are no signs of employees experiencing discrimination based on gender.

The management's compensation is described in the notes to the annual accounts. Sick leave in Noreco was 2 percent in 2010 versus 1.3 percent in 2009.

Research and development
Noreco collaborates with several research institutions to increase the understanding of a number of complex challenges within the oil-and gas industry's upstream segment. The company has no particular plans to participate in the commercialisation of these efforts.

Corporate governance
The board is focused on maintaining a high standard on corporate governance, and believes this is essential to succeed with the company's vision and ambitions for value creation for the shareholders.

The company strives to live up to the corporate governance in accordance with the Norwegian Code of Practise for Corporate Governance.

Corporate governance in Noreco is based on equal treatment of all shareholders through the activity that the board and General Assembly practice. In total 12 board meetings were held in 2010. The activities of the board have been focused on promoting value creation in the company's portfolio, strengthening the company's financial capacity and further developing the company strategy.

At Noreco's General Assembly in 2010, the existing board was re-elected for one year. The shareholder elected board member are Lars Arne Takla (Chairman), John Hogan (Deputy Chairman), Rebekka Glasser Herlofsen, Aasulv Tveitereid and Therese Log Bergjord. The election for new employee representatives was held in September, where Ellen Sandra Bratland and Bård Arve Lærum were elected as new employee representatives to the board.

In March 2011 Einar Gjelsvik was appointed acting CEO after Scott Kerr left Noreco. Rebekka Glasser Herlofsen was appointed CFO in Noreco in March 2011, and stepped down from the board.

Further information on corporate governance in Noreco can be found in a separate chapter on corporate governance in this annual report, in addition to the notes in annual accounts.

Allocations
The result for the year for Norwegian Energy Company ASA in 2010 was NOK 34 million. The board proposed the following allocations: Transferred to other reserves: NOK 34.4 million The Parent company's total equity as of 31.12.2010 was NOK 3 324.5 million of which NOK 0 was free equity.

Outlook
During 2010 and into the first months of 2011, the oil price has significantly increased. This is partly driven by higher expectations for the development of the world economy, but it probably also reflects an increased premium caused by unrest in several countries in the Middle East. The board finds it likely that oil prices will remain high through 2011, and also finds it reasonable to expect continued high oil prices in the longer term based on market fundamentals. The oil price has historically been very cyclical, and such volatility is likely to come back in the future, albeit around a higher base level.

Noreco is well positioned in Norway, the UK and Denmark for creating organic growth through exploration activities, development of existing discoveries in the portfolio, and further development of the resource base in the producing fields.

The future value of the company's assets in discoveries and producing fields will gradually decrease as the remaining reserves are produced. As goodwill is not depreciated, it has to be written down at some point in time. Depending on oil price development, production volumes, exploration results and other assumptions some write down of goodwill is also likely to occur in 2011. See also note 17 in the annual accounts for further details.

At the beginning of 2011, Noreco has a total net production of more than 10 000 boed from its producing fields in Denmark and Norway. The company's production for 2011 is expected to be within a range of 8 500 – 10 700 boed.

The statements about the future in this section and the rest of the directors report reflect the present view of the future, and are naturally exposed to significant risk and uncertainty as they deal with and depend on events and circumstances that take place in the future.

Declaration according to the Securities Trading Act § 5-5

We hereby confirm that the annual statement of accounts for 2010 in our best conviction has been prepared in accordance with the prevailing accounting standards, and that the information gives a true picture of the business and corporations assets, debt, financial position and results as a whole.

Approved by the board on 31 March 2011

Lars Takla
Chairman of the board

Aasulv Tveitereid
Board member

Therese L Bergjord
Board member

John Hogan
Board member

Bård Arve Lærum
Board member

Ellen Sandra Bratland
Board member

Einar Gjelsvik
CEO

The board of directors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The board of directors

2010

1 Lars Takla (67)

Chairman

Takla is one of the founders of Noreco, and the chairman of Noreco's Board of Directors since the start of the company. He has 40 years of industry experience. He was Region Manager of Phillips Operations in Texas and New Mexico from 1993–1997 and Managing Director of Phillips and Conoco-Phillips from 1997–2005. In 2005 he became Commander of the Royal St Olav order for his long and dedicated effort for the oil and gas industry in Norway.

Lars Takla holds 1 578 207 shares in Noreco.

4 Therese Log Bergjord (45)

Board member

Log Bergjord is Managing Director ESS-Support Services. From 2007–2009 she was Global Sales Director in Skretting. From 2004 until 2007, she was Vice President Commercial in the Pan Fish group, after serving as Vice President Finance in the same group since 2003. Log Bergjord started her career in Conoco-Phillips where she held various leading positions during her 16 years with the company. Log Bergjord has a degree in finance/marketing from the University of Stavanger and BI.

Therese Log Bergjord holds 24 000 shares in Noreco.

7 Bård Arve Lærum (41)

Employee Representative

Lærum have more than 15 years experience from the industry. He joined Noreco in 2007. He worked 11 years in various positions within subsurface, projects and commercial in BP prior to joining Noreco. He holds a Master of Science degree in Petroleum Technology from University of Stavanger, Norway. Lærum is currently holding the position as Asset Manager in Noreco.

Bård Arve Lærum holds 54 329 shares in Noreco.

2 John Hogan (57)

Deputy Chairman

Hogan has over 30 years international experience in the O&G industry, including extensive experience at board level. Following an early career with Shell, Britoil and Elf Acquitaine, he joined LASMO plc in 1981. He ran their US business for 5 years; was Managing Director of LASMO North Sea for 4 years; and was appointed to the main board as Chief Operating Officer between 1993 and -99. Since then he has worked at board level in a number of international companies in the energy sector.

John Hogan holds 421 195 shares in Noreco.

5 Rebekka Glasser Herlofsen (40)*

Board member

Glasser Herlofsen holds a Master of Science in Economics and Business Administration from NHH (Norwegian School of Economics and Business Administration). She works as an independent consultant and professional board member. Herlofsen was Director of the Business Development Division and a member of the management team in BW Gas ASA from 2005 to 2009 and held various leading positions in the same company from 1999 to 2005. Herlofsen also has experience from the corporate finance department of Enskilda Securities in Oslo and London. She is also a member of the boards of Cermaq ASA, Handelsbanken Norge, the T. Klaveness Group and GTB Invest ASA.

Rebekka Glasser Herlofsen holds 30 000 shares in Noreco.

*Herlofsen was in March 2011 appointed CFO of Noreco, and stepped down from the board.

3 Aasulv Tveitereid (37)

Board member

Tveitereid is educated at NHH (Norwegian School of Economics and Business Administration). He was until 2008 working as oil & offshore analyst in SEB Enskilda. Currently he is owner of an investment company, AAT Invest AS, in which he also works. Tveitereid is today also a member of the board of Sevan Marine ASA and Stenshagen Invest AS.

Aasulv Tveitereid holds 343 333 shares in Noreco.

6 Ellen Sandra Bratland (50)

Employee Representative

Bratland joined Noreco in 2008. She holds a Civil Engineering degree in Chemical Engineering from the Norwegian University of Science and Technology, Trondheim and a M.Sc. from University of Idaho. She joined Statoil in 1986, and Shell from 1989-2008, and has experience from process engineering, operations, HSE and business development. Bratland is currently holding the COO position with Noreco.

Ellen S Bratland holds 61 010 shares in Noreco.

You know something
I don't know.
I know something
you don't know.
Let's talk to Helen,
because
insight changes reality.

Our own

Consolidated Statement of comprehensive income for the year ended 31 December

		NORECO GROUP		NORWEGIAN ENERGY COMPANY ASA	
(NOK 1000)	Note	2010	2009	2010	2009
Revenue	7	1 909 909	1 431 203	0	0
Other revenue	7	236 552	115 313	209 664	0
Total revenues	7	**2 146 462**	**1 546 516**	**209 664**	**0**
Production expenses	8	539 919	451 981	0	0
Exploration and evaluation expenses	9	615 772	525 054	577 676	504 007
Payroll expenses	10, 11	158 457	125 687	114 941	86 339
Depreciation and write-down	17, 18	637 810	639 726	237	792
Other operating expenses	12, 13	133 287	103 572	92 881	83 082
Loss on sale of licenses		0	55 594	0	0
Total operating expenses		**2 085 244**	**1 901 613**	**785 735**	**674 218**
Net operating result		**61 217**	**(355 098)**	**(576 070)**	**(674 218)**
Financial income	14	76 645	151 872	86 141	218 067
Financial expenses	14	561 676	732 645	379 426	644 568
Net financial items		**(485 032)**	**(580 774)**	**(293 285)**	**(426 501)**
Ordinary result before tax		**(423 814)**	**(935 872)**	**(869 356)**	**(1 100 720)**
Income tax expense	15	(428 339)	(567 883)	(903 780)	(594 424)
Net result for the period		**4 525**	**(367 989)**	**34 424**	**(506 297)**
Net result for the period		4 525	(367 989)	34 424	(506 297)
Other comprehensive income:					
Effective portion of cash flow hedges		(34 441)	(285 913)	0	0
Currency translation difference		2 393	(55 485)	0	0
Total comprehensive net result for the period		**(27 523)**	**(709 387)**	**34 424**	**(506 297)**
Net result attributable to:					
Shareholders		4 525	(367 989)	34 424	(506 297)
Total comprehensive net result attributable to:					
Shareholders		(27 523)	(709 387)	34 424	(506 297)
Earnings per share		0.02	(2.17)	0.14	(2.98)
Diluted	16	0.05	(2.17)	0.17	(2.98)

And this is our

Consolidated Statement of financial position as at 31 December

		NORECO GROUP		NORWEGIAN ENERGY COMPANY ASA	
(NOK 1 000)	Note	2010	2009	2010	2009
ASSETS					
Non-current assets					
Intangible non-current assets					
Licences and capitalised exploration expenses	17	3 976 833	3 849 233	557 954	402 549
Deferred tax asset	15	594 800	429 521	478 489	310 162
Goodwill	17	1 492 598	1 540 798	0	0
Total intangible non-current assets		**6 064 232**	**5 819 552**	**1 036 443**	**712 710**
Tangible non-current assets					
Production facilities	18	3 600 908	4 099 058	2 021	332 247
Machinery and equipment	18	108	650	26	263
Total tangible non-current assets		**3 601 016**	**4 099 708**	**2 047**	**332 510**
Financial non-current assets					
Investments in subsidiaries	5	0	0	4 354 618	4 319 473
Loan to group companies		0	0	557 255	366 032
Total financial non-current assets		**0**	**0**	**4 911 873**	**4 685 505**
Total non-current assets		**9 665 248**	**9 919 260**	**5 950 363**	**5 730 725**
Current assets					
Receivables					
Assets held for sale	19	590 389	0	0	0
Accounts receivable	19	208 455	133 619	8 345	2 819
Tax refund	15, 19	730 891	631 261	702 968	584 735
Receivables from group companies	19	0	0	184 073	77 864
Other current receivables	19	570 853	446 020	47 711	43 846
Total receivables		**2 100 588**	**1 210 900**	**943 098**	**709 264**
Financial current assets					
Financial instruments	20	8 831	58 227	0	0
Bank deposits, cash and cash equivalents	21	892 482	659 812	732 420	575 405
Total financial current assets		**901 313**	**718 039**	**732 420**	**575 405**
Total current assets		**3 001 901**	**1 928 939**	**1 675 518**	**1 284 669**
Total assets		**12 667 149**	**11 848 199**	**7 625 881**	**7 015 394**

		NORECO GROUP		NORWEGIAN ENERGY COMPANY ASA	
(NOK 1 000)	Note	2010	2009	2010	2009
EQUITY AND LIABILITIES					
Equity					
Share capital	22	753 418	751 545	753 418	751 545
Share premium fund	22	2 492 503	2 483 054	2 492 503	2 483 054
Other equity		467 231	487 624	78 565	37 010
Total equity		**3 713 152**	**3 722 223**	**3 324 486**	**3 271 609**
LIABILITIES					
Provisions					
Pension liabilities	23	4 518	4 360	4 518	4 360
Deferred tax	15, 33	2 383 873	2 495 232	400 656	456 647
Abandonment provisions	24	829 035	734 842	0	0
Total provisions		**3 217 426**	**3 234 434**	**405 174**	**461 008**
Other non-current liabilities					
Convertible bond loan	25	205 951	196 539	205 951	196 539
Bond loan	25	2 658 582	2 261 391	2 658 582	1 963 122
Other interest bearing debt	25	943 612	1 026 595	0	0
Other interest bearing debt to group companies		0	0	106 549	482 122
Total other non-current liabilities		**3 808 145**	**3 484 525**	**2 971 082**	**2 641 784**
Current liabilities					
Liabilities/debt held for sale	26	231 539	0	0	0
Other interest-bearing debt	26	1 085 304	906 957	649 111	524 484
Trade payables	26	86 060	35 943	71 265	32 918
Current tax payable	15, 26, 33	114 716	208 543	0	0
Public duties payable	26	22 760	34 285	7 890	5 326
Debt to group companies	26	0	0	837	7 253
Other current liabilities	26	388 047	221 288	196 036	71 013
Total current liabilities		**1 928 426**	**1 407 016**	**925 139**	**640 993**
Total liabilities		**8 953 997**	**8 125 975**	**4 301 395**	**3 743 785**
Total equity and liabilities		**12 667 149**	**11 848 199**	**7 625 881**	**7 015 394**

Stavanger, 31 March 2011

Lars Takla Chairman	Aasulv Tveitereid	Therese L Bergjord	Bård A Lærum	Ellen S Bratland	John Hogan	Einar Gjelsvik CEO

Consolidated statement of changes in equity

NORECO GROUP (NOK 1000)	Share capital	Share premium fund	Foreign exchange translation fund	Hedging fund reserver	Other	Total equity
Equity at 1 January 2009	**444 428**	**1 869 200**	**30 030**	**345 105**	**307 723**	**2 996 486**
Capital increase 2009	307 117	1 191 625				1 498 741
Share issue cost		(71 475)				(71 475)
Share-based incentive program					7 855	7 855
Value-adjusted financial instruments				(285 913)		(285 913)
Translation differences – foreign exchange			(55 485)			(55 485)
Net result					(367 989)	(367 989)
Coverage of loss		(506 297)			506 297	0
Equity at 31.12.2009	**751 545**	**2 483 054**	**(25 455)**	**59 192**	**453 886**	**3 722 223**
Equity at 1 January 2010	**751 545**	**2 483 054**	**(25 455)**	**59 192**	**453 886**	**3 722 223**
Capital increase 2010	1 873	10 001				11 874
Share issue cost		(552)				(552)
Share-based incentive program					7 130	7 130
Effective portion of cash flow hedges				(34 441)		(34 441)
Translation differences – foreign exchange			2 393			2 393
Net result					4 525	4 525
Equity at 31.12.2010	**753 418**	**2 492 503**	**(23 062)**	**24 751**	**465 541**	**3 713 152**

Statement of changes in equity

NORWEGIAN ENERGY COMPANY AS (NOK 1000)	Share capital	Share premium fund	Other equity	Total equity
Equity at 1 January 2009	**444 428**	**1 869 200**	**29 155**	**2 342 783**
Capital increase January 2009	1 566	5 303		6 869
Capital increase May 2009	41 540	172 860		214 400
Capital increase October 2009	248 000	952 000		1 200 000
Capital increase November 2009	16 011	61 461		77 472
Share issue cost		(71 475)		(71 475)
Share-based incentive program			7 855	7 855
Net result			(506 297)	(506 297)
Coverage of loss		(506 297)	506 297	0
Equity at 31 December 2009	**751 545**	**2 483 054**	**37 010**	**3 271 609**
Equity at 1 January 2010	**751 545**	**2 483 054**	**37 010**	**3 271 609**
Capital increase January 2010	1 873	10 001		11 874
Share issue cost		(552)		(552)
Share-based incentive program			7 130	7 130
Net result			34 424	34 424
Equity at 31 December 2010	**753 418**	**2 492 503**	**78 565**	**3 324 486**

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Consolidated Statement of cash flow

(NOK 1 000)	Note	NORECO GROUP 2010	NORECO GROUP 2009	NORWEGIAN ENERGY COMPANY ASA 2010	NORWEGIAN ENERGY COMPANY ASA 2009
Ordinary result before tax		(423 814)	(935 872)	(869 355)	(1 100 720)
Depreciation and write-downs	17, 18	659 040	639 726	21 467	792
(Tax refund) / paid	15	150 750	(121 615)	561 229	519 251
(Profit)/loss sale of license		(199 082)	55 594	(209 665)	0
Effect of changes in exchange rates / other effects equity		38 613	(519 931)	0	0
Financial instruments at fair value	20	34 441	488 443	0	0
Amortisation of borrowing expenses	14	44 329	95 512	40 483	86 385
Calculated interest on abandonment provisions	24	68 564	66 997	0	0
Other items with no cash impact		158	3 548	158	9 743
Change in trade receivable	19	(74 836)	85 869	(5 526)	22 233
Change in trade payables	26	50 117	(102 115)	38 347	(40 722)
Changes in other current balance sheet items		382 478	262 250	(261 797)	(19 524)
Net cash flow from (used in) operations		**730 758**	**18 407**	**(684 659)**	**(522 562)**
Cash flows from investing activities					
Proceeds from sale of intangible fixed assets		265 545	27 272	608 375	0
Purchase of tangible assets	18	(622 589)	(799 645)	(2 021)	(85 136)
Purchase of intangible assets	17	(215 074)	(189 683)	(242 561)	(130 420)
Net purchase of subsidiaries	4	0	0	(33 849)	(14 039)
Net cash flow used in investing activities		**(572 118)**	**(962 056)**	**329 944**	**(229 595)**

(NOK 1 000)	Note	NORECO GROUP 2010	NORECO GROUP 2009	NORWEGIAN ENERGY COMPANY ASA 2010	NORWEGIAN ENERGY COMPANY ASA 2009
Cash flows from financing activities					
Issue of share capital	22	11 322	1 427 268	11 322	1 427 267
Proceeds from issuance of long term debt	25	497 616	2 109 160	685 655	1 948 629
Repayment of long term debt	25	0	(2 240 000)	0	(2 240 000)
Proceeds from issuance of short term debt	26	634 755	519 104	612 862	519 104
Repayment of short term debt	26	(695 573)	(534 971)	(503 666)	(534 971)
Group contributions received		0	0	0	65 000
Interest paid		(374 449)	(521 154)	(294 439)	(441 210)
Net cash flow from (used in) financing activities		**73 671**	**759 407**	**511 734**	**743 819**
Net change in cash and cash equivalents		**232 310**	**(184 242)**	**157 019**	**(8 338)**
Cash and cash equivalents at start of the year	21	659 812	867 349	575 405	583 743
Effects of changes in exchange rates on cash and cash equivalents		360	(23 295)	0	0
Cash and cash equivalents at end of the year	**21**	**892 482**	**659 812**	**732 424**	**575 405**

Notes

01 Company information

Norwegian Energy Company ASA (Noreco) is a public limited company registered in Norway, with its headquarter in Stavanger. The company has subsidiaries in Norway, Denmark, U.K., and France.

For complete address details see the Annual Report for 2010.

The activities of Noreco are exploration and production of crude oil and natural gas.

The financial statements were approved by the Board of Directors on 31 March 2011.

02 Significant Accounting Policies

Basis of preparation
The consolidated financial statements of the Norwegian Energy Company ASA (Noreco ASA) have been prepared in accordance with International Financial Reporting Standards, as endorsed by the EU and accompanying interpretations to be used as of 31.12.2010, and additional provisions set out in the Norwegian Accounting Act. The consolidated financial statements comprise the parent company Noreco ASA and subsidiaries set out in note 5.

Proposed consolidated financial statements were authorised for issue by the Board of Directors and the Chief Executive Officer at the date given by the dated and signed balance sheet. The consolidated financial statements will be processed at the general assembly, on the 28th of April 2011, for final approval.

The consolidated financial statements are based on a historical cost approach with the following modifications:

- Derivatives and financial assets are measured at fair value. Financial liabilities are measured at amortised cost.
- Assets are measured at cost less accumulated impairment losses. If the recoverable amount of an asset is lower than its carrying amount, the company will recognize an impairment loss.
- The defined benefit asset is recognised as the net total of the plan assets, plusunrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

The consolidated financial statements are presented in Norwegian kroner (NOK) which is the parent company's functional currency.

Changes in accounting policies
From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions after 1 January 2010
For acquisitions after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions before 1 January 2010
For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Consolidated financial statements
The consolidated financial statements comprise Noreco ASA and its subsidiaries. Subsidiaries are entities controlled by Noreco ASA. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting rights of an entity or is able to exercise actual control of the entity. All investments in the Group are owned and controlled 100 per cent and are included in the consolidated financial statements.

The financial statements of Noreco ASA and its subsidiaries are included in the consolidated financial statements. Accounting policies are applied consistently by Group entities. For consolidation purposes, intra-group revenues and costs, shareholdings, outstanding balances, dividends, group contributions and realised and unrealised gains on transactions between consolidated companies have been eliminated.

Interests in jointly controlled assets are recognised by including Noreco's share of assets, liabilities, income and expenses on a line-by-line basis.

Noreco as operator of jointly controlled assets:
Indirect operating expenses such as personnel expenses and administration expenses are accumulated in cost pools. These costs are allocated to Noreco operated jointly controlled assets (licences) based on hours incurred. Only Noreco's share of the statement of income and balance sheet items related to Noreco operated jointly controlled assets are reflected in Noreco's statement of income and balance sheet.

Business combinations
The group has changed its accounting policy with respect to accounting for business combinations and goodwill. See changes in accounting policies above.

The following principles which were applied in the previous year are still applicable with regards to business combinations:

In order for a business combination to exist, the acquired asset or the group of assets must constitute a business. A business is an integrated set of activities and assets managed for the purpose of providing a return to investors. This requires judgment to be applied on a case by case basis as to whether the acquisition meets the definition of a business combination.

Acquisitions of licenses entitling the licensee to explore and produce hydrocarbons are assessed under the relevant criteria in order to establish whether the acquisition should be classified as a business combination or the purchase of an asset. Generally acquisitions of developing- or producing licenses are treated as business combinations whereas acquisition of licenses where a development decision has not yet been taken are treated as asset purchases.

Foreign currency
Each group entity has a specified functional currency. The functional currency is the currency in which the entity primarily generates and uses cash. A group entity's functional currency may be different from the functional currency of the parent company.

Transactions in a currency different from the functional currency of the entity are translated to the functional currency at the transaction date exchange rate. Differences between the exchange rate on the transaction date and the payment date are recognised as gain/loss on exchange under financial items.

Monetary items denominated in foreign currencies are translated to the functional currency using the exchange rate at the balance sheet date. The resulting foreign exchange differences are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in income statement, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Assets and liabilities in entities with a functional currency other than NOK are translated into NOK at the foreign exchange rate at the balance sheet date. The revenues and expenses of these entities are translated at the average exchange rate for the period. The resulting foreign exchange differences are recognised separately in other comprehensive income and presented in the foreign exchange translation fund in equity.

Financial instruments
Financial instruments are recognised initially at fair value and any changes to fairvalue prior to settlement are recognized in the income statement and balance sheet as described below.

Classification
An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the balance sheet date. Other items are non-current. A dividend does not become a liability until it has been formally approved by the General Meeting.

Financial instruments are divided into the following categories at the time of recognition:
- Financial assets at fair value through income statement
- Loans and receivables at amortised cost
- Available for sale financial assets measured at fair value

Financial liabilities are divided into the following categories:
- Financial liabilities at fair value through income statement
- Other financial liabilities at amortised cost
- Available for sale at fair value

Financial assets and liabilities are set off when there is a legal right to do this, and there is an intention to settle on a net basis. Net amounts are then presented in the balance sheet.

Derecognition of financial assets and liabilities
When the Group has transferred substantially all the risks, the control and rewards of ownership of the financial asset, the entity derecognises the financial asset.

When the obligation specified in the contract is discharged, cancelled or expires, financial liabilities are derecognised.

Hedging
The Group uses financial derivatives to hedge its material exposure to foreign exchange risks and price risks, which occur in the course of its operating, financing and investing activities. Financial derivatives not qualifying as hedging instruments are recognized and presented as financial instruments at fair value through income statement.

Financial derivatives are recognised initially at fair value. Attributable transaction costs are recognised in income statement when incurred. Subsequent to initial recognition, financial derivatives are measured at fair value, and are included in the item “financial instruments” (positive fair value) or as “other current liabilities” (negative fair value). Gains and losses are immediately recognised in the income statement. If financial derivatives qualify as hedging instruments, gains and losses are recognised in accordance with the hedging relationship used.

Changes in the fair value of derivative hedging instrument designated as a cash flow hedge (oil price hedging and foreign exchange hedging of monetary items) are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in income statement. As the hedged cash flows are gradually realised, gains or losses on the financial derivatives are included in the same accounting item as the hedged cash flows, and items recognised directly to equity are reversed. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognized in equity is transferred to income statement in the same period that the hedged item affects income statement.

Segment reporting
The group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group’s chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses.

The Group’s business segment is fully related to exploration and production of hydrocarbons. The Group therefore only has one operational segment which is followed up and reported on within three geographical segments: Norway, Denmark and the United Kingdom.

Principles of revenue recognition
Revenues from the production of oil, gas and NGL (hydrocarbons) are recognised in proportion to the Group’s share of the output from the individual licence, irrespective of whether the output has been sold (entitlement method). Over/under lift of hydrocarbons pursuant to the rights method is measured at the estimated sales price, less estimated sales costs at the balance sheet date. Over/under lifting occurs when the Group has extracted and sold more or less hydro¬carbons from a producing field than the Group was entitled to at the time of lifting.

Gains and losses on financial derivatives which are held to hedge the Group’s net revenues are recognised in revenue.

Production expenses
Production expenses which can be directly ascribed to the production of hydrocarbons, such as costs incurred in the operation and maintenance of production facilities and installations. The costs mainly comprise working hours, insurance premiums, production costs, environmental taxes, transpor¬tation costs etc.

Corporation tax
The tax expense in the income statement comprises current and deferred tax. Current tax and deferred tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to current tax in respect of previous years. Tax is calculated using tax rates enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised to the extent that it is probable that the deferred tax asset will be utilised. The recognised deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax and deferred tax assets are estimated at the tax rates that are expected to be applied when the temporary differences reverse.

Companies engaged in petroleum production and pipeline transportation on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 50%. The special tax is applied to relevant income in addition to the standard 28% income tax, resulting in a 78% marginal tax rate on income subject to petroleum tax. The basis for computing the special petroleum tax is the same as for income subject to ordinary income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at 7,5% per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely.

Interest expenses on interest-bearing debts are distributed between onshore and offshore activities. The tax allowance for the offshore debt interests are calculated as interest expense multiplied by 50% of the ratio between the tax value of the offshore-asset and average interest-bearing debt. The remaining net financial expenses are allocated to onshore.

Intangible assets

Goodwill
Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see change in accounting policies above. Subsequent to initial recognition goodwill is recognised at cost less accumulated impairment losses. Goodwill is not amortised. Any impairment loss for goodwill cannot be reversed.

In connection with each business combination, goodwill is allocated to cash-flow generating units at the level which management measures the investment in question.

Capitalised licences, exploration and evaluation expenses
Oil and gas licences, exploration and evaluation expenses are accounted for in accordance with the "successful efforts" (SE) method. The SE method allows exploration and evaluation expenditure incurred in relation with exploratory drilling to be capitalised within intangible assets. When drilling is completed and the well is evaluated the capitalised costs are expensed if no proved reserves have been found or reserves found are not considered commercially viable.

Unproved oil and gas properties in capitalised exploration expenses are not amortised but are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least once a year. Exploratory wells that have found reserves may remain capitalized for more than one year. The main conditions for exploration expenses to remain capitalised are that either firm plans exist for future drilling in the licence, or a development decision is planned for the near future. Impairment of unsuccessful wells is reversed, as applicable, to the extent that conditions for impairment are no longer present.

Oil-related licences and capitalised exploration and evaluation expenses are classified as intangible assets until plan for development and operation has been approved. Capitalised amounts will be transferred to tangible fixed assets under development when approval is granted. When the asset is ready for its intended use, it will be classified as a production facility and depreciated in accordance with the unit of production method.

Exploration and evaluation asset acquisitions (farm-in arrangements) in which the Group has agreed to cover a portion of the selling partners' (farmor's) expenses, are accounted for as exploration and evaluation expenses as they incur in line with the Group's policy.

Property plant and equipment
Property, plant and equipment include production facilities, assets under construction and machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation and decommissioning- and dismantling costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in income statement using the effective interest method. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised in the income statement.

Production facilities comprise exploration and evaluation expenditure, development expenditure and investments in facilities, plant and infrastructure used in the production of hydro¬carbons. The cost of production facilities, including decommissioning- and dismantling costs, are depreciated in accordance with the units of production method. Depreciation is charged in line with the production of hydrocarbons in relation to the estimated recoverable reserves in each field. Capitalised costs which can be ascribed to and used during the field's entire lifespan are depreciated in relation to total proved reserves. Capitalised costs related to developed reserves are depreciated in relation to total developed reserves.

The cost of other property, plant and equipment is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:
- Machinery and equipment 3-5 years

Assets under construction are not depreciated until the asset is put into operation.

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

Impairment

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Intangible assets with an infinite economic life are not amortised, but if the recoverable amount of an asset or its related cash-generating unit (CGU) is lower than its book value, the company will recognise an impairment loss. The recoverable amount is calculated annually and when there are indications that the asset may be impaired.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Value in use is calculated by discounting expected future cash flows to present value. The discount rate used reflects current market assessments of the time value of money and the risk associated with the specific asset or CGU. For assets where independent cash flows are not possible to estimate, the residual value is determined based on the CGU to which the asset belongs. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in the income statement as a write-down. When impairment for a CGU is recognised, goodwill in the cash-flow generating unit's balance sheet is reduced first. Remaining impairment will then be allocated on a pro rata basis to the carrying amounts of the other assets in the CGU.

An impairment loss in respect of goodwill is not reversed. In respect of other intangible assets impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Trade receivables and other receivables
Trade receivable and other receivables are recognised initially at fair value. In connection with the sale of goods and services fair value will generally coincide with invoiced amount. Receivables are subsequently valued at amortised cost, determined using effective interest rate method less provisions for bad debt.

Bad debt provisions are recognised when there are objective indications that the Group will not receive settlement in accordance with the original terms.

Over/under lifting of hydrocarbons
Over lifting of hydrocarbons is presented as current liabilities, under lifting of hydrocarbons is presented as current receivables. The value of over lifting or under lifting is measured at the estimated sales value, less estimated sales costs. Over lifting and under lifting of hydrocarbons are presented at gross value.

Cash and cash equivalents
Cash includes cash in hand, bank deposits and highly liquid investments with a term of less than three months.

Share capital and share premium fund
Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or option shares are recognised as a deduction from equity, net of any tax effects.

Share-based payments
The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and nonmarket vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. When a cash settlement is expected the fair value of the cash settlement is included in income statement as payroll expenses, with a corresponding increase in other current liabilities.

Pensions
The employees in the Norwegian part of the Group have a collective (secured) pension scheme, classified as a defined-benefit plan. In Denmark, the group has a defined contribution plan.

The Group's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

The calculation is performed annually by a qualified actuary. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately inincome statement.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in the income statement.

Debt
Debt is recognised at fair value, less transaction costs at the disbursement date. In subsequent accounting periods, debt is recorded at amortised cost, calculated using effective interest rate method. The difference between the withdrawal amount and the repayment amount is recognised as a financial expense amortised over the estimated term of the loan.

When a convertible loan is issued, the fair value of the debt component is measured using the market rate for non convertible loans of a similar length and level of security. The amount is classified as a liability and recognised at amortised cost until the loan expires, either through conversion to shares or upon maturity. The remaining amount is included in equity, less the tax effect, as payment for the issue of options.

Debt is classified as a current liability unless an unconditional right exists to postpone repayment of the debt for more than 12 months from the balance sheet date. The first year's instalment of long-term debt is classified as a current liability.

Provisions
A provision is recognised when the company has a present obligation (legal or constructive) arising from a past event, and it is probable (more probable than not) that it will result in an outflow from the entity of resources embodying economic benefits, and that a reliable estimate can be made of the amount of the obligation.

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Abandonment provisions are measured at net present value of the anticipated future cost. The liability is calculated on the basis of current removal requirements and is discounted to present value. The discount rate used reflects the current general level of interest rates. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changed, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense.

Contingent liabilities and assets
Contingent liabilities are defined as:
- possible obligation that arise from past events, whose existence depends on uncertain future events.
- present obligation which have not been recognised because it is not probable that they will result in a payment.
- the amount of the obligation cannot be measured with sufficient reliability.

Specific mention of material contingent liabilities is disclosed, with the exception of contingent liabilities where the probability of the liability is low.

Contingent assets are not recognised in the financial statements, but are disclosed if there is a certain probability that a benefit will accrue to the Group.

Estimation uncertainty
Management uses estimates based on its professional judgement and assumptions about future developments when it prepares the annual financial statements. There is uncertainty related to all estimates used where changes in market conditions may lead to changes in estimates. Estimate changes may lead to changes in carrying amounts of the company's assets, liabilities, equity and profit. Changes in accounting estimates are included in the period in which the changes occur and in all future affected periods.

The Company's information about significant areas of estimation uncertainty are included in the following notes:
- The allocation of fair value to assets and liabilities in a business combination (Note 4).
- The valuation of goodwill, other intangible assets, property, plant and equipment and future abandonment provisions (Notes 17, 18 and 24)
- Depreciation of property, plant and equipment (production equipment) (Note 18).
- Amounts related to insurance coverage from the shutdown on the Siri field (Note 19).
- Measurement of defined benefit obligation (Note 23)

In accordance with IFRS 3 the purchase consideration is allocated to identifiable assets and liabilities at their fair value. When measuring the fair value of such assets and liabilities, a number of estimates are used to which a great degree of uncertainty is attached. For production facilities the fair value is measured by discounting the estimated future field cash flows. These estimates are based on assumptions relating to the price of hydrocarbons, the USD value, production profiles, reserves estimates, production costs, future investment requirements, future decommissioning and removal expenditures and discount rates. Changes in one or more of these assumptions will have an impact on the fair value allocated. The fair value of the exploration and evaluation portfolio is estimated using an estimate for risked reserves multiplied by the price per unit. A substantial risk will be attached both to the reserve estimate and the price of economically viable future finds. There is less uncertainty attached to the valuation of other assets and liabilities acquired in business combinations.

In connection with business acquisitions, assets and liabilities will be revalued without changing the taxable value of the corresponding items. This change affects capitalised deferred tax, which in turn leads to a change in goodwill. Since a great deal of uncertainty is attached to the allocation of the value of assets and liabilities, see the previous paragraph, considerable uncertainty will also be attached to the allocation of goodwill in connection with acquisitions.

Notes

For valuation of tangible and intangible assets subsequent to an acquisition, the same methods as described above are applied. This means that there will be uncertainty attached to the measurement of residual value against carrying amount at the end of each accounting period.

The value of the Group's goodwill and intangible assets with infinite economic lives are subject to annual impairment reviews. Changes in the price of hydrocarbons have a major impact on the Group's activities. A drop in the oil price will have a significant effect on the Group's cash flows. Future oil price assumptions are also an important factor in determining whether a find is economically viable and should be developed. Furthermore, the price of oil also affects the Group's exploration activity.

Production of oil and gas is subject to statutory requirements relating to decommissioning and removal once production has ceased. Provisions to cover these future decommissioning and removal expenditures must be recognised at the time the statutory requirement arises. The costs will often incur some time in the future, and there is significant uncertainty attached to the scale and complexity of the decommissioning and removal involved. Estimated future costs are based on known decommissioning and removal technology, expected future price levels, and the expected future decom¬missioning and removal date, discounted to net present value using an estimated discount rate. Changes in one or more of these factors could result in major changes in the decommissioning and removal liabilities.

New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

03 Financial risk

Financial risk
The Group's activities expose it to a variety of financial risk through the use of various types of financial instruments. The Group uses bank loans, bond loans and convertible bond loans to finance its operations together with investing in new businesses. The Group have also financial assets, such as bank deposits, trade receivables and payables, and other short term liabilities which arise directly from its operations. The Group also enters into derivative transactions as options, swap agreements and forward contracts. The purpose is to hedge the significant items in the balance sheet or cash flows.

The main financial risks arising from the Group's activities are foreign exchange risk, credit risk, liquidity risk and interest rate risk.

Liquidity risk
Prudent liquidity risk management implies maintaining a sufficient reserve of cash and marketable securities, and the availability of funding through committed credit facilities. Noreco's business model includes active management of the group's license portfolio. This entails among other factors that Noreco should be able to attend the entire process from when the license is in the exploration phase to the delivery of a plan for development with subsequent investments and production. The group will simultaneously assess each license in order to optimize the value for the group either through sales or continued participation in the license. The group also works actively in order to manage cash flows tied to the groups' loan obligations.

The Noreco Group maintains a certain flexibility in funding by maintaining several borrowing facilities. Combined with available liquid capital, cash flow from operations and active investment management, this provides a basis for sufficient financing of the group's ongoing operations and future investments. See Note 13 Operating leases, Note 21 Cash and cash equivalents and Note 25 Non-current liabilities.

Market Risk
Foreign exchange risk – The Group has operational activities which involve substantial cash flows in various currencies. The Group is composed of businesses with various functional currencies (USD and NOK). The Group's policy is to hedge significant items in currencies other than its functional currency against exchange rate fluctuations. Balance sheet items such as loans and significant cash flows as interest, cash calls, tax etc. are hedged using forward currency contracts/currency swap agreements. Foreign currency risk related to Noreco's investments in businesses with a functional currency other than Noreco ASA's functional currency are not hedged. See Note 19 Trade receivables and other receivables, Note 20 Financial Instruments, Note 21 Cash and cash equivalents, Note 25 Non-current liabilities and Note 26 Trade payable and other current liabilities.

A change in the average exchange rate related to USD with +/- 10 % would have changed revenue with NOK 191 million. Net result for the period would have changed with NOK 108 million.

Price risk – The main risk the company is exposed to, with regards to its incoming cash flow, is related to the development of the oil and gas price. To mitigate this risk the Group enters into put options specifying a price floor for the pricing of a bulk of the company's oil production. The options entitle a right, but not an obligation, to sell oil at a specified minimum price. If the market price of oil exceeds the strike price of the option, which currently is USD 60 and USD 75 respectively, the option is not exercised and the Group sells at market price. This form of hedging is accounted for as hedging in the financial statements, see Note 20 Financial instruments.

Interest rate risk – Loans with floating interest rate represent an interest risk for the Group's future cash flow. Loans with fixed interest rate expose the Group to risk (premium/discount) associated with changes in the market interest rate. The Group has a total of NOK 5 003 million in interest-bearing debt (nominal value), of which NOK 1 103 million is short-term debt. The parent company has a total of NOK 3 585 million in interest-bearing debt (nominal value), of which NOK 666 million is short-term debt. Of the Group's debt NOK 1 622 million are loans with a fixed interest rate. The remaining, NOK 3 381 million, are loans with a floating interest rate. The parent company has a total debt of NOK 1 489 million at a fixed interest rate and NOK 2 116 million at a floating interest rate.

All bank deposits (NOK 892 million for the Group and NOK 732 million for the parent company) are at floating interest rates. A change of +/- 1 per cent will cause a change in profit or loss of +/- NOK 18 million for the Group and NOK 9.96 million for the parent company. For further information about the Group's interest-bearing debt see Note 25 Non-current liabilities. The Group considers that a good balance between fixed and floating interest rates on its debt portfolio has been achieved.

Credit risk
Credit risk arises principally from recognised receivables and the fair value of financial derivatives. The credit risk arising from the production of oil, gas and NGL is considered limited, as sales are to major oil companies with considerable financial resources. See Note 19 Trade receivable and other receivables that also gives an overview of the maximum credit risk the company is subject to.

The counterparty in derivatives is large banks whose credit risk is considered as low.

Capital risk management
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company sets the amount of capital in proportion to risk. The management of the capital structure involves active monitoring and adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Company may refinance its debt, buy or issue new shares or debt instruments, sell assets or return capital to shareholders.

The Company monitors debt on the basis of the leverage ratio. This ratio is calculated as gross debt divided by EBITDA. In addition the Company monitors a leverage ratio based on net debt. Net debt is calculated as total indebtedness (including "current and long-term debt" as shown in the consolidated balance sheets) less cash and cash equivalents.

04 Changes in the group structure

On 26 August, 2010 Noreco ASA established the companies Noreco Bonne Voisine SARL and Noreco Arcis Sur Aube SARL. Noreco ASA owns 100% of the shares in both companies. They are included in the financial statement as of that date. Owner's share equals voting rights.

05 Overview of subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country	Ownership share	Voting share
Norwegian Energy Company UK Ltd	U.K	100 %	100 %
Altinex ASA	Norway	100 %	100 %
Altinex Oil Norway AS	Norway	100 %	100 %
Geopard A/S	Denmark	100 %	100 %
Altinex Oil Denmark A/S	Denmark	100 %	100 %
Altinex Petroleum A/S	Denmark	100 %	100 %
Altinex Oil (UK) Ltd	U.K	100 %	100 %
Siri Holding UK Ltd	U.K	100 %	100 %
Siri UK Ltd	U.K	100 %	100 %
Noreco Bonne Voisine SARL	France	100 %	100 %
Noreco Arcis sur Aube SARL	France	100 %	100 %

Siri Holding UK Ltd and Siri UK Ltd are recognised in the consolidated financial statements from 18 June 2008.

Noreco Bonne Voisine SARL and Noreco Arcis Sur Aube SARL are recognised in the consolidated financial statements as of 26 August 2010

Norwegian Energy Company ASA owns the following shares in the subsidiary:

(NOK 1 000) Company	Registered business office	Ownership share	Voting share	Result 2010	Equity 31.12.10	Book value
Altinex ASA	Stavanger	100 %	100 %	18 139	1 114 110	4 304 297
Siri Holding Limited	Stavanger	100 %	100 %	58 187	6 554	4 308
Norwegian Energy Company UK Ltd	U.K	100 %	100 %	(32 049)	(1 694)	46 013
Noreco Bonne Voisine SARL	France	100 %	100 %	-	-	-
Noreco Arcis sur Aube SARL	France	100 %	100 %	-	-	-

06 Exchange rate

The following exchange rates are included in the consolidated financial statements:

	Exchange rate 01.01.2010	Exchange rate 31.12.2010
Norwegian kroner (NOK)	1.00	1.00
Danish kroner (DKK)	111.73	104.80
USA dollar (USD)	5.78	5.86
Euro (EUR)	8.32	7.81
British pound (GBP)	9.32	9.07

When translating items in the consolidated statement of comprehensive income, quarterly average exchange rates are used as basis.

07 Revenue

Specification of total revenue:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2010	2009	2010	2009
Sales of oil	1 874 621	1 247 859	0	0
Sales of gas and NGL	57 307	61 825	0	0
Revenue from oil price hedging	896	150 166	0	0
Costs from oil price hedging [1)]	(22 915)	(28 646)	0	0
Other revenue [2)]	236 552	115 312	209 664	0
Total revenue	2 146 462	1 546 516	209 664	0

(1) Part of the group's oil sales of oil are hedged against price reductions with the use of options. Costs relating to hedging are recognised as reduction in revenue, gains are recognised as revenue.

(2) Other revenues consist of a gain on sale amounting to NOK 199 million relating to the sale of PL 378 with the Grosbeak discovery. In addition, expected insurance coverage for the loss of oil production from the Siri area for the period between 1 – 24 January 2010 is included, amounting to NOK 37 million. See note 19 for further information on the insurance claim.

For Norwegian Energy Company ASA, other revenues relate to gain on sale of PL 378 Grosbeak, as well as gain on sale of PL 274 Oselvar to the subsidiary Altinex Oil Norway.

08 Production expenses

Production costs consist of the following:

(NOK 1 000)	Noreco group 2010	Noreco group 2009	Norwegian Energy Company ASA 2010	Norwegian Energy Company ASA 2009
Direct production costs	423 296	362 528	0	0
Duties, tariffs, royalties	83 349	60 105	0	0
Other costs	33 273	29 347	0	0
Total production costs	539 919	451 981	0	0

Production costs are related to production/extraction of oil, gas and NGL.

09 Exploration and evaluation expenses

Specification of exploration and evaluation costs expensed in the year:

(NOK 1 000)	Noreco group 2010	Noreco group 2009	Norwegian Energy Company ASA 2010	Norwegian Energy Company ASA 2009
Acquisition of seismic data, analysis and general G&G costs	185 264	254 374	173 479	245 913
Exploration wells capitalised in previous years	21 230	6 537	21 230	6 537
Dry exploration wells this years	338 703	194 792	338 703	194 792
Other exploration and evaluation costs	70 575	69 352	44 264	56 765
Total exploration and evaluation costs	615 772	525 054	577 676	504 007

Specification of cash outflows relating to exploration and evaluation activities

(NOK 1 000)	2010	2009	2010	2009
Exploration and evaluation costs capitalised as intangible assets this year	215 074	189 683	242 561	130 420
Exploration and evaluation costs directly expensed this year	594 542	518 519	556 446	497 470
Amount invested in exploration and evaluation activities this year	809 616	708 203	799 007	627 890

Notes

10 Personell expenses

Personnel expenses consist of the following:

(NOK 1 000)	Noreco group 2010	Noreco group 2009	Norwegian Energy Company ASA 2010	Norwegian Energy Company ASA 2009
Salaries	109 260	87 379	98 698	57 939
Social security tax	17 424	12 732	17 424	12 732
Pensions costs (note 23)	11 121	12 514	8 368	9 896
Costs relating to share-based payments (note 27)	15 447	7 855	12 771	6 196
Salaries from other group companies	0	0	(27 312)	(3 974)
Other personnel expenses	5 205	5 206	4 993	3 550
Total personnel expenses	158 457	125 687	114 941	86 339

Average number of man-years

	2010	2009	2010	2009
Norway	62	50	62	50
Denmark	27	27	-	-
Total	89	77	62	50

11 Related-party transactions

Compensation to key management

(NOK 1 000)	Director's fees	Remuneration	Bonus	Pension	(1) Other remuneration	Total compensation	(8) Number of shares	(2) Number of options	(3) Shares purchased in 2011
Senior executives									
Scott Kerr [4, 11] CEO		2 627	445	199	1 505	4 776	1 745 626	460 355	59 467
Jan Nagell [5] CFO		2 896	326	166	772	4 161	89 963	269 416	2 009
Einar Gjelsvik [11] VP, Development & Production		1 584	246	112	282	2 224	100 183	199 235	19 810
Thor Arne Olsen VP, Commercial		2 308	382	188	1 268	4 146	1 327 128	296 331	40 920
Rune Martinsen [12] VP, Strategy & Investor Relations		1 976	337	151	734	3 198	715 339	261 468	22 596
Synnøve Røysland [6] VP, Southern North Sea		2 394	311	196	111	3 011	16 948	-	-
Lars Fosvold VP, Exploration		1 686	288	166	618	2 757	110 067	150 573	26 044
Birte N. Borrevik VP, Projects & Technology		1 844	315	186	838	3 183	181 995	258 062	33 938
Stig Frøysland VP, HSE / HR		2 437	305	177	748	3 667	90 160	251 321	31 020
Board of Directors									
Lars Takla [7] Chairman of the Board	650					650	1 578 207		
John Hogan Board member	450					450	421 195		
Aasulv Tveitereid Board member	400					400	343 333		
Rebekka G. Herlofsen [13, 5] Board member	400					400	30 000		
Therese Log Bergjord Board member	400					400	24 000		
Bård Arve Lærum [9] Board member, staff representative	38	1 271	208	131	205	1 853	45 410	87 834	8 919
Ellen Sandra Bratland [9, 14] Board member, staff representative	38	1 469	243	170	415	2 335	48 421	85 935	12 589
Søren Poulsen [10] Board member, staff representative	113	1 273	222	142	92	1 842	667	84 258	-
Total compensation 2010	**2 488**	**23 765**	**3 628**	**1 985**	**7 588**	**39 453**	**6 868 642**	**2 404 788**	**257 312**
Total compensation 2009	1 975	17 320	0	1 445	6 981	27 721			

(1) Other remuneration include pension exceeding 12G, telephone, ADSL and other minor remunerations.
(2) The number of options includes bonus shares according to the Company's incentive arrangement.
(3) The Shares are purchased in January 2011 in connection with the incentive arrangements.
(4) Former CEO Scott Kerr owns convertible obligations in Noreco at nominal value NOK 4 million. A conversion of these bonds will result in 179 775 shares in Noreco ASA.
(5) Resigned 31 January, 2011. Rebekka Glasser Herlofsen was appointed CFO on 22 March 2011. Acting CFO in the interim period was Erik Borg.
(6) Resigned September 2010.
(7) Chairman of the Board Lars Takla owns 2 bonds in Noreco at nominal value TNOK 500.
(8) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management.
(9) From 1 October 2010.
(10) Until 1 October 2010.
(11) Resigned 22 March 2011. Acting CEO is Einar Gjelsvik.
(12) Resigned 22 March 2011. New VP for Strategy & Investor Relations is Kjetil Bakken.
(13) Until 22 March 2011.
(14) New COO from 30.03.2011.

Group management has an arrangement of 12 months pay after termination of employment.

The arrangement is applicable if the Company enters into a merger or an acquisition and the person concerned has to resign from his/her position.

The Company has not issued any loans or acted as a guarantor for directors or management.

Director's fees
The annual remuneration to board members is decided on by the Shareholder's Meeting. Current benefits are;

The Chairman of the Board receives an annual remuneration of NOK 650 000. The vice president of the Board receives an annual remuneration of NOK 450 000 and international and Norwegian members of the board receive an annual remuneration of NOK 400 000. The remuneration is paid quarterly. None of the Board's members have entered into any agreement to provide services to the Company except for services following their duty as Board members.The Board is not part of the Group's option program.

Staff representatives on the board of directors receive an annual remuneration of NOK 150 000. Deputy board memebers receives remuneration of NOK 5 000 per meeting they attend. The remuneration is paid quarterly.

In addition to the above, Board members are reimbursed for travel expenses and other expenses in connection with company related activities.

Board of Directors' Statement on Remuneration to the CEO and the Executive Officers.
In accordance with §6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors of Norwegian Energy Company ASA ("Noreco" or the "Company") has prepared a statement related to the determination of salary and other benefits for the CEO and other executive officers. The guidelines set out below for the CEO and other executive officers' salary and other benefits, for the coming fiscal year, will be presented to the shareholders for their advisory vote at the Annual General Meeting 28 April, 2011.

Noreco is a Norwegian E&P company, and its activities are focused in the North Sea (mainly Norway, Denmark and United Kingdom). Noreco's employment base is international. The total compensation package for the CEO and other executive officers shall therefore be competitive both within the Norwegian labour market and internationally. Both the level of total compensation and the structure of the compensation package for the CEO and other executive officers shall be such that it may attract and retain highly qualified international managers. This will require the use of several different instruments and measures also meant to provide incentives for enhanced performance and to ensure common goals and interest between the shareholders and management.

The current remuneration package for the CEO and other executive officers includes fixed elements and variable elements. The fixed elements consist of a base salary and other benefits. Other benefits include free mobile phone and similar benefits. The fixed elements also include life, accident and sickness insurance in accordance with normal practice in the oil industry and a pension plan for all the employees, including the executive officers and the CEO. The main elements of the pension scheme are a pension premium based on income up to the maximum of 12G and the award of Noreco shares for the value of the insurance premium for pension above 12G. The variable elements consist of an annual bonus scheme, a deferred bonus and participation in a share option program.

The level of the annual cash bonus is determined based on the Company's performance. The annual cash bonus has a maximum payment of 30% of the salary.

The employees, including the executive officers and the CEO, will have the opportunity to purchase Noreco shares equal to a maximum of 50% of the bonus at the time of the bonus payment (deferred bonus). Employees, who retain such shares for two years and are still employed by Noreco at that time, will be eligible for an award of additional matching shares on a one-for-one basis.

Group management has an arrangement of 12 months pay after termination of employment. The arrangement is applicable if the Company enters into a merger or an acquisition and the person concerned is not offered an equivalent position in the new company.

In 2011, the Board has at the date of this annual report decided that 3 295 625 options will be granted. The strike price for these options is NOK 14.85, which represents the volume weighed average trading price of the Noreco shares five trading days after the completion of the Strategic Review was notified to the market, i.e. after 23 March 2011. Of these options, the CEO has been granted options equal to 100% of the base salary and other members of management have been granted options equal to 80% of the base salary.

At the Annual General Meeting of shareholders on 28 April 2011, a proposal regarding the long-term share option program, has been submitted. The proposal suggests to impose a maximum limit to the amount of options that can be awarded over a 3-year period. The Board has specifically proposed that a maximum of 16.5 million options can be awarded over a period of three years, and that no employee can be granted options in a single financial year representing more than 100% of the base salary. The 3 295 625 options already granted for 2011 are included in the maximum number of 16.5 million. In case the proposal is approved and the maximum number of options are awarded, new options and existing options will represent a maximum dilution of approximately 9.5% relative to the current share capital. There have been no deviations from the guidelines described above in 2010.

The annual cash bonus for the CEO is approved by the Board of Directors in a meeting, based on recommendations from the Remuneration and Corporate Governance Committee, and the annual cash and share bonuses of the other executive officers are reviewed and approved by the Remuneration and Corporate Governance Committee based on the CEO's recommendation.

The Board of Directors will use this system for determining the level of annual cash and share bonus in the coming fiscal year.

Remuneration of the CEO and other executive officers will be evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors to ensure that salaries and other benefits are kept, at all times, within the above guidelines and principles.

12 Other operating expenses

Specification of other operating expenses

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Lease expenses [1]	22 140	11 264	20 179	8 901
IT expenses	27 741	38 541	20 764	28 113
Travel expenses	9 338	9 154	6 341	5 852
General and administrative costs	11 097	6 074	9 238	4 642
Consultant fees	55 671	35 058	31 819	30 172
Other operational expenses	7 300	3 482	4 540	5 402
Total other operating expenses	133 287	103 572	92 881	83 082

Auditor's fees

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Auditor's fees	2 217	2 131	520	632
Other audit related services	97	125	65	125
Other advisory services	766	1 260	639	772
Total fees	3 080	3 516	1 224	1 528
Total fees are distributed between the following;				
Kpmg AS	2 262	3 067	1 224	1 528
PWC	143	-	-	-
McIntyre Hudson Ltd	675	449	-	-
Total distributed fees	3 080	3 516	1 224	1 528

(1) The parent company moved to new offices in 2010. A one-off cost of NOK 8 million regarding the phasing out of the existing lease agreement has been expensed.

13 Operating leases

Operating leases:

Annual lease costs related to lease agreements accounted for as operating leases (NOK 1 000)	Noreco group		Norwegian Energy Company ASA	
	2010	**2009**	**2010**	**2009**
Office	22 140	7 933	20 179	5 568
Other	11 030	6 209	10 454	5 479

Future minimum lease payments under non-cancellable lease agreements (NOK 1 000)	2010	2009	2010	2009
2011	31 851	13 228	22 750	12 901
2012	108 974	9 115	17 230	9 109
2013	101 275	5 632	11 674	5 632
2014	96 443	5 568	8 980	5 568
>2014	168 292	10 802	6 548	10 802
Total	506 834	59 800	67 182	57 800

The group leases premises in all locations where they have operations. In addition some of the group's IT-equipment and other office-related equipment are being is leased.

FPSO's (floating production unit) Sevan Voyager is contracted to the Huntington field in which Noreco has a share through their subsidiary Altinex Oil UK Ltd. The leasing contract is valid 5 years from December 2011.

14 Financial income and expense

(NOK 1 000)	Noreco group		Norwegian Energy Company ASA	
Financial income	**2010**	**2009**	**2010**	**2009**
Interest income	20 788	28 309	16 548	7 643
Other financial income	2 778	12 957	2 671	25 399
Interest income from other group companies	0	0	38 082	30 862
Group contribution	0	0	0	0
Currency translation (1)	53 080	110 607	28 839	154 162
Total financial income	76 645	151 872	86 141	218 067
Financial expense	**2010**	**2009**	**2010**	**2009**
Interest expense from bond loans	274 240	339 809	244 865	307 059
Interest expense from convertible loans	13 110	13 110	13 110	13 110
Interest expense, other non-current liabilities	51 055	50 198	0	0
Interest expense from exploration loans	38 698	32 586	38 698	32 586
Amortisation of loan costs	44 329	95 512	34 648	86 385
Imputed interest from abandonment provisions	68 564	66 997	0	0
Interest expense, current liabilities	6 386	12 591	601	56
Interest expense to other group companies	0	0	8 218	73 307
Capitalised interest expenses (2)	(19 161)	(2 136)	0	(2 136)
Other financial expenses	10 019	13 712	9 441	7 756
Currency translation (1)	74 437	110 267	29 845	126 445
Total financial expense	561 676	732 645	379 426	644 568
Net financial items	(485 032)	(580 774)	(293 285)	(426 501)

(1) There are considerable exchange rate gains/losses in the financial statements of Norwegian Energy Company ASA. These relate mainly to unrealised exchange rate gains/losses related to loans to/from group companies where the principal is in USD. These items are eliminated in the consolidated financial statements.

(2) Capitalised borrowing costs relate to calculated interest expenses regarding the development of PL 274 Oselvar.

15 Tax

Tax expenses:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Tax payable	289 161	299 776	0	0
Tax refundable	(702 968)	(584 735)	(702 968)	(584 735)
Change in deferred tax	116 852	(230 647)	(55 982)	99 740
Change in deferred tax asset	(158 367)	(113 354)	(168 328)	(132 822)
Deferred tax not previously recognised	0	(85 746)	0	0
Change regarding previous years	31 786	5 666	23 497	23 393
Other items	(4 802)	141 158	0	0
Tax expense	**(428 339)**	**(567 882)**	**(903 780)**	**(594 425)**
Tax expense domestic	(477 346)	(547 227)	(903 780)	(594 424)
Tax expense foreign	49 007	(20 655)		

Specification of tax payable

(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Income (loss) before tax	**(423 815)**	**(935 871)**	**(869 356)**	**(1 100 720)**
Permanent differences	(157 882)	(14 792)	(266 627)	(67 350)
Tax-exempt profits from sale of non-current assets	0	0	(209 664)	0
Change in temporary differences	163 142	(25 559)	85 131	(109 000)
Other items	19 208	(29 107)	0	0
Uplift utilised this year	(56 445)	(36 163)	(152)	(6 225)
Utilised net operating loss	(40 192)	(30 394)	0	0
Finance items related to countries	306 270	405 614	294 876	409 764
Total basis of payable tax	**(189 715)**	**(666 272)**	**(965 792)**	**(873 531)**

Reconciliation of nominal to actual tax rate:

(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Income (loss) before tax	**(423 815)**	**(935 871)**	**(869 356)**	**(1 100 720)**
Company tax portion of income (loss) before tax	(150 505)	(273 578)	(243 420)	(308 202)
Special offshore tax portion	(414 307)	(543 792)	(434 678)	(550 360)
Recognised change deferred tax from previous years	44 628	(76 176)	0	0
Utilised uplift	(28 147)	(14 969)	0	0
Effect financial items	168 819	214 396	146 643	214 319
Permanent differences	28 740	108 673	44 628	37 879
Effect of tax-free transactons and other items	(343 129)	17 564	(314 855)	11 941
Tax expense	**(428 339)**	**(567 882)**	**(903 780)**	**(594 424)**

Deferred tax and deferred tax asset:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Net operating loss deductable	2 279 359	1 613 986	1 800 480	1 102 190
Fixed assets	(5 521 833)	(5 767 728)	(513 674)	(590 934)
Current assets	(385 071)	(248 189)	0	0
Liabilities	247 401	141 067	18 891	11 019
Other	426 311	459 167	0	0
Basis of deferred tax/deferred tax asset	**(2 953 833)**	**(3 801 697)**	**1 305 697**	**522 275**
Net deferred tax/deferred tax asset	**1 794 174**	**2 046 697**	**(108 768)**	**146 487**
Unrecognised deferred tax asset	(5 101)	19 014	30 934	0
Deferred tax/deferred tax asset recognised	**1 789 073**	**2 065 711**	**(77 834)**	**146 487**
Recognised deferred tax asset (1)	(594 800)	(429 521)	(478 489)	(310 162)
Recognised deferred tax (2)	2 383 873	2 495 232	400 656	456 647
Recognised deferred tax asset domestic	(499 484)	(338 342)	(478 489)	(310 162)
Recognised deferred tax asset foreign	(95 316)	(91 179)		
Recognised deferred tax domestic	701 592	790 756	400 656	456 647
Recognised deferred tax foreign	1 682 281	1 704 476		

(1) Deferred tax asset relates to Norwegian and English tax jurisdiction
(2) Deferred tax related to special offshore tax in norwegian tax legislation, deferred tax in foreign subsidiaries and deferred tax related to identified excess values on acquisition date.

The Group has in 2010 recognised deferred tax asset related to companies in Norway and UK. This is based upon an assesment that the Group will generate taxable profits which will make the utilisation of the deferred tax asset probable. The assesments is based on the activity level and size of the Group through 2010, as well as Managements expectations regarding future development and future prospects.

Based upon expected future income and realistic assumptions and the unlimited possibility of utilising the net operating loss, the Management assesses that there are strong indications that sufficient taxable income will be earned in future periods in order to fully utilise the net operating loss.

The Group has not recognised deferred tax assets related to net operating loss in the subsidiary Noreco UK. Unrecognised deferred tax asset in this respect amounts to NOK 14 million. This company has currently no income and as such the deferred tax assets are not recognised.

16 Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during 2010.

	Noreco group		Norwegian Energy Company ASA	
	2010	**2009**	**2010**	**2009**
Net profit attributable to ordinary shareholders	4 525	(367 989)	34 424	(506 297)
Interest expense on convertible notes, net of tax	9 439	9 439	9 439	9 439
Net profit attributable to ordinary shareholders, diluted	13 964	(358 550)	43 863	(496 858)
Ordinary shares in issue 1 Jarnuary	242 433 766		242 433 766	
Shares issued January 2010	557 925		557 925	
Weighted average number of ordinary shares	242 991 691	169 720 800	242 991 691	169 720 800
Effect of conversion of convertible notes	9 820 225	9 820 225	9 820 225	9 820 225
Effect of share options	3 311 946	0	3 311 946	0
Weighted average number of ordinary shares, diluted	256 123 862	179 541 025	256 123 862	179 541 025
Earnings per share	0.02	(2.17)	0.14	(2.98)
Earnings per share, diluted	0.05	(2.17)	0.17	(2.98)

The Company has implemented an option program which includes all employees in the Noreco Group. Total granted options as of 14 March 2011 is 6 115 559 of which 4 790 497 is granted employees in the parent company.

The employees have, in accordance with the Group's incentive agreements, 221 317 bonus shares outstanding as of 14 March 2011 of which 210 411 concerns employees in the parent company. These options/bonus shares could result in a future dilution effect.

17 Intangible assets

Noreco group

2010 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Goodwill	Total
Acquisition cost 01.01.	3 957 132	17 801	1 540 798	5 515 731
Additions	452 664	101 113	0	553 777
Disposals (1)	(316 820)	(109 039)	0	(425 859)
Transferred to assets for sale	(1 033)	0	(11 700)	(12 733)
Currency translations	715	0	0	715
Acquisition cost 31.12	**4 092 658**	**9 875**	**1 529 098**	**5 631 632**
Accumlumated depreciation and write-downs				
Accumulated depreciation and write-downs 01.01	125 700	0	0	125 700
Depreciation	0	0	0	0
Write-downs	0	0	36 500	36 500
Accumlumated depreciation and write-downs 31.12	**125 700**	**0**	**36 500**	**162 200**
Book value 31.12	**3 966 958**	**9875**	**1 492 598**	**5 469 432**
Economic life	N/A	N/A	N/A	

2009 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Goodwill	Total
Acquisition cost 01.01.	4 539 073	56 314	1 540 798	6 136 185
Additions	185 683	4 000	0	189 683
Transferred to assets under construction	(630 797)	(42 513)	0	(673 310)
Disposals (1)	(82 866)	0	0	(82 866)
Currency translations	(53 960)	0	0	(53 960)
Acquisition cost 31.12	**3 957 132**	**17 801**	**1 540 798**	**5 515 731**
Accumlumated depreciation and write-downs				
Accumulated depreciation and write-downs 01.01	0	0	0	0
Write-downs	125 700	0	0	125 700
Accumlumated amortisation and impairment 31.12	**125 700**	**0**	**0**	**125 700**
Book value 31.12	**3 831 432**	**17 801**	**1 540 798**	**5 390 031**
Economic life	N/A	N/A	N/A	

Norwegian Energy Company ASA

2010 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Total
Acquisition cost 01.01	384 748	17 801	402 549
Additions	443 056	138 208	581 264
Transferred to assets under construction	0	0	0
Disposals	(316 820)	(109 039)	(425 859)
Acquisition cost 31.12	**510 984**	**46 970**	**557 954**
Accumlumated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01	0	0	0
Write-down	0	0	0
Accumlumated amortisation and impairment 31.12	**0**	**0**	**0**
Book value 31.12	**510 984**	**46 970**	**557 954**
Economic life	N/A	N/A	

2009 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Total
Acquisition cost 01.01	462 925	56 314	519 239
Additions	126 420	4 000	130 420
Transferred to assets under construction	(204 598)	(42 513)	(247 111)
Disposals	0	0	0
Acquisition cost 31.12	**384 748**	**17 801**	**402 549**
Accumlumated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01	0	0	0
Write-down	0	0	0
Accumlumated amortisation and impairment 31.12	**0**	**0**	**0**
Book value 31.12	**384 748**	**17 801**	**402 549**
Economic life	N/A	N/A	

(1) Impairment is recognised for capitalised exploration and evaluation expenses related to drillings where the conclusion of the evaluation of results is that development is not commercially viable. See accounting principle note for the accounting of exploration and evaluation expenses.

Capitalised exploration and evaluation expenses
Capitalised exploration and evaluation expenses are accounted for in accordance with the "successful effort" method. Purchases of exploration licenses are capitalized as intangible assets. Exploration and evaluation expenses incurred related to exploration drilling is capitalized pending a final evaluation of commercial discoveries. At subsequent evaluations the capitalised amount is evaluated according to IFRS requirements for the evaluation of intangible assets. If a development decision is made, the capitalised amount is transferred to asset under construction. If commercial discoveries have not been made, the capitalised amount is expensed as exploration and evaluation expenses. Capitalised exploration and evaluation expenses are not subject to amortisation.

Overview of Goodwill

(NOK 1 000)	Currency	Exchange rate	Cost price currency	Date of acquiring	Book value as of 31.12
Enoch [1]	NOK	1.00	11 700	10-05-05	0
Brage	NOK	1.00	288 491	01-01-06	288 491
Altinex ASA (group)	NOK	1.00	1 186 304	01-07-07	1 149 804
Siri UK (Talisman Denmark Ltd)	NOK	1.00	54 303	18-06-08	54 303
Total Goodwill			**1 540 798**		**1 492 598**

(1) Goodwill of NOK 11.7 million relating to Enoch have been transferred to assets held for sale.

Impairment test for goodwill, licenses and production facilities
Goodwill is allocated to the group's cash-generating units identified by which acquisition the goodwill relates to and the allocation from each acquistion. Noreco group uses the Groups segment reporting as a basis for cash-generating units for goodwill.

In accordance with the group's accounting policies, an impairment test for the group's goodwill, licenses and production facilities has been carried out at 31.12.2010. The impairment tests are carried out by the company and are based on expected cash flows from relevant reserves. For licenses which still are considered to be in an exploration phase an average price multiple based on several analyst estimates have been used. Expected cash flows from relevant reserves are derived from approved budgets.

The impairment calculations are based on the following assumptions:

Prognosis period [1]	Estimated life time of the oil field
Cash flow	After tax
Discount rate (after tax)	9.0 %
Oil price	The market's forward curve for oil price for the period 2011–2017. From 2018 the oil price is adjusted for inflation.
Exchange rate USD/NOK	The market's annual average forward-rate for the period 2011–2014. From 2015 the average rate for 2014 is used.
Reserves	Based on the company's estimated reserves at 31.12.10
Inflation	2.5 %

(1) In estimating the recoverable amount for fields, an estimation period corresponding to the lifetime of the individual field is used. This is because the production profiles, investment costs, abandonment provisions, and timing for abandonment significantly affect the value of future cash flows and can be reasonably estimated over the total lifetime of the oil fields.

The carrying amount of goodwill, licenses and capitalised exploration and evaluation expenses and production facilities incl. removal asset and assets under construction are tested for impairment at 31.12.2010. In the calculation, the same assumptions as described above are used.

The calculation shows that the recoverable amount of goodwill exceeds the carrying amount given the above assumptions. For the entities/units that have goodwill allocated to them the margin between the recoverable and carrying amount varies. The most sensitive assumption used in the calculation is the reserve estimate. The future value for producing fields will gradually decrease based on less remaining reserves. The lowest margin is currently related to Altinex Oil Norway AS and the Brage field which is in the tail-end of its production cycle. Based on expected development of above mentioned assumptions, it is likely that the goodwill related to Altinex Oil Norway AS and Brage unit will suffer impairment in the coming years. In 2010 a writedown of

MNOK 36,5 was made in Altinex Oil Norway AS. By assuming that the production for 2011 remains on today's levels and the other assumptions also remains constant, there will be an impairment need of approximately NOK 100 – 150 million before tax for 2011.

The calculations show that the recoverable amount for licenses and capitalised exploration costs is greater than the carrying amount, given the assumptions that are used. The calculated values are most sensitive to changes in the oil price, foreign exchange rate and expected future production. A significant change in assumptions would have to occur before an impaiment would be the outcome.

The calculations show that the recoverable amount for production facilities is greater than the carrying amount, given the assumptions that are used. The calculated values are most sensitive to changes in the oil price, foreign exchange rate and expected future production. A significant change in assumptions would have to occur before an impaiment would be the outcome.

18 Tangible assets

Noreco group

2010 (NOK 1 000)	Assets under construction	Production facilities	Machinery and equipment	Total
Acquisition cost 01.01.	1 232 223	4 330 263	8 200	5 570 686
Additions	290 195	332 394	0	622 589
Transferred	(861 180)	861 180	0	0
Transferred to assets held for sale	(542 526)	(29 864)	0	(572 390)
Removal and decommissioning asset	0	28 664	0	28 664
Disposals	0	0	0	0
Currency translation	3 076	21 747	7	24 829
Acquisition cost 31.12.	**121 787**	**5 544 384**	**8 207**	**5 674 378**
Depreciation and write-downs				
Accumulated depreciation and write-downs 01.01	0	(1 463 427)	(7 550)	(1 470 977)
Depreciation	0	(600 763)	(547)	(601 310)
Currency translation	0	(1 073)	(2)	(1075)
Accumulated depreciation and write-downs 31.12	**0**	**(2 065 263)**	**(8099)**	**(2 073 363)**
Balance at 31.12	**121 787**	**3 479 120**	**108**	**3 601 016**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	Unit of production method	Linear	

2009 (NOK 1 000)	Assets under construction	Production facilities	Office equipment and furniture	Total
Acquisition cost 01.01.	176 666	4 456 749	8 312	4 641 727
Additions	434 733	364 912	0	799 645
Transfered from capitalised exploration expenses	673 310	0	0	673 310
Disposals	0	(51 201)	0	-51 201
Currency translation	(52 486)	(440 197)	(112)	-492 795
Acquisition cost 31.12.	**1 232 223**	**4 330 263**	**8 200**	**5 570 686**
Depreciation and write-downs				
Accumulated depreciation and write-downs 01.01	0	(1 094 625)	(4 718)	(1 099 343)
Depreciation	0	(511 193)	(2 833)	(514 026)
Currency translation	0	142 391	1	142 392
Accumulated depreciation and write-downs 31.12	**0**	**(1 463 427)**	**(7 550)**	**(1 470 978)**
Balance at 31.12	**1 232 223**	**2 866 835**	**650**	**4 099 708**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	Unit of production method	Linear	

Norwegian Energy Company ASA

2010 (NOK 1 000)	Assets under construction	Machinery and equipment	Total
Acquisition cost 01.01.	332 247	3 799	336 046
Additions	2 021	0	2 021
Disposals	(332 247)	0	(332 247)
Acquisition cost 31.12.	**2 021**	**3 799**	**5 820**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01	0	(3 536)	(3 536)
Depreciation	0	(237)	(237)
Accumulated depreciation and write-downs 31.12	**0**	**(3 773)**	**(3 773)**
Balance at 31.12	**2 021**	**26**	**2 047**
Economic life	N/A	3-5 years	
Depreciation plan	N/A	Linear	

2009 (NOK 1 000)	Assets under construction	Machinery and equipment	Total
Acquisition cost 01.01.	0	3 799	3 799
Additions	85 136	0	85 136
Transfered from capitalised exploration expenses	247 111	0	247 111
Disposals	0	0	0
Acquisition cost 31.12.	**332 247**	**3 799**	**336 046**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01	0	(2 744)	(2 744)
Depreciation	0	(792)	(792)
Accumulated depreciation and write-downs 31.12	**0**	**(3 536)**	**(3 536)**
Balance at 31.12	**332 247**	**263**	**332 510**
Economic life	N/A	3-5 years	
Depreciation plan	N/A	Linear	

Production facilities are depreciated from the date operation starts. The facilities are depreciated using the unit of production method. The depreciations are calculated by multiplying depreciation basis with production in the period allocated over estimated proved reserves, see note 34. The basis for depreciation is allocated between investments in production facilities and infrastructure being used the entire lifetime of the field and production facilities and infrastructure exclusively used in connection with developed reserves. The first-mentioned uses total proved reserves (developed and non-developed) as allocation basis, and the last-mentioned uses total proved developed reserves as basis for allocation.

Other tangible assets are depreciated on a straigh-line basis over estimated economic lifetime. Estimated economic lifetime is assumed to be between 3 and 5 years.

Reassessments of estimated economic lifetime are carried out annually. Changes in such estimates are accounted for prospectively.

Production facilities are tested for impairment (see note 17).
Recoverable amount exceeds the carrying amount, resulting in no impairment.

19 Trade receivables and other current receivables

Specification of current assets	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Assets held for sale	590 389	0	0	0
Trade receivables	208 455	133 619	8 345	2 819
Tax receivable (see note 15)	730 891	631 261	702 968	584 735
Receivables from group companies	0	0	184 073	77 864
Other receivables	570 853	446 020	47 711	43 846
Financial instruments	8 831	58 227	0	0
Bank deposit, cash and cash equivalents	892 482	659 812	732 420	575 405
Total current assets	**3 001 901**	**1 928 939**	**1 675 518**	**1 284 669**

The Groups maximum credit risk related to financial instruments equals total current assets. In a hypothetical and unlikely situation where no receivables are settled the maximum loss for the Group is illustrated in the table above.

The tax receivable in Norwegian Energy Company ASA relates to the reimbursement scheme of exploration costs according to the Petroleum Tax Act. The tax receivable is to be collected simultaneously as the exploration loan is to be paid. In addition, we refer to note 26 for information on trade payable and other current liabilities. The remaining tax receivables are excess advance tax payments in ogher group companies.

Specification of assets held for sale	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Licenses and capitalized exploration costs	1 033	0	0	0
Goodwill	11 700	0	0	0
Production facilities	29 864	0	0	0
Assets under construction	542 526	0	0	0
Other receivables (underlift)	5 266	0	0	0
Total assets held for sale	**590 389**	**0**	**0**	**0**

In September 2010 an agreement was made with Marubeni Corporation regarding the sale of PL274 Oselvar and PL 048D Enoch. In March 2011 the parties were informed that the buyer did not satisfy the requirements pertaining to licensees on the Norwegian continental shelf, and at the end of March 2011 Noreco chose to terminate the agreement. Assets associated with these licenses are presented in the financial statements as assets held for sale, as it per. 31.12.2010 was considered highly probable that the sale would be completed. For details on liabilities/debt held for sale, see note 26.

Other receivables

(NOK 1 000)	Noreco group 2010	Noreco group 2009	Norwegian Energy Company ASA 2010	Norwegian Energy Company ASA 2009
Receivables from operators relating to joint venture licences	140 528	186 186	2 062	16 615
Underlift oil/NGL [1]	62 291	21 171	0	0
Other receivables	368 034	238 663	45 649	27 231
Total other receivables	**570 853**	**446 020**	**47 711**	**43 846**

(1) Specification of underlift oil [2]	boe	USD/boe	Value (TNOK)
Underlift oil	119 744	88.13	61 803
Underlift NGL	1 060	78.77	489
Total	120 804	88.05	62 291

(2) (Underlift and overlift oil and NGL from the different fields is presented as gross amounts. For specification of overlift, see note 26 Trade Payables and other Payables.

Current assets exclusive bank deposit, cash and assets for sale, in currency

(NOK 1 000)	Noreco group 2010	Noreco group 2009	Norwegian Energy Company ASA 2010	Norwegian Energy Company ASA 2009
NOK	729 989	750 017	877 825	699 739
DKK	135 627	97 753	0	0
USD	642 841	337 966	65 260	2 657
GBP	7 379	83 390	13	6 868
EUR	3 193	0	0	0
Total	1 519 030	1 269 127	943 098	709 264

Receivables are valued at amortised cost. Uncertain receivables are written down to estimated recoverable amount. Fair value is not considered to diverge from booked amount.

Other receivables include NOK 355 million that relates to estimated insurance coverage from the shut down on the Siri field. The amount covers repair costs and loss of production.

The Group's trade receivables are mainly consisting of receivables related to sales of hydrocarbons. The debtors are large established oil companies and the credit risk is considered to be low. The Group has not realised any losses on receivables in 2010 and 2009.

Receivables in USD are mainly in subsidiaries which have USD as their functional currency. The Company has not hedged receivables against fluctuations in currency. The Company has operating costs in different currencies and receivables will hedge trade payables and other current liabilities in different currencies. The Company has not used hedge accounting in such instances.

20 Other financial instruments

Financial derivatives entered into to hedge future cash flows:
The group's strategy is to hedge against fluctuations in the price of oil. This is carried out by the purchase of put options for a proportion of the estimated oil production. These options give the company the right, but not the obligation, to the sale of oil at a minimum price. The options qualify as a hedging instrument because they ensure future cash inflows to the company. Unrealised changes in the value of options entered into are accounted for as a separate item booked directly to equity. If realised gains/losses on the options are recognized as revenue increases/decreases in the income statement, and the element booked directly to equity is reversed.

At 31.12.10 the Group has the following option contracts:

	Cost (USD 1 000)	Book value (USD 1 000)	Book value/ Fair value (NOK 1 000)	Unrealised gains/losses directly against equity (NOK 1 000)
Options expiring in 2011	2 963	224	1 312	(16 041)
Options expiring in 2012	2 497	909	5 323	(9 300)
Options expiring in 2013	383	375	2 196	(44)
Total value options contracts	5 843	1 508	8 831	(25 385)

- The financial derivatives is classified on level 2 in the fair value hierarchy and amounts to NOK 8.83 million. There are no financial instruments that are accounted for under level 1 and level 2 in the fair value hierarchy.
- Fair values of the financial instruments are calculated using the Black and Scholes Merton option pricing model together with historic volatility.
- Options have been purchased in subsidiaries with a functional currency of both USD and NOK. Currency translation to NOK is carried out using the exchange rate at the balance sheet date.
- Changes in value of the financial instruments is recognised in other comprehensive income.
- The company hedges part of its oil production based on production estimates. Production can be estimated with a high degree of certainty, this means that there is high probability that future cash flows will be reached. In 2010, the group has experienced situations where hedged oil sales have actually exceeded actual oil sales (see note 7 Revenue). Options with expiry date in 2011, 2012 and 2013 hedge a proportion of the expected cash flows based on expected production for 2011, 2012 and 2013 respectively.

Changes to equity relating to hedging of cash flows, during the year:

Fair value of cash flow hedging - opening balance 01.01.10	59 192
Amount incorporated in equity	(34 036)
Amount transferred from equity to income statement	(16 325)
Fair value of cash flow hedging - closing balance 31.12.10	8 831

A significant part of the fair value of their cash flow hedges would by 2011 have matured and then be recognized in other comprehensive income.

Fair value and carrying amount of financial assets

	31.12.10 Carrying amount	Fair value	31.12.09 Carrying amount	Fair value
Oil price hedging	8 831	8 831	58 227	58 227
Total financial assets	8 831	8 831	58 227	58 227

21 Cash and cash equivalents

Specification of cash and cash equivalents

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Cash at bank and cash (free assets, non-restricted)	858 581	623 225	725 288	561 716
Cash at bank and cash (restricted)	33 901	36 587	7 132	13 689
Cash and cash equivalents in balance sheet	892 482	659 812	732 420	575 405

Restricted funds
The main part of the Group's restricted funds is related to guarantee for payments to Gassco regarding the use of pipeline capacity for transportation of gas and NGL, NOK 5.1 million and NOK 21.7 million as partial payment from Marubeni Corporation in relation to a sales contract for PL274 Oselvar and PL 048D Enoch. In the parent company, the main part of restricted funds is related to means of withholding tax.

Cash held in different currency

		Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**Amount in currency**	**2010**	**2009**	**2010**	**2009**
NOK	689 149	689 149	593 056	667 147	566 689
DKK	(8 755)	(9 176)	3 969	0	0
USD	34 623	202 766	36 127	65 260	161
EUR	225	1 756	13 428	0	0
GBP	881	7 986	13 232	13	8 555
Total		892 482	659 812	732 420	575 405

There are no differences between fair value and carrying amount for cash at bank.

Overdraft facilities

(NOK 1 000)	**Amount in currency**	**NOK**	**Used**	**Unused**
NOK (exploration loan) [1)]	1 550 000	1 550 000	666 334	883 666
USD	5 000	29 282	14 418	14 864
USD (reserve based lending facilities, see note 25)	240 500	1 408 465	1 264 982	143 482
Total		2 987 746	1 945 735	1 042 012
Cash and cash equivalents				892 482
Accessible liquidity				1 934 494

1) Concerns Parent Company

22 Share capital and share premium reserve

	2010	**2009**
Ordinary shares	243 038 047	242 433 766
Total shares	**243 038 047**	**242 433 766**

The company's share capital is NOK 753.418 million and consists of 243 038 047 shares with a face value of NOK 3.10. The company does not own any of its own shares.

All shares have equal rights.

Changes in share capital and share premium reserve:

	No. of shares	**Share Capital**	**Share Premium Reserve**
Equity at 1 Januar 2009	**143 363 877**	**444 428**	**1 869 200**
Share issue January 2009	505 060	1 566	5 303
Share issue May 2009	13 400 000	41 540	172 860
Share issue October 2009	80 000 000	248 000	952 000
Share issue November 2009	5 164 829	16 011	61 461
Share issue costs	0	0	(71 475)
Coverage of accumulated losses	0	0	(506 297)
Equity at 31 December 2009	**242 433 766**	**751 545**	**2 483 054**
Equity at 1 Januar 2010	**242 433 766**	**751 545**	**2 483 054**
Share issue January 2010	604 281	1 873	10 001
Share issue costs	0	0	(552)
Equity at 31 December 2009	**243 038 047**	**753 418**	**2 492 503**

In January 2011 a private placing was made to the company's employees. The share issue was NOK 2.5 million and involved 804.867 shares at a face value of NOK 3.10. The share premium reserve amounted to NOK 11.9 million.

Existing mandates
The Board of Directors was granted a mandate by the General Meeting of 6 May 2010 to increase the share capital by up to NOK 7.75 million by issuing up to 2 500 000 new shares at the face value of NOK 3.10. The offer price and further subscription conditions are determined by the board. Existing shareholders priority in terms of subscription can be departed from. The purpose of the mandate is to issue shares in connection with existing and future incentive programs for Norwegian employees in the Noreco group. The mandate is valid from the date which it is registered in the Register for Business Enterprises and until 1 June 2011. As of 14 March 2011, there are 1.695.133 remaining shares at a face value of NOK 3.10.

The above-mentioned mandates replace all previously granted mandates relating to the issuing of shares.

Overview of shareholders at 31 December 2010:

Name	Shareholding	Ownership share	Voting share
Bank of New York Mellon SA	33 606 792	13.83 %	13.83 %
Lyse Energi AS	23 647 460	9.73 %	9.73 %
IKM Industri-Invest AS	14 586 584	6.00 %	6.00 %
Folketrygdfondet	10 748 654	4.42 %	4.42 %
Credit Suisse Securities LLC	9 541 957	3.93 %	3.93 %
UBS AG London	8 481 747	3.49 %	3.49 %
Awilco Invest AS	7 235 578	2.98 %	2.98 %
OM Holding AS	5 664 022	2.33 %	2.33 %
Skagen Invest	5 314 393	2.19 %	2.19 %
Frode Teigen	4 250 000	1.75 %	1.75 %
JP Morgan Chase Bank	3 457 566	1.42 %	1.42 %
Morgan Stanley & Co Inc	3 263 908	1.34 %	1.34 %
Varma Mutual pension Insurance	3 012 339	1.24 %	1.24 %
Nordea Bank Norge ASA	2 983 000	1.23 %	1.23 %
Avanse Norden	2 544 963	1.05 %	1.05 %
Deutsche Bank AG London	2 416 815	0.99 %	0.99 %
DnB Nor Norden	2 364 160	0.97 %	0.97 %
KLP LK Aksjer	2 296 341	0.94 %	0.94 %
DnB Nor SMB	2 180 000	0.90 %	0.90 %
BNP Paribas	1 921 717	0.79 %	0.79 %
Total	**149 517 996**	**61.5 %**	**61.5 %**
Total other shareholders	**93 520 051**	**38.5 %**	**38.5 %**
Total number of shares at 31 December 2010	**243 038 047**	**100 %**	**100 %**

As of 14 March 2011, there are no major changes in the shareholder structure.

23 Pensions

Defined benefit plan
Employees in the Parent Company have a defined benefit group plan in a life assurance company. The plan comprises 72 persons as of 31 December, 2010 and 50 persons as of 31 December, 2009. The defined benefit plan for the Parent company was established in 2006. The remainder of the employees are covered through a defined contribution plan.

The Norwegian Companies are obliged to have occupational pension in accordance with the Norwegian act related to mandatory occupational pension. All companies meets the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon).

The actuarial assumptions used are based on common used assumptions for insurance regarding demographics.

This years pension costs are calculated as follows:

		Noreco group	Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Service cost	8 186	9 210	8 186	9 210
Interest cost	962	629	962	629
Expected return on plan assets	(1 028)	(711)	(1 028)	(711)
Administrational expenses	170	110	170	110
Amortisation of payroll tax	1 169	1 303	1 169	1 303
Amortisation of net actuarial losses (gains)	67	290	67	290
Total pension cost	**9 525**	**10 830**	**9 525**	**10 830**

Movement in defined benefit obligation

(NOK 1 000)	2010	2009	2010	2009
Defined benefit obligation 1.1	20 471	14 628	20 471	14 628
Service cost	8 186	9 210	8 186	9 210
Interest	962	629	962	629
Actuarial gains/losses	4 672	(3 995)	4 672	(3 995)
Defined benefit obligation 31.12	34 291	20 471	34 291	20 471

Movement in fair value of plan assets

(NOK 1 000)	2010	2009	2010	2009
Fair value of plan assets 1.1	13 862	8 144	13 862	8 144
Expected return on plan assets	1 028	711	1 028	711
Actuarial gains/losses	(3 076)	(1 265)	(3 076)	(1 265)
Administration costs	(170)	(110)	(170)	(110)
Contributions paid into the plan	8 210	6 382	8 210	6 382
Fair value of plan assets 31.12	19 855	13 862	19 855	13 862

Movement in net BDO

	2010	2009	2010	2009
DBO at end of year	34 291	20 471	34 291	20 471
Fair value of plan assets at end of year	(19 855)	(13 862)	(19 855)	(13 862)
Net pension liability 31.12	14 436	6 610	14 436	6 610
Payroll tax of funded status	2 036	932	2 036	932
Unrecognised net actuarial loss (gain)	(11 954)	(3 181)	(11 954)	(3 181)
Net pension liability as of 31.12	**4 518**	**4 360**	**4 518**	**4 360**

Plan assets comprise

	2010	2009	2010	2009
Equity securities	15.10 %	13.50 %	15.10 %	13.50 %
Bonds	15.40 %	23.30 %	15.40 %	23.30 %
Moneymarket	17.40 %	8.50 %	17.40 %	8.50 %
Long term bonds	33.70 %	35.70 %	33.70 %	35.70 %
Property	16.80 %	16.60 %	16.80 %	16.60 %
Other	1.50 %	2.30 %	1.50 %	2.30 %

The following assumptions have been used in the calculation of pension cost and defined benefit obligation.

		Noreco group		Norwegian Energy Company ASA
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Discount rate	4.20 %	4.70 %	4.20 %	4.70 %
Expected return on assets	5.50 %	5.75 %	5.50 %	5.75 %
Rate of compensation increase	4.50 %	4.50 %	4.50 %	4.50 %
Increase of social security base amount (G)	3.75 %	4.00 %	3.75 %	4.00 %
Rate of pension increase	1.80 %	2.00 %	1.80 %	2.00 %
Payroll tax	14.10 %	14.10 %	14.10 %	14.10 %

The company expects to pay NOK 8.6 million to the plan assets in 2011.

Pension costs related to the company's defined contribution plan amounts to NOK 2.8 million for 2010. For 2009 the corresponding costs were NOK 2.6 milion.

24 Provisions

Specitication of abandonment provision

		Noreco group		Norwegian Energy Company ASA
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Balance at 1.1.	734 842	852 039	0	0
Provisions made during the year	22 074	(51 201)	0	0
Time value/calculatory interest	68 564	66 997	0	0
Transferred to liabilities/debt held for sale	(3 927)	0	0	0
Currency translation	7 482	(132 993)	0	0
Provision made for abandonment provision at 31.12	**829 035**	**734 842**	**0**	**0**

Provisions made for abandonment includes the future expected costs for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a discount rate of 9% to calculate the net present value of the obligation. Inflation is assumed to be 2.5%.

Expected maturity

		Noreco group		Norwegian Energy Company ASA
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
1-5 years	11 504	12 293	0	0
6-10 years	561 881	2 987	0	0
over 10 years	255 650	719 562	0	0
Provision made for abandonment at 31.12	**829 035**	**734 842**	**0**	**0**

25 Non-current liabilities

(NOK 1 000)	Currency	Nominal rate	Loan maturity	First due date, interest	Face value 2010	Carrying amount (b) 2010	Market value (c) 2010	Face value 2009	Carrying amount (b) 2009	Market value (c) 2009
Bond loan Noreco ASA [1]	NOK	12.90 %	20-11-14	21-02-11	1 250 000	1 231 562	1 309 375	1 250 000	1 226 820	1 268 750
Bond loan Noreco ASA [2]	NOK	Nibor 3. mths + 7.9 %	20-11-12	21-02-11	750 000	741 044	774 375	750 000	736 303	753 750
Bond loan Noreco ASA [3]	NOK	Nibor 3. mths + 8.0 %	06-12-13	07-03-11	700 000	685 976	703 500	0	0	0
Convertible loan Noreco ASA [4]	NOK	6.00 %	11-05-12	11-05-11	218 500	205 951	218 500	218 500	196 539	218 500
Total Norwegian Energy Company ASA					**2 918 500**	**2 864 533**	**3 005 750**	**2 218 500**	**2 159 662**	**2 241 000**
Bond loan Altinex Oil Norway AS [5]	NOK	9.50 %	09-02-11	09-02-11	0	0	0	300 000	298 269	302 250
Reserve- based loan Altinex Oil Denmark A/S [6]	USD	Libor + margin (a)	31-03-14	16-01-11	982 119	943 612	982 119	1 053 866	1 026 595	1 053 866
SUM Remaining group companies					**982 119**	**943 612**	**982 119**	**1 353 866**	**1 324 864**	**1 356 116**
Total non-current liabilities Noreco group					**3 900 619**	**3 808 145**	**3 987 869**	**3 572 366**	**3 484 525**	**3 597 116**

(a) The interest rate margin will vary according to use of the loan facility.
The interest rate margin will vary between 2.5 % and 3.5 %
(b) All non-current liabilities are recognised at amortised cost.
(c) Market value is equal to the rate the bond is priced in the market at year end.

(1) The bond loan was entered into in November 2009 with a face value of NOK 1 250 million. The borrowing cost is capitalised initially and amortized over the term of the loan. The interest is a fixed coupon rate set at 12.90% annually. Interest is paid in arrears quarterly. Remaining amortization at 31.12.10 is NOK 18.439 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR04. The loan is issued against pledged collateral, see note 29.

(2) The bond loan was entered into in November 2009 with a face value of NOK 750 million. The borrowing cost is capitalized initially and amortized over the term of the loan. The interest is NIBOR 3 months + a margin of 7.90%. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.10 is NOK 9 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR03. The loan is issued against pledged collateral, see note 29.

The company can for NOR04 redeem the bond loan at the following rates; November 2011 – rate 108, November 2012 – rate 106, November 2013 – rate 105 and November 2014 – rate 103. For NOR03 the company can redeem the bond loan at the following rates; November 2011 – rate 108, November 2012 – rate 104.

The loans have the following 2 conditions. The group shall maintain an equity to capital employed ratio of minimum 25 %. The group shall maintain an Gearing-ratio of less than 5.0. The group is not in breach of the conditions of the loan agreement.

(3) The bond loan was entered into in November 2010 with a face value of NOK 700 million. The borrowing cost is capitalized initially and amortized over the term of the loan. The interest rate is NIBOR 3 months + a margin of 8,00%. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.10 is NOK 14 million. The loan is listed on Oslo Stock Exchange with the ticker NOR05

(4) The convertible loan was entered into in May 2007 with a face value of NOK 440 million. NOK 10 million was converted in August 2007 and NOK 211.5 million was converted in July 2008, such that the liability at the end of 2010 has a face value of NOK 218.5 million. The fixed interest rate is 6 % and is paid in arrears semi-annually. The bond owner has an unconditional right to demand the issuance of shares in the company at any time during the term of the loan. When conversion takes place, 22.25 NOK per share shall be paid as a counter-claim to the receivable. Loans with accompanying rights to demand issuance of shares are free to be sold. The new shares give dividend rights as from the financial year in which the right to demand shares is exercised.

(5) The bond loan was entered into in February 2006 with a face value of NOK 300 million. The loan expense is amortised and carried to cost over the term of the loan. The loan has a fixed coupon rate of 9.50 %. Interest is paid in arrears semi-annually. Remaining amortisation at 31.12.10 is NOK 0.2 million. The loan is issued against pledged collateral, see note 29. The loan matures in February 2011 and is classified as short-term debt at 31.12.10. The loan was listed on Oslo Stock Exchange with the ticker ALX02

The loan requires a minimum equity ratio of 25 % in the financial statements of Altinex Oil Norway AS. Equity ratio is calculated as the book value of equity divided by net interest-bearing debt. Net interest-bearing debt is calculated as interest-bearing debt with cash and cash equivalents deducted. The company is not in breach of the conditions of the loan agreement.

(6) The reserve-based loan is recognised at amortised cost. The banks have made a commitment to a maximum frame of USD 320 million, which is unchanged USD 320 million as of the end of 2010 and then a gradual reduction to USD 0 million in April 2015 when the loan expires. Available loan facility as of 31.12.2010 is USD 240.5 million and the loan drawn up as of 31.12.2010 is USD 216 million. Available loan facility is regulated quarterly and is based upon expected reserve base, costs and oil price. The loan has a floating rate of LIBOR + a margin between 2.50% p.a and 3.50 % p.a. The margin is dependent upon how much of the facility which is drawn up. The loan has financial covenants related to liquidity ratio and debt ratio and is secured with mortgage in shares in the Group as well as major assets. The loan terms also includes a requirment to hedge a part of future oil production for two years ahead.

Estimated downpayment is as follows: Estimated downpayment is as follows: 2011 - USD 48.3 million, 2012 - USD 53.4 million, 2013 - USD 53,4 million, 2014 - USD 46.0 million. Remaining amortisation is NOK 38.506 million.

At the date of finalising these accounts the company was in concluding negotiations about extending the reserve based loan. Se further information in note 32.

Geopard A/S has an intercompany loan from Altinex ASA with a nominal value of NOK 160 million. In 2009 NOK 175 million of the original loan was converted to equity in Geopart A/S. This loan can not be repaid without approval from the creditors of the reserve based loan in Altinex Oil Denmark A/S, or that this loan has been fully paid off.

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Book value as of 01.01 / initial recognition	349 232	349 232	349 232	349 232
Conversion	(221 500)	(221 500)	(221 500)	(221 500)
Interest expense	101 171	88 061	101 171	88 061
Paid interest	(46 062)	(32 952)	(46 062)	(32 952)
Amortisation of establishment costs	23 110	13 698	23 110	13 698
Liability component 31.12	205 951	196 539	205 951	196 539

Payment structure on long term debt (NOK 1 000):

	Noreco group		Norwegian Energy Company ASA	
Year	**2010**	**2009**	**2010**	**2009**
2011	0	775 422	0	0
2012	1 368 492	1 274 087	968 500	968 500
2013	1 012 732	220 670	700 000	0
2014	1 468 444	1 302 186	1 250 000	1 250 000
2015 and later	50 951	0	0	0
Total	3 900 619	3 572 366	2 918 500	2 218 500

Estimates for installment payments have been made for the reserve-based loan. Consecutive interest payments will be made in addition to the above mentioned amounts in the maturity structure.

Payment structure on long term debt (NOK 1 000):

	Noreco group		Norwegian Energy Company ASA	
Year	**2010**	**2009**	**2010**	**2009**
2010	0	330 031	0	251 999
2011	370 084	293 147	325 059	251 999
2012	349 847	262 398	315 013	243 847
2013	250 117	167 973	232 222	161 250
2014	127 252	122 046	120 938	120 938
2015 and onwards	427	0	0	0
Total	1 097 727	1 175 593	993 232	1 030 031

Assumptions: Libor 0,35%, Nibor 6. mths 4,75%, Nibor 3 mths 2,1%, margin reserve-based loan 3%

26 Trade payable and other payables

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Liabilities/debt held for sale	231 539	0	0	0
Other interest bearing debt	1 085 304	906 957	649 111	524 484
Trade payable	86 060	35 943	71 265	32 918
Tax payable (se note 15)	114 716	208 543	0	0
Public duties payable	22 760	34 285	7 890	5 326
Accounts payables due to related parties	0	0	837	7 253
Other current liabilities (1)	388 047	221 288	196 034	71 013
Total trade payable and other payabeles	**1 928 426**	**1 407 016**	**925 139**	**640 993**

(1) Specification of other current liabilities

(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Liabilities to operators relating to joint venture licences	207 766	88 461	52 730	15 388
Overlift oil	340	17 458	0	0
Accrued interest	49 813	61 301	34 229	31 995
Other current liabilities	130 128	54 069	109 075	23 631
Total other current liabilities	**388 047**	**221 288**	**196 034**	**71 013**

Other interest bearing debt includes the exploration loan in Noreco ASA. The loan matures simultaneously as the company receives the tax refund, ref note 19 Trade Receivable and other Receivables. In addition, the first installment of the company's reserve based loan in Altinex Oil Denmark is classified as a current liability. (See note 25 Non-Current Liabilities).

Specification liabilites/debt held for sale:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2010**	**2009**	**2010**	**2009**
Abandonment provision	3 927	0	0	0
Deferred tax	224 334	0	0	0
Other current liabilities	3 278	0	0	0
Total liabilities/debt for sale	**231 539**	**0**	**0**	**0**

In September 2010 an agreement was made with Marubeni Corporation regarding the sale of PL274 Oselvar and PL 048D Enoch. In March 2011 the parties were informed that the buyer did not satisfy the requirements pertaining to licensees on the Norwegian continental shelf, and at the end of March 2011 Noreco chose to terminate the agreement.

Liabilities and debt associated with these licenses are presented in the financial statements as liabilities and debt held for sale. For details on assets held for sale, see note 19.

(1) Specification of overlift oil [2]

(NOK 1 000)	boe	USD/boe	Value (TNOK)
Overlift oil	676	85,88	340
Overlift NGL	0	0,00	0
Total	**676**	**85,88**	**340**

(2) Overlift and underlift of oil and NGL is presented net. For details of underlift, see note 19 Receivables.

Trade and other payables held in currency

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2010	2009	2010	2009
NOK	1 247 819	955 560	900 093	625 676
DKK	130 725	77 869	298	0
USD	284 545	366 279	24 671	15 287
GBP	33 688	7 209	75	29
EUR	111	98	0	0
Total	**1 696 888**	**1 407 016**	**925 139**	**640 993**

Debt is valued at amortised cost. Fair value is not considered to diverge from booked amount.

Payables in USD are mainly related to companies which have USD as functional currency. The Company has covered its USD requirements, cf. note 19 Trade Receivables and other Current Receivables and note 21 Cash and Cash Equivalents. Payables in DKK are entirely in companies with USD as functional currency. For currencies in which the Company has income, the revenue generating cash flows will hedge the Company's payables in corresponding currency. The Company has not used hedge accounting in such situations.

27 Options

Option program

The Group has an option program established in January 2008. The principles in this program were approved by the extraordinary general meeting in January 2008. The purpose of the program is to establish a long-term incentive program for employees. Share options are granted annually by the Board. The options will be fully acquired after three years and expires after five years. The options will according to plan be settled when the shares are issued.

In addition, the Group has an agreement where employees have an option to purchase shares equivalent to up till 50% of their bonus at the payment date. Employees who retain these shares for two years, and are still employed in Noreco by the expiration of the two-year period, will be granted an option to receive additional shares at a one-to-one basis. The additional shares the employees have earned up until 3 January, 2011 will be paid as a cash remuneration instead of the employees receiving shares. The cost is classified as a salary expense in the income statement for 2010, as well as a current liability in the balance sheet.

Fair value of the option is calculated by external advisors using the Black and Scholes Merton option pricing model. Inputs to the option pricing modell is a.o. grant date, exercise price, expected exercise date, volatility and risk free rate.

Historic volatility in the Noreco shares has been used to estimate volatility. The share price for the first 12 months after listing on the stock exchange has been left out of the estimation, as the share price usually has an abnormal volatility in the initial phase, before stabilizing.

Fair value of the options is measured at the grant date and is expensed linearly over the contribution time.

Payroll tax:

Payroll tax is recognised continuously provided that the shares marked rate at the reporting date is higher than the exercise price. Payroll tax is not applicable to options granted employees in Danish subsidiaries.

For 2010, a total of NOK 1.7 million has been expensed in the Noreco group, compared to NOK 1.1 million in 2009.

Outstanding share options and bonus shares	Noreco group	Norwegian Energy Company ASA
Total share options and bonus shares outstanding as at 01.01.2009	1 504 305	1 201 411
Share options granted in 2009	3 553 664	2 667 561
Share options forfeited in 2009	(28 959)	(28 959)
Outstanding at 31.12.2009	**5 029 010**	**3 840 013**
Share options granted in 2010	1 934 679	1 488 058
Bonusshares granted in 2010	225 311	214 405
Share options forfeited in 2010	(384 553)	(145 225)
Bonusshares forfeited in 2010	(42 157)	(26 209)
Outstanding at 31.12.2010	**6 762 290**	**5 371 042**

Outstanding options has the following conditions

Grants	Exercise price	Outstanding share options and bonusshares at 31.12.2010	Average remaining contractual term	Weighted average exercise price
Granted bonusshares in 2008	0.00	425 415	0.01	0.00
Granted bonusshares in 2010	0.00	221 317	1.06	0.00
Share option programme 2009	11.01	3 311 946	3.17	11.01
Share option programme 2010	17.00	1 852 069	4.17	17.00
Share option programme 2008	33.00	951 543	3.00	33.00
	Total	**6 762 290**		

Effect of outstanding options in financial statements;

Unit/period	2010	2009
Noreco Group	15 447	7 855
Parent company	12 771	6 196

Summary of assumptions and indata for valuation of the options programme.

		2010	2009
Fair value at grant date (NOK)	8.09	3.81	7 855
Share price at grant date (NOK)	17.40	10.15	6 196
Release price (NOK)	17.00	11.01	6 196
Volatility	56.0 %	48.0 %	6 196
Expected life span options(year)	4.00	4.00	6 196
Risk free interest	3.0 %	3.0 %	6 196

Assumptions for valuation of bonus shares issued in 2010:
Market value at issue date was NOK 18.40 per share. This is reduced by 10% since it is assumed that some employees will choose to sell the shares even if they stay with the company. For this reason the value of the bonus share is estimated at NOK 16.56.

28 Segment reporting

The Group's activities are entirely related to exploration and development and production of oil, gas and NLG. The Group's activities are considered to have a homogenious risk and rate of return before tax, and are therefore considered as one operating segment.

In each of the geographical segments, Norway, Denmark, UK and France, the Group has established subsidiaries. The companies in France have not yet had any activities.

Transactions between the geographical segments are carried out at ordinary conditions, which would have been equivalent for independent parties.

Segment assets and liabilities are reflecting balance sheet items for the Group entities in the respectively countries.

Excess value is allocated to the units expected to gain advantages by the acquisition. Investments in subsidiaries, loans, receivables and payables between the companies are included in segment assets and liabilities. These are eliminated in the consolidated Statement of financial position.

Geographical segments 2010

(NOK 1 000)	Norway	Denmark	UK	Other/ elimination	Group
Total revenues [1]	859 816	1 286 645	-		2 146 461
Net operating result	(237 915)	340 434	(41 303)		61 217
Net financial items					(485 032)
Ordinary result before tax					(423 814)
Income tax expense					(428 339)
Net result for the period					4 525
Assets	5 173 132	5 576 312	3 192 394	(1 274 689)	12 667 149
Liabilities	5 361 237	3 155 242	1 712 206	(1 274 689)	8 953 997
Capital expenditures production facilities	127 563	204 832	-	-	332 394
Capital expenditures assets under construction	231 747	721	57 727	-	290 195
Capital expenditures exploration and evaluation	545 163	8 614	-	-	553 777
Depreciations and write-downs	174 259	463 551	-	-	637 810

(1) Revenues in Norway include NOK 199 million from sale of assets.

Geographical segments 2009

(NOK 1 000)	Norway	Denmark	UK	Other/ elimination	Group
Total revenues	595 366	951 150	-		1 546 516
Net operating result	(560 128)	219 320	(14 291)		(355 098)
Net financial items					(580 774)
Ordinary result before tax					(935 872)
Income tax expense					(567 883)
Net result for the period					(367 989)
Assets	4 350 998	5 325 815	3 141 794	(970 408)	11 848 199
Liabilities	4 529 629	2 878 880	1 687 875	(970 408)	8 125 975
Capital expenditures production facilities	107 273	257 639	-	-	364 912
Capital expenditures assets under construction	85 136	323 617	25 979	-	434 733
Capital expenditures exploration and evaluation	130 640	59 042	-	-	189 683
Depreciations and write-downs	286 841	352 886	-	-	639 727

29 Guaranties and assets pledged as securities

Guaranties and assets pledged as securities:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2010	2009	2010	2009
Collateralised debt				
Bond loan	2 153 500	2 300 000	2 000 000	2 000 000
Reserve based loan	1 264 982	1 386 408	0	0
Current interest-bearing debt	666 334	535 245	666 334	535 245
Total collateralised debt	4 084 816	4 221 653	2 666 334	2 535 245
Capitalised value of assets pledged as securities				
Shares in subsidiaries	0	0	4 305 259	4 303 384
Production facilities	3 479 120	3 308 552	0	0
Tax receivable	702 968	584 735	702 968	584 735
Cash at bank	5 100	22 600	0	0
Total capitalised value	4 187 188	3 915 887	5 008 227	4 888 119

Debt is measured at nominal value.

30 Licenses and liabilities

Oil field	Owner		Owner's share
PL 006C	Noreco ASA		15.0 %
PL 006D	Noreco ASA		15.0 %
PL 048C	Noreco ASA		21.8 %
PL 148	Noreco ASA		20.0 %
PL 256	Noreco ASA	To be returned in 2011	10.0 %
PL 316CS	Noreco ASA	To be returned in 2011	35.0 %
PL 348	Noreco ASA		17.5 %
PL 348B	Noreco ASA	TFO 2010 (awarded januar 2011)	17.5 %
PL 360	Noreco ASA		15.0 %
PL 360B	Noreco ASA	TFO 2010 (awarded januar 2011)	15.0 %
PL 382	Noreco ASA		20.0 %
PL 385	Noreco ASA		20.0 %
PL 392	Noreco ASA	Acquired 2010	10.0 %
PL 396 (O)	Noreco ASA	Acquired 2010	50.0 %
PL 400	Noreco ASA		30.0 %
PL 411 (O)	Noreco ASA		70.0 %
PL 412 (O)	Noreco ASA	To be returned in 2011	40.0 %
PL 414	Noreco ASA		20.0 %
PL 434	Noreco ASA	Acquired 2010	20.0 %
PL 435	Noreco ASA		20.0 %
PL 440S	Noreco ASA		12.0 %
PL 451 (O)	Noreco ASA	To be returned in 2011	40.0 %
PL 453S	Noreco ASA		25.0 %
PL 455 (O)	Noreco ASA		50.0 %
PL 471	Noreco ASA		30.0 %
PL 476	Noreco ASA		30.0 %
PL 484 (O)	Noreco ASA		40.0 %
PL 490	Noreco ASA		20.0 %
PL 519	Noreco ASA		20.0 %
PL 520	Noreco ASA		50.0 %
PL 523	Noreco ASA		20.0 %
PL 525	Noreco ASA		50.0 %
PL 526	Noreco ASA		20.0 %
PL 540 (O)	Noreco ASA		50.0 %
PL 545 (O)	Noreco ASA		50.0 %
PL 562	Noreco ASA		20.0 %
PL 563	Noreco ASA		20.0 %
PL 591	Noreco ASA	TFO 2010 (awarded january 2011)	40.0 %
PL 018C	Altinex Norway		13.3 %
PL 048D	Altinex Norway		4.4 %
PL 053B	Altinex Norway		12.3 %
PL 055	Altinex Norway		13.2 %

PL 055B	Altinex Norway		13.2 %
PL 185	Altinex Norway		13.2 %
PL 274	Altinex Norway		15.0 %
PL 274/CS	Altinex Norway		15.0 %
7/86	Altinex Denmark		29.9 %
7/89	Altinex Denmark		6.6 %
1/90	Altinex Denmark		56.4 %
4/95	Altinex Denmark		30.0 %
6/95	Altinex Denmark		20.0 %
9/95	Altinex Denmark		12.0 %
16/98	Altinex Denmark		61.0 %
2/06	Altinex Denmark		6.6 %
7/06 (O)	Altinex Denmark		40.0 %
9/06	Altinex Denmark		12.0 %
2/05 (O)	Altinex Denmark		47.0 %
1/11 (O)	Altinex Denmark	Awarded February 2011	47.0 %
6/95	Siri UK		30.0 %
P 1114	Altinex UK		20.0 %
P 1645	Noreco UK		40.0 %
P 1650	Noreco UK		50.0 %
P 1658	Noreco UK		50.0 %
P 1660	Noreco UK	Returned February 2011	30.0 %
P 1666	Noreco UK		25.0 %
Blokk 16/23	Noreco UK	Awarded in 26th license round	22.5 %
Kvadrant 14 (O)	Noreco UK	Awarded in 26th license round	22.5 %

(O) = A group company is the operator

In connection with the granting of new licenses for exploration and production of oil and gas, the participants are obliged to drill a certain number of oil wells. At year end, Noreco group has approved participation in 16 such oil wells in the Norwegian continental shelf of which 15 wells concern the parent company and 1 concerns the subsidiary Altinex Oil Denmark A/S. In addition, Noreco group has approved the purchase and reprocessing of seismic data for 3 licenses, of which 2 concern the parent company and 1 concerns the subsidiary Norwegian Energy Company UK Ltd. Noreco group's share of estimated costs for drilling the oil wells, including purchase and reprocessing of seismic data is approx. NOK 1 400 million, of which ca 700 million kroner accrue in 2012. Oil wells which Noreco group may potentially be obliged to participate in the drilling of depend on future results of certain licenses, and are not included in these costs. When purchasing a license, there is often an agreement to carry costs ("Carry agreement"). Such an agreement obliges the purchaser to pay the seller's share of exploration and/or development costs, up to an agreed after-tax limit. Such agreements are an alternative to cash settlement. At year end 2010, the company had entered three such agreements.

31 Contingent liabilities

Litigation within the Noreco group of companies
Norwegian Energy Company is indirectly involved in a Danish arbitration case through its wholly-owned subsidiary, Altinex Oil Denmark's participation in the Syd Arne licence.

The dispute concerns the natural gas sales and purchase agreement for the South Arne field. The claimants/licensees, Hess, Danoil and Altinex, claim abuse of dominant position, unfair contract price, restriction of competition and discrimination by the respondent, DONG Olie & Naturgas A/S ("DONG"), in connection with the entering into and operation of the depletion gas sales and purchase agreement. The forum is Copenhagen Arbitration, and the final hearing was completed in November 2010. The decision of the arbitration tribunal was rendered on 22 February 2011 with an acquittal of DONG.

25 October 2010 a judgment was passed by the District Court of Stavanger in suit no 09-041169SKJ-STAV between Paracon AS and Lemongrass AS and Norwegian Energy Company ASA. The suit regarded valuation of the shares of Altinex ASA in respect of Noreco's forced transfer of shares 30 June 2008. Both Paracon AS and Lemongrass AS held 187 500 shares in Altinex ASA prior to the forced transfer.

The district court based the valuation of Altinex ASA on the underlying value of Altinex ASA as of 30 June 2008. The starting point for the valuation was to determine the price that a potential buyer (with complete and correct information) would have been willing to pay for the assets of Altinex ASA, at the time of the forced transfer.

The district court concluded with a value of NOK 27 per Altinex share. The district court concluded that the difference between the amount paid per share in the forced transfer (NOK 22) and NOK 27, i.e. NOK 5, shall bear an interest of NIBOR + 2% (at compounded interest). Finally, the district court concluded that Noreco shall cover NOK 1 488 213.50 (incl. VAT) of Paracon AS' and Lemongrass AS' costs. Noreco settled the respective amounts 2 December 2010.

The judgment was appealed by Paracon AS and Lemongrass AS 29 November 2010. The grounds for the appeal are the district court's application of the law (Nw: rettsanvendelsen), assessment of evidence (Nw: bevisvurderingen) and also the assessment and calculation of the share price. In particular, Lemongrass AS and Paracon AS have argued that the burden of proof (Nw: bevisbyren) has not been correctly applied, and also that the assumptions regarding future oil price are not correct.

Due to the appeal, the dispute will be subject to a full revaluation by the Court of Appeal (Gulating lagmannsrett). It is not likely that it will be held before the spring/summer of 2011.

There is a risk that Noreco will be imposed to cover the plaintiff's costs also for the appeal case, provided that the plaintiffs succeed with respect to their appeal.

32 Subsequent events

Increase of Share Capital:
In connection with the company's established incentive program there was a capital increase for the employees in January 2011. The share issue amounted to 804 867 shares at NOK 17.89 which was equal to the company's volum weighted average share price for the period of 24 – 30 December 2010. In total, NOK 14.4 million was paid in. The share capital is now NOK 755.9 million divided by 243 842 914 shares. The share has been registered in the Register of Business Enterprises, see Note 11.

Non-commercial well in the North Sea
Drilling of the exploration well Svaneøgle in license PL 545 started in January 2011 and ended in February 2011. The result of the drilling was a non-commercial well. At 31.12.2010 a total expense of NOK 14 million was incurred. The amount is expensed in the income statement of 2010.

Update regarding the sale of Oselvar and Enoch
Norwegian Energy Company (Noreco) announced in September 2010 an agreement to sell their share in the Norwegian oil fields Oselvar and Enoch to Marubeni Corporation. The parties were in March 2011 informed that the buyer did not satisfy the requirements pertaining to licensees on the Norwegian continental shelf.

Approval from relevant Norwegian authorities was one of the conditions for sale, and Noreco decided to terminate the agreement.

Reserve-based loan
At the date of authorizing the financial statements, the Company is in negotiations to expand the reserve-based loan to include two developments in the UK and Denmark respectively. The facility may consequently, by the end of 2011, amount to USD 240 million, resulting in an additional draw down right in comparison to 31 December 2010 of USD 24 million.

33 Change of 4th quarter report and preliminary financial statements

On 16 February, 2011, the Board of directors authorised the 4th quarter report for 2010 and preliminary financial statements for 2010. A reclassification was made to the final financial statements which resulted in a reduction of the deferred tax liability and tax payable of NOK 9.2 million.

34 Information regarding oil and gas (not audited)

The group has reported oil, gas and NGL reserves according to the guidelines given in the Stock Exchange circular no. 2/2007. The report is included as a separate section in the annual report, see the section on annual review of reserves.

For the group's exploration and evaluation costs, see note 9.

Statement on compliance

Board and management confirmation

Today, the Board of Directors, the Chief Executive Officer and the Chief Financial Officer reviewed and approved the Board of Directors' Report and the Norwegian Energy Company ASA consolidated and separate annual financial statements as of 31 December 2010.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2010 have been prepared in accordance with IFRSs and IFRICs as adopted by the European Union (EU), and additional Norwegian disclosure requirements in the Norwegian Accounting Act, and
- that the financial statements for Norwegian Energy Company ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards, and
- that the Board of Directors Report for the group and the Parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian Accounting Standard no 16, and
- that the information presented in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and results for the period viewed in their entirety, and
- that the Board of Directors' report gives a true and fair view of the development, performance, financial position, principle risks and uncertainties of the Company and the Group.

31 March 2011

Lars Takla Chairman of the Board	**Aasulv Tveitereid** Board member	**Therese L Bergjord** Board member
John Hogan Board member	**Bård Arve Lærum** Board member	**Ellen Sandra Bratland** Board member
	Einar Gjelsvik CEO	

Auditor's report

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To the Annual Shareholders' Meeting of Norwegian Energy Company ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Norwegian Energy Company ASA, which comprise the financial statements of the parent company Norwegian Energy Company ASA and the consolidated financial statements of Norwegian Energy Company ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December, 2010, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the separate financial statement

In our opinion, the parent company's financial statements give a true and fair view of the financial position of Norwegian Energy Company ASA as at 31 December, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Norwegian Energy Company ASA and its subsidiaries as at 31 December, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 1 April 2011
KPMG AS

Mona Irene Larsen
State Authorized Public Accountant

[Translation has been made for information purposes only]

And this is the
Glossary

APA	Awards in Predefined Areas, system for awarding production licenses in mature areas of the Norwegian Continental Shelf
Appraisal well	A well drilled to determine the physical extent, reserves and
bbl	Barrel, volume unit corresponding to 159 liters
boe	Barrel of Oil Equivalents, used as a standard unit measure for oil and natural gas
boepd	Barrels of oil per day
Code	Norwegian Code of Practice for Corporate Governance
DCS	Danish Continental Shelf
Exploration well	A well in an unproven area or prospect, may also be known as a wildcat well
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards
License	Permit granted to an oil company from the government of a country to explore for and produce oil and gas.
mmboe	Million barrels of oil equivalent
NCS	Norwegian Continental Shelf
NOK	Norwegian kroner
Noreco	Norwegian Energy Company ASA
Operator	The oil company responsible for carrying out the daily operations of a production license on behalf of the other licensees
Oslo Børs	Oslo Stock Exchange
PDO	Plan for Development and Operation, Norwegian term for the formal plan for developing and operating a field
PL	Production License
R&D	Research & Development
Spudding	Initiation of drilling operations
UKCS	UK Continental Shelf
Unrisked	Potential volumes before applying a risk factor
Upstream	Segment of the oil industry that cover the exploration, development, production and transport of oil and gas prior to refining
USD	US Dollar
Working interest	The percentage interest ownership a company has in a license