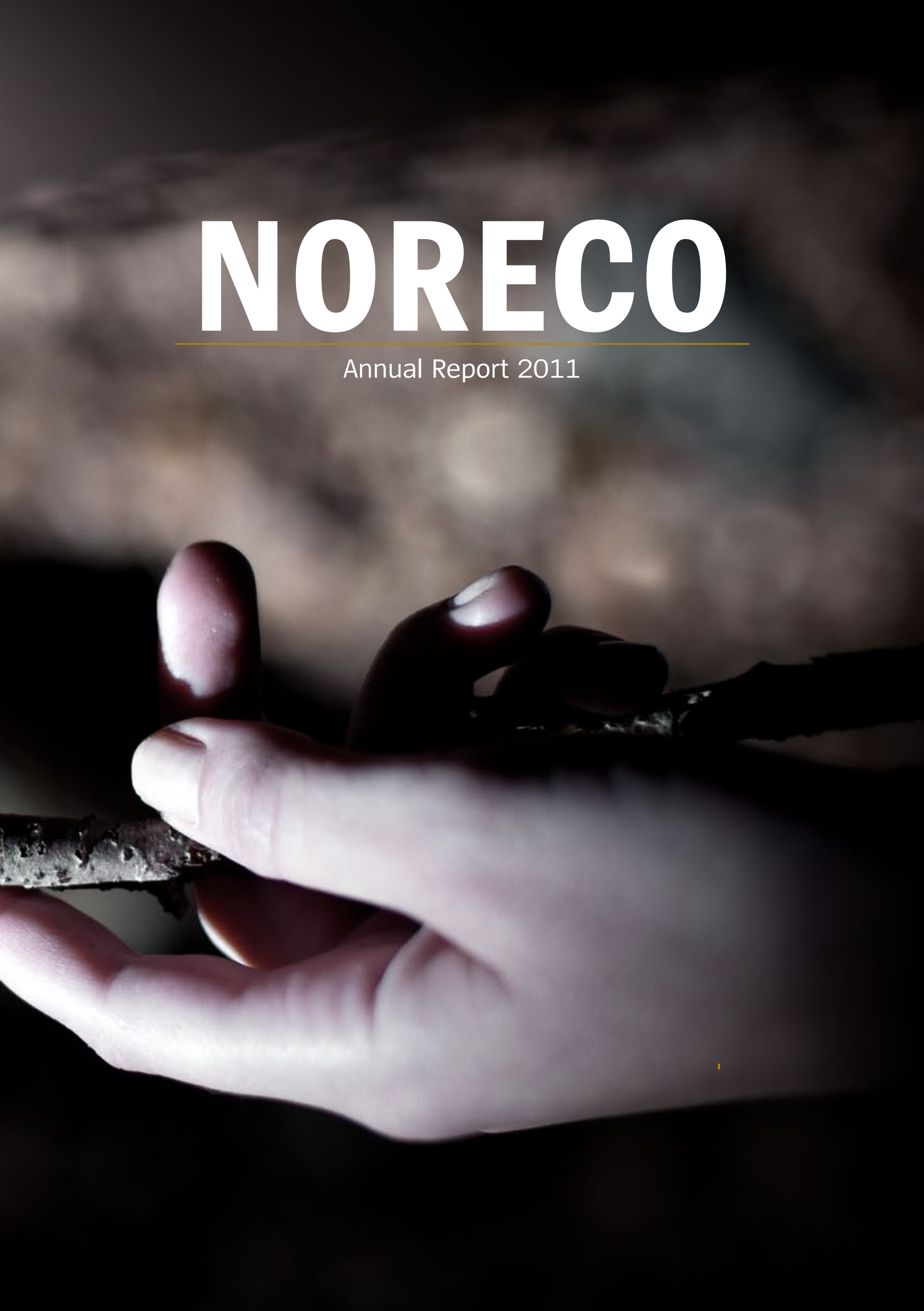
The figures in these financial statements have been materially amended and thus these financial statements should not be used as basis for decision-making. We draw the attention to note 5 in the consolidated financial statements for 2012 and note 2 in the company financial statements for 2012 for an explanation of the misstatements and how they are corrected. Reference is also made to the comparable figures in the financial statements for 2012 where the corrected figures for 2011 is presented.

NORECO

Annual Report 2011



Norwegian Energy Company ASA
Verksgata 1A
P.O. Box 550 Sentrum
4003 Stavanger
Norway

www.noreco.com

2011

This is what happened

Contents

NORECO'S 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 licences in Norway in January 2006

•

Acquired first licences in February 2006

•

Pre-qualified as operator on the Norwegian Continental Shelf in December 2006

•

Awarded first operated licence in January 2007

•

Acquired 100 % of the shares of the Oslo Stock Exchange listed oil company Altinex ASA in August 2007

•

Initiated trading on Oslo Stock Exchange 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 licences 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 licences in APA 2009

•

First oil on Nini East February 2010

•

Gas discovery on Zidane in August 2010

•

Divestment of Grosbeak, in September 2010

•

Huntington field development approved November 2011

•

Awarded three licences in APA 2010

•

Awarded two licences in 21st licensing round

•

Einar Gjelsvik appointed new CEO in June 2011

•

Divestment of Siri, Brage and Hyme in July 2011

•

New board of directors elected in August 2011

•

South Arne and Flyndre sold in August 2011

•

Small gas discovery on Cortina in August 2011

•

Sale of Zidane in September 2011

•

Divestment of Brynhild in November 2011

•

Awarded three licences in UK licensing round

•

Awarded eight licences in APA 2011

HIGHLIGHTS

2011

EXPLORATION

One discovery (Cortina) • Two dry wells (Ronaldo, Svaneøgle)

DEVELOPMENTS

Progressed Oselvar and Huntington developments towards production start in 2012

PORTFOLIO MANAGEMENT

Sale of Brage, Hyme, South Arne, Siri, Zidane, Brynhild and Flyndre

PRODUCTION

Production of 3,738 boed from continued operations

ORGANISATIONAL CHANGES

New CEO and Board of directors • Simplified management structure
20 percent manning reduction

THE KEY FIGURES

to understand us

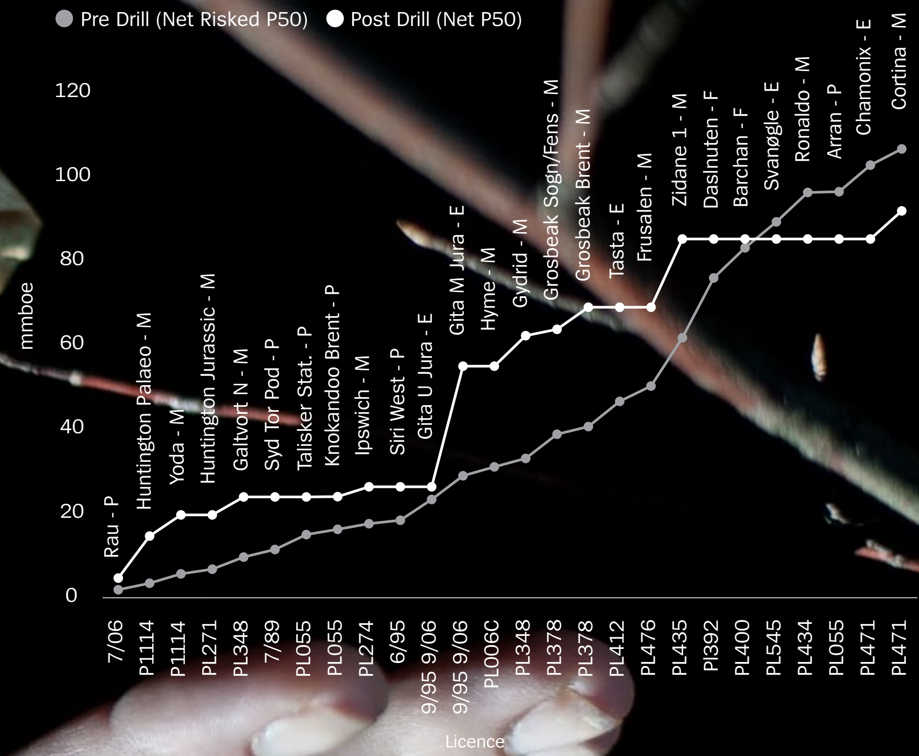
(NOK 1 000)	2009	2010	2011
Profit and loss			
Continued operations			
Operating income	1 546 516	639 542	831 028
EBITDA	284 628	(427 354)	(145 258)
EBIT	(355 098)	(725 508)	(623 614)
Profit before tax	(935 872)	(1 169 261)	(1 061 810)
Net result	(367 989)	(434 091)	(867 701)
Net result including discontinued operation	**(367 989)**	**4 525**	**(859 094)**

* 2009-numbers includes discontinued operations

	2009	2010	2011
Balance sheet			
Non-current assets	9 919 260	9 611 110	7 596 297
Current assets	1 928 939	3 001 901	2 055 305
Total assets	**11 848 199**	**12 613 011**	**9 651 601**
Equity	3 722 223	3 674 860	3 015 407
Liabilities	8 125 975	8 938 151	6 636 195
Total equity and liabilities	**11 848 199**	**12 613 011**	**9 651 601**

EXPLORATION TRACK RECORD

Net million barrels oil equivalents
discovered vs expected

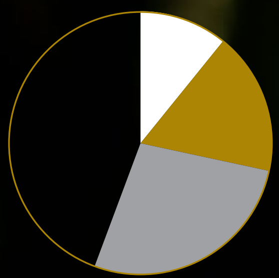


2011 GREAT

and small

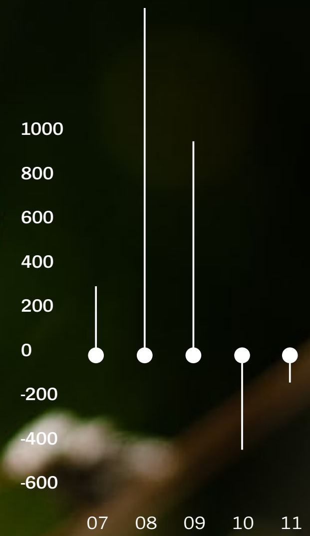
Female and male split:

Reserves distribution:



Proven reserves

EBITDA



EBITDA for 07, 08 and 09 is including discontinued operations

DEAR SHAREHOLDERS

CEO letter

2011 was a challenging year for Noreco, and in many ways a year I was glad to leave behind. At the same time, it was an important year where we turned the company around.

I took over the CEO role in March 2011, and developed a plan to reposition the company which was completed in the fourth quarter. The plan consisted of three areas: financial, operational and organisational.

- Noreco was too stretched financially, and an important part of the repositioning was to improve the financial position. Initiatives included asset sales of NOK 2 billion, reduction of investment commitments of NOK 2 billion and NOK 1 billion in debt repayment.
- Operationally, uncertainty associated with the main producing and developing assets were resolved. Noreco decided to stay in Oselvar, and focused our high impact exploration strategy.
- A new and reduced management team was put in place, the organisation was streamlined, and administration costs were reduced by 20 percent.

I am very proud of the organisation that completed this turnaround, providing Noreco with a good platform for further value creation. In 2012, the plan is to triple oil production with start-up of new fields, and we will execute the most extensive exploration program in the history of the company.

During last year, the value creation potential of the oil and gas industry in the North Sea region was demonstrated through several successful exploration wells. Noreco is very well positioned to take part in the value creation in 2012 and beyond. Noreco has an extensive and good portfolio of exploration opportunities, an excellent team, state of the art tools and processes, and one of the most active exploration programs.

After a year of repositioning, I am very much looking forward to execute our value generating activities and lead Noreco to a position as a leading, independent oil and gas company in the North Sea region.

Best regards

Einar Gjelsvik
CEO, Noreco

MANAGEMENT TEAM

2011

Einar Gjelsvik (39)
Stavanger
CEO

Joined Noreco in Jan 2006. Has 14 years experience from the Norwegian and international oil and gas business. Held various positions in BP, including engineering roles, business development and business planning and performance management team leader. Holds a MSc in Business Administration, Strategic Management, a MSc, Chemical Engineering and is a CFA charterholder.

Ørjan Gjerde (42)
Stavanger
CFO

Ørjan Gjerde joined Noreco in March 2012, and has more than 15 years of experience as a CFO from companies like IKM Gruppen AS, Proserv Group AS and Skanem AS. Gjerde has extensive experience from financial and operational restructuring, strategy and business development, mergers and establishments, as well as directorships in IKM Gruppen AS, Rig Management Norway AS, Wellcon AS (chairman), and Cyviz AS (chairman and cofounder). Gjerde is a state authorised public accountant and graduated from NHH in 1995.

Ellen Sandra Bratland (51)
Stavanger
COO & Vice President HSE

Bratland joined Noreco in 2008. She holds a Sivilingeniør 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.

Kjetil Bakken (40)
Oslo
Vice President 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.

Lars Fosvold (50)
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.

John Bogen (55)
Stavanger
Vice President Commercial

Bogen joined Noreco in February 2008, and holds a MSc from the Norwegian Institute of Technology (NTNU) within Industrial Engineering. He has more than 30 years experience in the petroleum industry from i.a. Phillips Petroleum Company and BP. Previous responsibilities include operational optimization, gas marketing, organizational development, commercial management/ negotiations, and business development.

STRATEGY

The way to reach our vision

Noreco's vision is to build a leading, independent oil- and gas company in the North Sea region.

Noreco will create significant value from exploration. The company undertakes active high grading of the exploration portfolio to select wells with a significant value creation potential for the company.

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 Norway, UK and Denmark, 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.

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.

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

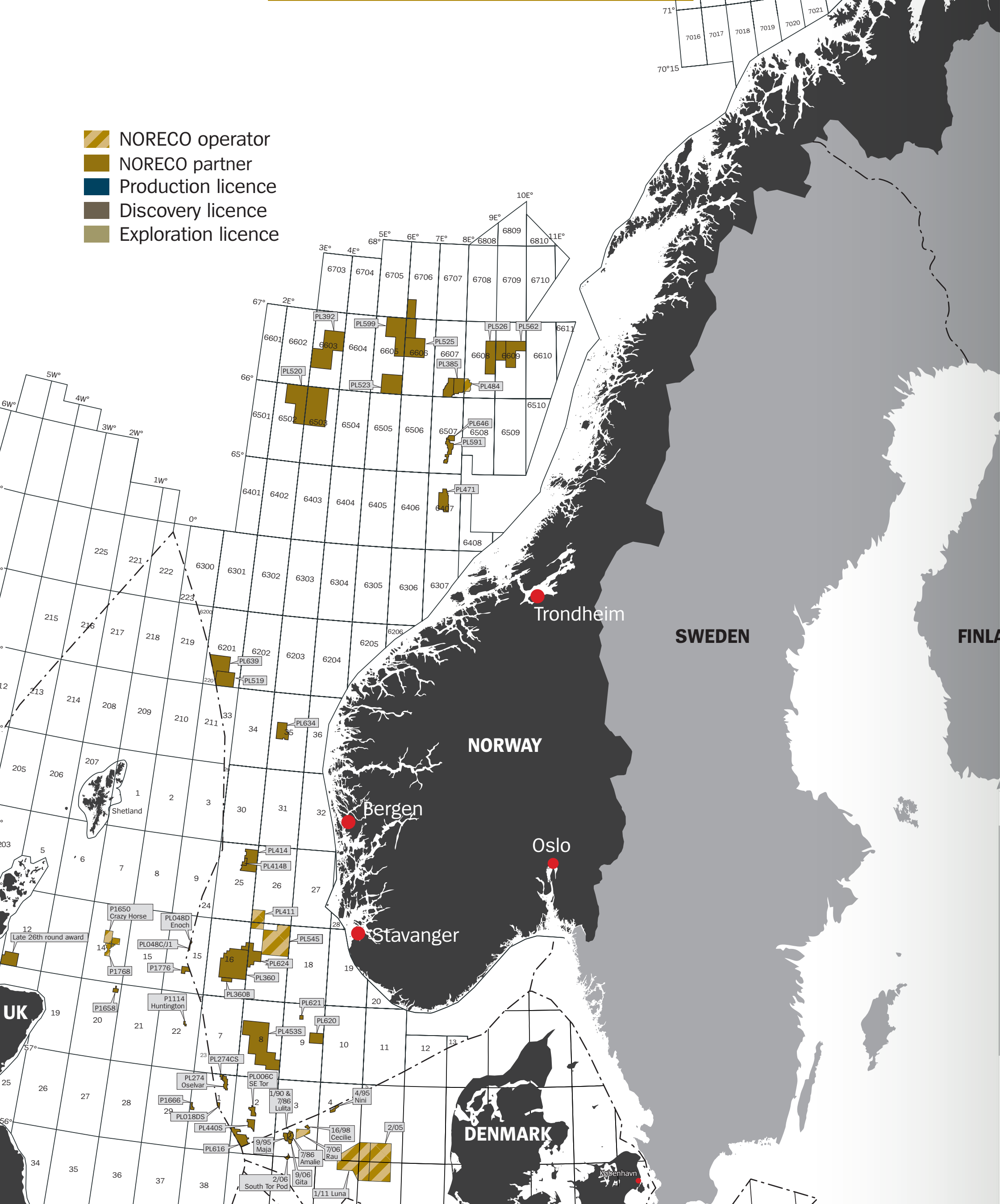
Innovate

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



2011 IN REVIEW

Operations review

PRODUCTION

Noreco currently has five producing fields, with a typical daily net production of 3–4,000 barrels. Four of the fields are located in Denmark, and one is in Norway.

Nini East

The Nini East field is located in the Danish part of the North Sea, about seven kilometres east of the producing Nini platform. It is operated by DONG Energy.

Nini East is developed with an unmanned wellhead platform which is connected to the Nini platform which is tied back to the Siri platform.

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 on 24 February 2010 with two oil production wells and one water injector. To further support the voidage balance, a second water injection well was drilled and completed in first quarter 2011. The injection commenced in April 2011.

The Nini East field produced an average of 6,900 boed gross in 2011. Reservoir performance was above expectations, but low regularity at the host platform Siri due to poor weather conditions and leakage in a riser pulled in the opposite direction.

Nini

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 East: Noreco 30 %

Nini: Noreco 30 %

Nini consists of three reservoirs, which 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 2011 was negatively impacted by the previously mentioned regularity issues at the Siri platform, and the field produced an average of 2,008 boed gross in 2011.

Cecilie

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.

As its sister fields, also Cecilie had unstable production in 2011 due to the previously mentioned conditions at the Siri platform, and the field produced an average of 680 boed gross in 2011.

Lulita

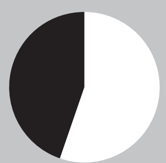
The Lulita oil and gas field is located in the Danish part of the North Sea, and was discovered in 1992.

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 operator is Maersk Oil & Gas.

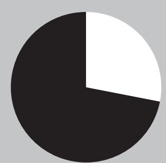
A multi-client seismic acquisition was conducted across Lulita during second quarter 2011. This new dataset will improve the seismic imaging across the structure, and hence be valuable in the work of identifying possible targets for remaining hydrocarbons.

The production from Lulita in 2011 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 987 boed gross in 2011.



Cecilie: Noreco 61 %



Lulita: Noreco 28.20 %

Enoch

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 water cut has started to increase, but performance from the Enoch reservoir is still good. The production regularity in 2011 has been lower than planned due to technical problems at the host facility including reduced gas lift capacity in periods.

The Enoch field produced an average of 2,443 boed gross in 2011.

DEVELOPMENTS

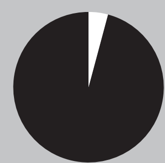
Noreco is currently participating in two field developments, both with expected production start during 2012, which will more than triple the company's production volume when both fields come on stream.

Huntington

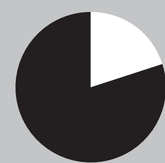
The Huntington field is located in the central part of the UK North Sea, with E.ON Ruhrgas as operator.

Three discoveries in three horizons have been made in the licence; 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 stabilised and stored. Produced water will be injected into the reservoir for pressure support. The oil will be exported from the field with shuttle



Enoch: Noreco 4.36 %



Huntington: Noreco 20 %

tankers, while the gas will be exported through the CATS pipeline system.

The Huntington development progressed significantly through 2011, with two production wells completed and most of the subsea infrastructure installed. The project was however impacted by financial difficulties of Sevan Marine, which ended in an agreement with Teekay. This process caused delays in the Voyageur upgrade work, and the expected production start for the field has been postponed to second half of 2012.

The Huntington licence also includes discoveries in reservoirs of Jurassic (Fulmar formation) and Triassic age. Linking additional resources to the FPSO could enable extended production life and increased recovery from the Huntington Forties.

Oselvar

The Oselvar field was discovered 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.

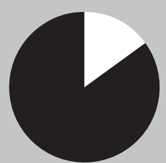
The Plan for Development and Operations for the Oselvar field was approved by Norwegian authorities in June 2009, and the development is nearing completion.

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.

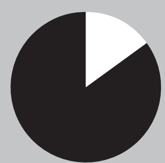
The Oselvar development progressed well through 2011. Drilling commenced and most of the subsea equipment was installed, as well as the pipeline to Ula. The Oselvar topside module was completed and lifted on board the Ula platform for integration. Production start of the Oselvar field is now expected during first half of 2012.

Ipswich

The Oselvar licence also includes the Ipswich discovery, about 10 kilometres South of Oselvar. An interpretation of re-processed seismic data is now underway, which will improve the understanding of the size of the discovery and map a possible upside potential. Given a positive outcome of this study, plans will be made for further drilling.



Oselvar: Noreco 15 %



Ipswich: Noreco 15 %

DISCOVERIES

Noreco has approximately 100 million barrels in contingent resources, that are dependent on a development plan or further drilling. About a quarter of these are located in the producing fields Lulita and Cecilie and the developments Huntington and Oselvar. A few of the other discoveries are described below. Noreco made one new discovery in 2011 – Cortina – which is described in the Exploration section.

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

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

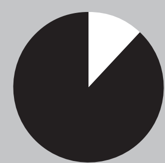
At the Gita discovery in Denmark (Noreco 12 percent), the seismic re-processing work that started in 2010 was completed in the first half of 2011. The reintrepretaton in 2011 confirmed the interpretation of the Middle Jurassic discovery, but has lead to a better definition of the Upper Jurassic prospectivity. This work on the Upper Jurassic prospectivity will continue into 2012. After an extension to the Maja licence was granted by the Danish authorities, both licences have now a drill or drop date in May 2012. Noreco's primary goal is to make a drill decision on appraising the Middle Jurassic discovery.

Amalie PL 7/86

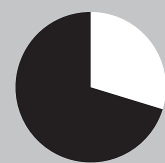
The Amalie Jurassic and Lower Cretaceous is located 20 km North East of the South Arne field in the Danish part of the North Sea, and was discovered in 1991.

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 tiebacks 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 and export offtake. Upcoming appraisal drilling on the nearby Svane and Gita/Maja gas discoveries may unlock the Amalie potential. Meanwhile the licence during 2011 has updated and reviewed the subsurface understanding.



Gita/Maja: Noreco 12 %



Amalie: Noreco 29.90 %

South East Tor PL006C
Licence PL006C (Noreco 15 percent) 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.

EXPLORATION

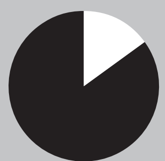
Noreco has over seven years built a substantial portfolio of exploration opportunities in Norway, United Kingdom and Denmark. In 2011, four of these opportunities were drilled. In 2012 the plan is to more than double this activity level.

EXPLORATION RESULTS

Three exploration wells were drilled during 2011, targeting an expected net risked volume of 23.5 million barrels of oil equivalents. The first exploration well in 2011, well 17/6-1 was drilled on the Svaneøgle prospect in licence PL545 awarded in the APA 2009 round. The well was completed early February. Noreco had a 50 percent interest in the licence and was the operator. The well reached a total depth of 3,065 m. The main objective was the Sandnes and Bryne formations of Middle Jurassic age.
The well encountered oil in a five meter sandstone layer of low reservoir quality in the Sandnes formation. Pressure measurements suggest a possible oil column of 45 meters. A water-bearing sandstone layer of good reservoir quality was encountered deeper in the Bryne Formation. The well was not tested, but data has been acquired. Recoverable resources have been estimated to between 0.05 and 1 million standard cubic meters of oil. Consequently the discovery is not of commercial interest.

The second exploration well, 6507/8-8, was drilled on the Ronaldo prospect in licence PL434, The licence was acquired by Noreco through a commercial agreement with E.ON Ruhrgas. The prospect was located in the Norwegian Sea, seven kilometres southeast of the Heidrun field. The purpose of the well was to prove the presence of hydrocarbons in Lower Jurassic reservoir rocks (the Tilje and Åre formations). The well encountered a reservoir of expected thickness and of good quality in the Tilje and Åre formations, however the reservoir did not contain hydrocarbons. Data acquisition and sampling was carried out and the well was subsequently plugged and abandoned.

In September 2011 Noreco participated in the drilling of exploration well 6407/5-2S in licence PL471. The well was located approximately 30 kilometres north west of the Draugen field and was designed to prove the presence of hydrocarbons in two reservoir intervals, the Middle Jurassic Fangst Group (Cortina Prospect) and the overlying Cretaceous Lysing Formation (Chamonix Prospect).
The Lysing Formation was found to be of poor reservoir quality, while the Rogn and Garn Formation of the Fangst Group where found to be gas bearing. A 40 meter gas column was encountered and although the well was not formation tested, a comprehensive data acquisition programme was conducted that gives the partnership adequate information in order to evaluate the commerciality of the Cortina discovery and other similar exploration targets in the licence.



South East Tor: Noreco 15 %

SEISIMIC ACQUSITION AND RE-PROCESSING

During 2011 Noreco has continued to mature its exploration portfolio through a comprehensive technical programme of seismic data activity, including re-processing of existing seismic aimed at improving the quality of the data and acquisition of new seismic in areas where the existing data set is incomplete or of inferior quality. The following list summarises the seismic activity for 2011:

- PL360 – Statoil operated 3D acquisition by PGS, completed November 2011.
- PL563 – Lundin operated 3D acquisition by Fugro as part of an extensive seismic acquisition that was initiated in 2010, suspended in November 2010 due to bad weather conditions.
- PL591 – Multiclient acquisition of approximately 3,500 square kilometres of 3D data by PGS, completed in August 2011.
- PL599 – Multiclient acquisition of 2D seismic data by MCG. Data acquisition was stopped after approximately 90 percent of planned data acquired. Completed in October 2011.
- PL606 – Multiclient acquisition of 3D seismic data by Fugro, more than 5,000 square kilometres acquired, completed September 2011.
- UK Quad 14 – Multiclient acquisition of 3D seismic data by PGS, completed in September 2011.
- PL411 – Multiclient acquisition of EM (electromagnetic) data by Petromarker, completed in August 2011.

EXPLORATION PORTFOLIO CHANGES

Noreco took numerous drill or drop decisions in 2011, in addition several exploration licences were divested. This list summarises major portfolio adjustments for 2011.

- PL348 & PL348B: Divested to Core Energy, including the Hyme Development, the Galtvort Discovery and Exploration prospectivity
- PL412: Relinquished
- PL435: Divested to OMV, including the Zidane 1 discovery and Zidane 2 exploration prospect
- PL451: Relinquished
- PL455: Noreco's share transferred to Lotos
- PL476: Relinquished
- PL540: Relinquished
- UK P1645: Relinquished
- UK P1660: Relinquished

In January 2011, Noreco was offered three licences in the Awards in Predefined Areas (APA/TFO) licensing round, two of which were extensions to the existing licences PL348 and PL360. The third award was a 40 percent interest in licence PL591 covering blocks 6507/8, 9, and 11. Spring Energy is the operator with the remaining 60 percent interest. The work programme the licence committed to was to purchase and reprocess existing 3D seismic data and conduct geological studies.

On 1 February the 2/05 licence group in Denmark was awarded a new licence 1/11, immediately to the west of the original 2/05 licence area. Noreco is the operator and has a 47 percent interest in both licences. The other partners in the licence are Elko Energy with 33 percent and the Danish North Sea Fund with 20 percent. The licence period is for six years and comes with a commitment to drill an exploration well within two years. The partnership selected the specific well location and started drilling the well in the first quarter 2012 on the Luna prospect.

On 15 April Noreco was awarded two licences in the 21st licensing round on the Norwegian continental shelf, a 40 percent interest in licence PL606 located in the Barents Sea (operator OMV), and a 20 percent interest in licence PL599 (operator BG Norge) located in a part of the Norwegian Sea where Noreco already has a strong acreage position.

BUSINESS DEVELOPMENT

In 2011 a number of producing assets and developments were sold to improve the Noreco's financial position and create a foundation for future growth:

Noreco's 12.3 percent share of the Brage field and 17.5 percent share of the Hyme development were sold to Core Energy for a consideration of USD 85 million. Effective date was 1 January 2011.

Noreco's 6.56 percent share of the South Arne field was sold to Hess, DONG, and Danoil according to their respective pre-emption rights in Danish licence 7/89. The consideration was USD 200 million and effective date was 1 January 2011.

Noreco's 50 percent share of the Siri field was sold to DONG for a consideration of USD 13 million. Further, as a part of the deal, Noreco is relieved of all payments for the Siri Permanent Solution repair project, maintains certain tax balances at the date of the transaction, and retains the right to all insurance proceeds triggered by the caisson issue. Effective date was 1 July 2011.

Noreco's 13.3 percent share of the Flyndre Palaeocene development was sold to Maersk for a consideration of NOK 19 million. Effective date was 1 January 2011.

Noreco's 20 percent share of the Brynhild development was sold to Lundin for a consideration of USD 2.4 million. Effective date was 1 January 2011.

Noreco's 20 percent share of the PL435 Zidane discovery was sold to OMV for a consideration of NOK 180 million and a right to further compensation at PDO approval if a discovery on Zidane-2 proves commercially recoverable volumes of hydrocarbons beyond certain levels. Effective date was 1 January 2011.

ANNUAL STATEMENT OF RESERVES

2011

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 with the Oslo Stock Exchange 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 resources of varying technical maturity and commercial viability. 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 the company's reserves, estimated by Noreco in accordance with the SPE-PRMS standard. Economic limit tests have been performed based on a market forward oil price as of end 2011 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 SPEPRMS.

Noreco divested the Brage and South Arne fields with effective date 1.1.2011 and the Siri and Stine fields with effective date 1.7.2011. These transactions represent a 2P reserves subtraction of more than 20 million boe.

As per 31.12.2011 Noreco has reserves from seven fields. Further information about the fields is available on Noreco's homepage www.noreco.com and in the company's annual report.

Noreco's 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.

Table 1: Noreco reserves by asset

Developed Assets (on production) as of 31.12.2011

	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	2.9	-	2.9	30	0.9	4.1	-	4.1	30	1.2
Nini East	7.0	-	7.0	30	2.1	10.7	-	10.7	30	3.2
Cecilie	0.8	-	0.8	61	0.5	1.9	-	1.9	61	1.2
Lulita	0.9	3.4	1.5	28.2	0.4	1.6	5.9	2.6	28.2	0.7
Enoch	1.8	-	1.8	4.36	0.1	2.7	-	2.7	4.36	0.1
Total					4.0					6.4

Under development (approved for development) as of 31.12.2011

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Oselvar	16.9	95.5	34.0	15	5.1	24.8	159.6	53.3	15	8.0
Huntington	23.2	11.1	25.2	20	5.0	38.5	20.4	42.1	20	8.4
Total					10.1					16.4

Non-developed assets (justified for development) as of 31.12.2011

	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Total					-					-

Total reserves as of 31.12.2011

	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	2.9	-	2.9	30	0.9	4.1	-	4.1	30	1.2
Nini East	7.0	-	7.0	30	2.1	10.7	-	10.7	30	3.2
Cecilie	0.8	-	0.8	61	0.5	1.9	-	1.9	61	1.2
Lulita	0.9	3.4	1.5	28.2	0.4	1.6	5.9	2.6	28.2	0.7
Enoch	1.8	-	1.8	4.36	0.1	2.7	-	2.7	4.36	0.1
Oselvar	16.9	95.5	34.0	15	5.1	24.8	159.6	53.3	15	8.0
Huntington	23.2	11.1	25.2	20	5.0	38.5	20.4	42.1	20	8.4
Total					14.1					22.9

Table 2: Noreco reserves development

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 31.12.2010	15.8	23.9	12.4	19.6	1.7	2.3	30.0	45.8
Production	(1.7)	(1.7)					(1.7)	(1.7)
Aquisitions/disposals	(10.0)	(15.6)	(2.0)	(2.9)	(1.4)	(1.8)	(13.3)	(20.2)
Extensions and discoveries								
New developments	0.4	0.5			(0.4)	(0.5)	0.0	0.0
Revisions of previous estimates	(0.5)	(0.6)	(0.3)	(0.3)	0.0	0.0	(0.8)	(0.9)
Balance as of 31.12.2011	4.0	6.5	10.1	16.4	0.0	0.0	14.1	22.9

The Nini, Nini East and Cecilie reserves are all produced via the Siri platform. Noreco divested its interest in the Siri/Stine fields per 01.07.2011.

Nini, DCS, operated by Dong Energy, Noreco 30 percent
The reserves assessment of the Nini field is based on decline analysis/reservoir simulation. Reserves are very similar as last year after accounting for the production.

Nini East, DCS, operated by Dong Energy, Noreco 30 percent
The Nini East field started production in February 2010. The reserves assessment of Nini East is based on detailed reservoir modeling. A new injector (NB4) was drilled in 2011 and has secured good pressure support and sweep. This well was not approved per end 2010 and is the reason for the "new development" revision in table 2. An updated geological model has resulted in a minor reduction of 2P reserves.

Cecilie, DCS, operated by Dong Energy, Noreco 61 percent
The reserves for the Cecilie field are based on decline analysis of existing wells and are similar to last year.

Lulita, DCS, operated by Maersk Oil & Gas, Noreco 28.2 percent
The 2P reserves for the Lulita field are based on decline analysis. The uncertainty in reserves is quite large, and Noreco has this year adjusted the 2P reserves down somewhat. The Lulita field is produced with a single well and there is potential for infill drilling (sidetrack). New seismic will be investigated in 2012 to address the future possibilities. However, no firm plan exists and consequently there are no undeveloped reserves booked for Lulita.

Enoch, NCS, operated by Talisman, Noreco 4.36 percent
The Enoch field is produced with a single well, and the field reserves are based on decline analysis this year. The water cut has increased faster than expected and hence the 2P reserves have been reduced accordingly.

Oselvar, NCS, operated by Dong Energy, Noreco 15 percent
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. During 2011 the first production well has been completed and Noreco sees no reason to change last year's reserves estimate. Two more production wells will be completed in 2012. Production start-up is expected during first half of 2012.

Huntington Forties, UKCS, operated by E.ON Ruhrgas, Noreco 20 percent
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 Voyageur FPSO.

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. Two production wells are completed per 31.12.2011 and we see the result as a support for our reserves estimate from last year. The delay in start-up, now estimated to second half 2012, combined with the economic limit test, has caused a minor reduction in 2P reserves.

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 AND PROSPECTIVE RESOURCES

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

In accordance with guidelines from Oslo Stock Exchange, Noreco does not quantify contingent resources in this ASR.

During 2011, portfolio management has resulted in the sale of the Hyme, Brynhild, Zidane-1 and the Flyndre Paleocene discoveries. All these discoveries and developments were contingent resources per 31.12.2010.

For a description and overview of our contingent and prospective resources, reference is made to Noreco's homepage www.noreco.com and the company's annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The reported reserve estimates are based on standard industry practices and methodology such as decline analysis, reservoir modeling 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 categorised as reserves. The assessment is based on input data provided by Noreco, as well as full access to subsurface data and licence documentation. DeGolyer and MacNaughton forms an independent view on reserves on this basis. The independent review concludes with a reserves estimate that is within three percent 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 licences.

The 2P reserve estimate for the Noreco portfolio is 23.0 mmboe compared to 45.8 mmboe in the year end 2010 reserves statement. This decrease is explained by the substantial asset sales that were carried through in 2011.

Einar Gjelsvik
CEO, Noreco

HEALTH, SAFETY ENVIRONMENT AND QUALITY

Noreco is committed to conducting all its activities with great respect for people and environment, and will at all times have a strong focus on health, safety, environment and quality (HSEQ), recognising that Noreco's people represent the cornerstone of delivering the company's vision and strategy. The vision is to achieve zero accidents, zero incidents and zero long term impact on the environment.

Noreco is commited to protect people from harm and create a work environment that facilitates excellent business results by creating and maintaining a HSEQ culture in the company where all employees feel responsible for their own well being and the well being of others. The company focuses on building the employees' HSEQ competence in order to continuously develop and strengthen the HSEQ culture.

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

a) rules, regulations and internal work processes to be complied with
b) continuous training and development of the people within the organisation
c) the company culture

Noreco actively manages and improves its HSEQ performance through the management system, and constantly improves skill levels for safe and effective operations.

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 HSEQ awareness culture and training of the employees.

For 2012 the HSEQ program has the following main objectives:

- 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
- Continued focus on the health and well-being of the organisation

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 licence representatives,

experience transfer from other operators and industry focus. The quality plan for 2011 contained thirteen activities that were all successfully completed.

In order to ensure continuity in the business performance, the basis for the quality plan 2011 has been transferred, further developed and included in the quality plan for 2012.

Emergency preparedness
During 2011, Noreco performed a review of its inhouse emergency preparedness organisation, considering experience, cost, quality and capacity issues. The company decided to join the membership-based organisation OFFB, which will from 2012 be handling the operational part (second line) of the emergency response function during Noreco's drilling operations in Norway. Through OFFB, Noreco will have access to a highly competent team and will be able to share learning and best practices with other operators in Norway. Consequently, Noreco's internal emergency preparedness organisation will primarily focus on managing the strategic implications of an incident (third line).

Safe operations
In 2011, Noreco was a member of the West Alpha Consortium (semi-submersible drilling rig) together with four other operators. Noreco played an active role and lead the HSE consortium. Noreco is responsible as a licence holder/operator and is dependent on having good relationships with suppliers and partners.

Through project specific HSEQ programs and QA plans, Noreco actively performs its supervisory duty when planning and operating the drilling of wells, to be able to follow up and influence partners' and suppliers' systems and processes.

The Noreco operated well Svaneøgle was drilled in first quarter 2011. Noreco's well planning team uses a stage-gate work process for well delivery, which is part of Noreco's 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. In 2011, Noreco implemented a risk management tool for controlling and monitoring risks and opportunities for each individual project, and on enterprise level.

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 its 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 continuously works to increase risk knowledge as basis for decisions at all levels.

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 its activities. In 2011 Noreco developed an environmental handbook for all operational activities, which is currently being implemented in the organisation.

Professional networks
Noreco participates in several professional networks within HSEQ 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 Noreco is operating the drilling of its own wells. Operative personnel from Noreco participate in NOFO seminars to obtain the latest competence within the area.

Organisation
During 2011, Noreco made significant changes to its management team. Einar Gjelsvik was appointed as new CEO, while Ellen Sandra Bratland replaced Gjelsvik as COO & VP HSE. Kjetil Bakken was appointed as VP Investor Relations, and John Bogen was appointed as VP Commercial. The position as CFO was temporarily filled by Rebekka Glasser Herlofsen and Erik Borg. In December, Ørjan Gjerde was appointed as new CFO, starting in March 2012.

In September 2011, Noreco completed a review of its organisation following substantial asset sales. This resulted in a leaner management structure and a substantial reduction in the number of employees at the company's office in Denmark. Noreco's management team was reduced from eight to six positions as the positions as VP HSE & HR and VP Projects were removed.

Noreco's management team now consists of:
- Einar Gjelsvik, CEO
- Ørjan Gjerde, CFO
- Ellen Bratland, COO and VP HSE
- Lars Fosvold, VP Exploration
- Kjetil Bakken, VP Investor Relations
- John Bogen, VP Commercial

PERSONELL

Noreco is a knowledge-based company with expertise within the areas of geology, geophysics, petrophysics, reservoir, drilling, HSEQ and finance. The total number of employees by year end was 72 down by 28 percent from the beginning of the year. 35 percent of the employees are female, and 10 nationalities are represented in the workforce. During 2011, five new persons were recruited, while the number of consultants was reduced to 16. The work force is experienced, with an average age of 41 years.

Noreco's current number of employees reflects the necessary capacity to deliver value creation from existing assets, and to carry out the planned exploration activities.

As Noreco went through major restructuring in 2011, the company's values and people policy were fundamental to carry out the changes professionally, fairly and with integrity. The internal structural changes in the business focused on enhancing the business by aligning teams, optimising human capital and further develop the skills of the employees. Noreco has throughout the process put significant efforts into keeping the employees informed and engaged in the company's strategy.

Noreco's future success depends on the company's ability to attract and retain competent people. To create an environment in which all employees can flourish, the company is committed to supporting skills development, promoting equal opportunities, diversity and providing regular opportunities for open employee engagement.

Participation and commitment
Noreco's 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 dialogue 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 company's work environment committee has employee and employer representatives both from the Norwegian and Danish offices. All staff members are invited to participate in the company's strategy meetings, and management maintains a close dialogue with all staff, both on a formal and informal level.

Competence
Noreco believes that developing competence in existing staff is value-adding, and a criterion to achieve our business goals. Noreco therefore supports both industry related and technical training, in addition to further personal competence development, by contributing financially and/or through leave of absence.

Employee survey
Noreco conducts an annual employee survey, where the work environment is assessed. Nearly 90 percent of the employees participated in the 2011 survey. Feedback from the survey was positive, confirming that Noreco is a good place to work, with a positive working environment.

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 personnel, 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
By having the head office in the centre of Stavanger and only having bicycle parking, Noreco encourages environmentally friendly and healthy transport to and from the office for its employees. The company's offices have a green profile, and this is a continuous process which demands environmentally friendly consciousness both from Noreco and its suppliers. The Noreco office in Oslo will be discontinued in 2012, and Noreco has moved its Danish office to Lyngby.

Health
Noreco has a low sick leave of 2.5 percent. Employees are offered preventive measures in form of medical checkups, 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.

THE NORECO SHARE

Information 2011

Noreco trades under the ticker code NOR on the Oslo Stock Exchange. Noreco's share price dropped from NOK 18.40 at the end of 2010 to NOK 4.66 at the end of 2011. Average daily volume of Noreco shares traded on the Oslo Stock Exchange in 2011 was 910,000.

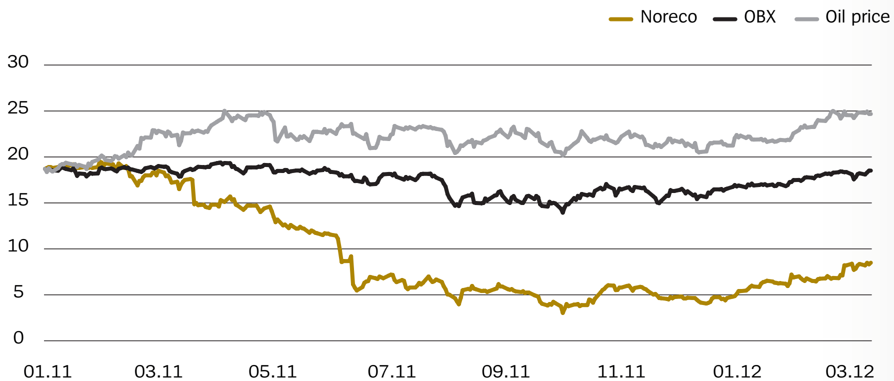
Noreco has not previously paid dividends to its shareholders, and due to a significant investment programme the company does not plan for any dividends to its share-holders in the near future. The company's ambition over time is to generate competitive total shareholder returns.

As of 31 December 2011 Noreco's share capital was NOK 755.9 million divided on 243,842,914 shares, each with a nominal value of NOK 3.10.

As of 31 December 2011 Noreco had a total of 2,862 shareholders divided into 2,649 Norwegian and 213 foreign owners. The shareholders as of the end of 2011 are shown in note 22 to the accounts. Noreco has a convertible loan of NOK 173 million outstanding, with a conversion price of NOK 22.25, and which matures on 11 May 2012.

The company issued 804,867 new shares in 2011 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 15 March 2012

Investor	No of shares	% of top 20	% of total
IKM INDUSTRI-INVEST AS	23 673 998	16.9 %	9.7 %
LYSE ENERGI AS	23 647 460	16.9 %	9.7 %
OM HOLDING AS	12 401 426	8.9 %	5.1 %
GOLDMAN SACHS INT. - EQUITY -	10 729 443	7.7 %	4.4 %
UBS AG, LONDON BRANCH	8 042 666	5.8 %	3.3 %
AWILCO INVEST AS	7 800 000	5.6 %	3.2 %
DNB NOR SMB VPF	6 127 667	4.4 %	2.5 %
FOLKETRYGDFONDET	6 035 894	4.3 %	2.5 %
SABARO INVESTMENTS LTD	5 950 000	4.3 %	2.4 %
KONTRARI AS	5 600 000	4.0 %	2.3 %
SKAGEN VEKST	5 127 513	3.7 %	2.1 %
ODIN OFFSHORE	5 000 000	3.6 %	2.1 %
EUROCLEAR BANK S.A./N.V. ('BA')	3 235 691	2.3 %	1.3 %
FONDSFINANS SPAR	3 000 000	2.1 %	1.2 %
BD TRADING AS	2 518 873	1.8 %	1.0 %
SKANDINAVISKA ENSKILDA BANKEN AB	2 311 075	1.7 %	0.9 %
CITIBANK NA NEW YORK BRANCH	2 272 457	1.6 %	0.9 %
HSBC BANK PLC	2 260 802	1.6 %	0.9 %
KOMMUNAL LANDSPENSJONSKASSE	2 096 341	1.5 %	0.9 %
HSBC BANK PLC	2 000 000	1.4 %	0.8 %
Total number owned by top 20	**139 831 306**	**100 %**	**57.3 %**
Total numbers of shares	243 842 914		

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, Noreco is not in full compliance with the Code.

Noreco 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; This is because of the number of board members, and in order to carry out the General Meetings in an efficient manner. It is Noreco's aim that at least oneof the board members are present at the General Meetings, that one of the members of the nomination committee are present in the event that an election is on the agenda, and that the auditor is present when the General Meetings discusses the annual accounts, or other matters in which the auditor's presence may be useful.*

The 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 Noreco'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/OsloBoers/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 Noreco's competitiveness and value creation.

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

Noreco's vision is to be one of the leading independent energy companies whose activities are focused in the North Sea (Norway, Denmark and United Kingdom). The Company 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 Noreco'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*

Noreco'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 Noreco's website, http://www.noreco.com/en/About-us/Corporate-governance/CSR/

Noreco is aware of the effect our business have on society. The basic principles for corporate social responsibility that The Company will follow, are outlined in our policy for corporate social responsibility.

Equity and dividends
Noreco'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 Noreco'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, Noreco's policy concerning dividends is predictable and corresponding with its objectives, strategies and risk profile.

Presently, the General Meeting has not granted the Board with the authority to increase the share capital of Noreco.

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

Transactions with close associates
In 2011 there have been no significant transactions with closely related parties.

If Noreco should enter into a not immaterial transaction with any of its associated parties within The Company 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 Noreco 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. The Company is listed on the Oslo Stock Exchange.

General Meetings
The General Meeting is Noreco's supreme 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 meetings.

The Annual 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 a general meeting, cf. Noreco'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 recommendations and report, available on the Company's website no later than 21 days prior to a 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 Noreco'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 Noreco 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 candidates 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 the Company'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 Board may decide to allow electronic participation in general meetings, and will consider this before each general meeting. The chairman of the Board shall chair the General Meeting, if not the Board has decided to appoint an independent chairperson.

Nomination committee
The Nomination Committee consists of three members elected by the General Meeting. Chairman of the nomination committee Ole Rettedal is the CEO of IKM Industri-Invest AS, who owns nine percent of the shares in Noreco. Eimund Nygaard is a member of the board, and Aasulv Tveitereid is independent of the board and management. The service shall be two years unless the General Meeting determines that the service 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 Noreco's Nomination Committee guidelines.
The committee had 12 meetings in 2011. 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 shall be a fixed amount, which does not depend on results or involve options. The General Meeting makes the final decision as to the remuneration.

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 Articles of Association, and the Board currently exists of nine members, whereof four are women.
The current shareholder elected directors were appointed at the General Meetings held on 19 August and 27 September 2011.

Two directors and four deputies, all representing the employees of Noreco, 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. The Company has not issued any option to buy or subscribe for shares to shareholder elected directors.

The work of the Board
In 2011 the Board held 20 board meetings. During 2011, an average of 7.5 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.

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 theBoard 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. Noreco 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. Hilde Drønen (Chairperson) Eimund Nygaard and Mona Iren Kolnes are currently the members of the committee. In addition, Noreco'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 Noreco.

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. Ole Melberg, (Chairperson) Shona Grant and Arnstein Wigestrand is presently 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 Noreco'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 Noreco's reporting routines, monitoring, internal audit functions and the Company'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 Noreco'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 Noreco'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 Noreco'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 Noreco'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 Noreco's performance. Noreco 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 Noreco 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 determined 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 the Company 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 the Company'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 the Company`s 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 Noreco'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 the Company'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 Noreco'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 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 Noreco's internal control procedures.

Annually, the auditor presents to the Board a review of Noreco'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 present.

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

Noreco
Noreco is a Norwegian oil and gas company. The company's vision is to become a leading independent company in the North Sea region.

The company's main strategic driver is exploration activity, as successful exploration is considered the most value-creating part of the value chain. Exploration success will then be used as building blocks in creating a balanced portfolio of exploration activity, development projects and producing fields.

Noreco's activities are focused in Norway, Denmark and the UK, with offices in Stavanger (head office) and Copenhagen.

Highlights
After having completed a broad review of the company's strategic alternatives, the board in March 2011 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 was in a challenging position in the first part of 2011. The company's financial situation was stretched, there were operational problems at the company's largest producing asset Siri, and there was increasing uncertainty related to progress and cost of Huntington, the company's largest development project.

In June 2011, Einar Gjelsvik was appointed CEO, after having served as Acting CEO since March 2011. The new management team initiated a broad range of activities with the purpose to turn the company around and create a solid basis for new growth and value creation. These activities aimed at strengthening the financial position, reducing the operational risks and organising the company in a more efficient way.

Through the year, the company has sold three of its producing fields, in addition to four discoveries. This has provided a substantial amount of cash, and has also reduced the amount of future investment commitments. The proceeds from these transactions were used to reduce debt and to strengthen the company's liquidity situation.

The situation at the Siri field was a special challenge. Noreco and the operator were in disagreement on how to proceed with the permanent repair of the Siri platform. Eventually, the companies reached an agreement whereby Noreco sold its interests in the field, while keeping its interests in the satellite fields Nini East, Nini and Cecilie. As part of the agreement, Noreco does not carry any historical or future costs related to the permanent repair solution for the Siri platform. Noreco also keeps the rights to future insurance recovery related to the Siri damages.

The Huntington development project was significantly delayed last year, as upgrade of the Sevan Voyageur FPSO took longer than anticipated and the FPSO's owner, Sevan Marine, suffered from financial problems. The Huntington partnership worked constructively with Sevan Marine to minimize the negative impacts on the project and to help facilitate the financial restructuring of the company.

In March, the UK government increased the supplementary charge for hydrocarbon production from 20 to 32 percent, in effect increasing the marginal tax rate from 50 to 62 percent. For Noreco, this resulted in an increase in deferred tax liabilities of NOK 272 million related to the company's activities in the UK.

Noreco currently has five fields in production, and this portfolio has produced 3-4,000 barrels of oil equivalents (boe) per day through the year. The company is participating in two field developments which will contribute to a significant production growth in 2012. The Oselvar field is expected to start during first half of 2012, with an estimated production to Noreco of 2,500–3,000 boe per day. In the second half, Huntington is planned to be brought on stream, with an estimated net production to Noreco of around 6,000 boe per day.

The company simplified its organisational structure in 2011, as it reduced the size of the management team and the number of employees at its Danish office.

Exploration activity in 2011 was lower than planned, and the results were disappointing. The Company participated in three wells, of which only one was a small discovery. The main reason for the lower than planned number of wells was delays in the rig schedules, and the board expects most of the delayed wells to be drilled in 2012.

Financial results for 2011
The financial statement for 2011 shows improved operating results from continued operations, with higher revenues and lower operating expenses than the year before.

Realised oil prices increased to USD 108.8 (NOK 610) per boe, up from USD 76.5 (NOK 462) in 2010. Production from the company's five fields was on average 3,738 boe per day in 2011, compared to 3,598 boe per day in 2010. Total revenues from continued operations in 2011 amounted to NOK 831 million, up from NOK 640 million the previous year.Exploration and evaluation expenses were NOK 408 million, down from NOK 596 million in 2010. The main components were the dry exploration wells Svaneøgle and Ronaldo, in addition to a comprehensive seismic acquisition program which will give support to future drilling decisions.

Write-downs amounted to NOK 237 million in 2011. This was mainly related to the Huntington field, and was driven by the expiry of the licence period for nondeveloped parts of the area which contained parts of the Fulmar discovery.

The net operating result (EBIT) for 2011 was a loss of NOK 624 million, a slight improvement from 2010 when the loss was NOK 726 million from the same activities. The company's ordinary result before tax (EBT) was a loss of NOK 1,062 million, compared to a loss of NOK 1,169 million in 2010. Net result for 2011 from continued operations was a loss of NOK 868 million, compared to a loss of NOK 434 the year before.

Result from discontinued operations amounted to NOK 9 million for 2011. The year before, the discontinued operations contributed with a result of NOK 439 million.

Net cash flow from operations in 2011 amounted to NOK 1,297 million, up from NOK 1,069 million in 2010.

Net cash flow from investing activities in 2011 was NOK 207 million due to substantial asset sales, compared to NOK -911 for the previous year. Interest bearing debt amounted to NOK 3,675 million at the end of 2011, compared to NOK 4,893 million one year earlier. Total deposits were NOK 689 million at the end of 2011, compared to NOK 892 million in 2010.

Undrawn credit under the company's reserve-based bank facility amounted to USD 123 million (NOK 737 million).

In April 2011 the company issued a new five year senior secured bond issue of NOK 600 million to provide financing of the Oselvar development, following the decision to terminate the previously agreed sale of Oselvar and Enoch to Marubeni Corporation.

Noreco repaid the remaining NOK 153 million balance of the ALX002 bond upon maturity in February 2011. During the second half of 2011, the company used part of the proceeds from asset sales to repurchase own bonds in the market. In total, the company repurchased bonds at a nominal value of NOK 520 million, split between NOK 275 million in NOR03, NOK 129 million in NOR05, NOK 71 million in NOR04 and NOK 45 million in the convertible bond.

The borrowing capacity under the reserve based facility was positively impacted by the addition of reserves from new field developments to the borrowing base during 2011. However, the sales of South Arne and Siri fields had the opposite effect. See note 27 and 31 for details. Noreco has one reporting segment. In order to provide the market with insight into the company's activities, additional information about each field is provided both in this directors' report and elsewhere in the annual report, in addition to a separate statement of reserves.

The company's liquidity situation was satisfactory at the beginning of 2012. Through 2012 the liquidity will be influenced by continued investments in field developments and exploration wells, repayment of debt and of production from new fields which are planned to come on stream during the year.

The liquidity forecast for the next 12 months is based on a number of assumptions related to operational issues, market conditions and the timing of specific events. These are uncertain by nature. The company has developed a plan in order to manage these uncertainties and ensure that the company has sufficient liquidity in the next 12 months. This plan includes measures which can be implemented in the event that any of the underlying assumptions prove to be too optimistic, such as securing additional funding through issuance of new debt or equity, renegotiation of existing loan agreements, or sale of assets etc. The Board is convinced that this plan is robust and therefore believes that the company will have sufficient liquidity in 2012. Accordingly, the Board confirms that the going concern requirement is fulfilled and the financial statements for 2011 have been prepared on this basis.

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

The market

The oil price strengthened in 2011, and the average price per barrel was USD 111, up from USD 80 the previous year. The oil price has strengthened further in 2012. The board expects oil demand to remain firm and support a continued high oil price both in 2012 and for the longer term. High oil prices trigger increased activity both within exploration drilling and field developments. This is reflected in increased competition for exploration acreage, a tighter market for specialists and oil services such as drilling rigs and seismic data, and consequently 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 improved in 2011, and Noreco took an active part in this market through the sales of a number of discoveries and producing fields. These transactions were agreed at prices which Noreco considered to be fair, and the prices were also with a few exceptions broadly in line with external analyst valuations of the assets.

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 when appropriate 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 on average approximately 150 000 barrels per quarter at a strike price of USD 75 per barrel. The put options that expired in 2011 gave no payoff as the actual oil prices were consistently higher than the strike price of the options.

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. A receivable of NOK 354 million has been recognised as current receivables in the balance sheet. This represent a conservative estimate for expected insurance settlement for cost and production losses per 31.12.2011.

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.

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 external financing through debt or equity. 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 operated and non-operated activities. The company strives towards performing all its activities with no harm to people or the environment.

The 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 licences. This involves follow-up of incidents in the licence 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 2011.

Personnel resources and working environment
In Noreco's business model, the employees are at the centre of the value creation in the company.

In 2011, Noreco streamlined its organisation and decreased the number of employees. At the end of 2011 the company had 72 employees, distributed between offices in Norway and Denmark. In total 11 nationalities are represented in the workforce, and 35 percent of the employees are women.

Noreco's top management includes one woman. The company's board of directors has consisted of four women and five men, whereof three women and four men are elected by shareholders.

At the end of 2011, 35 percent of the employees were women, compared to 33 percent in 2010, and it is a purpose to increase the share of women going forward. In the top management there were until December two women and four men. For the whole company, four of the managing positions (representing 20 percent) are occupied by women. This is a decrease from eight women in 2010. 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 positions at the same level, regardless of gender, ethnicity or disability. 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.

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, ethnicity or disability.

The management's compensation is described in the notes to the annual accounts. Sick leave in Noreco was 2.5 percent in 2011 versus 2 percent in 2010.

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 20 board meetings were held in 2011.

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.

Noreco in May held its Annual General meeting, and the company also held Extraordinary General Meetings in August and September. Following the elections at these meetings, the board now consists of the following shareholder-elected members: Ståle Kyllingstad (chairman), Ole Melberg (deputy chairman), Hilde Drønen, Shona Grant, Mona Iren Kolnes, Eimund Nygaard and Arnstein Wigestrand. Ellen Sandra Bratland and Bård Arve Lærum were elected as board members by the company's employees in 2010. Bratland stepped down from the board as she took over the role as COO in March 2011, and was replaced by Lotte Kiørboe.

In June 2011 Einar Gjelsvik was appointed CEO, after having served as Acting CEO since March 2011.

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.

Ownership
There are no restrictions to the transfer of shares in Noreco. The company had 2,862 shareholders at the end of 2011, and 69 percent of the shares were held by Norwegian owners.

Noreco's bond agreements contain change of control clauses, giving the bondholders a right to require full pre-payment at par if an investor or group of investors which are under single control becomes owner of a majority of the voting rights. The company's reservebased bank facility has the same terms, while the exploration facility has a similar clause which is triggered when one third of the voting rights are gathered under single control.

Norwegian Energy Company ASA
The parent company is an exploration company and the operating expenses mainly consist of exploration cost, payroll and other operating expenses. In 2011 the discoveries Brynhild, Hyme and Zidane were divested, and in 2010 the Grosbeak discovery was divested. These sales are reflected in the accounts as discontinued operations. For comments on financial risk and market conditions, and statement regarding going concern, please see other parts of this annual report. These comments are also valid for the parent company.

Allocations
The result for the year for Norwegian Energy Company ASA in 2011 was NOK -261 million. The board propose the following allocations: Transferred to other reserves: NOK -261 million The Parent company's total equity as of 31.12.2011 was NOK 3,087.9 million of which NOK 0 was free equity.

Outlook
The development in the market fundamentals for the upstream oil and gas industry remain positive. The oil price is currently at levels which stimulate exploration and development of oil and gas assets, and the activity level in the asset market has improved. The board is of the opinion that the medium to long-term prospects for the oil and gas industry are positive.

Noreco expects its existing fields to produce around 3–4,000 boe per day until production starts from the new fields Oselvar and Huntington during 2012. The planned repairs of the Siri platform are expected to cause some reduced regularity for the production from Nini East, Nini and Cecilie in the coming quarters. Oselvar is expected to start producing during the first half of 2012, while Huntington is expected to start during second half of 2012. When both fields are in production, the company expects to reach a production level of around 12,000 boe per day. Noreco expects to be involved in up to 12 exploration wells over the next 12–15 months. The exact timing of each well is subject to rig schedules and final drilling decisions in each licence.

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 2012. See also note 18 in the annual accounts for further details.

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.

Approved by the Board on 22 March 2012

Ståle Kyllingstad
Chairman

Ole Melberg
Deputy Chairman

Eimund Nygaard
Board member

Shona Grant
Board member

Mona Iren Kolnes
Board member

Hilde Drønen
Board member

Arnstein Wigestrand
Board member

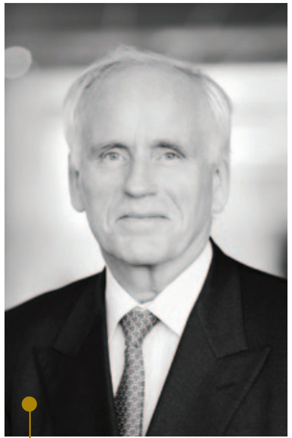
Lotte Kiørboe
Employee Representative

Bård Arve Lærum
Employee Representative

Einar Gjelsvik
CEO

THE BOARD OF DIRECTORS

2011



Ståle Kyllingstad (51)
Chairman

Kyllingstad is the founder and CEO of IKM Group. The company provides equipment and services to the oil industry. He is a petroleum engineer, and after a short period as Department Manager at University of Stavanger, he started in Hydrotech AS. In 1989 he founded what would later be known as IKM by buying the calibration laboratory and established Hydrotech Laboratorium AS, later called IKM Laboratorium AS. This company was the first of numerous companies known as IKM. Kyllingstad is chairman of the board of Norsk Industri, Oil and Gas.

Ole Melberg (65)
Deputy chairman

Melberg has a business degree from NHH (Norwegian School of Business Administration). From 1970–72 Melberg spent two years with DENOFA – Lilleborg. Melberg has held several positions in Smedvig during his 26 years with the company, including manager of AS Smedvig Drilling Co. in 1984 and CEO of Smedvig ASA in 1990. Left Smedvig in the spring of 1998 and set up Melberg Partners and Energy Ventures. Melberg is currently holding the position of Managing Partner of Energy Ventures. Has held directorships in Umoe ASA, Awilco, Aker Yards, Aker Drilling, Rosenberg and APL.

Eimund Nygaard (53)
Board member

Nygaard is holding the position as CEO of Lyse Energi. He has held several managing position in Lyse Energi (former Stavanger Energi) since 1989. Nygaard is Chairman of the board of Sandnes Sparebank and is members of the boards of Enova SF and Renovasjonen IKS. Nygaard is educated at Rogaland Distriktshøgskole (now University of Stavanger) and holds a degree in Economy and administration.

Shona Grant (50)
Board member

Grant is currently partner in Wellwork Innovation, and holds a BSc in geology from University of Aberdeen, and a PhD in geology from University of Leicester. Since 1987 Grant has held several technical and managing positions for BP in the UK, Switzerland and Norway, including Ormen Lange Project Manager in 2000, and Performance Unit Leader Ula, Tambar and Draugen fields in 2003–2005. Since 2009 she has been providing management consultancy services to several oil- and technology companies.

Mona Iren Kolnes (48)
Board member

Mona Iren Kolnes holds a Master's degree in Economics and Business Administration from the Norwegian School of Economics and Business Administration (NHH). Kolnes has 25 years experience in the oil- and gas industry, mainly related to finance, strategy and asset management in both the up-and downstream business. She is currently Chief Financial Officer in Inwind AS, coming from a position as Vice President in Statoil, and has comprehensive management experience holding a number of senior positions in Statoil and Conoco.

Hilde Drønen (50)
Board member

Hilde Drønen is currently the CFO in DOF ASA (since 2004), and has extensive experience from the offshore sector. She has previously worked as the Finance Director in Bergen Yards AS (2003–2004) and Group Contoller for the Møgster Group (1995–2003). She holds a Business Administration degree and Business Management degree from the Norwegian School of Management (BI) and a legal course from Universitetet i Bergen (UIB). Mrs Drønen is represented in several Boards of Directors, including the Board of Directors in DOF Subsea AS (since 2005) and Sevan Marine ASA (since 2006).

Arnstein Wigestrand (55)
Board member

Wigestrand has around 20 years upstream and downstream experience from the oil- and gas-industry, with Statoil and Saga Petroleum. For the past ten years he has worked as an oil analyst with SEB Enskilda. Today, Wigestrand is working as an investor and advisor in his own business. Wigestrand is educated at Norges Tekniske Høgskole and Institut Francais du Pétrole.

Lotte Kiørboe (52)
Employee Representative

Kiørboe joined Noreco in 2008. She has a Masters degree in geology from Copenhagen, and a PhD from Aaahus University. She began her career in 1988 with GEUS, where she worked with oil-related tasks including continental appraisal by the Faroe Islands and Greenland. From 1997 until 2008, Kiørboe was employed with Maersk Oil in exploration in West Africa, Brazil and Norway. Kiørboe currently holds the position of Exploration Manager in Denmark.

Bård Arve Lærum (42)
Employee Representative

Lærum have more than 16 years experience from the industry. He joined Noreco in 2007. He worked 11 years in various positions within subsurface, developmentprojects 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

		NORECO GROUP		NORWEGIAN ENERGY COMPANY ASA	
(NOK 1 000)	Note	2011	2010	2011	2010
Continued operation					
Revenue	7	829 438	624 670	-	-
Other revenue	7	1 590	14 872	1 590	-
Total revenues	7	**831 028**	**639 542**	**1 590**	**-**
Production expenses	8	271 434	179 300	-	-
Exploration and evaluation expenses	9	408 199	595 852	373 985	561 535
Personell expenses	10, 11	163 396	158 457	100 880	114 941
Other operating expenses	12, 13	133 258	133 287	84 391	92 881
Total operating expenses		**976 286**	**1 066 896**	**559 256**	**769 358**
Operating results before depreciation and amortization (EBITDA)		**(145 258)**	**(427 354)**	**(557 666)**	**(769 358)**
Depreciation	16, 19	241 817	261 654	26	237
Write-downs	16, 18, 19	236 539	36 500	-	-
Net operating result		**(623 614)**	**(725 508)**	**(557 692)**	**(769 594)**
Financial income	14	131 280	73 128	132 341	84 904
Financial expenses	14	569 476	516 882	489 714	377 851
Net financial items		**(438 196)**	**(443 753)**	**(357 374)**	**(292 946)**
Ordinary result before tax		**(1 061 810)**	**(1 169 261)**	**(915 066)**	**(1 062 541)**
Income tax benefit	15	194 109	735 170	525 859	903 780
Net result continued operation		**(867 701)**	**(434 091)**	**(389 207)**	**(158 761)**
Discontinued operation					
Profit (loss) from discontinued operation (net of income tax)	16	8 607	438 616	127 903	193 186
Net result for the period		**(859 094)**	**4 525**	**(261 304)**	**34 425**
Net result for the period		(859 094)	4 525	(261 304)	34 425
Other comprehensive income:					
Other changes		9 148	(34 441)	-	-
Currency translation difference		165 737	2 393	-	-
Total comprehensive net result for the period		**(684 208)**	**(27 523)**	**(261 304)**	**34 425**
Earnings per share					
Basic	17	(3.52)	0.02	(1.07)	0.14
Diluted	17	(3.38)	0.05	(1.00)	0.17
Earnings per share – continued operation					
Basic	17	(3.56)	(1.79)	(1.60)	(0.65)
Diluted	17	(3.41)	(1.66)	(1.51)	(0.58)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

(NOK 1 000)	Note	NORECO GROUP 31.12.11	NORECO GROUP 31.12.10	NORWEGIAN ENERGY COMPANY ASA 31.12.11	NORWEGIAN ENERGY COMPANY ASA 31.12.10
ASSETS					
Non-current assets					
Intangible non-current assets					
Licences and capitalised exploration expenses	18	3 536 162	3 976 834	192 937	557 954
Goodwill	18	871 994	1 492 598	0	0
Total intangible non-current assets		**4 408 155**	**5 469 432**	**192 937**	**557 954**
Tangible non-current assets					
Production facilities	19	2 582 545	3 546 878	0	2 047
Tax refund		0	0	0	0
Total tangible non-current assets		**2 582 545**	**3 546 878**	**0**	**2 047**
Financial non-current assets					
Investments in subsidiaries		0	0	4 409 574	4 354 618
Loan to group companies		0	0	877 234	557 255
Total financial non-current assets		**0**	**0**	**5 286 808**	**4 911 873**
Deferred tax assets	15	605 596	594 800	508 562	478 789
Total non-current assets		**7 596 297**	**9 611 110**	**5 988 307**	**5 950 363**
Current assets					
Receivables					
Assets held for sale	20	0	590 389	0	0
Accounts receivable	21	177 961	208 455	83 774	8 345
Tax refund	15, 21	506 056	730 891	506 056	702 968
Receivables from group companies	21	0	0	54 277	184 073
Other current receivables	21	655 826	570 853	53 377	47 711
Total receivables		**1 339 843**	**2 100 588**	**697 484**	**943 097**
Financial current assets					
Financial instruments	22	26 755	8 831	0	0
Bank deposits, cash and cash equivalents	23	688 708	892 482	491 904	732 420
Total financial current assets		**715 462**	**901 313**	**491 904**	**732 420**
Total current assets		**2 055 305**	**3 001 901**	**1 189 389**	**1 675 517**
Total assets		**9 651 601**	**12 613 011**	**7 177 695**	**7 625 880**

(NOK 1 000)	Note	NORECO GROUP 31.12.11	NORECO GROUP 31.12.10	NORWEGIAN ENERGY COMPANY ASA 31.12.11	NORWEGIAN ENERGY COMPANY ASA 31.12.10
EQUITY AND LIABILITIES					
Equity					
Share capital	24	755 913	753 418	755 913	753 418
Share premium fund	24	2 504 407	2 492 503	2 504 407	2 492 503
Other equity		(244 914)	428 939	(172 384)	78 565
Total equity		**3 015 407**	**3 674 860**	**3 087 936**	**3 324 486**
LIABILITIES					
Provisions					
Pension liabilities	25	10 350	4 518	10 350	4 518
Deferred tax	15	2 191 290	2 368 027	36 819	400 656
Abandonment provisions	26	298 130	829 035	0	0
Total provisions		**2 499 771**	**3 201 580**	**47 170**	**405 174**
Other non-current liabilities					
Convertible bond loan	27	0	205 951	0	205 951
Bond loan	27	2 317 825	2 658 582	2 317 825	2 658 582
Other interest bearing debt	27	292 803	943 612	0	0
Other interest bearing debt to group companies		0	0	533 894	106 549
Total other non-current liabilities		**2 610 628**	**3 808 145**	**2 851 719**	**2 971 082**
Current liabilities					
Liabilities/debt held for sale	20	0	231 539	0	0
Other interest-bearing debt	28	1 064 325	1 085 304	1 064 325	649 111
Trade payables	28	25 627	86 060	17 757	71 265
Current tax payable	15, 28	180 409	114 716	0	0
Public duties payable	28	8 934	22 760	7 429	7 890
Debt to group companies	28	0	0	0	837
Other current liabilities	28	246 501	388 047	101 358	196 034
Total current liabilities		**1 525 796**	**1 928 426**	**1 190 870**	**925 138**
Total liabilities		**6 636 195**	**8 938 151**	**4 089 759**	**4 301 394**
Total equity and liabilities		**9 651 601**	**12 613 011**	**7 177 695**	**7 625 880**

Stavanger, 22 March 2012

Ståle Kyllingstad
Chairman

Ole Melberg
Deputy Chairman

Eimund Nygaard
Board member

Shona Grant
Board member

Mona Iren Kolnes
Board member

Hilde Drønen
Board member

Arnstein Wigestrand
Board member

Lotte Kiørboe
Employee Representative

Bård Arve Lærum
Employee Representative

Einar Gjelsvik
CEO

Consolidated statement of changes in equity

NORECO GROUP (NOK 1 000)	Share capital	Share premium fund	Foreign exchange translation fund	Other	Total equity
Equity at 1 January 2010	**751 545**	**2 483 054**	**(25 455)**	**513 078**	**3 722 223**
Adjustment opening balance [1]	-	-	-	(38 291)	(38 291)
Capital increase	1 873	10 001			11 874
Share issue cost	-	(552)	-	-	(552)
Share-based incentive program	-	-	-	7 130	7 130
Other changes	-	-	-	(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)**	**452 001**	**3 674 860**
Equity at 1 January 2011	**753 418**	**2 492 503**	**(23 062)**	**452 001**	**3 674 860**
Capital increase	2 495	11 904	-	-	14 399
Share-based incentive program	-	-	-	10 355	10 355
Other changes	-	-	-	9 148	9 148
Translation differences foreign exchange	-	-	165 737	-	165 737
Net result	-	-	-	(859 094)	(859 094)
Equity at 31.12.2011	**755 913**	**2 504 407**	**142 676**	**(387 589)**	**3 015 407**

(1) Calculation errors on depreciation of excess values are incorporated as per 1.1.2010 as follows:
Other Equity NOK -38 million, Non-current deferred tax liability NOK -16 million, Production assets NOK -54 million.

Statement of changes in equity

NORWEGIAN ENERGY COMPANY AS (NOK 1 000)	Share capital	Share premium fund	Other equity	Total equity
Equity at 1 January 2010	**751 545**	**2 483 054**	**37 010**	**3 271 609**
Capital increase	1 873	10 001	-	11 874
Share issue cost	-	(552)	-	(552)
Share-based incentive program	-	-	7 130	7 130
Net result	-	-	34 425	34 425
Equity at 31.12.2010	**753 418**	**2 492 503**	**78 565**	**3 324 486**
Equity at 1 January 2011	**753 418**	**2 492 503**	**78 565**	**3 324 486**
Capital increase	2 495	11 904	-	14 399
Share-based incentive program	-	-	10 355	10 355
Net result	-	-	(261 304)	(261 304)
Equity at 31.12.2011	**755 913**	**2 504 407**	**(172 384)**	**3 087 936**

CONSOLIDATED STATEMENT OF CASH FLOW

(NOK 1 000)	NORECO GROUP 2011	NORECO GROUP 2010	NORWEGIAN ENERGY COMPANY ASA 2011	NORWEGIAN ENERGY COMPANY ASA 2010
Net result for the year	(859 094)	4 525	(261 304)	34 425
Tax expenses	(65 009)	(428 339)	(525 859)	(903 780)
(Tax paid) / Tax refunded	591 594	150 750	722 075	561 229
Depreciation and write-downs	917 377	637 810	26	237
Write-downs dry wells	210 710	359 933	210 710	359 933
Gain/loss on sale of licences	(1 590)	-	(1 590)	-
Gain/loss on sale of discontinued operation	(37 098)	(199 082)	(143 225)	(209 665)
Effect of changes in exchange rates / other effects equity	133 763	38 613	-	-
Financial instruments at fair value	(9 148)	34 441	-	-
Net financial items	467 028	485 032	357 010	293 285
Other items with no cash impact	5 832	158	5 832	154
Changes in accounts receivable	30 494	(74 836)	(75 429)	(5 526)
Changes in trade payables	(60 433)	50 117	(53 508)	38 347
Changes in other current balance sheet items	(27 891)	10 339	147 879	52 197
Net cash flow from operations	**1 296 536**	**1 069 461**	**382 617**	**220 836**
Cash flows from investment activities				
Proceeds from sale of intangible fixed assets	458	-	458	-
Proceeds from sale of discountinued operations	1 554 823	265 545	288 936	608 375
Purchase of tangible assets	(947 800)	(622 589)	(72 378)	(2 021)
Purchase of intangible assets	(400 294)	(553 777)	(354 109)	(581 264)
Purchase of shares in subsidiaries	-	-	(54 956)	(33 849)
Net cash flow used in investing activities	**207 188**	**(910 821)**	**(192 049)**	**(8 759)**

(NOK 1 000)	NORECO GROUP 2011	NORECO GROUP 2010	NORWEGIAN ENERGY COMPANY ASA 2011	NORWEGIAN ENERGY COMPANY ASA 2010
Cash flows from financing activities				
Issue of share capital	14 399	11 322	14 399	11 322
Proceeds from issue of long term debt	593 154	497 616	593 154	685 655
Repayment of long term debt	(937 045)	-	(270 000)	-
Proceeds from issue of short term debt	429 666	634 755	429 666	612 862
Repayment of short term debt	(1 352 697)	(695 573)	(923 279)	(503 666)
Change in borrowings from group companies	-	-	427 345	
Change in loans to group companies	-	-	(319 979)	(566 796)
Interest paid	(452 706)	(374 449)	(382 390)	(294 439)
Net cash flow from (used in) financing activities	**(1 705 229)**	**73 671**	**(431 084)**	**(55 062)**
Net change in cash and cash equivalents	**(201 505)**	**232 311**	**(240 516)**	**157 015**
Cash and cash equivalents at start of the year	892 482	659 812	732 420	575 405
Effects of changes in exchange rates on cash and cash equivalents	(2 269)	360	-	-
Cash and cash equivalents at end of the year	**688 708**	**892 482**	**491 904**	**732 420**

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 Annual Report for 2011 (page 2).

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 22 March 2012.

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 31.12.2011, 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 2012, 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 liability is recognised as the net total of the plan assets, plus unrecognised 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.

The annual report for Norwegian Energy Company ASA is prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP) per 31.12.2011. For the activity and the balance sheet items Norwegian Energy Company ASA has there are no accounting policy discrepancies between IFRS and NGAAP.

Certain comparative amounts in the financial statements have been reclassified to conform to the current year's presentation. In addition, the comparative statement of comprehensive income has been represented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see note 16).

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, intragroup 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
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.

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 licences 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 licences are treated as business combinations whereas acquisition of licences 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 fair value prior to settlement is 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 profit and loss
- Loans and receivables at amortised cost

Financial liabilities are divided into the following categories:
- Financial liabilities at fair value through profit and loss
- Other financial liabilities at amortised cost

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.

De-recognition 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.

Derivatives and Hedging
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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 in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

Segment reporting
The group's operating segments are established on the basis of those components of the group that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The accounting policies of the operating segments are the same as the group's accounting policies described in this note. In 2011, Noreco had one reportable segment: Exploration and Production. The segment consists of several fields, and information about the different fields is given in the board of directors' report and elsewhere in the annual report. Geography is also important to the group and, consequently information is also given in the segment note regarding which countries the company has operations. Information about reserves is given in a separate report.

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 hydrocarbons 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, transportation 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 enacted 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 percent. The special tax is applied to relevant income in addition to the standard 28% income tax, resulting in a 78 percent 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 percent 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 percent 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 "Business combinations". 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 hydrocarbons. 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 cashgenerating 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 in income 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 changes, 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 18, 19 and 26)
- Depreciation of property, plant and equipment (production equipment) (Note 19).
- Amounts related to insurance coverage from the shutdown on the Siri field (Note 21).
- Measurement of defined benefit obligation (Note 25)

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.

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 decommissioning 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 2011, and have not been applied in preparing these consolidated financial statements.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in other Entities
- IFRS 13 Fair Value Measurement
- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income
- IAS 19R Employee benefits
- IAS 27R Separate Financial statements
- IAS 28R Investments in Associates and Joint Venture

All of the new and amended standards were issued during May and June 2011, and will be effective for NORECO's financial statements for 2013. NORECO is currently evaluating the potential accounting impacts of the standards. We expect that IFRS 11 Joint Arrangements may impact how NORECO accounts for and discloses certain of our operations conducted in cooperation with others. Further, we expect that IAS 19R Employee benefits will impact how post employment benefits including pensions, and measurement changes in such arrangements, are reflected in our financial statements.

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 has 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, price 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 licence portfolio. This entails among other factors that Noreco should be able to attend the entire process from when the licence is in the exploration phase to the delivery of a plan for development with subsequent investments and production. The group will simultaneously assess each licence in order to optimize the value for the group either through sales or continued participation in the licence. The group also works actively in order to manage cash flows tied to the groups' loan obligations.

The company's liquidity situation at the beginning of 2012 is comfortable. During 2012, the company will continue investing in field developments and exploration wells, and the liquidity will gradually be reduced until production starts from the new fields.

The company's projections indicate that the liquidity situation will remain sufficient for the coming 12 months. These projections are based on a number of assumptions related to operational performance, market developments and the timing of certain events, all of which by their nature are uncertain. Should some of these assumptions turn out to be too optimistic, the company may need to seek additional financing through issuing new debt or equity, renegotiation of existing debt facilities or sales of assets.

The Noreco Group maintains its flexibility in funding by maintaining availability to undrawn borrowing facility.

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, GBP 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. There were no outstanding foreign currency derivatives at year end. Foreign currency risk related to Noreco's investments in Norwegian Energy Company ASA's businesses with a functional currency other than Noreco ASA's functional currency are not hedged. See Note 21 Trade receivables and other receivables, Note 22 Financial Instruments, Note 23 Cash and cash equivalents Note 27 Non-current liabilities and Note 28 Trade payable and other current liabilities.

A change in the average exchange rate related to USD with +/- 10 percent would have changed revenue with NOK 160 million. Net result for the period would have changed with NOK 98 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 prices. 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 options, which currently are USD 70 and USD 75 respectively, the options are not exercised and the Group sells at market price. This form of hedging is accounted for as hedging in the financial statements, see Note 22 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 3,751 million in interest-bearing debt (nominal value), of which NOK 1,078 million is short-term debt. The parent company has a total of NOK 3,428 million in interest-bearing debt (nominal value), of which NOK 1,078 is short-term debt. Of the Group's debt NOK 1,627 million are loans with a fixed interest rate. The remaining, NOK 2,124 million, are loans with a floating interest rate. The parent company has a total debt of NOK 1,627 million at a fixed interest rate and NOK 1,801 million at a floating interest rate.

All bank deposits (NOK 689 million for the Group and NOK 492 million for the parent company) are at floating interest rates. A change of +/- 1 per cent will cause in a change in profit or loss of +/- NOK 11 million for the Group and NOK 9 million for the parent company, under the assumption that the net cash/lending position is unchanged from year end. For further information about the Group's interest-bearing debt see Note 27 Non-current liabilities and Note 28 Trade payables and other payables. 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 21 Trade receivable and other receivables that also give an overview of the maximum credit risk the company is subject to.

The counterparty in derivatives is large international banks whose credit risk is considered 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 equity ratio and the gearing ratio. Equity ratio is calculated as equity divided by total assets. The gearing ratio is calculated as interest bearing debt, less cash and cash equivalents, less exploration financing, divided by EBITDA, less exploration expenses.

04 Changes in the group structure

On 31 December 2011 the company Siri UK Ltd. was sold to DONG Energy A/S as part of the divestment of Siri in Noreco.

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 Holdings Ltd	U.K	100 %	100 %
Noreco Bonne Voisine SARL	France	100 %	100 %
Noreco Arcis sur Aube SARL	France	100 %	100 %

Siri Holdings Ltd is 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.

The other subsidiaries are acquired and recognised in the consolidated financial statements from 1 July 2007 except for Norwegian Energy Company UK Ltd.

Noreco ASA owns the following shares in the subsidiaries:

(NOK 1 000) Company	Registered business office	Ownership share	Voting share	Result 2011	Equity 31.12.11	Book value
Altinex ASA	Stavanger	100 %	100 %	429 097	1 543 207	4 307 579
Siri Holdings Ltd	Stavanger	100 %	100 %	(34 603)	(29 776)	0
Norwegian Energy Company UK Ltd	U.K	100 %	100 %	(44 867)	7 442	101 996
Noreco Bonne Voisine SARL	France	100 %	100 %	0	0	0
Noreco Arcis sur Aube SARL	France	100 %	100 %	0	0	0

06 Exchange rate

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

	Exchange rate 01.01.2011	Exchange rate 31.12.2011
Norwegian kroner (NOK)	1.00	1.00
Danish kroner (DKK)	104.80	104.30
USA dollar (USD)	5.86	5.99
Euro (EUR)	7.81	7.75
British pound (GBP)	9.07	9.28

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

07 Revenue

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Continued operation				
Sales of oil	834 812	630 340	-	-
Sales of gas and NGL	9 236	6 313	-	-
Revenue from oil price hedging	-	415	-	-
Costs from oil price hedging [1)]	(14 610)	(12 398)	-	-
Other revenue [2)]	1 590	14 873	1 590	-
Total revenue continued operation	831 028	639 542	1 590	-
Total revenue discontinued operation	768 289	1 307 838	-	-
Total revenue	1 599 318	1 947 380	1 590	-

(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 is related to expected insurance coverage for the loss of oil production from the Siri area fields in 2009 and 2010.

08 Production expenses

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Continued operation				
Direct production expenses	184 535	107 484	-	-
Duties, tariffs, royalties	57 539	44 580	-	-
Other expenses	29 360	27 236	-	-
Total production expenses continued operation	271 434	179 300	-	-
Total production expenses discontinued operation	180 123	360 619	-	-
Total production expenses	451 557	539 919	-	-

09 Exploration and evaluation expenses

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Continued operation				
Acquisition of seismic data, analysis and general G&G costs	121 915	166 810	98 656	158 804
Exploration wells capitalised in previous years	5 588	21 230	5 588	21 230
Dry exploration wells this period	205 122	338 703	205 122	338 703
Other exploration and evaluation costs	75 574	69 110	64 619	42 799
Total exploration and evaluation costs continued operation	408 199	595 852	373 985	561 535
Total exploration and evaluation costs discontinued operation	19 002	19 920	15 686	16 141
Total exploration and evaluation costs	427 200	615 772	389 671	577 676
The exploration organisation’s share of Noreco’s total personell expenses and other operating expenses amounts to:	86 199	64 574	-	-

Specification of cash outflows relating to exploration and evaluation activities

(NOK 1 000)	2011	2010	2011	2010
Continued operation				
Exploration and evaluation costs capitalised as intangible assets this year	167 328	26 303	127 339	53 789
Exploration and evaluation costs directly expensed this year	402 611	574 622	368 397	540 305
Amount invested in exploration and evaluation activities this year	569 939	600 925	495 736	594 095
Continued operation				
Exploration and evaluation costs capitalised as intangible assets this year	27 844	188 771	21 648	188 772
Exploration and evaluation costs directly expensed this year	19 002	19 920	15 686	16 141
Amount invested in exploration and evaluation activities this year discontinued operation	46 845	208 691	37 334	204 912
Amount invested in exploration and evaluation activities this year	616 784	809 616	533 070	799 007

10 Personell expenses

Personnel expenses consist of the following:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Salaries	116 935	109 260	94 587	98 698
Social security tax	14 439	17 424	14 439	17 424
Pensions costs (note 25)	17 185	11 121	14 881	8 368
Costs relating to share-based payments (note 29)	11 325	15 447	8 168	12 771
Salaries from other group companies	-	-	(33 923)	(27 312)
Other personnel expenses	3 511	5 205	2 728	4 993
Total personnel expenses	163 396	158 457	100 880	114 941

Average number of man-years

	2011	2010	2011	2010
Norway	69	62	69	62
Denmark	24	27	-	-
Total	93	89	69	62

11 Related-party transactions

Parent company's transaction with subsidiaries

The parent company has during the year had transactions with its subsidiaries in the form of cost sharing without markup and interests on current accounts and loans based on Noreco's WACC.

Compensation to key management

(NOK 1 000)	Director's fees	Remuneration	Bonus	Pension	(1) Other remuneration	Total compensation	(8) Number of shares 31.12.11	(2) Number of options	(3) Shares purchased in 2012
Senior executives									
Einar Gjelsvik [4, 11] CEO	0	2 354	485	92	456	3 387	129 993	371 122	0
Rebekka G. Herlofsen [5,13,19] CFO	0	2 469	0	0	0	2 469	0	0	0
Ellen S. Bratland [14] COO, VP Development & Production	0	1 742	301	139	469	2 651	61 010	175 691	0
Lars Fosvold [4] VP, Exploration	0	1 815	492	174	683	3 164	136 111	239 246	0
John Bogen [18] VP, Commercial	0	1 636	476	217	588	2 917	88 582	153 457	0
Kjetil Bakken [12] VP, Strategy & Investor Relations	0	1 579	210	113	357	2 259	55 416	89 372	0
Erik Borg [5, 16] Assistant CFO	0	1 350	249	150	320	2 070	0	124 805	0
Scott Kerr [11, 19] CEO	0	1 748	5 943	143	1 677	9 511	0	0	0
Jan Nagell [5, 19] CFO	0	493	612	25	71	1 201	0	0	0
Thor Arne Olsen [18, 19] VP, Commercial	0	2 678	343	145	1 459	4 625	0	0	0
Rune Martinsen [12, 19] VP, Strategy & Investor Relations	0	1 172	298	70	787	2 326	0	0	0
Birte N. Borrevik [11, 19] VP, Projects & Technology	0	1 882	708	141	937	3 668	0	0	0
Stig Frøysland [17, 19] VP, HSE / HR	0	1 688	899	146	833	3 565	0	0	0

(NOK 1 000)	Director's fees	Remuneration	Bonus	Pension	(1) Other remuneration	Total compensation	(8) Number of shares 31.12.11	(2) Number of options	(3) Shares purchased in 2012
Board of Directors									
Ståle Kyllingstad [15] Chairman of the Board	108	0	0	0	0	108	21 946 035	0	1 727 963
Ole Melberg [9] Deputy Chairman	59	0	0	0	0	59	180 048	0	0
Eimund Nygaard [15] Board member	72	0	0	0	0	72	23 647 460	0	0
Shona Grant [15] Board member	72	0	0	0	0	72	20 000	0	0
Mona Iren Kolnes [15] Board member	72	0	0	0	0	72	30 000	0	0
Arnstein Wigestrand [10] Board member	270	0	0	0	0	270	50 000	0	10 000
Hilde Drønen [10] Board member	270	0	0	0	0	270	40 000	0	0
Lotte Kiørboe Board member, staff representative	101	1 135	229	126	149	1 740	16 531	92 123	0
Bård Arve Lærum Board member, staff representative	150	1 345	329	136	249	2 209	54 329	117 388	0
Lars Takla [6, 19] Board member	505	0	0	0	0	505	0	0	0
John Hogan [6, 19] Board member	380	0	0	0	0	380	0	0	0
Aasulv Tveitereid [7, 19] Board member	100	0	0	0	0	100	0	0	0
Rebekka G. Herlofsen [5,13,19] Board member	100	0	0	0	0	100	0	0	0
Therese Log Bergjord [6, 19] Board member	337	0	0	0	0	337	0	0	0
Ellen Sandra Bratland [14] Board member, staff representative	38	0	0	0	0	38	0	0	0
Total compensation 2011	**2 634**	**25 087**	**11 573**	**1 817**	**9 033**	**50 144**	**46 455 515**	**1 363 204**	**1 737 963**
Total compensation 2010	2 488	23 765	3 628	1 985	7 588	39 454			

For comparatives for 2010 we refer to our Annual Report 2010.

(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) Shares bought in 2012.
(4) Einar Gjelsvik new CEO from 22 June 2011. Lars Fosvold new VP Exploration.
(5) Jan Nagell resigned 31 January, 2011. Rebekka Glasser Herlofsen was appointed CFO from 22 March until year end 2011. Acting CFO in the interim period was Erik Borg.
(6) Until 19 August 2011.
(7) Until 28 April 2011.
(8) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management.
(9) From 27 September 2011.
(10) From 28 April 2011.
(11) Scott Kerr until 22 March 2011. Acting CEO was Einar Gjelsvik in period up to he was appointed CEO 22 June 2011.
(12) Rune Martinsen until 22 March 2011. New VP for Strategy & Investor Relations is Kjetil Bakken.
(13) Member of the board until 22 March 2011.
(14) New COO from 30 March 2011.
(15) From 19 August 2011.
(16) Acting CFO from 1 January 2012 until 1 March 2012.
(17) Until 1 September 2011.
(18) Until 31 august 2011. John Bogen is new VP for Commercial.
(19) Not with Noreco 31 December 2011. Number of shares therefore not shown.

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 members 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 2 May 2012.

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 company has in 2011 established a new pension plan whose main elements are a pension premium based on income up to a maximum of 12 G and a monthly payment of pension for salary in excess of 12 G.The main elements of the previous pension scheme were 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. Transfer from older pension schemes to the current pension scheme is voluntary. 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 percent 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 percent 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 2012, the Board has at the date of this annual report decided that 4,279,384 options will be granted. The strike price for these options is NOK 8.04, which represents the volume weighed average trading price of the Noreco shares five trading days after the presentation of the Q4 2011 results 29 February 2012. Of these options, the CEO has been granted options equal to 100 percent of the base salary and other members of management have been granted options equal to 80 percent of the base salary.

The Annual General Meeting of shareholders held on 28 April 2011, resolved a maximum limit of 16.5 million options that can be awarded over a 3-year period and that no employee can be granted options in a single financial year representing more than 100 percent of the base salary. The 4,279,384 options granted on 8 March 2012 are included in the maximum number of 16.5 million. In The maximum number of new options that may be awarded and existing options represents a maximum dilution of approximately 9.5 percent relative to the current share capital.

There have been no deviations from the guidelines described above in 2011.

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)	**2011**	**2010**	**2011**	**2010**
Continued operation				
Lease expenses	16 770	22 140	12 404	20 179
IT expenses	30 981	27 741	24 091	20 764
Travel expenses	8 864	9 338	5 559	6 341
General and administrative costs	6 352	11 097	5 261	9 238
Consultant fees	66 491	55 671	33 648	31 819
Other operational expenses	3 801	7 300	3 428	4 540
Total other operating expenses continued operation	133 258	133 287	84 391	92 881
Total other operating expenses discontinued operation	702	-	-	-
Total other operating expenses	133 960	133 287	84 391	92 881

Auditor's fees

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Auditor's fees	2 182	2 217	1 194	520
Other audit related services	1 510	863	857	704
Total fees	3 692	3 080	2 031	1 224

Total fees are distributed between the following;				
KPMG	3 291	2 262	2 031	1 224
Other	401	818	-	-
Total distributed fees	3 692	3 080	2 031	1 224

13 Operating leases

Operating leases:

	Noreco group		Norwegian Energy Company ASA	
Annual lease costs related to lease agreements accounted for as operating leases (NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Office	16 770	22 140	12 404	20 179
Other	14 092	11 030	13 527	10 454

Future minimum lease payments under non-cancellable lease agreements (NOK 1 000)	**2011**	**2010**	**2011**	**2010**
2012	42 076	108 974	17 230	17 230
2013	97 728	101 275	3 442	11 674
2014	91 546	96 443	-	8 980
2015	89 129	91 621	-	6 548
>2015	172 248	76 671	-	-
Total	492 728	474 984	20 672	44 432

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 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. Estimated start up is 2H 2012. The minimum lease payments are based on a full quarter.

14 Financial income and expenses

(NOK 1 000)	Noreco group		Norwegian Energy Company ASA	
Continued operation	**2011**	**2010**	**2011**	**2010**
Financial income				
Interest income	30 718	19 283	25 363	16 199
Other financial income	5 494	2 778	185	2 671
Interest income from other group companies	-	-	74 267	38 082
Currency translation	95 069	51 068	32 526	27 952
Total financial income	131 280	73 128	132 341	84 904
Financial expense				
Interest expense from bond loans	347 568	274 240	345 970	244 865
Interest expense from convertible loans	13 005	13 110	13 005	13 110
Interest expense, other non-current liabilities	41 487	51 055	-	-
Interest expense from exploration loans	43 181	38 698	43 174	38 698
Capitalised interest expenses	(38 113)	(19 161)	-	-
Amortisation of loan costs	48 426	44 329	38 966	34 648
Imputed interest from abandonment provisions	24 754	27 006	-	-
Interest expense, current liabilities	5 832	4 601	566	436
Interest expense to other group companies	-	-	10 868	8 218
Other financial expenses	26 249	10 001	16 829	9 423
Currency translation	57 088	73 002	20 336	28 453
Total financial expense	569 476	516 882	489 714	377 851
Net financial items continued operation	(438 196)	(443 753)	(357 374)	(292 946)
Discontinued operation	**2011**	**2010**	**2011**	**2010**
Financial income				
Interest income	547	1 505	456	349
Currency translation	927	2 012	18	888
Total financial income	1 475	3 517	474	1 236
Financial expenses				
Capitalised interest expenses	-	-	-	-
Imputed interest from abandonment provisions	30 123	41 558	-	-
Interest expenses current liabilities	-	1 785	-	165
Other financial expenses	-	18	-	18
Currency translation	184	1 435	110	1 392
Total financial expenses	30 306	44 795	110	1 575
Net financial items discontinued operation	(28 832)	(41 279)	364	(339)
Net financial items	(467 028)	(485 032)	(357 010)	(293 285)

15 Tax

Tax expenses:

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Tax payable	171 250	289 161	-	-
Tax refundable	(506 056)	(702 968)	(506 056)	(702 968)
Change in deferred tax/-deferred tax asset	(415 704)	(41 515)	(394 031)	(224 310)
Change in deferred tax discont' operations	670 953	-	379 558	-
Change regarding previous years	14 548	31 786	(5 330)	23 497
Other items	-	(4 802)	-	-
Tax expense	**(65 009)**	**(428 338)**	**(525 859)**	**(903 780)**
Tax expense domestic	(527 512)	(477 346)	(525 859)	(903 780)
Tax expense foreign	462 503	49 008	-	-

Reconciliation of nominal to actual tax rate:

(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Income (loss) before tax	**(924 102)**	**(423 815)**	**(787 162)**	**(869 356)**
Tax portion of income (loss) before tax	(720 800)	(330 576)	(613 986)	(678 098)
Recognised change deferred tax from previous years	-	44 628	-	-
Utilised uplift	(21 476)	(28 147)	-	-
Tax-free profits from sale of non-current assets/ transactions before tax	(108 403)	(210 348)	(108 469)	(365 904)
Effect financial items	170 272	168 819	188 954	146 643
Non special offshore tax portion	474 045	(234 236)	-	-
Permanent differences	117 566	28 740	6 516	44 628
Other items	23 787	132 781	1 126	(51 049)
Tax expense	**(65 009)**	**(428 339)**	**(525 859)**	**(903 780)**
Tax expense discontinued operations	129 100	306 831	-	-
Tax expense continued operations	**(194 109)**	**(735 170)**	**(525 859)**	**(903 780)**

Deferred tax and deferred tax asset:

(NOK 1 000)	Noreco group 2011	Noreco group 2010	Norwegian Energy Company ASA 2011	Norwegian Energy Company ASA 2010
Net operating loss deductable	2 357 112	2 279 359	1 930 484	1 800 480
Fixed assets [3]	(4 331 082)	(5 467 695)	(149 051)	(513 674)
Current assets	(200 132)	(385 071)	-	-
Liabilities	332 992	247 401	34 860	18 891
Other	-	426 311	-	-
Basis of deferred tax/deferred tax asset	**(1 841 110)**	**(2 899 695)**	**1 816 293**	**1 305 697**
Net deferred tax/deferred tax asset	**1 498 576**	**1 778 328**	**(499 718)**	**(108 768)**
Unrecognised deferred tax asset	87 118	(5 101)	27 975	30 934
Deferred tax/deferred tax asset recognised	**1 585 694**	**1 773 227**	**(471 743)**	**(77 834)**
Recognised deferred tax asset [1]	(605 596)	(594 800)	(508 562)	(478 489)
Recognised deferred tax [2]	2 191 290	2 368 027	36 819	400 656
Recognised deferred tax asset domestic	(518 055)	(499 484)	(508 562)	(478 489)
Recognised deferred tax asset foreign	(87 541)	(95 316)	-	-
Recognised deferred tax domestic	164 396	701 592	36 819	400 656
Recognised deferred tax foreign	2 026 890	1 682 281	-	-

(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.
(3) Calculation error on depreciation of access values has been incorporated as per 1.1.2010 as follows: Fixed assets reduction of NOK 54 million and deferred tax reduction of NOK 16 million.

The Group has in 2011 recognised deferred tax asset related to companies in Norway, Denmark 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 2011, 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 in the onshore based business.

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 59 million. These company has currently no income and as such the deferred tax assets are not recognised.

16 Discontinued operation

In May 2011 Norwegian Energy Company ASA (Noreco) entered into an agreement to sell their share in the Norwegian oil fields Brage and Hyme to Core Energy. The sale of Brage was completed on 10 June 2011 and the sale of Hyme was completed on 20 July 2011.

In July 2011 Noreco entered into an agreement to sell their share in the Danish oil field Siri to DONG Energy. The sale was completed 22 December 2011.

In August 2011 Noreco entered into an agreement to sell their share in the Danish oil field South Arne to Hess, DONG Energy and Danoil and the Norwegian oil field Flyndre Paleocene to Maersk Norway. The sale of South Arne was completed in October 2011 and the sale of Flyndre paleoscene was completed 30. December 2011.

In October 2011 Noreco entered into an agreement to sell their share in the Norwegian gas field PL435 Zidane to OMV. The sale was completed on 30 December 2011.

In November 2011 Noreco entered into an agreement to sell their share in the Norwegian oil field PL148 Brynhild to Lundin. The sale was completed on 30 December 2011.

These licences are in this report presented as Discontinued operations. This also applies for the sale in Q3 2010 of the Norwegian licence Grosbeak. Consequently the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continued operations.

Results of discontinued operation

(NOK 1 000)	Note	Noreco group 2011	Noreco group 2010	Norwegian Energy Company ASA 2011	Norwegian Energy Company ASA 2010
Revenue	7	768 289	1 307 838	-	-
Production expenses	8	180 123	360 619	-	-
Exploration expenses	9	19 002	19 920	15 686	16 141
Other operating expenses	12	702	-	-	-
Depreciations		145 970	339 656	-	-
Writedown		293 051	-	-	-
Finance expenses / (income)	14	28 832	41 279	(364)	339
Total Expenses		667 680	761 473	15 322	16 479
Results from operating activities		**100 609**	**546 365**	**(15 322)**	**(16 479)**
Income tax		129 100	306 831	-	-
Results from operating activities, net of tax		**(28 491)**	**239 534**	**(15 322)**	**(16 479)**
Gain (loss) on sale of discontinued operation		37 098	199 082	143 225	209 665
Profit (loss) for the period		**8 607**	**438 616**	**127 903**	**193 186**
Basic earnings (loss) per share		0.04	1.81	0.52	0.80
Diluted earnings (loss) per share		0.04	1.81	0.52	0.80

Cash flow from (used in) discontinued operation

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Net cash used in operating activities	569 165	927 299	(15 686)	(16 141)
Net cash from investing activities	1 554 823	265 545	288 936	608 375
Net cash flows for the period	2 123 987	1 192 844	273 250	592 234

Effect of the disposal on the financial position of Noreco

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Licence and capitalised exploration expenses	(546 887)	(65 926)	(508 417)	(313 037)
Deferred tax assets	(160 218)	-	-	-
Goodwill	(336 490)	-	-	-
Production facilities	(1 683 251)	-	(74 399)	(85 136)
Financial Fixed Assets	(78 351)	-	(4 308)	-
Other current receivables	(78 528)	-	(20 655)	-
Deferred tax	837 312	51 423	379 436	209 360
Provisions for other liabilities and charges	359 782	-	-	-
Other current liabilities	47 637	-	17 106	-
Net assets and liabilities	(1 638 994)	(14 504)	(211 237)	(188 813)
Consideration received, satisfied in cash	1 554 823	265 545	288 936	608 375
Cash and cash equivalents disposed of	-	-	-	-
Net cash inflow	1 554 823	265 545	288 936	608 375

17 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 2011.

	Noreco group		Norwegian Energy Company ASA	
	2011	**2010**	**2011**	**2010**
Net profit attributable to ordinary shareholders	(859 094)	4 525	(261 304)	34 424
Interest expense on convertible notes, net of tax	9 364	9 439	9 364	9 439
Net profit attributable to ordinary shareholders, diluted	(849 730)	13 964	(251 940)	43 863
Ordinary shares in issue 1 January	243 038 047	-	243 038 047	-
Shares issued January 2011	765 175	-	765 175	-
Weighted average number of ordinary shares	243 803 222	242 991 691	243 803 222	242 991 691
Effect of conversion of convertible notes	7 775 281	9 820 225	7 775 281	9 820 225
Effect of share options	-	3 311 946	-	3 311 946
Weighted average number of ordinary shares, diluted	251 578 503	256 123 862	251 578 503	256 123 862
Earnings per share	(3.52)	0.02	(1.07)	0.14
Earnings per share, diluted	(3.38)	0.05	(1.00)	0.17
Continued operations				
Net profit attributable to ordinary shareholders	(867 701)	(434 091)	(389 207)	(158 761)
Interest expense on convertible notes, net of tax	9 364	9 439	9 364	9 439
Net profit attributable to ordinary shareholders, diluted	(858 337)	(424 652)	(379 843)	(149 322)
Ordinary shares in issue 1 January	243 038 047	-	243 038 047	-
Shares issued January 2011	765 175	-	765 175	-
Weighted average number of ordinary shares	243 803 222	242 991 691	243 803 222	242 991 691
Effect of conversion of convertible notes	7 775 281	9 820 225	7 775 281	9 820 225
Effect of share options	-	3 311 946	-	3 311 946
Weighted average number of ordinary shares, diluted	251 578 503	256 123 862	251 578 503	256 123 862
Earnings per share	(3.56)	(1.79)	(1.60)	(0.65)
Earnings per share, diluted	(3.41)	(1.66)	(1.51)	(0.58)

The Company has implemented an option program which includes all employees in the Noreco Group. Total granted options as of 11 March 2012 is 9.262.933 of which 8.263.702 is granted employees in the parent company.

The employees have, in accordance with the Group's incentive agreements, 365.664 bonus shares outstanding as of 11 March 2012 of which 349.168 concerns employees in the parent company. These options/bonus shares could result in a future dilution effect.

18 Intangible fixed assets

Noreco group

2011 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Goodwill	Total
Acquisition cost 01.01.11	4 092 658	9 875	1 529 098	5 631 632
Additions	403 279	(2 985)	-	400 294
Dry wells	(210 710)		-	(210 710)
Disposals	(559 326)	(218)	(335 405)	(894 949)
Transferred to asset under construcion	(115 163)		-	(115 163)
Reclassified from asset for sale	1 033		11 700	12 733
Currency translations	43 418	-	21 750	65 167
Acquisition cost 31.12.11	**3 655 190**	**6 672**	**1 227 143**	**4 889 005**
Accumulated depreciation and write-downs				
Accumulated depreciation and write-downs 01.01.11	125 700	-	36 500	162 200
Depreciation	-		-	-
Write-downs	-		294 085	294 085
Currency translations	-	-	24 564	24 564
Accumulated depreciation and write-downs 31.12.11	**125 700**	**-**	**355 149**	**480 849**
Book value 31.12.11	**3 529 490**	**6 672**	**871 994**	**4 408 155**
Economic life	N/A	N/A	N/A	

2010 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Goodwill	Total
Acquisition cost 01.01.10	3 957 132	17 801	1 540 798	5 515 731
Additions	452 664	101 113	-	553 777
Dry wells	(316 820)	(653)		(317 473)
Disposals		(108 386)	-	(108 386)
Reclassified to asset for sale	(1 033)	-	(11 700)	(12 733)
Currency translations	715	-	-	715
Acquisition cost 31.12.10	**4 092 658**	**9 875**	**1 529 098**	**5 631 632**
Accumulated depreciation and write-downs				
Accumulated depreciation and write-downs 01.01.10	125 700		-	125 700
Depreciations	-		-	-
Write-downs	-		36 500	36 500
Accumulated depreciation and write-downs 31.12.10	**125 700**	**-**	**36 500**	**162 200**
Book value 31.12.10	**3 966 958**	**9 875**	**1 492 598**	**5 469 432**
Economic life	N/A	N/A	N/A	

Norwegian Energy Company ASA

2011 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Total
Acquisition cost 01.01.11	510 984	46 970	557 954
Additions	357 094	(2 985)	354 109
Dry wells	(210 710)		(210 710)
Disposals	(393 036)	(218)	(393 254)
Transferred to asset under construcion	(115 163)		(115 163)
Acquisition cost 31.12.11	**149 169**	**43 766**	**192 937**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.11	-		-
Depreciation	-		-
Write-downs	-		-
Accumulated depreciation and write-downs 31.12.11	**-**	**-**	**-**
Book value 31.12.11	**149 169**	**43 766**	**192 937**
Economic life	N/A	N/A	

2010 (NOK 1 000)	Capitalised exploration and evaluation expenses	Other patents and licences	Total
Acquisition cost 01.01.10	384 748	17 801	402 549
Additions	443 056	138 208	581 264
Dry wells	(316 820)	(653)	(317 473)
Disposals		(108 386)	(108 386)
Transferred to asset under construction			-
Acquisition cost 31.12.10	**510 984**	**46 970**	**557 954**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.10	-		-
Depreciations	-		-
Write-downs	-		-
Accumulated depreciation and write-downs 31.12.10	**-**	**-**	**-**
Book value 31.12.10	**510 984**	**46 970**	**557 954**
Economic life	N/A	N/A	

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 licences are capitalised as intangible assets. Exploration and evaluation expenses incurred related to exploration drilling is capitalised 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
Altinex ASA (group)	NOK	1.00	232 127	01.07.07	167 227
Altinex ASA (group)	USD	5.99	161 633	01.07.07	704 767
Total Goodwill					**871 994**

Impairment test for goodwill, licences 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, licences and production facilities has been carried out at 31.12.2011. The impairment tests are carried out by the company and are based on expected cash flows from relevant reserves. For licences 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 percent
Oil price	The market's forward curve for oil price for the period 2012–2019. From 2020 the oil price is adjusted for inflation.
Exchange rate USD/NOK	The market's annual average forward-rate for the period 2012–2015. From 2016 the average rate for 2015 is used.
Reserves	Based on the company's estimated reserves at 31.12.11
Inflation	2.0 percent

(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, licences and capitalised exploration and evaluation expenses and production facilities incl. removal asset and assets under construction are tested for impairment at 31.12.2011. 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 assumptions used in the calculation is the reserve estimate, foreign exchange rates and oil price. The future value for producing fields will gradually decrease based on less remaining reserves. The lowest margin is currently related to Altinex Oil UK Ltd and the Huntington asset and Altinex Oil Norway AS and the Enoch field and the company's dicoveries. A negative change in the assumptions for these assets would require future goodwill impairments. The lowest margin is currently related to Altinex Oil UK Ltd and the Huntington asset and Altinex Oil Norway AS and the Enoch field and the company's discoveries. For Altinex Oil UK Ltd the recoverable amount exceeds the carrying amount by NOK 21 million. For Altinex Oil Norway AS the recoverable amount exceeds the carrying amount by NOK 20 million. A negative change in the assumptions for these assets would require future goodwill impairments given the low margin between the recoverable amount and the carrying amount.

The calculations show that the recoverable amount for licences 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.

19 Tangible non-current assets

Noreco group

2011 (NOK 1 000)	Asset under construcion	Production facilities	Machinery and equipment	Total
Acquisition cost 01.01.11	121 787	5 544 384	8 207	5 674 378
Additions	684 660	263 140	-	947 800
Removal and decommissioning asset		(14 139)		(14 139)
Transferred	115 163	-	-	115 163
Disposals	(187 519)	(4 261 346)	-	(4 448 865)
Reclassified from asset for sale	542 526	73 175	-	615 701
Currency translations	62 123	1 979	9	64 110
Acquisition cost 31.12.11	**1 338 740**	**1 607 192**	**8 216**	**2 954 148**
Accumulated depreciation				
Accumulated depreciation and write-downs 01.01.11 according to annual report 2010	-	2 065 263	8 099	2 073 362
Adjustment previous years [1]	-	54 138	-	54 138
Accumulated depreciation and write-downs 01.01.11	-	2 119 401	8 099	2 127 500
Depreciation	-	387 761	26	387 787
Disposals	-	(2 460 477)	-	(2 460 477)
Write-downs	-	235 505	-	235 505
Reclassified from asset for sale	-	43 310	-	43 310
Currency translations	-	37 967	11	37 978
Accumulated depreciation 31.12.11 -	**-**	**363 467**	**8 136**	**371 603**
Balance at 31.12.11	**1 338 740**	**1 243 725**	**80**	**2 582 545**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	Unit of production method	Linear	

(1) Calculation errors on excess value depreciations: 2007 NOK 15 million - 2008 NOK 25 million - 2009 NOK 18 million - 2010 NOK -4 million.

2010 (NOK 1 000)	Asset under construcion	Production facilities	Machinery and equipment	Total
Acquisition cost 01.01.10	1 232 223	4 330 263	8 200	5 570 686
Additions	290 195	332 394	-	622 589
Transferred	(861 180)	861 180	-	-
Disposals			-	-
Reclassified from asset for sale	(542 526)	(29 864)	-	(572 390)
Removal and decommisioning asset	-	28 664	-	28 664
Currency translations	3 076	21 747	7	24 830
Acquisition cost 31.12.10	**121 787**	**5 544 384**	**8 207**	**5 674 378**
Accumulated depreciation				
Accumulated depreciation and write-downs 01.01.10	-	1 463 427	7 550	1 470 977
Depreciation	-	600 763	547	601 310
Disposals				-
Write-downs				-
Currency translations	-	1 073	2	1 075
Accumulated depreciation 31.12.10	**-**	**2 065 263**	**8 099**	**2 073 362**
Balance at 31.12.10	**121 787**	**3 479 121**	**108**	**3 601 016**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	Unit of production method	Linear	

Norwegian Energy Company ASA

2011 (NOK 1 000)	Asset under construcion	Machinery and equipment	Total
Acquisition cost 01.01.11	2 021	3 799	5 820
Additions	72 378	-	72 378
Transferred	115 163	-	115 163
Disposals	(189 562)	-	(189 562)
Acquisition cost 31.12.11	**-**	**3 799**	**3 799**
Accumulated depreciation			
Accumulated depreciation and write-downs 01.01.11	-	3 773	3 773
Depreciation	-	26	26
Disposals	-	-	-
Write-downs	-	-	-
Accumulated depreciation 31.12.11	**-**	**3 799**	**3 799**
Balance at 31.12.11	**-**	**-**	**-**
Economic life	N/A	3–5 years	
Depreciation plan	N/A	Linear	

2010 (NOK 1 000)	Asset under construcion	Machinery and equipment	Total
Acquisition cost 01.01.10	332 247	3 799	336 046
Additions	2 021	-	2 021
Disposals	(332 247)	-	(332 247)
Acquisition cost 31.12.10	**2 021**	**3 799**	**5 820**
Accumulated depreciation			
Accumulated depreciation and write-downs 01.01.10	-	3 536	3 536
Depreciation	-	237	237
Disposals	-	-	-
Write-downs	-	-	-
Accumulated depreciation 31.12.10	**-**	**3 773**	**3 773**
Balance at 31.12.10	**2 021**	**26**	**2 047**
Economic life	N/A	3–5 years	
Depreciation plan	N/A	Linear	

20 Assets and liabilities held for sale

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Assets held for sale				
Licence and capitalised exploration expenses	-	1 033	-	-
Goodwill	-	11 700	-	-
Assets under construction	-	542 526	-	-
Production facilities	-	29 864	-	-
Other current receivables	-	5 266	-	-
Total assets held for sale at 31.12	**-**	**590 389**	**-**	**-**
Liabilities held for sale				
Deferred tax	-	224 334	-	-
Provisions for other liabilities and charges	-	3 927	-	-
Other current liabilities	-	3 278	-	-
Total liabilities held for sale at 31.12	**-**	**231 539**	**-**	**-**
Total assets and liabilities held for sale at 31.12	**-**	**358 850**	**-**	**-**

21 Trade receivables and other current receivables

Specification of current assets	Note	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)		2011	2010	2011	2010
Assets held for sale	20	-	590 389	-	-
Trade receivables		177 961	208 455	83 774	8 345
Tax receivable	15	506 056	730 891	506 056	702 968
Receivables from group companies		-	-	54 277	184 073
Other receivables		655 826	570 853	53 377	47 711
Financial instruments	22	26 755	8 831	-	-
Bank deposit, cash and cash equivalents	23	688 708	892 482	491 904	732 420
Total current assets		**2 055 305**	**3 001 901**	**1 189 389**	**1 675 518**

The Groups maximum credit risk related to financial instruments equals total financial assets identified in the table above as Financial assets: trade receivables, group receivables, other receivables, financial instruments and cash.

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 28 for information on trade payable and other current liabilities. The remaining tax receivables are excess advance tax payments in other group companies.

Other receivables	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Receivables from operators relating to joint venture licences	93 766	140 528	22 730	2 062
Underlift of oil/NGL	48 314	62 291	-	-
Other receivables [1) 2)]	513 746	368 034	30 648	45 649
Total other receivables	**655 826**	**570 853**	**53 377**	**47 711**

(1) Specification of underlift oil/NGL [(2)]	boe	USD/boe	Value (NOK 1 000)
Underlift oil	79 036	101.96	48 292
Underlift NGL	138	27.43	23
Total other receivables	**79 174**	**101.83**	**48 314**

(2) Underlift and overlift oil and NGL from the different fields is presented as gross amounts. For specification of overlift, see note 28 Trade Payables and other Payables

Notes

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

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
NOK	651 405	729 989	692 020	877 825
DKK	93 805	135 627	-	-
USD	616 103	642 841	5 465	65 260
GBP	5 284	7 379	-	13
EUR	-	3 193	-	-
Total	**1 366 597**	**1 519 030**	**697 485**	**943 098**

Receivables are valued at amortised cost. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Other receivables include NOK 354 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 2011 and 2010.

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.

22 Other financial instruments

Financial derivatives entered into to hedge future cash flows:
The group has a strategy to hedge against fluctuations in price on income related to the sale of oil. This is done by buying put options for a part of the estimated oil production. These options give the company a right, but not an obligation, to sell oil at a minimum price. It is the intrinsic value in the option that is designated as the hedging instrument. The time value of the option is not included in the hedge relationship. If the option has a positive intrinsic value then unrealized changes in the fair value of the option will be included in other comprehensive income. Hedging gains and losses that are included in other comprehensive income and accumulated in equity is reclassified to the income statement in the period the hedging object affects the income statement (for example when the planned hedged sale takes place).

At 31.12.11 the Group has the following option contracts:

	Cost (USD 1 000)	Book value (USD 1 000)	Book value/ Fair value (NOK 1 000)
Options expiring in 2012	4 171	1 368	8 198
Options expiring in 2013	2 975	3 097	18 557
Total value options contracts	7 146	4 465	26 755

At 31.12.10 the Group had the following option contracts:

	Cost (USD 1 000)	Book value (USD 1 000)	Book value/ Fair value (NOK 1 000)
Options expiring in 2011	2 963	224	1 312
Options expiring in 2012	2 497	909	5 323
Options expiring in 2013	383	375	2 196
Total value options contracts	5 843	1 508	8 831

- The financial derivatives is classified on level 2 in the fair value hierarchy and amounts to NOK 26.8 million. There are no financial instruments that are accounted for under level 1 and level 3 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.
- 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. Options with expiry date in 2012 and 2013 hedge a proportion of the expected cash flows based on expected production for 2012 and 2013 respectively.

Notes

23 Cash and cash equivalents

Specification of cash and cash equivalents

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Cash at bank and cash (free assets, non-restricted)	671 314	858 581	485 007	725 288
Cash at bank and cash (restricted)	17 393	33 901	6 897	7 132
Cash and cash equivalents in balance sheet	688 708	892 482	491 904	732 420

Restricted funds
Altinex Oil Denmark A/S maintains a Debt Service Reserve Account. 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	2011	2010	2011	2010
NOK	505 252	505 252	689 149	491 520	667 147
DKK	687	716	(9 176)	-	-
USD	20 223	121 192	202 766	371	65 260
EUR	555	4 304	1 756	-	-
GBP	6 166	57 243	7 986	13	13
Total		688 708	892 481	491 904	732 420

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	429 666	1 120 334
USD	3 000	17 978	1 141	16 837
USD (reserve based lending facilities, see note 27)	176 921	1 060 234	323 007	737 228
Total		2 628 213	753 814	1 874 399
Cash and cash equivalents				688 708
Unused liquidity				2 563 106

1) Concerns Parent Company

24 Share capital and share premium reserve

	2011	2010
Ordinary shares	243 842 914	243 038 047
Total shares	**243 842 914**	**243 038 047**

The company's share capital is NOK 755.914 million and consists of 243,842,914 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 January 2010	**242 433 766**	**751 545**	**2 483 054**
Share issue January 2010	604 281	1 873	10 001
Share issue costs	-	-	(552)
Equity at 31 December 2010	**243 038 047**	**753 418**	**2 492 502**
Equity at 1 January 2011	**243 038 047**	**753 418**	**2 492 502**
Share issue January 2011	804 867	2 495	11 904
Equity at 31 December 2011	**243 842 914**	**755 914**	**2 504 406**

Existing mandates
The Board of Directors has not been granted a mandate by the General Meeting to increase the share capital.

Overview of shareholders at 31 December 2011:

Name	Shareholding	Ownership share	Voting share
LYSE ENERGI AS	23 647 460	9.70 %	9.70 %
IKM INDUSTRI-INVEST AS	21 946 035	9.00 %	9.00 %
GOLDMAN SACHS INT. - EQUITY -	10 698 283	4.39 %	4.39 %
OM HOLDING AS	9 868 556	4.05 %	4.05 %
AWILCO INVEST AS	8 000 000	3.28 %	3.28 %
UBS AG, LONDON BRANCH	7 035 709	2.89 %	2.89 %
CREDIT SUISSE SECURITIES (USA) LLC	6 907 684	2.83 %	2.83 %
EUROCLEAR BANK S.A./N.V. ('BA')	6 193 884	2.54 %	2.54 %
FOLKETRYGDFONDET	6 035 894	2.48 %	2.48 %
SABARO INVESTMENTS LTD	5 950 000	2.44 %	2.44 %
DNB NOR SMB	5 900 754	2.42 %	2.42 %
TEIGEN	5 400 000	2.21 %	2.21 %
SKAGEN VEKST	5 127 513	2.10 %	2.10 %
ODIN OFFSHORE	5 000 000	2.05 %	2.05 %
FONDSFINANS SPAR	3 700 000	1.52 %	1.52 %
BD TRADING AS	2 418 873	0.99 %	0.99 %
HSBC BANK PLC	2 260 802	0.93 %	0.93 %
KOMMUNAL LANDSPENSJONSKASSE	2 096 341	0.86 %	0.86 %
HSBC BANK PLC	2 000 000	0.82 %	0.82 %
KLP AKSJE NORGE VPF	1 832 073	0.75 %	0.75 %
Total	**142 019 861**	**58.2 %**	**58.2 %**
Total other shareholders	**101 823 053**	**41.8 %**	**41.8 %**
Total number of shares at 31 December 2011	**243 842 914**	**100 %**	**100 %**

13 February 2012 IKM Industri-Invest AS became the largest share holder with 23,673,998 shares.

25 Pensions

Defined benefit plan
Employees in the Parent Company have a defined benefit group plan in a life assurance company. The plan comprises 65 persons as of 31 December 2011 and 72 persons as of 31 December, 2010. 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)	**2011**	**2010**	**2011**	**2010**
Service cost	13 357	8 186	13 357	8 186
Interest cost	1 440	962	1 440	962
Expected return on plan assets	(1 333)	(1 028)	(1 333)	(1 028)
Administrational expenses	223	170	223	170
Amortisation of payroll tax	1 930	1 169	1 930	1 169
Amortisation of net actuarial losses (gains)	482	67	482	67
Total pension cost	**16 099**	**9 525**	**16 099**	**9 525**

Movement in defined benefit obligation

(NOK 1 000)	2011	2010	2011	2010
Defined benefit obligation 1.1	34 291	20 471	34 291	20 471
Service cost	13 357	8 186	13 357	8 186
Interest	1 440	962	1 440	962
Actuarial gains/losses	(10 584)	4 672	(10 584)	4 672
Defined benefit obligation 31.12	38 504	34 291	38 504	34 291

Movement in fair value of plan assets

(NOK 1 000)	2011	2010	2011	2010
Fair value of plan assets 1.1	19 855	13 862	19 855	13 862
Expected return on plan assets	1 333	1 028	1 333	1 028
Actuarial gains/losses	(5 178)	(3 076)	(5 178)	(3 076)
Administration costs	(223)	(170)	(223)	(170)
Contributions paid into the plan	8 998	8 210	8 998	8 210
Fair value of plan assets 31.12	24 785	19 855	24 785	19 855

Movement in net BDO

	2011	2010	2011	2010
DBO at end of year	38 504	34 291	38 504	34 291
Fair value of plan assets at end of year	(24 785)	(19 855)	(24 785)	(19 855)
Net pension liability 31.12	13 720	14 436	13 720	14 436
Payroll tax of funded status	1 934	2 036	1 934	2 036
Unrecognised net actuarial loss (gain)	(5 304)	(11 954)	(5 304)	(11 954)
Net pension liability as of 31.12	**10 350**	**4 518**	**10 350**	**4 518**

Plan assets comprise

	2011	2010	2011	2010
Equity securities	10.40 %	15.10 %	10.40 %	15.10 %
Bonds	15.20 %	15.40 %	15.20 %	15.40 %
Moneymarket	21.70 %	17.40 %	21.70 %	17.40 %
Long term bonds	33.40 %	33.70 %	33.40 %	33.70 %
Property	18.00 %	16.80 %	18.00 %	16.80 %
Other	1.20 %	1.50 %	1.20 %	1.50 %

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)	**2011**	**2010**	**2011**	**2010**
Discount rate	3.90 %	4.20 %	3.90 %	4.20 %
Expected return on assets	4.80 %	5.50 %	4.80 %	5.50 %
Rate of compensation increase	4.00 %	4.50 %	4.00 %	4.50 %
Increase of social security base amount (G)	3.75 %	3.75 %	3.75 %	3.75 %
Rate of pension increase	1.80 %	1.80 %	1.80 %	1.80 %
Payroll tax	14.10 %	14.10 %	14.10 %	14.10 %

The company expects to pay NOK 8.579 million to the plan assets in 2012.

Pension costs related to the company’s defined contribution plan amounts to NOK 2.304 million for 2011. For 2010 the corresponding costs were NOK 2.757 million.

26 Provisions

Specification of abandonment provision

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
Balance at 1.1.	829 035	734 842	-	-
Provisions made during the year	(14 139)	22 074	-	-
Time value/calculatory interest	54 877	68 564	-	-
Transferred to liabilities/debt held for sale	-	(3 927)	-	-
Transferred from liabilities/debt held for sale	3 927	-	-	-
Revesed provision from disposal of licences	(590 829)	-	-	-
Currency translation	15 259	7 482	-	-
Provision made for abandonment provision at 31.12	**298 130**	**829 035**	**-**	**-**

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 disco-unt rate of 9 percent to calculate the net present value of the obligation. Inflation is assumed to be 2.0 percent.

Expected maturity

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
1–5 years	12 231	11 504	-	-
6–10 years	285 898	561 881	-	-
over 10 years	-	255 650	-	-
Provision made for abandonment at 31.12	**298 129**	**829 035**	**-**	**-**

27 Non-current liabilities

(NOK 1 000)	Currency	Nominal rate	Loan maturity	First due date, interest	Face value 2011	Carrying amount (b) 2011	Market value (c) 2011	Face value 2010	Carrying amount (b) 2010	Market value (c) 2010
Bond loan Noreco ASA [1]	NOK	12.90 %	21.11.14	21.02.12	1 179 000	1 166 081	1 096 470	1 250 000	1 231 562	1 309 375
Bond loan Noreco ASA [2]	NOK	Nibor 3. mths + 8.0 %	06.12.13	07.03.12	571 000	563 218	502 480	700 000	685 976	703 500
Bond loan Noreco ASA [3]	NOK	10.25 %	27.04.16	26.04.12	275 000	269 263	248 875	0	0	0
Bond loan Noreco ASA [4]	NOK	Nibor 3. mths + 6.0 %	27.04.16	26.01.12	325 000	319 263	286 000	0	0	0
Bond loan Noreco ASA	NOK	Nibor 3. mths + 7.9 %	20.11.12	20.11.12	Reclassified to current liabilities			750 000	741 044	774 375
Convertible loan Noreco ASA	NOK	6.00 %	11.05.12	11.05.12	Reclassified to current liabilities			218 500	205 951	218 500
Total Norwegian Energy Company ASA					**2 350 000**	**2 317 825**	**2 133 825**	**2 918 500**	**2 864 533**	**3 005 750**
Reserve- based loan Altinex Oil Denmark A/S [5]	USD	Libor + margin (a)	15.01.15	29.02.12	323 007	292 803	323 007	982 119	943 612	982 119
Total remaining group companies					**323 007**	**292 803**	**323 007**	**982 119**	**943 612**	**982 119**
Total non-current liabilities Noreco group					**2 673 007**	**2 610 628**	**2 456 832**	**3 900 619**	**3 808 145**	**3 987 869**

(a) The interest rate margin will vary according to use of the loan facility.
The interest rate margin will vary between 2.5 percent and 3.5 percent.
(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. During 2011 the company has repurchased NOK 71 million of the bond. The borrowing cost is capitalized initially and amortized over the term of the loan. The interest is a fixed coupon rate set at 12.90 percent annually. Interest is paid in arrears quarterly. Remaining amortization at 31.12.11 is NOK 12.919 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR04. The loan is issued against pledged collateral, see note 31.

The company can redeem the bond loan at the following rates; November 2012 – rate 106, November 2013 – rate 105 and November 2014 – rate 103.

The loan has the following two conditions. The group shall maintain an equity to capital employed ratio of minimum 25 percent. The group shall maintain a gearing-ratio of less than 5.0. The group is not in breach of the conditions of the loan agreement.

(2) The bond loan was entered into in November 2010 with a face value of NOK 700 million. During 2011 the company repurchased NOK 129 million of the bond. The borrowing cost is capitalised initially and amortised over the term of the loan. The interest rate is NIBOR 3 months + a margin of 8.00 percent. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.11 is NOK 7.782 million. The loan is listed on Oslo Stock Exchange with the ticker NOR05.

(3) The bond loan was entered into in April 2011 with a face value of NOK 275 million. The borrowing cost is capitalized initially and amortized over the term of the loan. The interest is a fixed coupon rate set at 10.25 percent annually. Interest is paid in arrears quarterly. Remaining amortization at 31.12.11 is NOK 5.339 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR06. The loan is issued against pledged collateral, see note 31.

(4) The bond loan was entered into in April 2011 with a face value of NOK 325 million. The borrowing cost is capitalised initially and amortised over the term of the loan. The interest rate is NIBOR 3 months + a margin of 6.0 percent. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.11 is NOK 6.135 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR07. The loan is issued against pledged collateral, see note 31.

The bonds have the following two conditions. The group shall maintain an equity to capital employed ratio of minimum 25 percent. The group shall maintain a gearing-ratio of less than 5.0. The group is not in breach of the conditions of the loan agreement.

(5) The reserve-based loan is recognised at amortised cost. The banks have made a commitment to a maximum frame of USD 185 million (2010 320 million) and then a gradual reduction to USD 0 in January 2015 when the loan expires. Available loan facility as of 31.12.2011 is USD 176.9 million and the loan drawn up as of 31.12.2011 is USD 53.9 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 percent p.a and 3.50 percent 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. The company was at the time of finalising this account, in negotiations to extend the reserve based loan. See note 32 for further information.

Estimated downpayment is as follows: 2013 - USD 6.8 million, 2014 - USD 45.4 million and 2015 USD 1.7 million. Remaining amortisation is USD 5 million. At the date of finalising the 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 Geopard 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.

(NOK 1 000)	Noreco group 2011	2010	Norwegian Energy Company ASA 2011	2010
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)
Repurchase of bonds	(45 500)	-	(45 500)	-
Interest expense	114 176	101 171	114 176	101 171
Paid interest	(59 172)	(46 062)	(59 172)	(46 062)
Amortisation of establishment costs	33 280	23 110	33 280	23 110
Liability component 31.12	170 516	205 951	170 516	205 951

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

Year	Noreco group 2011	2010	Norwegian Energy Company ASA 2011	2010
2012	-	1 368 492	-	968 500
2013	611 750	1 012 732	571 000	700 000
2014	1 451 069	1 468 444	1 179 000	1 250 000
2015	10 188	50 951	-	-
2016 and later	600 000	-	600 000	-
Total	2 673 007	3 900 619	2 350 000	2 918 500

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):

Year	Noreco group 2011	2010	Norwegian Energy Company ASA 2011	2010
2011	-	370 084	-	325 059
2012	276 370	349 847	264 810	315 013
2013	274 197	250 117	262 940	232 222
2014	212 737	127 252	209 012	120 938
2015	56 936	427	56 921	-
2016 and onwards	37 477	-	37 477	-
Total	857 717	1 097 727	831 160	993 232

Assumptions: Libor 0.35 percent, Nibor 6. mths 4.75 percent, Nibor 3 mths 2.1 percent, margin reserve-based loan 3 percent.

28 Trade payable and other payables

(NOK 1 000)	Noreco group 2011	2010	Norwegian Energy Company ASA 2011	2010
Liabilities/debt held for sale	-	231 539	-	-
Other interest bearing debt	1 064 325	1 085 304	1 064 325	649 111
Trade payable	25 627	86 060	17 757	71 265
Tax payable (se note 15)	180 409	114 716	-	-
Public duties payable	8 934	22 760	7 429	7 890
Accounts payables due to related parties	-	-	-	837
Other current liabilities (1)	246 501	388 047	101 358	196 034
Total trade payable and other payabeles	**1 525 796**	**1 928 426**	**1 190 870**	**925 138**

(1) Specification of other current liabilities

(NOK 1 000)	2011	2010	2011	2010
Liabilities to operators relating to joint venture licences	123 078	207 766	18 542	52 730
Overlift oil	2 164	340	-	-
Accrued interest	53 989	49 813	53 989	34 229
Other current liabilities	67 271	130 128	28 827	109 075
Total other current liabilities	**246 501**	**388 047**	**101 358**	**196 034**

Other interest bearing debt includes the exploration loan in Noreco. The loan matures simultaneously as the company receives the tax refund, ref note 21 Trade Receivable and other Receivables.

(1) Specification of overlift oil (2)

(NOK 1 000)	boe	USD/boe	Value (TNOK)
Overlift oil	3 351	107.76	2 164
Overlift NGL	-	-	-
Total	**3 351**	**107.76**	**2 164**

(2) Overlift and underlift of oil and NGL is presented net. For details of underlift, see note 21 Receivables.

Trade and other payables held in currency	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	**2011**	**2010**	**2011**	**2010**
NOK	1 244 399	1 247 819	1 189 158	900 093
DKK	154 538	130 725	-	298
USD	57 835	284 545	1 700	24 671
GBP	69 013	33 688	-	75
EUR	12	111	12	-
Total	**1 525 796**	**1 696 888**	**1 190 870**	**925 138**

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 21 Trade Receivables and other Current Receivables and note 23 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.

29 Options

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 expire 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 to 50 percent 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, 2012 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, as well as a current liability in the balance sheet.

The bonus and option programs were reviewed in 2011.

As a consequence of a decision made at the Annual General Meeting 2011 where a request for authorization to the board to increase share capital for honoring the incentive schemes was not approved, these obligations now follow the rules of cash settlement and consequently the fair value of the obligations at the date of modification have been reclassified from equity to debt. The amount reclassified was NOK 2.7 million as of 31.12.2011.

In 2011 there was a change on the general bonus scheme stating that from 2012 and onwards employees need to be employed and in a non-resignation period at the time of the bonus payment, therefore in order to have the option to purchase shares equivalent to up to 50 percent of their bonus employees need to be employed and in a non resignation period.

There was no general change to the matching shares policy, but there were no matching shares for the 2011 bonus. Instead a cash matching scheme after two years is implemented. This is taxable for the employee and the employee need to be in a non-resignation period at time of matching payment.

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. The cost is booked in the company of the employee.

Employment tax:
Employments tax is booked progressively at the reporting intervals if the share price is higher than the exercise price. There is no employment tax for the Danish daughter companies.

The Noreco group has in 2011 booked revenue of NOK 2.7 million in cost compared to cost of NOK 1.7 million for 2010.

Outstanding share options and bonus shares	Noreco group	Norwegian Energy Company ASA
Total share options and bonus shares outstanding as at 01.01.2010	5 029 010	3 840 013
Share options granted in 2010	1 934 679	1 488 058
Bonus shares granted in 2010	225 311	214 405
Share options forfeited in 2010	(384 553)	(145 225)
Bonus shares forfeited in 2010	(42 157)	(26 209)
Outstanding at 31.12.2010	**6 762 290**	**5 371 042**
Share options granted in 2011	3 295 625	2 754 956
Bonus shares granted in 2011	248 282	221 470
Share options forfeited in 2011	(4 485 453)	(3 246 016)
Bonus shares forfeited in 2011	(492 572)	(424 237)
Outstanding at 31.12.2011	**5 328 172**	**4 677 215**

Grants	Exercise price	Outstanding share options and bonusshares at 31.12.2011	Average remaining contractual term	Weighted average exercise price
Granted bonusshares in 2008	0.00	-	0.01	0.00
Granted bonusshares in 2010	0.00	128 181	0.62	0.00
Granted bonusshares in 2011	14.85	178 616	0.62	14.85
Share option programme 2008	33.00	419 793	2.00	33.00
Share option programme 2009	11.01	1 579 776	2.17	11.01
Share option programme 2010	17.00	950 124	3.92	17.00
Share option programme 2011	14.85	2 071 682	3.92	14.85
	Total	**5 328 172**		

Effect of outstanding options in financial statements;

Unit/period	2011	2010
Noreco Group	11 325	15 447
Parent company	8 168	12 771

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

	2011	2010
Fair value at grant date (NOK)	7.04	8.09
Share price at grant date (NOK)	14.80	17.40
Release price (NOK)	14.67	17.00
Volatility	50.5 %	56.0 %
Expected life span options(year)	4.00	4.00
Risk free interest	3.2 %	3.0 %

Assumptions for valuation of bonus shares issued in 2011:
Market value at issue date was NOK 14.85. This is reduced by 10 percent 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 shares is estimated at NOK 13.37.

30 Segment reporting

The Group's activities are entirely related to exploration and development 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, see note 2 Significant Accounting Policies.

Noreco has activities in Norway, Denmark and UK.

Transactions between the companies in the group are carried out at ordinary conditions, which would have been equivalent for independent parties.

Assets and liabilities are reflecting balance sheet items for the Group entities in 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 balance sheet.

Geographical information 2011

(NOK 1 000)	Norway	Denmark	UK	Other/ elimination	Group
Total revenues	26 466	804 562	-		831 028
Net operating result	(579 326)	229 389	(269 077)	(4 599)	(623 614)
Net financial items					(438 196)
Ordinary result before tax					(1 061 810)
Gain / (Loss) on sale of discontinued operation					8 607
Income tax benefit					194 109
Net result for the period					(859 094)
Assets	4 224 004	3 834 560	3 449 347	(1 856 311)	9 651 601
Liabilities	4 399 092	1 991 894	2 096 929	(1 851 721)	6 636 195
Capital expenditures production facilities	32 910	218 322	(2 231)		249 001
Capital expenditures assets under construction	394 540	(2 675)	292 795		684 660
Capital expenditures exploration and evaluation	360 442	28 191	11 661		400 293
Depreciations and write-downs	82 986	617 852	216 539		917 377

Geographical information 2010

(NOK 1 000)	Norway	Denmark	UK	Other/ elimination	Group
Total revenues	31 371	608 170	-		639 541
Net operating result	(804 132)	119 926	(41 303)		(725 509)
Net financial items					(443 753)
Ordinary result before tax					(1 169 262)
Gain / (Loss) on sale of discontinued operation					438 616
Income tax benefit					735 170
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)	8 953 996
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

31 Guaranties and assets pledged as securities

	Noreco group		Norwegian Energy Company ASA	
(NOK 1 000)	2011	2010	2011	2010
Collateralised debt				
Bond loan	1 779 000	2 153 500	1 779 000	2 000 000
Reserve based loan	323 007	1 264 982	-	-
Current interest-bearing debt	1 078 166	666 334	1 078 166	666 334
Total collateralised debt	3 180 173	4 084 816	2 857 166	2 666 334
Capitalised value of assets pledged as securities				
Shares in subsidiaries	-	-	4 300 951	4 305 259
Production facilities	3 327 240	3 479 120	-	-
Tax receivable	506 056	702 968	506 056	702 968
Cash at bank	122 468	5 100	-	-
Total capitalised value	3 955 764	4 187 188	4 807 007	5 008 227

Debt is measured at nominal value.

32 Licences and commitments

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 360	Noreco ASA		15.0 %
PL 360B	Noreco ASA		15.0 %
PL 385	Noreco ASA		20.0 %
PL 392	Noreco ASA		10.0 %
PL 396 (O)	Noreco ASA		50.0 %
PL 400	Noreco ASA		30.0 %
PL 411 (O)	Noreco ASA		70.0 %
PL 414	Noreco ASA		20.0 %
PL 414B	Noreco ASA	TFO 2011 (awarded January 2012)	20.0 %
PL 434	Noreco ASA		20.0 %
PL 440S	Noreco ASA		12.0 %
PL 453S	Noreco ASA		25.0 %
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 545 (O)	Noreco ASA		50.0 %
PL 562	Noreco ASA		20.0 %
PL 563	Noreco ASA		20.0 %
PL 591	Noreco ASA		40.0 %
PL 599	Noreco ASA		20.0 %
PL 606	Noreco ASA	21st round (awarded May 2011)	40.0 %
PL 616	Noreco ASA	TFO 2011 (awarded January 2012)	20.0 %
PL 620	Noreco ASA	TFO 2011 (awarded January 2012)	25.0 %
PL 621	Noreco ASA	TFO 2011 (awarded January 2012)	25.0 %
PL 624	Noreco ASA	TFO 2011 (awarded January 2012)	15.0 %
PL 634	Noreco ASA	TFO 2011 (awarded January 2012)	30.0 %
PL 639	Noreco ASA	TFO 2011 (awarded January 2012)	15.0 %
PL 646	Noreco ASA	TFO 2011 (awarded January 2012)	20.0 %
PL 018C	Altinex Norway		13.3 %
PL 048D	Altinex Norway		21.8 %
PL 274	Altinex Norway		15.0 %
PL 274/CS	Altinex Norway		15.0 %

7/86	Altinex Denmark		29.9 %
1/90	Altinex Denmark		56.4 %
4/95	Altinex Denmark		30.0 %
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		47.0 %
P 1114	Altinex UK		20.0 %
P 1650 (O)	Noreco UK		78.0 %
P 1658	Noreco UK		43.8 %
P 1666	Noreco UK		21.9 %
P1768 (O)	Noreco UK	Awarded in 26th licence round	54.0 %
P1776	Noreco UK	Awarded in 26th licence round	22.5 %
Block 12/26b, 12/27	Noreco UK	Awarded in 26th licence round	22.5 %

(O) = A group company is the operator

In connection with the granting of new licences for exploration and production of oil and gas or when a POD is approved, the participants are obliged to fulfill certain commitments. Such commitments could be to drill a number of wells, conduct seismic surveys or other commitments.

At year end, Noreco group had the following commitments in 2012:

	Noreco group		Norwegian Energy Company ASA	
(NOK millioner)	**Number of wells**	**Amount**	**Number of wells**	**Amount**
Commitments exploration wells				
Commitments exploration wells, NCS	5	467	5	467
Commitments exploration wells, UKCS	2	146	-	-
Commitments exploration wells, DCS	1	43	-	-
Total commitments exploration wells	**8**	**656**	**5**	**467**
Commitments production wells				
Commitments production wells, NCS	1	115	-	-
Commitments production wells, UKCS	2	126	-	-
Total commitments production wells	**3**	**241**	**-**	**-**
Total commitments	**11**	**897**	**5**	**467**

At year end Noreco did not have any commitments for 2013 and beyond.

When purchasing a licence, 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 2011, the company had entered three such agreements.

33 Contingent liabilities

The appeal case pending before the court of Appeal (Gulating lagmannsrett) between Noreco and Lemongrass AS and Paracon AS has been settled though a settlement agreement concluded 7 July 2011 whereby Noreco has made an additional payment of NOK 1,000,000 to Lemongrass AS and Paracon AS, the parties waiving all further claims.

By a writ dated 10 November 2011 DONG Energy, on behalf of the participants in the Oselvar development, Noreco and Bayerngas, initiated arbitration proceedings against the owners of the Ula field following a dispute over the proper construction of a Heads of Agreement governing the tie-in of the Oselvar field to the Ula facilities. The dispute concerns the issue whether Ula has a right to purchase so-called wet gas under the Agreement. The Oselvar group is disputing this. A decision is expected sometime during the fourth quarter 2012. The parties to the arbitration are in agreement that the arbitration shall not uphold the planned start-up of production from the Oselvar field.

Except from the above mentioned issues, the Group has not been involved in claims from public authorities, legal claims or arbitrations the last 12 months that could have a significant impact on the Company’s financial position or results.

34 Subsequent events

Drilling of the ”Kalvklumpen” prospect in exploration well 25/6-4 in licence PL414 was completed in February 2012. The well did not encounter hydrocarbons. The capitalised exploration costs per 31 December 2011 was NOK 8 million. These costs will be expensed in 2012.

Drilling of the exploration well Luna-1X in the licence 1/1 in Denmark in February and March 2012 did not encounter hydrocarbons. The capitalised exploration costs per 31 December 2011 was NOK 31 million. These costs will be expensed in 2012

35 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 statement of reserves.

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

AUDITOR'S REPORT

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

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 2011, the income statement 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 as at 31 December 2011, 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 Responsibility for the Financial Statements

The Board of Directors 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 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.

The figures in these financial statements have been materially amended and thus these financial statements should not be used as basis for decision-making. This audit opinion should thus be disregarded. We draw the attention to note 5 in the consolidated financial statements and note 2 in the company financial statements for an explanation of the misstatements and how they are corrected. Reference is also made to the comparable figures in the financial statements for 2012 where the corrected figures for 2011 is presented.

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Energy Company ASA as at 31 December 2011, 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 are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Energy Company ASA and its subsidiaries as at 31 December 2011, 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 and Report on corporate governance

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 and Report on corporate governance concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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 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, 22 March 2012
KPMG AS

Mona Irene Larsen
State Authorised Public Accountant

[Translation has been made for information purposes only]

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 2011.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2011 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.

22 March 2012

Ståle Kyllingstad Chairman	**Ole Melberg** Deputy Chairman	**Eimund Nygaard** Board member	**Shona Grant** Board member	**Mona Iren Kolnes** Board member
Hilde Drønen Board member	**Arnstein Wigestrand** Board member	**Lotte Kiørboe** Employee Representative	**Bård Arve Lærum** Employee Representative	**Einar Gjelsvik** CEO

GLOSSARY

APA	Awards in Predefined Areas, system for awarding production licences in mature areas of the Norwegian Continental Shelf
Appraisal well	A well drilled to determine the physical extent and reseves
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
Licence	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 licence 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 Licence
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 licence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