# ANNUAL REPORT
2012

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

www.noreco.com

# 2012

## CONTENT

# KEY FIGURES

| (NOK 1 000) | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Profit and Loss** | | | | |
| Operating income | **831 768** | 1 616 010 | 2 146 462 | 1 546 516 |
| EBITDA | **(816 997)** | (996 742) | 699 027 | 284 628 |
| EBIT | **(1 507 614)** | (1 914 119) | 61 217 | (355 098) |
| Profit before tax | **(1 993 598)** | (2 381 147) | (423 814) | (935 872) |
| **Net result** | **(592 559)** | **(1 441 726)** | **4 525** | **(367 989)** |

| | | | | |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Non-current assets | **5 417 423** | 6 808 619 | 9 611 110 | 9 919 260 |
| Current assets | **2 514 564** | 2 055 305 | 3 001 901 | 1 928 939 |
| **Total assets** | **7 931 987** | **8 863 923** | **12 613 011** | **11 848 199** |
| Equity | **2 026 165** | 2 427 826 | 3 674 860 | 3 722 223 |
| Liability | **5 905 821** | 6 436 097 | 8 938 151 | 8 125 975 |
| **Total equity and liabilities** | **7 931 987** | **8 863 923** | **12 613 011** | **11 848 199** |

# MANAGEMENT TEAM
2012

**Einar Gjelsvik (40)**
Stavanger
CEO

Joined Noreco in Jan 2006. Has 15 years experience from the Norwegian and international oil and gas business. Held various positions in BP within operations, commercial and business development. Holds a MSc in Business Administration, Strategic Management, a MSc, Chemical Engineering and is a CFA charter holder.

**Ørjan Gjerde (43)**
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 co-founder). Gjerde is a state authorised public accountant and graduated from NHH in 1995.



**Lars Fosvold (51)**
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 (56)**
Stavanger
COO & Vice President HSE

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, and commercial management/ negotiations.

# LICENCE PORTFOLIO


TRANSOCEAN
BARENTS
NORECO

# ANNUAL STATEMENT OF RESERVES

2012

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 2012 as well as the company's best assumptions of future operating costs.

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

As per 31 December 2012, Noreco has reserves in seven fields. Further information about the fields is available on Noreco's homepage www.noreco.com.

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 31.12.2012

| | 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 | 2.4 | 0.0 | 2.4 | 30.0 | 0.7 | 3.7 | 0.0 | 3.7 | 30.0 | 1.1 |
| Nini East | 4.4 | 0.0 | 4.4 | 30.0 | 1.3 | 7.6 | 0.0 | 7.6 | 30.0 | 2.3 |
| Cecilie | 0.6 | 0.0 | 0.6 | 61.0 | 0.4 | 2.1 | 0.0 | 2.1 | 61.0 | 1.3 |
| Lulita | 0.9 | 4.2 | 1.7 | 28.2 | 0.5 | 1.0 | 4.7 | 1.9 | 28.2 | 0.5 |
| Enoch | 2.0 | 0.0 | 2.0 | 4.4 | 0.1 | 2.6 | 0.0 | 2.6 | 4.4 | 0.1 |
| Oselvar | 12.8 | 55.6 | 22.7 | 15.0 | 3.4 | 25.7 | 145.6 | 51.7 | 15.0 | 7.7 |
| Total | | | | | 6.4 | | | | | 13.1 |

**Under development (approved for development)** as of 31.12.2012

| | 1P | | | | | 2P | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Liquids (mill bbl) | Gas (bscf) | mill boe | Interest % | Net mill boe | Liquids (mill bbl) | Gas (bscf) | mill boe | Interest % | Net mill boe |
| Nini East | 0.0 | 0.0 | 0.0 | 30.0 | 0.0 | 1.3 | 0.0 | 1.3 | 30.0 | 0.4 |
| Huntington | 24.5 | 10.8 | 26.5 | 20.0 | 5.3 | 38.3 | 20.9 | 42.0 | 20.0 | 8.4 |
| Total | | | | | 5.3 | | | | | 8.8 |

**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 | | | | | 0.0 | | | | | 0.0 |

**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 | 2.4 | 0.0 | 2.4 | 30.0 | 0.7 | 3.7 | 0.0 | 3.7 | 30.0 | 1.1 |
| Nini East | 4.4 | 0.0 | 4.4 | 30.0 | 1.3 | 9.0 | 0.0 | 9.0 | 30.0 | 2.7 |
| Cecilie | 0.6 | 0.0 | 0.6 | 61.0 | 0.4 | 2.1 | 0.0 | 2.1 | 61.0 | 1.3 |
| Lulita | 0.9 | 4.2 | 1.7 | 28.2 | 0.5 | 1.0 | 4.7 | 1.9 | 28.2 | 0.5 |
| Enoch | 2.0 | 0.0 | 2.0 | 4.4 | 0.1 | 2.6 | 0.0 | 2.6 | 4.4 | 0.1 |
| Oselvar | 12.8 | 55.6 | 22.7 | 15.0 | 3.4 | 25.7 | 145.6 | 51.7 | 15.0 | 7.7 |
| Huntington | 24.5 | 10.8 | 26.5 | 20.0 | 5.3 | 38.3 | 20.9 | 42.0 | 20.0 | 8.4 |
| Total | | | | | 11.7 | | | | | 21.9 |

Table 2: Noreco reserves development

**Reserves development**

| Net mill boe | 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 31.12.2011 | 4.0 | 6.5 | 10.1 | 16.4 | - | - | 14.1 | 22.9 |
| Production | (1.3) | (1.3) | | | | | (1.3) | (1.3) |
| Aquisitions/disposals | | | | | | | - | - |
| Extensions and discoveries | - | - | - | - | - | - | - | - |
| New developments | 3.4 | 7.7 | (3.4) | (7.3) | - | - | - | 0.4 |
| Revisions of previous estimates | 0.3 | 0.2 | (1.4) | (0.3) | - | - | (1.1) | (0.1) |
| Balance as of 31.12.2012 | 6.4 | 13.1 | 5.3 | 8.8 | - | - | 11.7 | 21.9 |

The Nini, Nini East and Cecilie reserves are all produced via the Siri platform.

**Nini, DCS, operated by Dong Energy, Noreco 30 percent**
The reserves assessment of the Nini field is based on decline analysis of producing wells. Reserves are approximately three percent higher than last year after accounting for the 2012 production.

**Nini East, DCS, operated by Dong Energy, Noreco 30 percent**
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. The reserves for a new approved production well are included in the Approved for Development category.

**Cecilie, DCS, operated by Dong Energy, Noreco 61 percent**
The reserves for the Cecilie field are based on decline analysis of existing wells. The reserves are increased by approximately 18 percent compared with 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. Noreco has adjusted the 2P reserves down by 16 percent compared with last year. The Lulita field is produced with a single well and there is potential for infill drilling (sidetrack). New seismic will be interpreted in 2013 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, but the field has been shut down for most of 2012. The 2P reserves have been kept unchanged.

**Oselvar, NCS, operated by Dong Energy, Noreco 15 percent**
The Oselvar field was put on production 14 April 2012. 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, plus recent production history. The production level so far has been lower than expected, and work is ongoing to find the reason for the weak production and to identify possible improvement measures. To be able to produce the planned 2P reserves, investments in a new production well or a modification of an existing producer is included. The 2P reserves have been kept unchanged.

**Huntington Forties, UKCS, operated by E.ON Ruhrgas, Noreco 20 percent**
The Huntington Forties field development plan (FDP) was approved during 2010 and the development is expected to be completed in the near future. The production vessel (FPSO) Voyageur Spirit was installed on the field in the autumn 2012, and the production and injection wells are being connected to the FPSO. The field is expected to start production during the first quarter 2013.

Noreco's reserve estimate of the Huntington Forties reservoir is based on the company's own reservoir modeling. The planned wells (4 producers and 2 water injectors) were completed last summer. Noreco considers the well results to verify the company's reserves estimate from previous year, and has kept the 2P reserves unaltered.

## 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.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 performed an independent review of reserves on this basis. The independent review concludes with a reserves estimate that is four percent higher than Noreco's overall 2P estimate and hence serves as a verification of the Noreco reserves estimate.

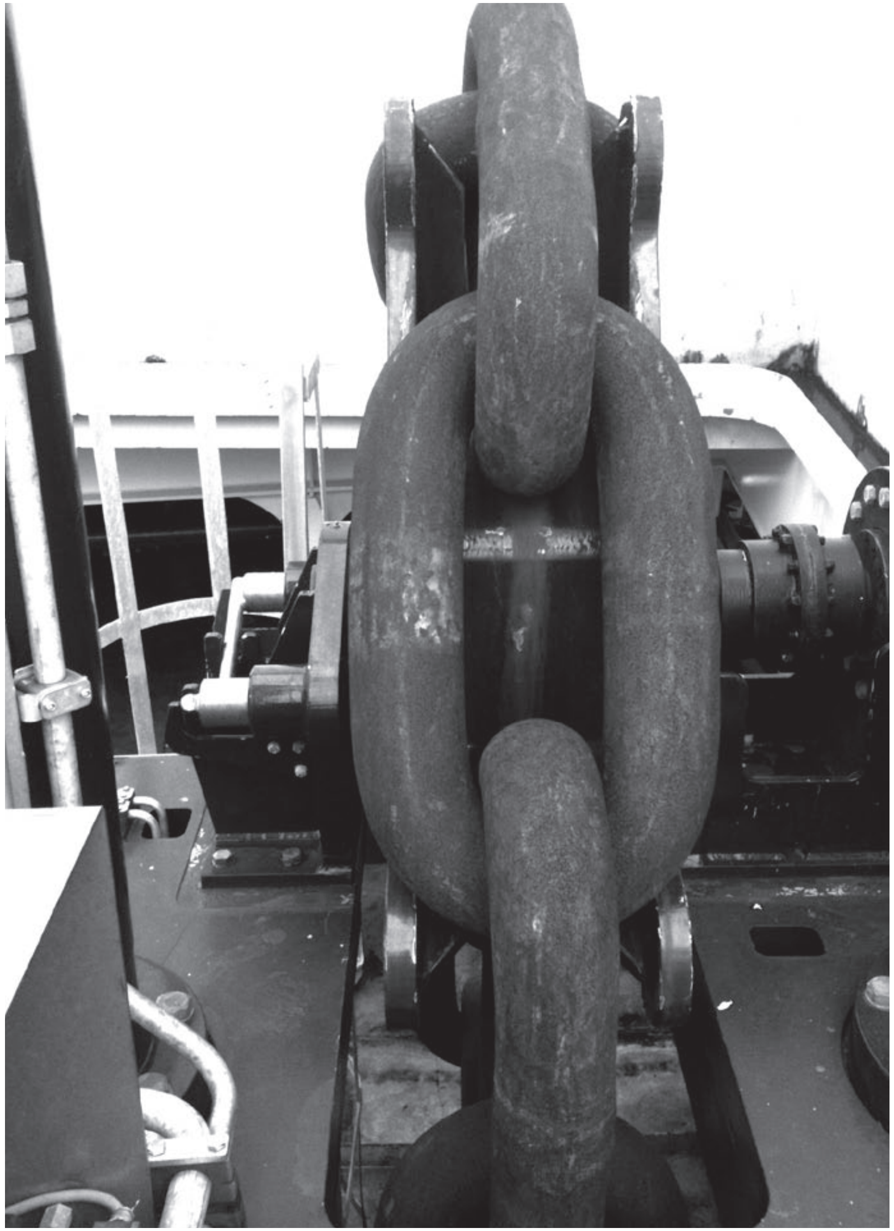
The information included herein may contain certain forward-looking statements that address activities, events or developments that Noreco expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by Noreco, which are beyond its 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 reserve estimate for the Noreco portfolio is 21.9 million barrels of oil equivalents (boe) compared to 22.9 million boe in the year end 2011 reserves statement. This decrease is mainly a result of Noreco's production of 1.3 million boe in 2012.

*Stavanger, 11 February 2013*

Einar Gjelsvik

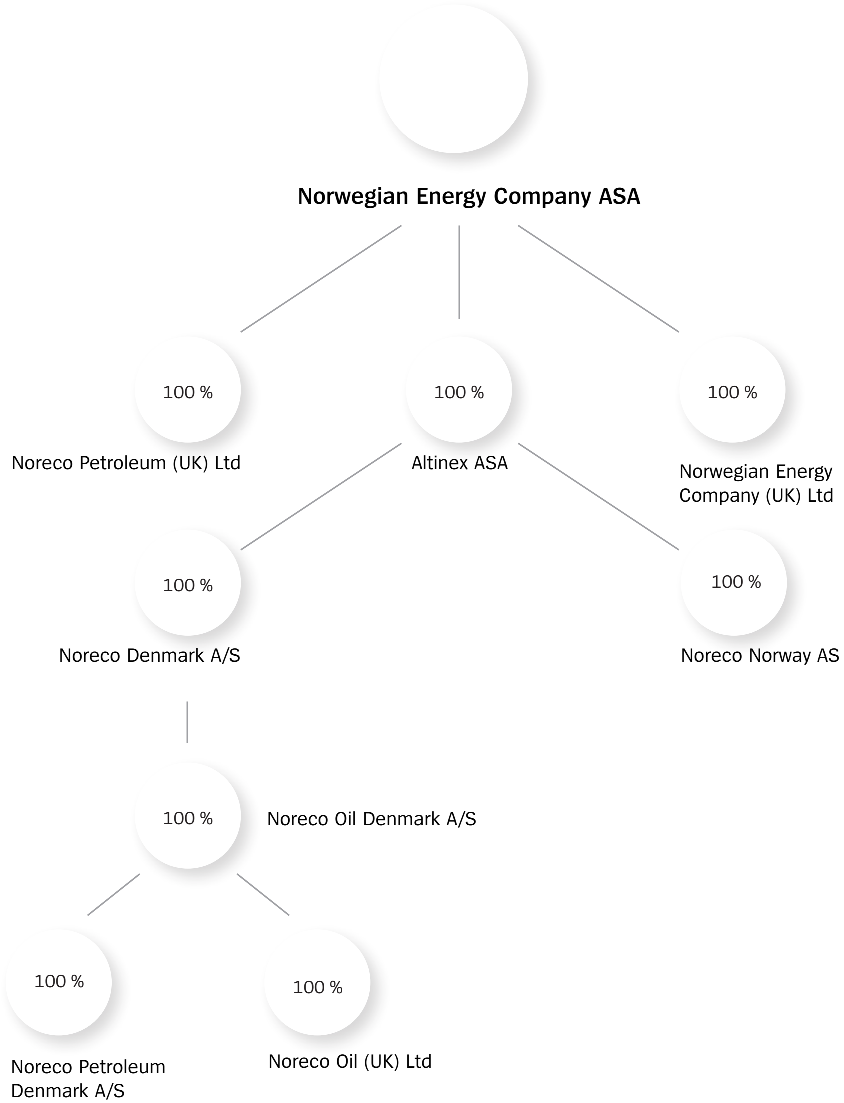
Einar Gjelsvik
CEO, Noreco



# NORECO GROUP

# NORECO GROUP

2012



# 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 23 October 2012 (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 on 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 one of the board members is present at the General Meetings, that one of the members of the nomination committee is present in the event that an election is on the agenda, and that the auditor is present when the General Meetings discuss the annual accounts, or other matters in which the auditor’s presence may be useful.*
- *The company’s nomination committee consists of three members, whereof Ole Rettedal is the CEO of IKM Industri-Invest AS, which owns 11 percent of the shares in Noreco, and Eimund Nygaard is a member of the Board. The final member, Aasulv Tveitereid, is independent of both shareholders, the Board and executive management.*

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 the Code and an English translation 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 http://www.oslobors.no/ob_eng/Oslo-Boers/Regulations/Acts.

**Noreco’s business and main strategy**
Noreco has grown from being a small privately owned E&P company into a larger publicly owned independent E&P company listed on the Oslo Stock Exchange. From the inception, the Company combined strong commercial principles with a long-term growth perspective.

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 with activities 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 actively participates in exploration rounds and acquisition activity, and focuses on building 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 value in the core areas through competence and commitment to generate activity and take risk.

Noreco’s employees, and their competence and commitment to succeed, are 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 from Noreco’s assets and sustainable growth of the portfolio.

Noreco believes that its integrity and standards are critical to its 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 can be found on Noreco’s website, http://www.noreco.com/en/About-us/Corporategovernance/CSR/

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

**Equity and dividends**
Noreco’s equity is considered to be adequate to meet 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 corresponds with its objectives, strategies and risk profile.

Presently, the General Meeting has granted the Board the authority to increase the share capital of Noreco by a maximum NOK 21,700,000 to be utilized in connection with the incentive scheme for the group's employees. The proxy is valid until 1 June 2013.

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

In case of deviations from existing shareholders preferential rights at share capital increases and the reasons would be publicized in a stock exchange report linked to the capital increase.

**Transactions regarding the company's own shares**
For the time being, Noreco is not authorized by the general meeting to acquire own shares. Noreco's transactions of its own shares would be conducted on the stock exchange or by other way of procedure at the stock exchange value.

In case of limited liquidity in the share, the requirement on equal treatment would nevertheless be upheld by other means of appropriate procedure.

**Transactions with close associates**
On 31 December 2012, Noreco completed the planned and announced transfer of business to its subsidiary Noreco Norway AS – hereunder all related assets, contracts and personnel for the purpose of reorganizing the company structure in order to provide for more efficient operations.

Hence Noreco has discontinued its direct petroleum activities. There has not been any other transaction of significance with closely related parties during 2012.

If Noreco were to 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 would be required to 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 considers 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 the Board has not decided to appoint an independent chairperson. The board of directors, the Nomination committee and the company's accountant will normally attend each general meeting.

**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 eleven percent of the shares in Noreco. Eimund Nygaard is a member of the board and group chief executive of Lyse AS, which owns 7,8 percent of the shares in Noreco, 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 no meetings in 2012. 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 2011 and 27 September 2011.

Two directors and four deputies, all representing the employees of Noreco, were elected during 2012 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 2012 the Board held 15 board meetings. During 2012, an average of 8.5 directors participatedin 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 are 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 its 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 emphasizing their objectives, strategies and implementation.

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

The Board is informed of Noreco's financial position and ensures adequate control of the Company's activities, accounts and asset management.

The Board receives monthly reports on the Company's commercial and financial status. 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 participates in 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.

In the annual report for 2012, Noreco corrects the comparable figures for 2011 for the parent company and Group. The corrections also affect the quarterly figures for the quarters Q1 2011 until Q3 2012, as accounted for in the Q4 2012 report.



Previously reported figures were prepared according to the Board and management's best understanding of the rules and facts. The view was that this gave the most rightful presentation of the company's activities and its prospects. The Financial Supervisory Authority used the period from July 2012 until January 2013 to consider all the applied interpretations of facts and regulations, and came to a different conclusion. The Board takes note of this. Noreco does not wish the quality of its financial reporting to be put into question, and therefore chose to adopt the understanding of the regulations the Financial Supervisory Authority used to create calm around the financial reporting. After thorough assessments, the Board also concluded that the Annual Report for 2012 should not be re-issued. This for several reasons, not least the short period of time remaining for the publication of the Q4 2012 report, and the annual report for 2012, which was given heavy weighting.

It is the Boards opinion that the CEO has ensured that the principal accounting processes for the company, hereunder reporting to official authorities, are in accordance with laws and regulations, and that the administration of assets are taken care of in a reassuring manner. During 2012, Noreco has strengthened its financial reporting staff through, among others, hiring a new CFO and new Group accounts manager. These resources and strengthening came in place before the process with the Financial Supervisory Authority started, but after the delivery of the 2011 accounts. The Board and CEO will continuously consider whether further measures are necessary, but believe the internal competency has been significantly strengthened.

**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 programs. 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 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 forthis. The Board is responsible to make sure that the requirement on equal treatment in regards of the shareholders is upheld and that they have received sufficient information to decide upon any possible offer.

The Board shall not hinder or complicate anyone's offer on the Company's business or shares. In case of offering for the shares in the Company, the board shall not use granted authority's or other initiatives with the purpose of complicating the carrying out of the offer unless such action was approved by the General Meeting post such offer being known to the public.

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.

the Company shall only enter into agreements containing limitations on acquiring other offerings on the shares when such thing is evidently can be based upon the interests of the Company and the shareholders. The same principles shall apply on agreements regarding break fee to the offering party should the offer not finally be accepted. Any break fee shall normally be limited to the costs incurred on the offering party deriving from making the offer.

Agreements of significance for the markets assessment of the offer between the Company and the offering party shall be made public at the same time the offer is being made public.

Transactions which in reality means a transfers of business to a third party must be resolved by the General Meeting.

**Auditor**
Year-end accounts are audited. The audit committee receives a report from the auditor after yearend 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.

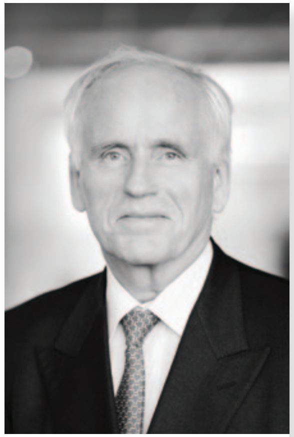
The Board has established guidelines in respect of the use of the auditor by Noreco's executive management for services other than the audit.

# BOARD OF DIRECTORS

2012

**Ståle Kyllingstad (52)**
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 (66)**
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. Current directorships include Det Stavangerske Dampskibsselskap AS, Deep Casing Tools Ltd, Sigma Offshore Ltd, HalfWave AS, Høvik and Energy Drilling PTE Ltd. in Singapore within theEnergy Ventures system.

**Eimund Nygaard (54)**
Board member

Nygaard holds 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 (51)**
Board member

Grant is currently Managing Director at 2TD Drilling and a Partner at Wellwork Innovation. She holds a BSc and PhD in geology. Grant started her career at BP Research in London and went on to hold a variety of technical, commercial and management positions for BP in both the UK and Norway. After leaving BP and before joining 2TD, she provided management consultancy services to several oil & gas and technology companies.

**Mona Iren Kolnes (49)**
Board member

Mona Iren Kolnes holds a Master of Science in Economics and Business Administration from the Norwegian School of Economics and Business Administration (NHH). Kolnes has extensive experience in the oil-and gas industry, mainly related to finance, strategy and asset management in both the up-and downstream business. She has comprehensive management experience holding a number of senior positions in Statoil and Conoco.

**Hilde Drønen (51)**
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 Controller for the Møgster Group (1995-2003). She holds a Master degree from the Norwegian School of Management (BI) and legal course from Universitetet i Bergen (UIB). Mrs Drønen is and has been represented in several Boards of Directors, including DOF Subsea AS (since 2005), Sevan Marine ASA (2006-2010) and Tide ASA (2005-2010).

**Arnstein Wigestrand (56)**
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.

**Bård Arve Lærum (43)**
Employee elected board representative

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

**Hilde Alexandersen (46)**
Employee elected board representative

Hilde Alexandersen has 19 years of experience from the oil and gas industry. She has a Master of Science degree in geology from the University of Bergen. Prior to joining Noreco in 2007, she has held various subsurface positions in ConocoPhillips and has experience from exploration, operations and producing assets. Alexandersen currently holds a position as a Sr.Geologist within Noreco's Developments team.



# DIRECTORS REPORT

**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 for oil and gas. Successful exploration provides the basis for value creation which may be realised either through asset sales or development and production.

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

**Exploration**
In 2011 Noreco made changes to its exploration strategy in order to increase the value creation potential. These changes involve stronger requirements with regards to size of prospect, probability of discovery and commercial parameters before committing to drill a well. The company has also chosen to focus its exploration activity within a few geographical core areas, and is concentrating its geological competence development within these areas. In addition, changes have been made to the company's processes and the organisation of its exploration activity.

The new strategy has been continued in 2012 through applications in licensing rounds and decisions in licences where the company has ownership interests. At the same time, the company must manage commitments previously entered into.

Due to long lead times, it will take time before the results of the refocused strategy can be evaluated.

One important success factor for value creation is access to new exploration acreage. The company was during 2012 awarded 15 new licences in Norway and the UK, and in addition the company farmed in to one licence on the Norwegian continental shelf. In January 2013 the company was awarded two more licences in Norway, and six in the UK.

The company participated in eight exploration wells in 2012, of which six on the Norwegian continental shelf, one in Denmark and one in the UK. The exploration results were disappointing. Hydrocarbons were encountered in half of the wells, however all the wells have been expensed and further studies and possibly appraisal drilling will be necessary in order to clarify the potential of the discoveries.

The wells Eik in the Barents Sea and Luna in the Danish part of the North Sea were both operated by Noreco, and the operations were carried out in a safe and responsible manner.

In the Danish licence 7/86, a new evaluation of data on the Amalie discovery is ongoing to create a basis for evaluation of further activities during 2013.

**Production and developments**
Noreco's production in 2012 was on average 3,656 barrels of oil equivalents per day. This was significantly lower than expected, which was driven by a lower than expected contribution from the Oselvar field and a delayed production start at the Huntington field.

The fields Nini East, Nini and Cecilie on the Danish continental shelf demonstrated good productivity in 2012. As expected, the regularity was impacted by operational restrictions at the host platform Siri in periods with adverse weather conditions. The Siri platform is scheduled to be repaired in 2013/14, which is important to secure stable production from the satellite fields in the future.

The Oselvar field came on stream in April. Production has so far been considerably lower than anticipated in the plan for development and operation, and work is underway to understand the reason for the weak production and propose possible measures to improve the situation. Such measures may involve drilling of a new production well on the field.

The Huntington development continued throughout the year. Significant delays occurred in connection with the upgrade of the floating production platform FPSO Voyageur Spirit. This caused the installation works to be pushed into the winter season, and the winter weather conditions have caused further delays. At the time of this report, the preparations for production start at Huntington are almost completed, and production is expected to commence shortly.

**Financial position**
The Board has paid special attention to the company's financial position in 2012. As a consequence of the delayed production from Huntington and lower than expected production from Oselvar, forecasts indicated that the company's liquidity may come under pressure. Further, the company faced the risk of covenant breach for its bond loans, partly caused by the delays already mentioned, and partly due to write-downs. On this background, the Board in September resolved to carry out an equity issue of NOK 400 million, supplemented by a new short-term NOK 300 million bond. At the same time, the company entered into an agreement with bond holders regarding covenant waivers for the company's existing bond loans.

Based on further delays on Huntington, and an unexpected two-month shutdown of the Ula platform, which is the host platform to Oselvar, the company decided to issue a new NOK 300 million bond in February 2013 to build liquidity buffer and strengthen the financial flexibility of the parent company.

The Huntington field is expected to have a substantial impact on the company's future financial position. With regards to tax, the British tax system allows for all investment costs to be immediately deducted from taxable income. Noreco will not be in a tax position in the UK until the accumulated earnings from Huntington have exceeded some NOK 1 billion, based on today's currency exchange rates. Based on the expectation that all tax losses carry forward can now be utilised, a deferred tax asset has been capitalised per 31.12.2012.



In 2012 the company initiated a reorganisation of the group structure in order to provide for more efficient operations. The key objectives of this reorganisation are to transform Noreco into a pure holding company, with all operational activities being continued in wholly owned subsidiaries, and thereafter to reduce the number of subsidiaries and over time achieve single operating entities for each jurisdiction. Such a reorganisation will provide for a more appropriate structure, and be favourable both from risk management, financial, flow of funds and fiscal perspectives, and position Noreco for continued growth of its core business.

In 2012 all Norwegian petroleum activities were transferred to the subsidiary Noreco Norway AS. As a consequence of the discontinuation of petroleum activity in the parent company, the company expects to be refunded with the tax value of losses carried forward, amounting to NOK 721 million, in December 2013 (in addition to the ordinary tax refund for exploration cost in Norway of NOK 618 million). The tax payment will mainly be used for debt reduction in the company. It is a continuous priority for the Board to make sure that the company's debt level, debt structure, maturity profile and interest cost is optimised and adapted to the company's operational performance.

The Norwegian Financial Supervisory Authority (NFSA) has performed a review of Noreco's annual financial statements for 2011 and in this context highlighted certain issues where it was in disagreement with the company's assessments. The most important issues were related to assessed value of suspended wells and allocation of goodwill to sold assets. The company therefore made new evaluations and decided to correct previously reported accounting figures. As per 31.12.2011 the corrections represent an aggregate reduction in equity of NOK 588 million. See also note 5 to the group accounts and the chapter on Corporate Governance for further details.

**Financial results for 2012**
The financial statement for 2012 shows a significant reduction in operating revenues compared to the previous year as a consequence of the 2011 divestments of the producing fields Brage, Siri and South Arne. The company's realised oil price was USD 106 (NOK 618) per boe, almost unchanged from USD 109 (NOK 609) the previous year. Average oil and gas production was 3,656 boe per day, compared to 7,307 boe per day in 2011. Total revenues for 2012 amounted to NOK 832 million, down from NOK 1,616 million the previous year. Exploration and evaluation expenses were NOK 1,188 million, up from NOK 1,001 million in 2011. Included in this amount was an expense of previously capitalised suspended wells of NOK 397 million for in 2012, compared to NOK 535 million in 2011.

Write-downs amounted to NOK 421 million in 2012, of which NOK 285 million was related to the Oselvar field, which has produced below expectations. In addition, impaired goodwill related to activities in Norway and the UK amounted to NOK 118 million.

The net operating result (EBIT) for 2012 was a loss of NOK 1,508 million, reflecting an improvement compared to 2011 when the loss amounted to NOK 1,914 million. The company's ordinary result before tax (EBT) was a loss of NOK 1,994 million, compared to a loss of NOK 2,381 million in 2011. The net result for 2012 was a loss of NOK 593 million, compared to a loss of NOK 1,442 million the previous year. Tax income for 2012 was high as a consequence of high exploration activity in Norway and capitalisation of tax assets in the UK, where income from the Huntington production is expected to bring the company's overall UK activities into tax position over the next couple of years. Net cash flow from operations in 2012 amounted to NOK 908 million, down from NOK 1,294 million in 2011. The difference between cash flow from operations and the result before tax is caused by cost for exploration drilling which is classified as investment activity in the cash flow statement.

Net cash flow from investing activities in 2012 was a negative NOK 1,136 million, driven by high exploration activity and investments in the development of the Oselvar and Huntington fields, compared to a positive contribution of NOK 207 million in 2011 due to substantial asset sales.

Interest-bearing debt amounted to NOK 3,884 million at the end of 2012, compared to NOK 3,675 million the year before. Of this, respectively NOK 3,642 million and NOK 1,064 million is classified as current liabilities. The accounting standard IAS 1.75 requires that non-current liabilities where covenants are in breach on the balance date are classified as current unless the covenant is waived for 12 months or more. Noreco entered into a waiver agreement on 19 October 2012 for the period when such waiver is expected to be needed.

See further information in note 24 to the group accounts.

Total bank deposits, cash and cash equivalents was NOK 604 million at the end of 2012, compared to NOK 689 million at the end of 2011. Undrawn credit under the company's reserve based bank facility amounted to NOK 52 million. During 2012, the remaining balance of the convertible bond and the bond NOR03 were repaid upon maturity.

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 challenging at the start of 2013 due to uncertainty regarding production start for the Huntington field. As mentioned above, in February 2013 the company chose to further strengthen the liquidity and hence create a larger liquidity buffer, by issuing a new long-term bond of NOK 300 million. Through 2013 the liquidity situation will be positively impacted by production from Huntington, in addition to the tax refund which will be received following the discontinuation of petroleum activity in the parent company. This provides a good basis for repayment of debt and optimisation of the company's debt structure.

**The going concern assumption**

Pursuant to the Norwegian Accounting Act section 3-3a, the Board confirms that the requirements of the going concern assumption are met and that the annual accounts have been prepared on that basis. The financial position and the liquidity of the company are considered to be satisfactory in relation to planned activity level.



The liquidity contributions mentioned above related to production start at Huntington and tax refunds will contribute significantly to future cash flow, and hence support the going concern assumption. A significant portion of the company's bond debt is, in accordance with IFRS accounting rules, classified as current liabilities even if the agreed maturity is more than 12 months into the future (see above and note 24). In the Board's view, the negotiated waivers, in combination with the additional liquidity from operations and tax refunds, will ensure that the company will be able to service its debt maturities over the next 12 months.

In the Boards' view, the annual accounts give a true and fair view of the company's assets and liabilities, financial position and results. The Board is not aware of any factors that materially affect the assessment of the company's position as of 31 December 2012, or the results for 2012, other than those presented in this report or that otherwise follow from the financial statements.

**The market**

The oil market remained strong and stable in 2012, and the average price for Noreco per sold barrel of oil equivalent was USD 106 (NOK 618), compared to USD 109 (NOK 609) the previous year. The oil price has continued at similar levels into 2013.

The board expects market conditions to support continued high oil prices. High oil prices drive profits for the oil producers, support high valuation of oil and gas resources, and stimulate increased activity both within exploration and field developments. This is reflected in increased competition for attractive exploration acreage, a tighter market for specialists and oil services, and consequently increasing cost levels for bringing new oil to the market.

The market for oil and gas assets was relatively quiet in 2012. Noreco was involved in three licence transactions as part of its active portfolio management and rationalisation of assets. There is currently a lot of interest for producing fields in the market, while market activity for exploration licences is low. It has proven to be difficult to achieve desired adjustments in ownership interest through farm-outs.

**Financial risk**

The main financial risk factors for Noreco are related to oil prices, exploration success, production interruption, currency exchange rates, interest levels and debt service. 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.

Part of the company's exposure towards changes in the interest level is eliminated through interest swaps. More information on the management of financial risk can be found in the notes to the accounts.

Production of oil and gas is the company's main earnings driver. The operation of production installations is exposed to risks of breakdown and delays due to technical problems or other unforeseen events. Production of oil and gas is also associated with the risk of wells not delivering the anticipated production or of it becoming more expensive to operate the fields than anticipated, as well as the risk of long-term production interruptions. Noreco's production is also dominated by a limited number of fields.

Such risks are reduced by continued focus on reservoir understanding and on the technical integrity of 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. This is reflected in the accounts with a current receivable of NOK 328 million, representing approximately 15 percent of the total insurance claim, and is calculated as a share of actual repair cost and production losses. The company has not yet received any compensation related to these insurance claims. Based on the available technical documentation, extensive third party evaluations and prevailing insurance agreements, the board is of the opinion that the company has cover for the capitalised amount under the insurance policies, and expects this to be settled by the end of 2013.

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.

**Health, environment and safety**
Noreco performs all its activities with a focus on ethics and respect for people and the environment. The board believes this is a key condition for creating value over time 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 and with no long term impact on the environment.

Noreco drilled two challenging exploration wells as operator in 2012, one in Denmark and one in the Barents Sea, and both operations were delivered in compliance with company's HSEQ standards and goals. The management system has been updated to reflect experience gained from these operations.

The employees are key to achieving the company's goals and visions also within HSEQ. The company's HSEQ management is integrated in the overall management system, which is regularly updated. The employees are also actively engaged in living up to and being part of the HSEQ culture.

Noreco actively follows up the HSEQ work in all its licences. This involves management follow-up of HSEQ in the licence control committees and inspections on the facilities. Noreco keeps statistics and overview of HSEQ incidents, in addition to follow-up plans for the activities.



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 2012.

**Personnel resources and working environment**
Noreco's highly qualified employees are essential to value creation in the company.

At the end of 2012 the company had 69 employees, 58 in Norway and 11 in Demark.

Noreco has a diverse workforce with eight nationalities represented in the workforce: Norwegian, Danish, British, Irish, Pakistani, Polish, Turkish and Mexican.

Noreco's top management team included one woman in 2012. The company's board of directors has consisted of four women and five men, whereof three women and four men were elected by shareholders. At the end of 2012, 39 percent of the employees were women compared to 35 percent in 2011 and 33 percent in 2010. A goal is to increase the share of women going forward. For the whole company, four of the managing positions are occupied by women. This is the same level as in 2011. There is an equal number of female and male employees on the work environment committee (WEC).

Noreco pays equal salaries and gives equal compensation for positions at the same level, regardless of gender, ethnicity, religion or disabilities. 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.

According to annual work environment surveys, Noreco has a good working environment.

The management's compensation is described in the notes to the annual accounts. Sick leave in Noreco was 2 percent in 2012 versus 2.5 percent in 2011.

**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 Practice 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 15 board meetings were held in 2012.

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 held its Annual General meeting in May, and the company also held an Extraordinary General Meeting in October. None of the shareholder -elected board members were up for re-election in 2012. Bård Arve Lærum was re-elected and Hilde Alexandersen was elected as new board member by the employees in 2012.

In February 2013 the company received a request for the convening of an extraordinary general meeting from shareholder Sabaro Investments Limited, with the purpose of electing a chairman and members of the Board. The extraordinary general meeting is scheduled for 22 March 2013. The Company's nomination committee has in this context proposed that the number of shareholder elected board members is reduced from seven to five, and that the general meeting elects a new board consisting of the following board members: Ståle Kyllingstad (Chairman), Hilde Drønen, Eimund Nygaard, Erik Henriksen (new) and Marika Svärdström (new). The nomination committee's proposal is supported by the company's three largest shareholders.

Further information on corporate governance in Noreco can be found in a separate chapter on corporate governance in this annual report.

**Ownership**
There are no restrictions to the transfer of shares in Noreco. The company currently has around 3,300 shareholders, and around 66 percent of the shares are held by Norwegian residents.

Noreco's bond agreements contain change of control clauses giving the bondholders a right to require full pre-payment if an investor or group of investors which are under single control becomes owner of a majority of the voting rights. The company's reserve based 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 was in 2012 a pure exploration company and the operating expenses mainly consisted of exploration cost, payroll and other operating expenses. In addition a write-down was made of the shareholding in Altinex ASA with NOK 854 million, reflecting production in the underlying fields and other impairments. As from the end of 2012 the exploration activities have been transferred to the subsidiary Noreco Norway AS. This has impacted the balance sheet for the parent company per 31 December 2012, where all intangible assets have been sold. 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 2012 was a loss of NOK 1,364 million. The board propose the following allocations:

Transferred to other equity: NOK 184 million

Transferred from other paid-in equity: NOK -14 million

Transferred from share premium reserve: NOK -1.534 million

Total: NOK -1.364 million

The parent company's total equity as of 31.12.2012 was NOK 2,115 million of which NOK 0 was free equity.

**Outlook**
The development of market fundamentals for the oil and gas industry remains positive. The oil price is currently at levels which stimulate exploration and development of oil and gas resources. The activity level in the asset market is moderate for the time being. The board is of the opinion that the short to medium term prospects are positive.

Noreco expects its existing fields to produce around 3-4,000 boe per day until production starts from the Huntington field. Huntington is expected to contribute with around 6,000 boe per day net to Noreco after a ramp-up period. The planned repairs of the Siri platform are expected to cause some reduced production regularity for the fields Nini East, Nini and Cecilie in the coming quarters. The company plans to participate in four to five exploration wells in 2013.

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. The company's future growth and value creation is dependant upon results from the exploration activity related to the licence portfolio, where 10 new licences were added in 2012 and eight more have been added so far in 2013. Depending on oil price development, production volumes, exploration results and other assumptions, some write down of goodwill is also likely to occur in 2013. See note 12 and 13 for further details.

The company intends to utilise a significant part of the cash flow from operations and the tax refunds to reduce debt and interest cost going forward. Furthermore, the company will be active in the bank and bond markets to optimise the debt structure and hence further reduce interest cost.

In 2012 a process related to simplification of the legal structure of the group was initiated with a reorganisation in Norway. In order to further provide for more efficient operations, the company intends to continue this process in 2013, first with its operations in the UK, but also further in Norway and eventually in Denmark. The long term ambition is to have one operating entity for each country.

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 19 March 2013*

**Ståle Kyllingstad**
Chairman

**Ole Melberg**
Deputy Chairman

**Eimund Nygaard**
Boardmember

**Shona Grant**
Boardmember

**Mona Iren Kolnes**
Boardmember

**Hilde Drønen**
Boardmember

**Arnstein Wigestrand**
Boardmember

**Hilde Alexandersen**
Employee elected board representative

**Bård Arve Lærum**
Employee elected board representative

**Einar Gjelsvik**
CEO



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

| (NOK 1 000) | Note | 2012 | 2011(1) |
|---|---|---|---|
| **Revenue** | **7** | **831 768** | **1 616 010** |
| Production expenses | | (244 231) | (451 557) |
| Exploration and evaluation expenses | 8,28 | (1 188 396) | (1 000 662) |
| Payroll expenses | 9,26 | (133 978) | (163 396) |
| Other operating expenses | 10 | (114 027) | (133 960) |
| Other (losses)/ gains | 11 | 31 867 | (863 177) |
| **Total operating expenses** | | **(1 648 765)** | **(2 612 752)** |
| **Operating results before depreciation and amortisation** | | **(816 997)** | **(996 742)** |
| Depreciation | 13,32 | (269 355) | (387 787) |
| Write-downs | 12,13 | (421 262) | (529 590) |
| **Net operating result** | | **(1 507 614)** | **(1 914 119)** |
| Financial income | 14 | 76 083 | 132 758 |
| Financial expenses | 14 | (562 067) | (599 785) |
| **Net financial items** | | **(485 984)** | **(467 027)** |
| **Result before tax** | | **(1 993 598)** | **(2 381 147)** |
| Income tax benefit | 15 | 1 401 039 | 939 420 |
| **Net result for the year** | | **(592 559)** | **(1 441 726)** |
| **Other comprehensive income (net of tax):** | | | |
| Cash flow hedge | 19 | (10 733) | 9 148 |
| Currency translation adjustment | | (201 254) | 160 790 |
| **Total other comprehensive net result for the year** | | **(211 987)** | **169 938** |
| **Total comprehensive net result for the year** | | **(804 547)** | **(1 271 788)** |
| Earnings per share (NOK 1) | | | |
| Basic | 16 | (2.26) | (5.91) |
| Diluted | 16 | (2.26) | (5.91) |

(1) See disclosures regarding corrections of prior periods in note 5.

*Note 1 to 34 are an integral part of these consolidated financial statements*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

as of 31 December

| (NOK 1 000) | Note | 31.12.12 | 31.12.11 (1) | 01.01.2011(1) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| License and capitalised exploration expenses | 12,28 | 818 707 | 1 249 839 | 2 290 131 |
| Goodwill | 12 | 496 812 | 656 395 | 1 492 598 |
| Deferred tax assets | 15 | 111 192 | 605 596 | 594 800 |
| Property, plant and equipment | 13,28 | 3 990 712 | 4 296 788 | 5 233 580 |
| **Total non-current assets** | | **5 417 423** | **6 808 619** | **9 611 110** |
| **Current assets** | | | | |
| Assets held for sale | | - | - | 590 389 |
| Tax refund | 15 | 1 339 030 | 506 056 | 730 891 |
| Derivatives | 19,20 | 7 247 | 26 754 | 8 831 |
| Trade receivables and other current assets | 17,20 | 564 175 | 833 786 | 779 308 |
| Bank deposits, cash and cash equivalents | 18 | 604 113 | 688 708 | 892 482 |
| **Total current assets** | | **2 514 564** | **2 055 305** | **3 001 901** |
| **Total assets** | | **7 931 987** | **8 863 923** | **12 613 011** |

*Note 1 to 34 are an integral part of these consolidated financial statements*



| (NOK 1 000) | Note | 31.12.12 | 31.12.11 (1) | 01.01.2011(1) |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | 21 | 1 096 876 | 755 913 | 753 418 |
| Other equity | 21,26 | 929 289 | 1 671 913 | 2 921 442 |
| **Total equity** | | **2 026 165** | **2 427 826** | **3 674 860** |
| **Non-current liabilities** | | | | |
| Deferred tax | 15 | 1 244 827 | 1 991 192 | 2 368 027 |
| Pension liabilities | 22 | 15 003 | 10 350 | 4 518 |
| Asset retirement obligations | 23 | 323 078 | 298 130 | 829 035 |
| Convertible bond loan | 24 | - | - | 205 951 |
| Bond loan | 20,24,27 | - | 2 317 825 | 2 658 582 |
| Other interest bearing debt | 20,24,27 | 242 729 | 292 803 | 943 612 |
| **Total non-current liabilities** | | **1 825 637** | **4 910 301** | **7 009 725** |
| **Current liabilities** | | | | |
| Liabilities/debt held for sale | | - | - | 231 539 |
| Other interest bearing debt (2) | 20,24 | 3 641 537 | 1 064 325 | 1 085 304 |
| Derivatives | 19,20 | 11 073 | - | - |
| Tax payable | 15 | 51 440 | 180 409 | 114 716 |
| Trade payables and other current liabilities | 20,25 | 376 134 | 281 063 | 496 867 |
| **Total current liabilities** | | **4 080 184** | **1 525 796** | **1 928 426** |
| **Total liabilities** | | **5 905 821** | **6 436 097** | **8 938 151** |
| **Total equity and liabilities** | | **7 931 987** | **8 863 923** | **12 613 011** |

**(1)** See disclosures regarding corrections of prior periods in note 5.

**(2)** The group's long term bond loans with agreed waiver are classified as current liabilites since the duration of the waiver does not exceed 12 months but only for the period the Group expects a need for such waiver. See further information in note 24 and 34.

*Stavanger, 19 March 2013*

| | | | | |
|---|---|---|---|---|
| **Ståle Kyllingstad**<br>Chairman | **Ole Melberg**<br>Deputy chairman | **Eimund Nygaard**<br>Boardmember | **Shona Grant**<br>Boardmember | **Mona Iren Kolnes**<br>Boardmember |
| **Hilde Drønen**<br>Boardmember | **Arnstein Wigestrand**<br>Boardmember | **Hilde Alexandersen**<br>Employee elected board representative | **Bård Arve Lærum**<br>Employee elected board representative | **Einar Gjelsvik**<br>CEO |

*Note 1 to 34 are an integral part of these consolidated financial statements*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

| (NOK 1 000) | Share capital | Share premium fund | Currency translation fund | Other equity | Total equity |
|---|---|---|---|---|---|
| Equity at 01.01.2011 | 753 418 | 2 492 503 | (23 062) | 452 001 | 3 674 860 |
| Net result for 2011 (1) | - | - | - | (1 441 726) | (1 441 726) |
| Comprehensive income(loss) for the period (net of tax) | | | | | |
| Currency translation adjustments | | | 160 790 | - | 160 790 |
| Cash flow hedge | | | - | 9 148 | 9 148 |
| **Total comprehensive income(loss) for the period** | | **-** | **160 790** | **(1 432 578)** | **(1 271 788)** |
| | | | | | |
| Transactions with owners | | | | | |
| Proceeds from share issued | 2 495 | 11 904 | - | - | 14 399 |
| Share-based incentive program | - | - | - | 10 355 | 10 355 |
| **Total transactions with owners for the period** | **2 495** | **11 904** | **-** | **10 355** | **24 754** |
| | | | | | |
| **Equity at 31.12.2011** | **755 913** | **2 504 407** | **137 728** | **(970 222)** | **2 427 826** |
| | | | | | |
| **Equity at 01.01.2012** | **755 913** | **2 504 407** | **137 728** | **(970 222)** | **2 427 826** |
| | | | | | |
| Net result for 2012 | - | - | - | (592 559) | (592 559) |
| | | | | | |
| **Comprehensive income(loss) for the period (net of tax)** | | | | | |
| Currency translation adjustments | | | (201 254) | - | (201 254) |
| Cash flow hedge | | | - | (10 733) | (10 733) |
| **Total comprehensive income(loss) for the period** | | **-** | **(201 254)** | **(603 293)** | **(804 547)** |
| | | | | | |
| **Transactions with owners** | | | | | |
| Proceeds from share issued | 340 963 | 65 926 | - | - | 406 889 |
| Issue cost | - | (17 627) | - | - | (17 627) |
| Share-based incentive program | - | - | - | 13 624 | 13 624 |
| **Total transactions with owners for the period** | **340 963** | **48 299** | **-** | **13 624** | **402 886** |
| | | | | | |
| **Equity at 31.12.2012** | **1 096 876** | **2 552 706** | **(63 525)** | **(1 559 891)** | **2 026 165** |

(1) See disclosures regarding corrections of prior periods i note 5. The corrections are incorporated in the figures for 2011 above.

*Note 1 to 34 are an integral part of these consolidated financial statements*

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| Net result for the year | | (592 559) | (1 441 726) |
| Income tax benefit | | (1 401 039) | (939 420) |
| *Adjustments to reconcile net income before tax to net cash flows provided by operating activities:* | | | |
| Tax paid | | (166 249) | (116 703) |
| Tax refunded | | 515 585 | 708 297 |
| Depreciation and writedowns | | 690 617 | 917 377 |
| Expensed exploration expenditures previously capitalised | 8,12 | 995 447 | 784 171 |
| Share-based payments | 26 | 13 624 | 10 355 |
| (Gain) / Loss on sale of licenses | 11 | (54 485) | 844 895 |
| Unrealized loss (gain) related to financial instruments | | 20 372 | (9 148) |
| Effect of changes in exchange rates | | 7 486 | 133 763 |
| Net financial items | 14 | 485 984 | 467 027 |
| Other items with no cash impact | | 75 200 | 5 832 |
| *Change in working capital* | | | |
| Changes in accounts receivable | 17 | 38 543 | 30 494 |
| Changes in trade payables | 25 | 3 447 | (60 433) |
| Changes in other current balance sheet items | | 276 252 | (40 513) |
| **Net cash flow from operations** | | **908 226** | **1 294 269** |

*Note 1 to 34 are an integral part of these consolidated financial statements*



| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Proceeds from sale of fixed assets | | - | 1 555 281 |
| Purchase of tangible assets | 13 | (486 359) | (947 800) |
| Purchase of intangible assets | 12 | (649 409) | (400 294) |
| **Net cash flow from investing activities** | | **(1 135 769)** | **207 187** |
| **Cash flows from financing activities** | | | |
| Issue of share capital | 21 | 406 889 | 14 399 |
| Paid issue cost | | (17 627) | - |
| Proceeds from issuance of long term debt | | 403 606 | 593 154 |
| Repayment of long term debt | | (264 992) | (937 045) |
| Proceeds from issuance of short term debt | | 1 186 634 | 429 666 |
| Repayment of short term debt | | (1 102 653) | (1 352 597) |
| Paid borrowing cost | | (61 616) | - |
| Interest paid | | (407 294) | (452 706) |
| **Net cash flow from (used in) financing activities** | | **142 947** | **(1 705 229)** |
| **Net change in cash and cash equivalents** | | **(84 595)** | **(203 774)** |
| Cash and cash equivalents at the beginning of the year | | 688 708 | 892 482 |
| **Cash and cash equivalents at end of the year** | | **604 113** | **688 708** |

**(1)** Figures in the cash flow statement for 2011 are adjusted in accordance with corrections of the accounting figures as described in note 5.

*Note 1 to 34 are an integral part of these consolidated financial statements*

8

16

32

Notes

# NOTES

# 1 General information

Norwegian Energy Company ASA (Noreco) is a public limited company registered in Norway, with headquarters in Stavanger (Verksgata 1A, 4003 Stavanger). The company has subsidiaries in Norway, Denmark and the United Kingdom. The company's objectives are exploration and production of crude oil and natural gas.

The company is listed on the Oslo Stock Exchange.

The consolidated financial statements for 2012 were approved by the Board of Directors on 19 March 2013.

# 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2.1 Basis of preparation

The consolidated financial statements of Norwegian Energy Company ASA (Noreco ASA) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS interpretation committee (IFRIC), as endorsed by the EU. For the consolidated financial statements, there are no differences between IFRS as determined by the EU and IASB.

The consolidated financial statements have been prepared under the historical cost convention. Deviations are mainly related to revaluation of available-for-sale financial assets (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

In accordance with the Norwegian Accounting Act, section 3-3a, the Board of Directors confirms that the consolidated financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of the financial statements. The financial solidity and the company's cash position are considered satisfactory in regards of the planned activity level.

The liquidity contribution related to the start-up of the production from Huntington and the tax refund will contribute significantly to future cash flow, and will thereby support going concern. Significant parts of the company's bonds are in accordance with IFRS regulations, classified as current liabilities, even if agreed maturity is later than 12 months after the balance sheet date, ref. note 24. The Board of Directors is of the opinion that the negotiated waivers, along with liquidity supply from operations and the tax refund will ensure that the company will be able to handle the debt repayment schedule for the next 12 months.

The Board of Directors is of the opinion that the consolidated financial statements give a true and fair view of the company's assets, debt, financial position and financial results. The Board of Directors is not aware of any factors that materially affect the assessment of the company's position as of 31 December 2012, besides what is disclosed in the Director's report and the financial statements.





### 2.1.1 Changes in accounting policies and disclosures

*a) New and amended standards adopted by the group*

No new or altered IFRSs or IFRIC interpretations had a significant impact on the company's annual financial statements for 2012.

*b) New standards and interpretations not yet adopted*

The group has not chosen early adoption of any new or altered IFRSs or IFRIC interpretations.

IAS1 'Financial statement presentation' is amended and requires items in 'other comprehensive income' to be grouped into; those that are later reclassified through profit or loss, and those that are not. The change does not impact which items that should be included in other comprehensive income. The change is effective from 1 January 2013.

IAS 19 'Employee benefits' was amended in June 2011. The amendment means that all estimate deviations are reported in 'other comprehensive income' as they occur (no corridor), an immediate recognition in the profit and loss account of all costs for previous years pensions earnings, and that interests costs and expected return on pension funds are replaced with at net interest amount, which is calculated by using the discount rate of net pension obligation (asset). The group has completed the impact assessment of the changes in IAS 19, and expects net pension obligation in the balance sheet to be reduced by approximately NOK 8 million by implementing the change of IAS19 in the consolidated financial statements for 2013.

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2012, and replaces the parts of IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value, and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 when the standard comes into force and has been approved by the EU. The standard comes into force for accounting periods beginning on or after 1 January 2015.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess all possible impact as a consequence of IFRS 10. The group intends to adopt IFRS 10 for the accounting period beginning on or after 1 January 2014.

IFRS 11 'Joint arrangements' removes the access to using the proportionate consolidation method, so that similar accounting is allowed in the cases where an investor has direct access to assets and liabilities. The group's assessment is that the ownership interests in licences treated as jointly controlled assets are affected by these changes. The preliminary assessment is that the current practice of proportional consolidation will be continued, but that the terms related to the way the accounts are treated is changed. The group intends to adopt the standard from 1 January 2014.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

IFRS 13, 'Fair value measurement', defines fair value when the term is used in IFRS, gives a general description of how fair value should be determined under IFRS, and defines which additional information needs to be given when fair value is used. The standard does not extend the scope of accounting to fair value, but gives guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group applies fair value as a measurement criteria for certain assets and liabilities. The group is yet to assess the full impact of IFRS 13, but intends to adopt the standard for the accounting period beginning on or after 1 January 2014.

There are no other IFRSs or IFRIC-interpretations that have not yet come in to force that are expected to have a significant impact on the consolidated financial statement.

## 2.2 Consolidation

***a) Subsidiaries***

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The group also assesses existence of control where it does not have more than 50 % of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where voting rights are spread amongst a large number of owners who are not realistically able to organise their votes. In assessing de-facto control, the fact that the group can elect the Board of Directors they want is given decisive weighting. As of 31 December 2012, all consolidated subsidiaries are 100 % controlled by the parent company, Norwegian Energy Company ASA.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.





Notes

***b) Disposal of subsidiaries***

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

***c) Interest in jointly controlled assets***

A jointly controlled asset is a contractual agreement between two or more parties regarding a financial activity under joint control. Noreco has ownership in licences that are not separate legal companies. All of these are related to licences on the Norwegian, Danish and UK continental shelf. The company recognises investments in jointly controlled assets (oil – and gas licences) by applying the proportionate consolidation method by accounting its share in the assets income, cost, assets, debt and cash flow in the respective posts in the company's financial statements.

## 2.3 Segment reporting

The groups segments were established on the basis of the most appropriate distribution of resource and result measurement. Segment reporting is regularly evaluated by the company management. In 2011 and 2012, Noreco had one reporting segment: Exploration and production. Geography is important for the group, and consequently, information about countries in which the company operates has been disclosed in the segment note. Information about reserves is given in a separate report.

## 2.4 Foreign currency translation

***a) Functional and presentation currency***

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the group's presentation currency.

***b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

***c) Group companies***

The results and financial position of all the group entities (none of which has the currency of a hyper- inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

**I)** assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

**II)** income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions

**III)** All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

## 2.5 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.

For property, plant and equipment where obligations for decommissioning- and dismantling are recognised as a liability, this value will be added to acquisition cost on belonging operation factors. 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.

Fair value on a collated asset is divided into different parts which are amortised separately if the financial lifetime of the separate units is unique.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such at platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of-production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitute the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This gives a more correct matching of expenses and revenue than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:
- Office machines and fixtures: 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.





### 2.5.1 Property, plant and equipment available for sale

Property, plant and equipment are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## 2.6 Intangible assets

***a.) Goodwill***
Goodwill arises on the acquisition of business and represents the excess of the consideration transferred over Noreco's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Subsequently, goodwill is measured at historical cost with deduction for accumulated write-downs. Goodwill is not amortised.

Goodwill impairment tests are performed annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill is allocated for each business combination to cash generating units on the level management monitor the specific investment.

In connection with divestment of assets, gain or loss is calculated by settling all carrying balances related to the realised asset, and compares this with the agreed consideration adjusted for any pro/contra settlement.

In cases where the sold asset form a part of a cash generating unit which goodwill is allocated to, goodwill is allocated to the sold asset based on the relative share of fair value which forms part of the specific cash generating unit for goodwill. This method is used unless the company can demonstrate that another method better reflects the goodwill related with the sold asset.

***b.) Licences and balanced exploration cost***
Exploration costs are accounted for in accordance with the successful effort method. This means that all exploration costs including pre-operating costs (seismic acquisitions, seismic studies, internal man hours, etc.) are expensed as incurred. Exceptions are costs related to acquisition of licenses and drilling of exploration wells. Exploratory wells are accounted for as follows:

- Costs of exploratory wells which result in proven reserves remain capitalised, but reclassified to production facilities when the development plan is approved and initiated.

- Costs of dry exploratory wells and wells where proven reserves were not found are expensed in the income statement when sufficient information to complete the assessment has been gathered.

- Cost of exploratory wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proved reserves are determined and any development begins, the following two conditions must be met:
    - The well has found a sufficient quantity of reserves to justify its completion as a producing well, if appropriate, assuming that the required capital expenditures are made;
    - The Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as:

- whether additional exploratory works are under way or firmly planned, and/or there is nearby exploration activity which is expected to contribute to development of the Group's discoveries (wells, seismic or significant studies),
- whether costs are being incurred for development studies,
- whether the Group is waiting for governmental or other third-party authorization of a proposed project,
- whether the Group is waiting for availability of capacity on an existing transport or processing facility to be able to produce the existing discovery, and
- Whether there is a common understanding among the partners to wait with further progress for a specific discovery until an on-going development project is on-stream.

Costs of exploratory wells not meeting these conditions are charged to expense, on the line item for exploration expenses.

When acquiring shares in exploration licences ("farm-in" agreements) where the agreement is to cover a share of the sellers ("farmor") cost, these expenses are charged in the same manner as own exploration expenses in the income statement.

For similar sales of assets in exploration licences (farm-out agreements), the Group will normally surrender parts of a licence given that the buyer ("farmee") carries some defined cost.

The seller does not recognise any gain/loss but treats the cost as a cost reduction as cost occurs.

In those cases where the carry period starts before the accounting date of the agreement, a profit/loss calculation may be necessary.

Unitisation that occurs when licences or parts of licences are merged normally does not require any accounting. If the new distribution of interest shares constitutes any cash payment, or the company receives cash, such compensation will be adjusted towards the recognised asset. If there is a subsequent redetermination, such event will normally not require any accounting, as long as cash settlement is not necessary to settle the new distribution.

If the field where unitisation or redetermination occurs is in the production phase, the accounts will be corrected for items in the income statement that are altered in connection with the determination of the new ownership structure.

## 2.7 Impairment of non-financial assets

***a) Unit of account***
Noreco applies each prospect, discovery, or field as unit of account for allocation of profit or loss and balance sheet items.

When performing impairment testing of Licence and capitalised exploration expenses and Production facilities, each prospect, discovery, or field is tested separately as long as they are not defined to be part of a larger cash generating unit.

To be able to group exploration and evaluation assets into one cash generating unit, they should normally be planned to be part of a joint development, or it is planned and likely that a new discovery can be tied back to another of the Group's fields.





Developed fields producing from the same offshore installation are treated as one joint cash generating unit. The size of a cash generating unit can not be larger than an operational segment.
Goodwill is tested for impairment at the same level in which the goodwill is allocated. Noreco's goodwill, which has its background from the acquisition of Altinex ASA in 2007 is allocated to the following cash generating units: Norway, Denmark, and United Kingdom (UK). Only assets and business which were a part of the acquisition are included in these cash generating units.

***b) Impairment testing***
Intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.8 Financial instruments

### 2.8.1 Classification

The Group classifies financial assets in the following categories: Financial assets at fair value through profit or loss and Loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of its financial assets at initial recognition.

***a) Financial assets at fair value through profit or loss***
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non- current.

***b) Loans and receivables***
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.11 and 2.12).

### 2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains ' in the period in which they arise.

## 2.9 Impairment of financial assets

***Assets carried at amortised cost***
The group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the

debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## 2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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 as either:

a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction the group documents 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 on-going 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 group currently has no derivatives designated for fair value hedging.

The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in other comprehensive income are shown in note 19. Fair value of a hedging derivative is classified as current asset or liability, as long as there is not a material part of the value that relates to a hedge item which mature later then 12 months. Trading derivatives are classified as a current asset or liability.

***Cash flow hedge***
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Other gains/(losses) '.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance expenses'. Gain or loss related to the ineffective part is recognised as "Other gains (/losses)".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses)'.

## 2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

## 2.13 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.

For the accounts, the items are treated as financial instruments at fair value through profit or loss.

## 2.14 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.

## 2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are measured at fair value at first time recognition. Subsequent measurements are considered trade payables at amortised cost when using effective interest rate.

## 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as non-current if agreed maturity is more than 12 months from the balance sheet date. If the Group is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12 months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date. If the breach which results in any reclassification is related to a loan with cross-default terms in the loan agreement, all loans with the same cross-default terms are reclassified.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.



Notes

## 2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they incur.

## 2.18 Compound financial instruments

Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except items related to business combination, or items recognised in other comprehensive income.

Income tax expenses consists of the expected payable tax or owed tax for the expenses for the period are calculated based on the expected payable tax applicable to the expected total annual earnings, changes in deferred tax and corrections for changes from 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 accounting purposes and tax 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. 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. In accordance with the Norwegian Petroleum Taxation Act, sale of oil is taxed according to norm price. In the consolidated financial statements, the difference between norm price and actual obtained price are treated as a permanent difference. Losses carry forward to be presented are calculated with a fixed interest rate per year. For 2012, this interest rate is 1.5 percent.

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. Net finance costs onshore can be transferred to the continental shelf (28 percent), ref. the Norwegian Petroleum Taxation Act §3d.

The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of deficiencies that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses in group companies that undertake exploration activity on the Norwegian continental shelf, the company applies for a refund of the tax amount for such a deficiency. The receivable that then occurs is recognised as short term receivable for the current assets, under the post “Owed tax”. If a business liable for special tax is discontinued, and a loss has not been covered, the company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Axt §3c. The tax refund will be determined by the authorities, and made payable at the end of the year following the year of discontinuance of petroleum activity in the parent company.

In the UK, oil and gas companies are subject to a company tax of 30 percent, in addition to a 32 percent special tax related to exploration – and production activities on the UK Continental Shelf. Investmenst can be deducted 100 percent the year the investment is made. Loss can be utilised indefinitely, and the losses give an annual markup of 10 percent (6 pervent prior to 2012), for up to six years. Finance cost is deducted in the company tax, not the special tax.

In Denmark the maximum marginal tax rate for oil and gas companies is 70 percent, whereof 25 percent is related to ordinary company tax. At the current oil price level the Danish subsidiaries will not be in a position where they have to pay the extra petroleum tax. The current tax rate for the Danish companies is 25 percent. Danish authorities are currently evaluating the tax system, and changes have been suggested but have currently not been concluded in Folketinget. Norecos preliminary assessment is that the suggested changes will not have a significant negative impact on the Group accounts if the suggested changes are approved.





## 2.20 Pensions

The group has both defined benefit and defined contribution plans valid up to 12 G. The pension arrangement is financed through payments to an insurance company.

Employees in the Norwegian section of the Group have a collective (secured) pension arrangement. The arrangement is defined as a benefit plan. In Denmark, the Group has a contribution plan.

***a) Defined contribution plan***
With a defined contribution plan the company pays contributions to an insurance company. After the contribution has been made the company has no further commitment to pay. The contribution is recognised as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

***b) Defined benefit plan***
A defined benefit plan is a pension scheme which is not a defined contribution plan. A defined benefit plan is a pension scheme which defines a pension payment which an employee will receive at pension age. The pension payments are normally dependent on one or more factors such as age, number of years in the company, and salary. The commitment relating to the defined benefit plan on the balance sheet is the present value of the defined benefits at the balance sheet date less fair value of the pension funds (amount paid to an insurance company), adjusted for estimate differences and expenses relating to former period’s
pension earnings not recognised in the income statement. The pension commitments are calculated annually by an independent actuary on a straight-line earning profile basis.

The discount rate is based on the yield bonds with priority (OMF) on the balance sheet date which have maturity dates that coincide with the Group’s pension obligations.

## 2.21 Share-based payments

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

Fair value:
- including any market performance conditions
- excludes the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied).

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

## 2.22 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) arising from a past event, and it is probable (more likely 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.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.22.1 Asset retirement obligations

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations 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.

## 2.23 Contingent liabilities and assets

Contingent liabilities are defined as:

- possible obligations that arise from past events, whose existence depends on uncertain future events.
- present obligations 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.





## 2.24 Revenue recognition

Revenue from the production of oil, gas and NGL (hydrocarbons) is recognised depending on the Group's share of production in the separate licences the Group is part of, independently of whether the production has been sold (the transfer of rights method). Over/under lifting of hydrocarbons as a consequence of the transfer of rights method is valued to estimated sale valued minus estimated sales costs on the reporting date. Over/under lifting occurs when the Group has lifted and sold more- or less hydrocarbons from a producing field than what the group is entitled to at the lift time. See note 2.13 for description of accounting

## 2.25 Production cost

Production cost is costs that are directly attached to production of hydrocarbons, e.g. cost for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing cost, environmental fees, transport cost etc.

## 2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

## 2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2.28 Consolidated statement of cash flow

The consolidated statement of cash flow is prepared according to the indirect method. Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition.

## 2.29 Subsequent events

***a.) Generally about subsequent events***
Events that take place between the end of the reporting period and the issuing of the quarterly or annual accounts, will be considered if the event is of such a nature that it gives new information about items that were present on the balance sheet date.

***b.) Treatment of information about dry/non-commercial wells after the end of the reporting period***
Noreco expenses recognised drilling costs attached to a prospect if it becomes evident in the period after the reporting period and leading up to the publication of the quarterly or annual report, that the on-going drilling has not identified a commercial discovery.

The same principle applies if new information clarifies the commercial assessment attached to a previously drilled prospect, where the commercial assessment was not completed at the completion of the drilling operation.

## 2.30 Correction of previous periods accounting figures

If significant errors are revealed in previous quarterly or annual accounts, such errors will be corrected according to the regulations of IAS 8, where historical figures are corrected retrospectively, and incorporated in comparative figures and the opening balance. See note 5 for corrections performed in 2012.

## 2.31 Changes to accounting policies

***a) Value changes to financial instruments or operating posts***
Value changes related to put options related to oil price hedging have previously been presented as an adjustment of the revenue. This practice is changed in 2012. The new policy means that the mark to market adjustment is included in the line item for 'Other (losses) gains', also included in the operating results.

***b) Gains and losses for divestments and farm-out of licences***
Gains and losses for divestments or farm-out transactions have previously been presented as "Other income", and included in "Total revenues". Noreco changes the presentation policy where both gains and losses for divestments or farm-out transactions are presented on the line item for "Other (losses) gains".





# 3 Financial risk factors

## 3.1 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 and bonds to finance its operations and any investments in new

businesses. In connection with the day to day business financial instruments such as bank deposits, trade receivables and payables, and other short term liabilities which arise directly from its operations is utilised. 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**

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 and operations with subsequent investments and production. The group will simultaneously assess each licence in order to optimise the value for the group either through divestment or continued participation in the licence. The group also works actively in order to manage its cash flows to fit the groups' loan maturities.

The company's liquidity situation at the beginning of 2013 was satisfactory, but among others dependant on the planned start-up of fields under development not being significantly delayed, existing production volumes remaining stabile, and that no significant deviations from existing prognosis occur. During 2013, the company will continue investing in exploration wells, but expects that start-up of the production from the Huntington field in the UK, including the payment of the tax value of offshore losses carry forward for Norwegian Energy Company AS in December 2013 will enable repayment of a significant part of the company's outstanding debt maturing at the end of 2013.

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. Should some of these assumptions turn out as projected, the company may need to seek additional financing through issuing new debt or equity, renegotiation of existing debt facilities or sales of assets.

The company targets to reduce financing costs over time, and will at any given time work towards a more optimal debt structure.

The Group has sufficient financing flexibility through several borrowing facilities. This, along with available liquidity, good cash flow from operations and active portfolio management ensures that the Group has secured finances for operations and further investments. See note 30 Operational leases, note 18 Bank deposits, cash and cash equivalents, and note 24 Borrowings.

**Foreign exchange risk**

The Group is composed of businesses with various functional currencies in USD, GBP and NOK. The Group is exposed to foreign exchange risk for series of payments in other currencies than the functional currency, mainly related to the ratio between NOK and USD, DKK and USD, and GBP and NOK. The Group's policy is to hedge significant items in currencies other than its functional currency against exchange rate fluctuations. This entails that vital cash flow such as tax is hedged using forward exchange contracts. In addition, income in other currency is continuously converted to functional currency. There were no outstanding foreign currency derivatives at year end. See Note 17 Trade receivables and other receivables, Note 18 Bank deposits, cash and cash equivalents, Note 19 Financial instruments, Note 24 Interest bearing debt and Note 25 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 83 million. Net result for the period would have changed with NOK 54 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 19 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 3 974 million in interest-bearing debt (nominal value), of which NOK 1 862 million is short-term debt. Of the Group's debt NOK 1 862 million are loans with a fixed interest rate. The remaining, NOK 2 129 million, are loans with a floating interest rate. Noreco has also secured a fixed interest rate for the bond loans with a floating interest rate, see specification regarding these interest swap agreements in note 19 Financial instruments.

All bank deposits (NOK 604 million) are at floating interest rates. For further information about the Group's interest-bearing debt, see Note 24.

The Group considers that through interest rate swap agreements and fixed interest loans, the risk exposure to changes in market interest are at an acceptable level.

**Credit risk**

The Groups most significant 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 17 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.

## 3.2 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. See definition and further information regarding these key figures in Note 24.

# 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 4.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

***a) Estimated impairment of goodwill***
The group annually tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 12). An impairment charge of NOK 118 million arose during the course of the 2012 year, distributed with NOK 83 million for the cash generating unit in the UK, and NOK 35 million for Norway. This resulted in the carrying amount for these countries being written down to its recoverable amount.

If the estimated oil price per 31 December 2012 was reduced by 5 percent, for instance from USD 108 per barrel to USD 103 per barrel, this would cause a further impairment of goodwill of NOK 120 million. If the applied discount rate after tax for these cash generating units in addition were increased by 1 percent (from nine to ten percent), this would cause a further impairment of goodwill of NOK 19 million.

***b) Estimated recoverable amount on intangible assets***
The Groups budgeted intangible assets with an indefinite lifespan will be subject to annual impairment testing. This applies to goodwill. The Groups activities are largely affected by changes in hydrocarbon prices and changes in currency rates for USD. A decline in oil price will affect the Groups cash flow significantly. Expectations for future oil price is also an important factor when assessments are made regarding whether discoveries are financially viable. Further, the oil price also affects the company's exploration acitivity.

***c) Estimated recoverable amount on property, plant and equipment***
The group performs annual impairment testing on property, plant and equipment, ref. note 2.7. Recoverable amount from cash generating units are determined through calculations of use value. These are calculations that require use of estimates (Note 13). There was a loss on impairment during 2012 of NOK 303 million

kroner. This caused the recognised value of certain assets being written down to recoverable amount. If the estimated oil price per 31 December 2012 was reduced by 5 percent, for instance from USD 108 per barrel to USD 103 per barrel, this would cause a further impairment of goodwill on property, plant and equipment of NOK 36 million. If the applied discount rate after tax for these cash generating units was increased by one percent (from nine to ten percent) this would cause a further impairment of goodwill of NOK 36 million after tax.

***d) Amortisation and depreciation***
Proven and probable reserves are used to calculate production volumes related to depreciation. Reserve estimates are also used for depreciation testing of licence related assets. Changes to reserve estimates can for instance be caused by price- and cost changes. Changes in production profile can occur as a result of new information about the reservoir. Future changes in proven and probable oil- and gas reserves can have a significant impact on amortisation, timing of decommissioning, including depreciation testing of licence related assets. This can have a significant negative or positive impact on the operating result, as a consequence of increased or reduced amortisation, or reversation of previously undertaken depreciation.

***e) Estimated value of financial assets***
For every reporting date, an assessment is made on whether objective proof is present that financial assets or groups of financial assets are impaired. The Group, among others, has an insurance claim where the expected settlement is estimated in connection with the impairment test in accordance to IAS 39.

***f) Income tax***
All figures reported in the income statement and balance sheet are based on Norecos tax calculations, and should be regarded as estimates until the tax for the year has been settled. Norwegian tax authorities can be of a different opinion than the company with regards to what constitutes exploration cost and continental shelf deficiency in accordance with the Petroleum Taxation Act. See also Note 15.

***g) Pension benefits***
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 22.

***h) Decommissioning obligation***
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.





## 4.2 Critical judgements in applying the entity's accounting policies

***a) Assessment of progress and possible development alternatives for the company's non-developed assets.***
When performing impairment tests of intangible assets, progress is assessed in accordance with the policy stated in Note 2.6. This determination requires judgement. The Companys intention and plans are stated as basis, so far as there is no information indicating that the majority of partners in the licences will not be able to support Noreco's intentions and plans.

***b) Impairment testing of financial assets (short-term obligations)***
The group follows the guidance of IAS 39 to determine impairment of obligations recognised in accordance with amortised cost. This determination requires significant judgement. The group has an obligation that is expected to be covered by the company's insurance policy, and the judgement used as basis for the company's impairment test for depreciation include a number of technical and legally complex conditions. See Note 17 for further information.

**c) Method for valuation of intangible assets**
In relation to impairment testing of intangible assets, different valuation methods adjusted to the available information available for the different assets are used. A significant degree of judgement is used to determine the appropriate method, which is dependant on maturity, geographical location, available budgets, taxation regulations etc. Changes in methods will in certain cases have a significant impact on the valuation used as basis for the company's recorded values.

***d) Resource and reserve estimates***
Estimates of oil- and gas reserves are prepared by internal experts in line with industry standards. The estimates are based both on Norecos own judgement assessments and information from the operators. In addition, the most significant volumes are verified by an independent third party. Proven and probable oil- and gas reserves include the estimated amounts of crude oil, natural gas and condensates that geological and technical data reasonably determine to be extractable from known reservoirs and under existing financial and operational conditions per the date the estimate is prepared.

# 5 Corrections of prior years accounts, reclassifications and change of presentation principles

**I. Correction of previous years accounting figures**
As described in a press release dated 25 January 2013, Noreco has during the second half of 2012 been in discussions with the Norwegian Financial Supervisory Authority regarding Noreco's financial statement for 2011. This has also previously been disclosed in press releases. After a renewed evaluation, Noreco has decided to implement the following corrections to its previously reported accounting figures for 2011:

**I.I.Change of calculation of goodwill allocated to sold assets**
IAS 36.86 set forth a principal method for allocation of goodwill in connection with sale of individual assets grouped in a common cash generating unit. Equated with the principal method, an alternative method can be applied if it can be demonstrated that such method is better. Noreco applied an alternative approach as basis for the annual financial statements for 2011, as it was considered to be better method. However, after a

reassessment Noreco has now choosen to apply the principal method. This impact the gain and loss calculation in connection with the sold fields in 2011 negatively with NOK 216 million. Book value of goodwill as of 31 December 2011 is reduced accordingly.

**I.II. New calculation of value in use in connection with impairment test of suspended wells**
Noreco has reassessed the assumptions for the value in use calculation for the license 7/86 Amalie in Denmark and license PL018DS Flyndre Chalk in Norway. In accordance with this new assessment it has been considered necessary to adjust some of these assumptions. The impact of change in such assumptions is a total impairment loss of NOK 535 million related to surplus values in Norway and Denmark which relates to the acquisition of Altinex in 2007. The impairment loss is reported on the line item for exploration expenses in the income statement. The total effect on result after tax amounts to NOK 348 million.

Assumptions applied for the valuation utilized in the 2011 accounts was based on Noreco's own assumptions derived from Noreco's understanding of the geology and other internal and external documented work for assessment of technical assumptions. In some areas these assumptions differed from the latest applied assumptions by the partners in the license (e.g in place volumes and recovery factor), and the new calculation of recoverable amount place greater emphasis on recent information from other partners.

**I.III. Changed presentation of divested fields**
In preparing the financial statements for 2011 it was considered that a number of the divested assets should be treated as discontinued operations in accordance with IFRS 5. As such, operations related to these assets were presented as discontinued operations. After a new assessment it has been concluded that these assets did not qualify for such treatment. This issue do not impact the result or figures in the statement of financial positions, but only change the presentation of the consolidated statement of comprehensive income and some key figures.

**I.IV. Correction of timing of dry /non-commercial well expenses**
In accordance with Noreco's accounting principles capitalized drilling cost related to wells which are identified as non-commercial after the reporting period are expensed through the income statement. This was the case with Eik in the Q1 2012 report and similar with Albert in the Q3 report for 2012. In connection with the preparation of the financial statements for 2011 the capitalized drilling cost related to Luna and Kalvklumpen was not expensed, as these cost was considered not to be material, and the wells was identified as dry after the release of the fourth quarter report. Information regarding these wells was in stead stated in the notes to the annual accounts. As such the net result for 2011 was 25 million too high. The figures for 2011 are now adjusted for this effect.

**I.V. Reclassification of assets under construction in the statement of financial positions**
In the annual financial statements for 2011 the carrying amount for Huntington ware classified as Licenses and capitalised exploration cost. Portions of this balance should however have been reclassified to Property, plant and equipment, as Huntington Forties is an assets under construction. According to Noreco's accounting policies and IFRS 6 the reclassification should have been executed by the end of 2010 when the plan for development and operations (PDO) for Huntington Forties was approved by The British authorities. In the restated opening balance for 2011 this reclassification is corrected. The reclassification amounts to NOK 1 687 million as of 1 January 2011.

**I.VI. Accounting principles**
Noreco has preformed an assessment of the description of the Group's accounting principles, and improved and increased the descriptions where it was considered necessary and appropriate.



Notes

**Summary of corrections**
Below the implications of the corrections on the group's equity is summarised as of 31.12.2011.

| **Corrections (all amount in NOK million):** | **2011** |
|---|---|
| Increased (pre tax) loss in connection with sale of assets | (216) |
| Impairment of suspended wells | (348) |
| Correction of timing of dry well expense | (25) |
| **Total reduction in reported equity** | **588** |

Spesifications of corrections of consolidated statement of financial positions as of 01.01.2011 and corrections of statement of comprehensive income and consolidated statemetn of financial positions for the period from 01.01.2011 through 31.12.2011 are prepared and is stated in note 5.1 and 5.2. Accounts for the applicable quarters are also corrected, se further information regarding corrected quarterly financial statements in the report for the fourth quarter 2012.

The changes of presentation principles regarding change in fair value of financial instruments, and gains and losses in connection with sale of assets and farm-out transaction, as descibed in note 2, are incorporated in the revised accounts.

## 5.1 Corrections regarding the consolidated statement of financial position 01.01.2011

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| (NOK 1 000) | 2010 figures reported in Annual report for 2011 | Note | Corrections | Revised opening balance 2011 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| License and capitalised exploration expenses | 3 976 834 | I.) | (1 686 703) | 2 290 131 |
| Goodwill | 1 492 598 | | | 1 492 598 |
| Deferred tax assets | 594 800 | | | 594 800 |
| Property, plant and equipment | 3 546 878 | I.) | 1 686 703 | 5 233 580 |
| **Total non-current assets** | **9 611 110** | | | **9 611 110** |
| **Current assets** | | | | |
| Assets held for sale | 590 389 | | | 590 389 |
| Tax refund | 730 891 | | | 730 891 |
| Financial instruments | 8 831 | | | 8 831 |
| Trade receivables and other current assets | 779 308 | | | 779 308 |
| Bank deposits, cash and cash equivalents | 892 482 | | | 892 482 |
| **Total current assets** | **3 001 901** | | | **3 001 901** |
| **Total assets** | **12 613 011** | | | **12 613 011** |
| **Equity** | | | | |
| Share capital | 753 418 | | | 753 418 |
| Other equity | 2 921 442 | | | 2 921 442 |
| **Total equity** | **3 674 860** | | | **3 674 860** |
| **Non-current liabilities** | | | | |
| Deferred tax | 2 368 027 | | | 2 368 027 |
| Pension liabilities | 4 518 | | | 4 518 |
| Asset retirement obligations | 829 035 | | | 829 035 |
| Convertible bond loan | 205 951 | | | 205 951 |
| Bond loan | 2 658 582 | | | 2 658 582 |
| Other interest bearing debt | 943 612 | | | 943 612 |
| **Total non-current liabilities** | **7 009 725** | | | **7 009 725** |
| **Current liabilities** | | | | |
| Liabilities/debt held for sale | 231 539 | | | 231 539 |
| Other interest bearing debt | 1 085 304 | | | 1 085 304 |
| Tax payable | 114 716 | | | 114 716 |
| Trade payables and other current liabilities | 496 867 | | | 496 867 |
| **Total current liabilities** | **1 928 426** | | | **1 928 426** |
| **Total liabilities** | **8 938 151** | | | **8 938 151** |
| **Total equity and liabilities** | **12 613 011** | | | **12 613 011** |

I.) Reclassification in the opening balance relates to Huntington Forties ref. description in note 5 I.V.





## 5.2 Corrections and reclassifications of consolidated statement of comprehensive income and statement of financial positions for 2011

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| (NOK 1 000) | Reported 2011 in Annual report for 2011 | Note | Corrections | Revised 2011 |
|---|---|---|---|---|
| **Continued operation** | | | | |
| Revenue | 829 438 | I.),V.) | 786 571 | 1 616 010 |
| Other revenue | 1 590 | V.) | (1 590) | |
| **Total revenues** | **831 028** | | | **1 616 010** |
| Production expenses | (271 434) | I.) | (180 123) | (451 557) |
| Exploration and evaluation expenses | (408 199) | I.),II.),IV.) | (592 463) | (1 000 662) |
| Payroll expenses | (163 396) | | 0 | (163 396) |
| Other operating expenses | (133 258) | I.) | (702) | (133 960) |
| Other (losses)/ gains | - | I.),III.),V.) | (863 177) | (863 177) |
| **Total operating expenses** | **(976 287)** | | | **(2 612 752)** |
| **Operating results before depreciation and amortisation (EBITDA)** | **(145 258)** | | | **(996 742)** |
| Depreciation | (241 817) | I.) | (145 970) | (387 787) |
| Write-downs | (263 539) | I.) | (293 051) | (529 590) |
| **Net operating result (EBIT)** | **(623 614)** | | | **(1 914 119)** |
| Financial income | 131 280 | I.) | 1 477 | 132 758 |
| Financial expenses | (569 476) | I.) | (30 308) | (599 785) |
| **Net financial items** | **(438 196)** | | | **(467 027)** |
| **Ordinary result before tax (EBT)** | **(1 061 810)** | | | **(2 381 147)** |
| Income tax benefit | 194 109 | I.),II.),IV.) | 745 311 | 939 420 |
| **Net result (continued operation)** | **(867 701)** | | | **(1 441 726)** |
| **Discontinued operation** | | | | |
| Profit (loss) from discontinued operation (net of income tax) | 8 607 | I.) | (8 607) | - |
| **Net result for the period** | **(859 094)** | | | **(1 441 726)** |
| **Other comprehensive income (net of tax):** | | | | |
| Cash flow hedge | 9 148 | | | 9 148 |
| Currency translation adjustment | 165 737 | VI.) | (4 947) | 160 790 |
| **Total other comprehensive net result for the period** | **174 886** | | | **169 938** |
| **Total comprehensive net result for the period** | **(684 208)** | | | **(1 271 788)** |
| Earnings per share (NOK 1) | | | | |
| Basic | (3.52) | | | (5.91) |
| Diluted | (3.38) | | | (5.91) |
| Earnings per share (NOK 1) - continued operations | | | | |
| Basic | (3.56) | | | N/A |
| Diluted | (3.41) | | | N/A |

**I.)** Portions or the entire correction on these line items are related to the changed presentation of discontinued operations ref. description in note 5.I.III. This is a gross presentation of the profit or loss item in which was presented in note 16 to the annual financial statements for 2011. In addition the tax effects related to the divestments are reclassified from the line items for Gain/loss in note 16 to line items for Income tax benefit.

**II.)** Corrections on line item for Explorations expenses relates to the impairment charge of Amalie and Flyndre Chalk ref. description in note 5.I.II.

**III.)** Corrections on line item for "Other (losses) / gains" include new loss calculations where goodwill are allocated in accordance with the principal method stated in IAS 36

Gains- and loss calculations for sold licenses impact the 2011 figures as follows:

| | |
|---|---|
| Gain/loss related with the sale of Brage | NOK -97 million |
| Gain/loss related with the sale of Syd Arne | NOK -89 million |
| Gain/loss related with the sale of Siri | NOK -12 million |
| Gain/loss related with the sale of Flyndre Paleocene | NOK -18 million |
| Total reduced goodwill related to the corrections | NOK -216 million |

**IV.)** Exploration expenses is increased with NOK 39 million due to changed timing of expensing the dry wells Luna and Kalvklumpen ref. note 5.I.IV

**V.)** Gains in connections with farm-out transactions, and cost related to change in fair value of put options are changed, and is now presented as "Other (losses) / gains" ref. note 5.II.I. and 5.II.II.

**VI.)** Corrections described above are all refered to by the amounts applicable as of 31 December 2011. Some of these items are corrected in Q2 and Q3 2011, as such other currency rates are apllied in the income satement then the closing rate. Based on this the currency translation adjustment for the year 2011 is corrected accordinly.



Notes

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| (NOK 1 000) | Reported 2011 in Annual report for 2011 | Note | Corrections | Revised 31.12.2011 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| License and capitalised exploration expenses | 3 536 162 | I.),II.),IV) | (2 286 323) | 1 249 839 |
| Goodwill | 871 994 | III.) | (215 599) | 656 395 |
| Deferred tax assets | 605 596 | - | | 605 596 |
| Property, plant and equipment | 2 582 545 | I.) | 1 714 243 | 4 296 788 |
| **Total non-current assets** | **7 596 297** | | | **6 808 619** |
| **Current assets** | | | | |
| Tax refund | 506 056 | | | 506 056 |
| Financial instruments | 26 755 | | | 26 754 |
| Trade receivables and other current assets | 833 786 | | | 833 786 |
| Bank deposits, cash and cash equivalents | 688 708 | | | 688 708 |
| **Total current assets** | **2 055 305** | | | **2 055 305** |
| **Total assets** | **9 651 601** | | | **8 863 923** |
| **Equity** | | | | |
| Share capital | 755 913 | | | 755 913 |
| Other equity | 2 259 493 | II.),III.),IV.) | (587 581) | 1 671 913 |
| **Total equity** | **3 015 407** | | | **2 427 826** |
| **Non-current liabilities** | | | | |
| Deferred tax | 2 191 290 | II.),IV.) | (200 098) | 1 991 192 |
| Pension liabilities | 10 350 | | | 10 350 |
| Asset retirement obligations | 298 130 | | | 298 130 |
| Bond loan | 2 317 825 | | | 2 317 825 |
| Other interest bearing debt | 292 803 | | | 292 803 |
| **Total non-current liabilities** | **5 110 399** | | | **4 910 301** |
| **Current liabilities** | | | | |
| Other interest bearing debt | 1 064 325 | | | 1 064 325 |
| Tax payable | 180 409 | | | 180 409 |
| Trade payables and other current liabilities | 281 063 | | | 281 063 |
| **Total current liabilities** | **1 525 796** | | | **1 525 796** |
| **Total liabilities** | **6 636 195** | | | **6 436 097** |
| **Total equity and liabilities** | **9 651 601** | | | **8 863 923** |

**I.)** Reclassification between the line items Licenses and capitalised exploration expenses and Property, plant and equipment relates to Huntington Forties ref. description in note 5 I.V. The USD amount is equal as of 1 January 2011 but the NOK amount is changed in accordance with change in the currency rate.

**II.)** Licence and capitalised exploration expenses are corrected with NOK 535 million ref. description in note 5.I.II. Deferred tax is at the same time reduced with NOK 186 million, and equity is reduced with NOK 348 million.

**III.)** Correction of goodwill relates to the allocation of goodwill to divested assets grouped into cash generating units this goodwill is allocated to ref. description in note 5.I.I. The equity is reduced with the same amount, NOK 26 million.

**IV.)** License and capitalised exploration expenses is corrected with NOK 39 million ref. description of dry wells subsequent to the reporting period ref. note 5.I.IV. Deferred tax is at the same time reduced with NOK 14 million, and the equity is reduced with NOK 25 million.

# 6 Segment information

The Group's activities are entirely related to exploration and development of oil, gas and NGL. 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.

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.

Noreco has activities in Norway, Denmark and UK.

| **GEOGRAPHICAL INFORMATION 2012 (NOK 1 000)** | **Norway** | **Denmark** | **UK** | **Other/ elimination** | **Group** |
|---|---|---|---|---|---|
| Revenue | 116 371 | 715 397 | - | - | 831 768 |
| Net operating result | (1 292 261) | 80 287 | (295 640) | - | (1 507 614) |
| Net financial items | | - | | | (485 984) |
| Result before tax | | | | | (1 993 598) |
| Income tax benefit | | | | | 1 401 039 |
| Net result for the year | | | | | (592 559) |
| Non-current assets | 891 785 | 1 391 356 | 3 134 282 | - | 5 417 423 |
| Current assets | 2 251 382 | 1 542 052 | 429 883 | (1 708 753) | 2 514 564 |
| Liabilities | 3 743 124 | 1 594 119 | 2 277 331 | (1 708 753) | 5 905 821 |
| Capital expenditures production facilities | 111 172 | 20 205 | - | - | 131 377 |
| Capital expenditures asset under construction | 100 604 | - | 254 379 | - | 354 983 |
| Capital expenditures exploration and evaluations | 524 326 | 65 686 | 59 399 | - | 649 409 |
| Depreciations | (40 254) | (229 101) | - | - | (269 355) |
| Write-downs | (338 339) | | (82 923) | | (421 262) |

| **GEOGRAPHICAL INFORMATION 2011 (NOK 1 000)** | | | | | |
|---|---|---|---|---|---|
| Revenue | 279 874 | 1 336 135 | - | - | 1 616 010 |
| Net operating result | (1 377 288) | (263 155) | (269 077) | (4 600) | (1 914 119) |
| Net financial items | | | | | (467 027) |
| Result before tax | | | | | (2 381 147) |
| Income tax benefit | | | | | 939 420 |
| Net result for the year | | | | | (1 441 726) |
| Non-current assets | 1 631 005 | 1 785 590 | 3 392 023 | | 6 808 619 |
| Current assets | 2 390 294 | 1 441 158 | 80 161 | (1 856 309) | 2 055 305 |
| Liabilities | 4 320 716 | 1 494 455 | 2 472 647 | (1 851 721) | 6 436 097 |
| Capital expenditures production facilities | 32 910 | 232 461 | (2 231) | - | 263 140 |
| Capital expenditures asset under construction | 394 540 | (2 675) | 292 795 | - | 684 660 |
| Capital expenditures exploration and evaluations | 360 442 | 28 191 | 11 661 | - | 400 294 |
| Depreciations | (62 986) | (324 801) | - | - | (387 787) |
| Write-downs | (20 000) | (293 051) | (216 539) | - | (529 590) |





# 7 Revenue

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Sale of oil | 799 054 | 1 581 236 |
| Sale of gas and NGL | 32 714 | 34 774 |
| **Total revenue** | **831 768** | **1 616 010** |

| **Revenue by customer** | **2012** | **2011** |
|---|---|---|
| Shell | 86.6 % | 60.7 % |
| Statoil | 0.0 % | 17.3 % |
| BP | 11.4 % | 16.8 % |
| Other - each below 10 % | 2.0 % | 5.3 % |

# 8 Exploration and evaluation expenses

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Acquisition of seismic data, analysis and general G&G costs | (112 658) | (133 179) |
| Exploration wells capitalised in previous years | (416 112) | (579 049) |
| Dry exploration wells this period | (579 335) | (205 122) |
| Other exploration and evaluation costs | (80 291) | (83 312) |
| **Total exploration and evaluation costs** | **(1 188 396)** | **(1 000 662)** |

| | | |
|---|---|---|
| The exploration organisation's share of Noreco's total personell expenses and other operating expenses amounts to: | (90 940) | (86 199) |

# 9 Personell expenses and remuneration

**Personell expenses consists of the following:**

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Salaries | (119 747) | (145 883) |
| Social security tax | (16 364) | (18 284) |
| Pensions costs (note 22) | (14 500) | (17 185) |
| Costs relating to share-based payments (note 26) | (10 653) | (11 325) |
| Other personell expenses | (2 790) | (4 371) |
| Personnell expenses charged to operated licenses | 30 075 | 33 653 |
| **Total personell expenses** | **(133 978)** | **(163 396)** |

| **Average number of man-years** | **2012** | **2011** |
|---|---|---|
| Norway | 61 | 69 |
| Denmark | 12 | 24 |
| **Total** | **73** | **93** |

Compensation to key management for 2012

| (NOK 1 000) | Director's fees | Remuneration | Bonus | Pension | (1) Other remuneration | (11) Total compensation | (8) Number of shares | (2) Number of options per 31.12.2012 | Shares purchased in 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Senior executives** | | | | | | | | | |
| Einar Gjelsvik<br>CEO | | 2 715 | 575 | 159 | 455 | 3 904 | 204 459 | 1 371 041 | 53 702 |
| Ørjan Gjerde (3)<br>CFO | | 1 366 | 261 | 113 | 187 | 1 928 | 109 181 | 528 351 | 13 484 |
| Erik Borg (11)<br>Deputy CFO | | 1 354 | 263 | 150 | 248 | 2 016 | 23 445 | 330 957 | 15 674 |
| Ellen S. Brattland (4)<br>COO, VP Development & Production | | 1 982 | 416 | 203 | 40 | 2 640 | 88 579 | 353 579 | 118 832 |
| Lars Fosvold<br>VP, Exploration | | 1 955 | 418 | 224 | 36 | 2 633 | 129 794 | 792 255 | 161 375 |
| John Bogen (4)<br>VP, Commercial | | 1 845 | 398 | 192 | 41 | 2 475 | 115 219 | 673 904 | 120 722 |
| Kjetil Bakken (5)<br>VP, Strategy & Investor Relations | | 1 780 | 346 | 135 | 222 | 2 483 | 101 624 | 441 943 | 19 245 |
| **Board of directors** | | | | | | | | | |
| Ståle Kyllingstad (9)<br>Chairman of the Board | 300 | 0 | 0 | 0 | 0 | 300 | 34 484 809 | 0 | 4 566 424 |
| Ole Melberg<br>Deputy chairman | 225 | 0 | 0 | 0 | 0 | 225 | 260 048 | 0 | 0 |
| Eimund Nygaard (10)<br>Board member | 200 | 0 | 0 | 0 | 0 | 200 | 27 701 514 | 0 | 0 |
| Shona Grant<br>Board member | 200 | 0 | 0 | 0 | 0 | 200 | 20 000 | 0 | 0 |
| Mona Iren Kolnes<br>Board member | 200 | 0 | 0 | 0 | 0 | 200 | 30 000 | 0 | 0 |
| Arnstein Wigestrand<br>Board member | 400 | 0 | 0 | 0 | 0 | 400 | 87 027 | 0 | 0 |
| Hilde Drønen<br>Board member | 400 | 0 | 0 | 0 | 0 | 400 | 40 000 | 0 | 0 |
| Lotte Kiørboe (6)<br>Board member<br>staff representative | 135 | 1 241 | 186 | 138 | 123 | 1 823 | 29 679 | 282 977 | 15 141 |
| Bård Arve Lærum<br>Board member<br>staff representative | 150 | 1 465 | 297 | 155 | 31 | 2 098 | 69 769 | 326 758 | 49 398 |
| Hilde Alexandersen (7)<br>Board member<br>staff representative | 25 | 1 391 | 290 | 167 | 34 | 1 907 | 62 881 | 313 977 | 53 420 |
| **Total compensation 2012** | **2 235** | **17 094** | **3 450** | **1 636** | **1 417** | **25 832** | **63 558 028** | **5 415 742** | **5 187 417** |
| Total compensation 2011 | 2 634 | 25 087 | 11 573 | 1 817 | 9 033 | 19 249 | | | |





**(1)** Other remuneration include pension exceeding 12G, telephone, broadband and other minor remunerations

**(2)** The number of options includes bonus shares according to the Company's incentive arrangement. Awarded options in 2013 are included.

**(3)** Ørjan Gjerde CFO joined 1 March 2012. Erik Borg hold the Acting CFO position from 1 January 2012 until March 2012

**(4)** John Bogen was appointed COO & VP HSE from the 16 January 2013 replacing Ellen S. Brattland

**(5)** From 16 January 2013 the Investor Relations function was no longer part of the executive management team. The function continues to be headed by Kjetil Bakken

**(6)** Lotte Kiørboe was board member staff representative until October 2012

**(7)** Hilde Alexandersen from October 2012 was elected board member staff representative replacing Lotte Kiørboe

**(8)** The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management. Number of shares owned as of 31 December 2012

**(9)** Ståle Kyllingstad own shares through the company IKM Industri-Invest AS

**(10)** Eimund Nygaard is CEO in Lyse Energi AS which is the owner of the shares

**(11)** All figures stated regarding salary and other compensation is based on the full year 2012. Not only the part of the year that a person held a position with reporting requirements

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 300 000 and the deputy chairman of the Board receives an annual remuneration of NOK 225 000. The other share holder elected members of the board receive NOK 400 000 (non local) and NOK 200 000 (local). 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 8 May 2013.

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. In 2011 the company 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 by the Board based on the Company's performance. The annual cash bonus has a maximum payment of 30 % of the salary.

The employees, including the executive officers and the CEO, will have the opportunity to purchase Noreco shares equal to a maximum of 50 % (pre tax) 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 8 297 299 options will be granted. The strike price for these options is NOK 4.11, which represents the volume weighed average trading price of the Noreco shares five trading days after the presentation of the Q4 2012 results 28 February 2013. Of these options, the CEO has been granted options equal to 100 % of the base salary and other members of management have been granted options equal to 80 % of the base salary.

The Annual General Meeting of shareholders held on 28 April 2011, a 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 % of the base salary. The 8 297 299 options granted on 7 March 2013 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 4.7 % relative to the current share capital.

There have been no deviations from the guidelines described above in 2012.

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. 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.





Compensation to key management for 2011

| (NOK 1 000) | Director's fees | Remuneration | Bonus | Pension | (1) Other remuneration | (20) Total compensation | (3)(8) Number of shares per 31.12.2012 | (2) Number of options |
|---|---|---|---|---|---|---|---|---|
| **Senior executives** | | | | | | | | |
| Einar Gjelsvik (4,11)<br>CEO | 0 | 2 354 | 485 | 92 | 456 | 3 387 | 129 993 | 371 122 |
| Rebekka G. Herlofsen (5, 13, 19)<br>CFO | 0 | 2 469 | 0 | 0 | 0 | 2 469 | 0 | 0 |
| Ellen S. Brattland (14)<br>COO, VP Development & Production | 0 | 1 742 | 301 | 139 | 469 | 2 651 | 61 010 | 175 691 |
| Lars Fosvold<br>VP, Exploration | 0 | 1 815 | 492 | 174 | 683 | 3 164 | 136 111 | 239 246 |
| John Bogen (18)<br>VP, Commercial | 0 | 1 636 | 476 | 217 | 588 | 2 917 | 88 582 | 153 457 |
| Kjetil Bakken (12)<br>VP, Strategy & Investor Relations | 0 | 1 579 | 210 | 113 | 357 | 2 259 | 55 416 | 89 372 |
| Erik Borg (5, 16)<br>Assistant CFO | 0 | 1 350 | 249 | 150 | 320 | 2 070 | 0 | 124 805 |
| Scott Kerr (11, 19)<br>CEO | 0 | 1 748 | 5 943 | 143 | 1 677 | 9 511 | 0 | 0 |
| Jan Nagell (5, 19)<br>CFO | 0 | 493 | 612 | 25 | 71 | 1 201 | 0 | 0 |
| Thor Arne Olsen (18, 19)<br>VP, Commercial | 0 | 2 678 | 343 | 145 | 1 459 | 4 625 | 0 | 0 |
| Rune Martinsen (12, 19)<br>VP, Strategy & Investor Relations | 0 | 1 172 | 298 | 70 | 787 | 2 326 | 0 | 0 |
| Birte N. Borrevik (17, 19)<br>VP, Projects & Technology | 0 | 1 882 | 708 | 141 | 937 | 3 668 | 0 | 0 |
| Stig Frøysland (17, 19)<br>VP, HSE & HR | 0 | 1 688 | 899 | 146 | 833 | 3 565 | 0 | 0 |

| (NOK 1 000) | Director's fees | Remuneration | Bonus | Pension | [1] Other remuneration | [20] Total compensation | [3][8] Number of shares per 31.12.2012 | [2] Number of options |
|---|---|---|---|---|---|---|---|---|
| **Board of directors** | | | | | | | | |
| Ståle Kyllingstad [15]<br>Chairman of the Board | 108 | 0 | 0 | 0 | 0 | 108 | 21 946 035 | 0 |
| Ole Melberg [9]<br>Deputy chairman | 59 | 0 | 0 | 0 | 0 | 59 | 180 048 | 0 |
| Eimund Nygaard [15]<br>Board member | 72 | 0 | 0 | 0 | 0 | 72 | 23 647 460 | 0 |
| Shona Grant [15]<br>Board member | 72 | 0 | 0 | 0 | 0 | 72 | 20 000 | 0 |
| Mona Iren Kolnes [15]<br>Board member | 72 | 0 | 0 | 0 | 0 | 72 | 30 000 | 0 |
| Arnstein Wigestrand [10]<br>Board member | 270 | 0 | 0 | 0 | 0 | 270 | 50 000 | 0 |
| Hilde Drønen [10]<br>Board member | 270 | 0 | 0 | 0 | 0 | 270 | 40 000 | 0 |
| Lotte Kiørboe [6]<br>Board member<br>staff representative | 101 | 1 135 | 229 | 126 | 149 | 1 740 | 16 531 | 92 123 |
| Bård Arve Lærum<br>Board member<br>staff representative | 150 | 1 345 | 329 | 136 | 249 | 2 209 | 54 329 | 117 388 |
| Lars Takla [6,9]<br>Chairman of the Board | 505 | 0 | 0 | 0 | 0 | 505 | 0 | 0 |
| John Hogan [6, 19]<br>Board member | 380 | 0 | 0 | 0 | 0 | 380 | 0 | 0 |
| Aasulv Tveitereid [7, 19]<br>Board member | 100 | 0 | 0 | 0 | 0 | 100 | 0 | 0 |
| Rebekka G. Herlofsen [5, 13, 19]<br>Board member | 100 | 0 | 0 | 0 | 0 | 100 | 0 | 0 |
| Therese Log Bergjord [6, 19]<br>Board member | 337 | 0 | 0 | 0 | 0 | 337 | 0 | 0 |
| Ellen S. Brattland [14]<br>Board member<br>staff representative | 38 | 0 | 0 | 0 | 0 | 38 | 0 | 0 |
| **Total compensation 2011** | **2 634** | **25 087** | **11 573** | **1 817** | **9 033** | **50 144** | **46 455 515** | **1 363 204** |





**(1)** Other remuneration include pension exceeding 12G, telephone, broadband and other minor remunerations

**(2)** The number of options includes bonus shares according to the Company's incentive arrangement

**(3)** Number of shares owned by each person as of 31 December 2011

**(4)** Einar Gjelsvik new CEO from 22 June 2011.

**(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 22 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

**(20)** All figures stated regarding salary and other compensation is based on the full year 2012. Not only the part of the year that a person held a position with reporting requirements

# 10 Other operating expenses

Specification of other operating expenses

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Lease expenses | (13 079) | (19 012) |
| IT expenses | (26 677) | (35 266) |
| Travel expenses | (5 995) | (9 928) |
| General and administrative costs | (5 691) | (7 269) |
| Consultant fees | (72 780) | (73 807) |
| Other operating expenses | (3 295) | (4 384) |
| Other operating expenses charged to own operated licenses | 13 491 | 15 707 |
| **Total other operating expenses** | **(114 027)** | **(133 960)** |

| Auditor's fees (ex. VAT) (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Auditor's fees | (2 104) | (2 182) |
| Other assurance service | (745) | (73) |
| Other non-audit assistance | (1 830) | (1 037) |
| **Total audit fees** | **(4 679)** | **(3 291)** |

In addition NOK 171 000 is booked towards the share premium fund in connection with issue of new shares.

# 11 Other (losses) / gains

Specification of other operating expenses

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Change in value, put options | (22 618) | (18 282) |
| Gain /(loss) on sale of assets | 54 485 | (844 895) |
| **Total other (losses) / gains** | **31 867** | **(863 177)** |

| (Loss) / gain per divestment | Accounting date | 2012 | 2011 |
|---|---|---|---|
| Romeo (farm-out) | 31.12.12 | 22 836 | - |
| Rau | 22.05.12 | 31 649 | - |
| Zidane | 30.12.11 | - | 43 448 |
| Brynhild | 30.12.11 | - | (220 541) |
| Flyndre Paleocene | 30.12.11 | - | (11 404) |
| Siri | 22.12.11 | - | (170 426) |
| Syd Arne | 30.09.11 | - | 133 027 |
| Snurrevad (farm-out) | 30.09.11 | - | 1 590 |
| Hyme | 20.07.11 | - | (54 810) |
| Brage | 10.06.11 | - | (565 778) |
| **Total** | | **54 485** | **(844 895)** |

All figures are stated before tax effects associated with the divestments.





# 12 Intangible fixed assets

| 2012 (NOK 1 000) | License and capitalised exploration expenses | Goodwill | Total |
|---|---|---|---|
| Acquisition cost 01.01.12 (1) | 1 375 539 | 1 011 544 | 2 387 083 |
| Additions | 649 409 | - | 649 409 |
| Expensed exploration expenditures previously capitalised | (995 447) | - | (995 447) |
| Disposals | (11 208) | - | (11 208) |
| Currency translation adjustment | (73 886) | (64 201) | (138 087) |
| **Acquisition cost 31.12.12** | **944 407** | **947 343** | **1 891 750** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.12 | 125 700 | 355 149 | 480 849 |
| Write-downs | - | 118 250 | 118 250 |
| Currency translations | - | (22 868) | (22 868) |
| **Accumulated depreciation and write-downs 31.12.12** | **125 700** | **450 531** | **576 231** |
| **Book value 31.12.12** | **818 707** | **496 812** | **1 315 519** |
| Economic life | N/A | N/A | |

| 2011 (NOK 1 000) | License and capitalised exploration expenses | Goodwill | Total |
|---|---|---|---|
| Acquisition cost 01.01.11 according to Annual Report 2011 | 4 102 533 | 1 529 098 | 5 631 631 |
| Correction of prior periods (1) | (1 686 699) | - | (1 686 699) |
| Acquisition cost 01.01.11 | 2 415 834 | 1 529 098 | 3 944 932 |
| Additions | 400 294 | - | 400 294 |
| Expensed exploration expenditures previously capitalised | (784 171) | - | (784 171) |
| Disposals | (559 544) | (551 005) | (1 110 548) |
| Transfered to asset under construction | (115 163) | - | (115 163) |
| Reclassified to asset for sale | 1 033 | 11 700 | 12 733 |
| Currency translations | 17 256 | 21 751 | 39 007 |
| **Acquisition cost 31.12.11** | **1 375 539** | **1 011 544** | **2 387 083** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.11 | 125 700 | 36 500 | 162 200 |
| 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** | **1 249 839** | **656 395** | **1 906 234** |
| Economic life | N/A | N/A | |

(1) See note 5 for details regarding the corrections made in the 2011 figures.

Goodwill recognised in connection with acquisitions is allocated to one or more cash generating units in connection to the acquired business. Remaining goodwill as of 31.12.2011 and 31.12.2012 relates to the acquisition of Altinex ASA in 2007. This goodwill is allocated to three cash generating units; Norway, Denmark and United Kingdom. At the time of acquisition Altinex ASA had substantial values in these three countries with different business terms. The level applied for impairment test of goodwill reflects the origin of capitalised goodwill.

Only assets which historically was a part of Altinex in 2007 are included in the basis for the impairment test of goodwill.

**Overview of Goodwill per cash generating unit**

| (NOK 1 000) | Currency | Exchange rate 31.12.12 | Cost price currency | Date of acquiring | Book value 31.12.12 | Book value 31.12.11 |
|---|---|---|---|---|---|---|
| Altinex Norway | NOK | 1.00 | 232 127 | 01.07.07 | 17 225 | 52 552 |
| Altinex UK | USD | 5.57 | 120 133 | 01.07.07 | 325 678 | 438 146 |
| Altinex Denmark | USD | 5.57 | 41 500 | 01.07.07 | 153 909 | 165 697 |
| **Total goodwill (NOK)** | | | | | **496 812** | **656 395** |

**Impairment test of intangible assets**

In accordance with the group's accounting policies, an impairment test for the group's goodwill and capitalised exploration expenses has been carried out at 31.12.2012. The impairment tests are carried out by the company and are based on expected cash flows from relevant reserves and resources (Value in use). For licenses which still are considered to be in an exploration phase an average price multiple based on several analyst estimates, or average multiple of observed market transactions has been applied (Fair value less costs to sell).

**The impairment calculations are based on the following assumptions:**

| | 2012 | 2011 |
|---|---|---|
| Discount rate (after tax) | 9.0 percent | 9.0 percent |
| Inflation | 2.0 percent | 2.0 percent |
| Cash flow | After tax | After tax |
| Prognosis period (1) | Estimated life time of the oil field | Estimated life time of the oil field |
| Reserves/resources (2) | Internal estimated resources and reserves as of 31 December 2012 | Internal estimated resources and reserves as of 31 December 2011 |
| Oil price (3) | Forward curve for oil price for the period 2013-2019. From 2020 the oil price is adjusted for inflation. | Forward curve for oil price for the period 2012-2018. From 2019 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2013-2016. From 2017 the everage rate for 2016 is used. | Average forward-rate for the period 2012-2015. From 2016 the everage rate for 2015 is used. |

**(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.





**(2)** As a basic rule the Company's own resource estimates are applied for impairment testing. Reserves for the producing fields are annually verified by an independent party. For the resources applied for impairment testing of intangible assets the company performs an assessment to identify any deviations from resource estimates from the partners in the licenses. If any deviations are identified, an estimate which place greater emphasis on information from other partners and other external sources are applied.

**(3)** Forward curve for Brent blend from accessible market data is applied for forecasting of expected revenue from sale of oil. Gas, NGL, and condensate prices are derived using the oil price based on expected correlation. Revenue for each field is adjusted for the quality of the product. For fields that Noreco have contractual price, such prices are applied when calculating the future cash flows.

**Result from impairment test of goodwill as of 31 December 2012**

Goodwill associated with the business in Norway, included in the Noreco group in connection with the acquisition of Altinex ASA in 2007 is written down to its recoverable amount. Change in currency rates, relinquishment of licenses, and reclassification of resources has for 2012 resulted in reduced recoverable amount for norwegian assets acquired through the Altinex acquistions. This resulted in an goodwill impairment charge of NOK 35 million for 2012.

Goodwill associated with the business in the United Kingdom, included in the Noreco group in connection with the acquisition of Altinex ASA in 2007 is written down to its recoverable amount. Change in resource estimates, forecast assumptions, and other valuation assumptions resulted in reduced recoverable amount for the UK cash generating unit as a whole. This resulted in an goodwill impairment charge of NOK 83 million for 2012.

**Result from impairment test of License and capitalised exploration expenses as of 31 December 2012**

During the year a number of impairment tests of the intangible assets have been performed. Based on consideration of progress, new information from evaluation work, relinquishment of licenses, and other commerciality analyses regarding Noreco's suspended wells, it has been concluded that some of the capitalised cost, no longer satisfy our accounting principles for suspended wells. As such, a number of suspended wells are written off. These cost are included in the line item for exploration expenses in the statement of comprehensive income. The gross amount for these expenses are NOK 397 million for 2012. The remaining assets with capitalised exploration and evaluation expenses has a recoverable amounts which exceeds its book value, except from Amalie that has been written down to its recoverable amounts. See further information in note 2.6. b) and 4.2 a) regarding the Group's accounting principles for these assets, and description of the judgmental assessments that is required.

**Sensitivities related to the impairment test**

The impairment calculation showed that the carrying amount of goodwill exceeded the recoverable amount for Norway and UK. After the charged impairments, the recoverable amount equals the carrying amount for these cash generating units. For Denmark the recoverable amount exceeds the carrying amount. The headroom in the Danish cash generating unit for impairment test of goodwill amounts to NOK 52 million.

The most sensitive assumptions used in the calculation are the resource and reserve estimate, discount rate and oil price. A negative change in the oil price with 5 % will effect the recoverable amount for the Group's total goodwill by NOK 120 million. If the discount rate in addition is increased by 10 % the total reduced recoverable amount would be NOK 138 million. Sensitivity for the resource assumptions is equal to the sensitivity for oil price.

The calculations show that the recoverable amount for licenses and capitalised exploration costs is greater or equal to the carrying amount for most assets, given the assumptions that are applied. The calculated values are most sensitive to changes in the oil price, discount rate and expected future production.
Amalie is written down to its recoverable amount as of year-end 2012, and a negative change in the oil price of 5 %, would impact the net present value after tax negatively by NOK 20 million. If the discount rate in addition increase by 10 % the total reduced net present value after tax will be reduced by NOK 67 million. Sensitivity for the resource assumptions is equal as the sensitivity for oil price.

The company's plan and intention is to develop the Amalie discovery on the Danish continental shelf, and the Jurassic discovery in the Huntington license on the British continental shelf. Work is ongoing in the partnerships to decide how to progress. In a potential scenario where Noreco will not be able to develop these discoveries it will require future write-downs caused by lack of progress. The maximum exposure for such write-downs is NOK 378 million after tax. The amount is based on the foreign exchange rate as of 31 December 2012.

Goodwill allocated to the cash generating unit for United Kingdom could also be impacted by such write-down. Based on the assumptions applied for the impairment test as of 31 December 2012 an impairment charge of NOK 63 million would be required.

Currently new data evaluations are ongoing on the Amalie discovery which will form the basis for future activities. It is expected that the evaluation is concluded and further activities decided during 2013.





# 13 Property, plant and equipment

| 2012 (NOK 1 000) | Asset under construction | Production facilities | Machinery and equipment | Total |
|---|---|---|---|---|
| Acquisition cost 01.01.12 | 3 052 983 | 1 607 192 | 8 217 | 4 668 392 |
| Additions | 354 983 | 131 377 | - | 486 359 |
| Capitalised interest | 11 280 | - | - | 11 280 |
| Transferred from Asset Under Construction to Production Facilities | (975 908) | 975 908 | - | - |
| Revaluation abandonment assets | - | 12 135 | - | 12 135 |
| Disposal | - | - | (4 353) | (4 353) |
| Currency translation adjustment | (186 671) | (94 004) | (274) | (280 949) |
| **Acquisition cost 31.12.12** | **2 256 667** | **2 632 606** | **3 590** | **4 892 864** |
| | | | | |
| **Accumulated depreciation** | | | | |
| Accumulated depreciation and write-downs 01.01.12 | - | 363 467 | 8 136 | 371 604 |
| Depreciation | - | 269 293 | 62 | 269 355 |
| Disposals | - | - | (4 353) | (4 353) |
| Write-downs | - | 303 012 | - | 303 012 |
| Currency translation adjustment | - | (37 196) | (272) | (37 468) |
| **Accumulated depreciation 31.12.12** | **-** | **898 577** | **3 574** | **902 151** |
| | | | | |
| **Balance at 31.12.12** | **2 256 667** | **1 734 030** | **16** | **3 990 712** |
| | | | | |
| Economic life | N/A | N/A | 3–5 years | |
| Depreciation plan | N/A | UoP(3) | Straight line | |

| 2011 (NOK 1 000) | Asset under construction | Production facilities | Machinery and equipment | Total |
|---|---|---|---|---|
| Acquisition cost 01.01.11 according to Annual Report 2011 | 121 787 | 5 544 384 | 8 207 | 5 674 378 |
| Correction of prior periods (1) | 1 686 699 | - | - | 1 686 699 |
| Acquisition cost 01.01.11 | 1 808 487 | 5 544 384 | 8 207 | 7 361 077 |
| Additions | 684 660 | 263 140 | - | 947 800 |
| Revaluation abandonment assets | | (14 139) | | (14 139) |
| Transferred | 115 163 | - | - | 115 163 |
| Disposals | (187 519) | (4 261 346) | - | (4 448 865) |
| Removal and decommisioning asset | 542 526 | 73 175 | - | 615 701 |
| Currency translations | 89 667 | 1 978 | 10 | 91 655 |
| **Acquisition cost 31.12.11** | **3 052 983** | **1 607 192** | **8 217** | **4 668 392** |
| | | | | |
| **Accumulated depreciation** | | | | |
| Accumulated depreciation and write-downs 01.01.11 according to Annual Report 2011 | - | 2 065 263 | 8 099 | 2 073 362 |
| Correction of prior periods (2) | - | 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 Assets held for sale | | 43 310 | - | 43 310 |
| Currency translations | - | 37 967 | 11 | 37 978 |
| **Accumulated depreciation 31.12.11** | **-** | **363 467** | **8 136** | **371 604** |
| | | | | |
| **Balance as of 31.12.11** | **3 052 983** | **1 243 724** | **80** | **4 296 788** |
| | | | | |
| Economic life | N/A | N/A | 3–5 years | |
| Depreciation plan | N/A | UoP (3) | Straight line | |

**(1)** Correction of acquisition cost relates to the reclassification of Huntington Forties ref. note 5

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

**(3)** Unit of production method





**Impairment test of property, plant and equipment**

The impairment tests are carried out by the company and are based on expected cash flows from the group's producing fields and fields under development. (Value in use)

**The impairment calculations are based on the following assumptions:**

| | 2012 | 2011 |
|---|---|---|
| Discount rate (after tax) | 9.0 percent | 9.0 percent |
| Inflation | 2.0 percent | 2.0 percent |
| Cash flow | After tax | After tax |
| Prognosis period(1) | Estimated life time of the oil/gas field | Estimated life time of the oil/gas field |
| Reserves/resources | Internal estimated reserves as of 31 December 2012 | Internal estimated reserves as of 31 December 2011 |
| Oil price (2) | Forward curve for oil price for the period 2013-2019. From 2020 the oil price is adjusted for inflation. | Forward curve for oil price for the period 2012-2018. From 2019 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2013-2016. From 2017 the eve-rage rate for 2016 is used. | Average forward-rate for the period 2012-2015. From 2016 the eve-rage rate for 2015 is used. |

**(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.

**(2)** Forward curve for Brent blend from accessible market data is applied for forecasting of expected revenue from sale of oil. Gas, NGL, and condensate prices are derived using the oil price based on historical correlation. Revenue for each field is adjusted for the quality of the product. For some fields Noreco have entered into fixed price agreements, and such prices is applied for those fields when calculating the future cash flows.

**Result from impairment test as of 31 December 2012**

For the Norwegian fields Oselvar and Enoch change in currency rates, oil price and expected production profile reduced the recoverable amount. This has for the 2012 resulted in write-down of NOK 285 million for Oselvar, and NOK 18 million for Enoch (Figures are stated before effects on change in deferred tax)

Book value of Oselvar and Enoch are equal to the recoverable amount by the end of 2012, and change in the assumptions may require future write-downs. The write-downs can be fully or partially reversed if new information results in increase recoverable amounts.

**Sensitivities related to the impairment test of assets which are carried at recoverable amount**

The calculated values are most sensitive to changes in the oil price, discount rate and expected future production. Oselvar is written down to its recoverable amount as of year-end 2012, and a negative change in the oil price with 5 %, would impact the net present value after tax with a reduction of NOK 36 million. If the discount rate in addition is increase to 10 % the total reduced net present value after tax will be reduced by NOK 72 million.

Encoh is written down to its recoverable amount as of year-end 2012, and a negative change in the oil price with 5 %, would impact the net present value after tax with a reduction of NOK 0 million. If the discount rate in addition is increase to 10 % the total reduced net present value after tax will be reduced by NOK 0 million. Enoch's book value as of year-end 2012 is NOK 1,4 million after tax, hence not sensitive to adverse change of assumtions.

Sensitivity for the reserves assumption is equal as the sensitivity for oil price.

# 14 Financial income and expenses

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| **Financial income** | | |
| Interest income | 23 649 | 31 081 |
| Other financial income | 1 348 | 5 679 |
| Currency translation | 51 086 | 95 996 |
| **Total financial income** | **76 083** | **132 755** |
| | | |
| **Financial expenses** | | |
| Interest expense from bond loans | (358 501) | (367 797) |
| Interest expense from convertible loan | (6 181) | (23 070) |
| Interest expense from other non-current liabilities | (39 384) | (50 948) |
| Interest expense from exploration loan | (41 526) | (51 852) |
| Capitalised interest expenses | 11 280 | 38 113 |
| Imputed interest from abandonment provisions | (26 866) | (54 877) |
| Interest expenses current liabilities | (8 100) | (5 832) |
| Other financial expenses | (34 217) | (26 249) |
| Currency translation | (58 572) | (57 271) |
| **Total financial expenses** | **(562 067)** | **(599 783)** |
| | | |
| **Net financial items** | **(485 984)** | **(467 028)** |



Notes

# 15 Tax

Tax expenses:

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Tax payable | (74 608) | (171 250) |
| Tax refundable | 1 349 665 | 506 056 |
| Change in deferred tax/-deferred tax asset | (21 953) | 619 162 |
| Deferred tax asset previosly not recognised | 149 542 | (14 548) |
| Change regarding previous years | (1 228) | - |
| Other items | (380) | - |
| **Tax expense** | **1 401 039** | **939 420** |
| Tax expense domestic | 1 096 951 | 1 291 374 |
| Tax expense foreign | 304 087 | (351 954) |

Reconciliation of nominal to actual tax rate:

| (NOK 1 000) | % | 2012 | % | 2011 |
|---|---|---|---|---|
| **Income (loss) before tax** | | **(1 993 598)** | | **(2 381 147)** |
| Tax portion of income (loss) before tax | 78 % | 1 555 391 | 78 % | 1 857 295 |
| Recognised deferred tax assets - previously not recognised | 6 % | 123 989 | 0 % | - |
| Utilised uplift | 1 % | 29 487 | 1 % | 21 476 |
| Tax-free profits from sale of non-current assets/transactions before tax | 0 % | - | 5 % | 108 403 |
| Effect financial items | (11) % | (212 129) | (7) % | (170 272) |
| Non special offshore tax portion | (4) % | (88 845) | (31) % | (736 129) |
| Permanent differences | (6) % | (119 128) | (5) % | (117 566) |
| Other items | 6 % | 112 274 | (1) % | (23 787) |
| **Tax expense** | **70 %** | **1 401 039** | **39 %** | **939 420** |

**Tax refund**
Norwegian Energy Company ASA is the only entity with exploration activity in Norway during 2012.

**Basis for tax refund for exploration expenses**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Loss before tax in Norwegian Energy Company ASA | (1 389 533) | (1 166 598) |
| Financial items (onshore) | 378 924 | 356 112 |
| Permanent differences | 3 629 | (237 746) |
| Change in temporary differences (ex. financial items) | 153 620 | 367 757 |
| Onshore expenses | 23 505 | 17 938 |
| Non- exploration expenses - offshore | 37 653 | 13 747 |
| **Basis for exploration tax refund 78 %** | **(792 202)** | **(648 790)** |
| **Calculated exploration refund** | **617 918** | **506 056** |

**Tax refund related to discontinuing of petroleum activity in Norwegian Energy Company ASA**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Offshore lossess carry forward 28 % | (2 408 250) | - |
| Offshore lossess carry forward 50 % | (93 604) | - |
| **Calculated tax refund regarding discontinuing of petroleum activity** | **721 112** | **-** |
| **Total calculated tax refund** | **1 339 030** | **506 056** |

On 31 December 2012 Norwegian Energy Company ASA completed the planned and previous announced transfer of its petroleum activity to Noreco Norway AS, with the effect that from the expiry of the same date, all related assets, contracts and personnel have been transferred to this subsidiary. Noreco Norway AS has thereby become owner of all the group's licenses on the Norwegian continental shelf. The ultimate parent company Norwegian Energy Company ASA has thereby discontinued its direct petroleum activities, and as such will claim payment from the Norwegian government the tax value of its uncovered losses pursuant to Norwegian Petroleum Taxation Act section 3(c)(4). The right to such refund has been confirmed by an advance tax ruling from Norwegian Petroleum Taxation Board (Oljeskattenemnda). Tax refund will be received by the end of December 2013.



Notes

**Tax payable**
Tax payable relates to the group's enteties in Denmark. The amounts payable as of 31 December was:

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Calculated tax payable in Denmark | 51 440 | 180 409 |

Deferred tax and deferred tax asset:

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Net operating loss deductable | (702 649) | (2 357 122) |
| Fixed assets | 2 888 149 | 3 757 618 |
| Current assets | 196 519 | 200 132 |
| Liabilities | (92 332) | (332 992) |
| Other | (294 164) | - |
| **Basis of deferred tax/deferred tax asset** | **1 995 523** | **1 267 636** |
| | | |
| **Net deferred tax/deferred tax asset** | **1 125 373** | **1 298 478** |
| Unrecognised deferred tax asset | 8 262 | 87 118 |
| **Deferred tax/deferred tax asset recognised** | **1 133 635** | **1 385 596** |
| Recognised deferred tax asset (1) | 111 192 | 605 596 |
| Recognised deferred tax (2) | 1 244 827 | 1 991 192 |
| | | |
| Recognised deferred tax asset domestic | 58 253 | 518 055 |
| Recognised deferred tax asset foreign | 52 939 | 87 541 |
| Recognised deferred tax domestic | 0 | 80 902 |
| Recognised deferred tax foreign | 1 244 827 | 1 910 290 |
| **Net deferred tax/deferred tax asset** | **1 133 635** | **1 385 596** |

**(1)** Deferred tax asset relates to Norwegian, Danish and the British tax jurisdiction.

**(2)** Deferred tax related to special offshore tax in Norwegian tax legislation, deferred tax in foreign subsidiaries and deferred tax related to identified excess values on acquisition date.

The recognition of deferred tax assets is based on the expectation that sufficient taxable income will be available through future taxable income in the relevant entities. The recognition of deferred tax asset related to deferred tax asset on losses carry previously not capitalised is related to the Group's entities in United Kingdom where the start of the production on Huntington Forties will give the UK entities taxable income.

Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The Group has not recognised deferred tax assets related to onshore lossess in Norwegian Energy Company ASA. This amounts to NOK 8.3 million as of 31 December 2012.

All figures reported in the income statement and the balance sheet are based on Noreco's tax calculations, and should be considered as estimates until the final tax return is approved for each specific year is settled.

# 16 Earnings per share

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

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Net loss attributable to ordinary shareholders | (592 559) | (1 441 726) |
| Ordinary shares issued 1 January | 243 842 914 | 243 038 047 |
| Shares issued during the year | 109 988 197 | 804 867 |
| Ordinary shares issued at 31 Desember | 353 831 111 | 243 842 914 |
| Weighted average number of ordinary shares | 262 426 363 | 243 805 324 |

| Earnings per share (NOK 1) | | |
|---|---|---|
| Earnings per share | (2.26) | (5.91) |
| Diluted earnings per share | (2.26) | (5.91) |

The Company has implemented an option program which includes all employees in the Noreco Group. In addition employees is granted bonus shares, which will after a westing period give right to new matching shares. See more information regarding the possible number of new shares in note 26.

In accordance with IAS 33, any dilution effect caused by share options or covertible bons is not shown in the concolidated statement of comprehensive income since conversion to ordinary shares would have reduced the loss and improved the result per share.

# 17 Trade receivables and other current receivables

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Trade receivables | 139 417 | 177 961 |
| Receivables from operators relating to joint venture licenses | 40 231 | 93 766 |
| Underlift of oil/NGL 1) | 38 183 | 48 314 |
| Prepayments | 182 | - |
| Other receivables 2) | 346 162 | 513 745 |
| **Total trade receivables and other current receivables** | **564 175** | **833 786** |

| Specification of underlift oil/NGL | boe | USD/boe | Value (NOK 1 000) |
|---|---|---|---|
| Underlift oil | 66 805 | 102.17 | 37 995 |
| Underlift NGL | 1 673 | 20.19 | 188 |
| **Total underlift** | **68 478** | **100.17** | **38 183** |





**1)** Underlift and overlift oil and NGL from the different fields is presented as gross amounts. For specification of overlift, see note 25 Trade Payables and other Payables.

**2)** The company continues to progress an insurance claim which is related to the damages to the Siri platform that were discovered in 2009. This has taken more time than anticipated due to the technical complexity of the claim. The total claim exceeds NOK 2 billion, of which NOK 328 million is recognised as a current receivable as of 31 December 2012. This amount relates to costs incurred to prevent further damage, and loss of production income in 2009/2010. Based on techinal documentation at hand, containing third party evaluations and the insurance agreements at hand, the Company remains firm that the booked claim is covered and will be settled during 2013. Thus the receivable is classified as a current receivable. The USD amount is unchanged from 31 December 2011. See also note 2.9 for a description of the Group's applicable accounting principles, and note 4.2 b) regarding the necessary judgmental assessments.

| Current receivables in currency (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| NOK | 40 957 | 151 509 |
| DKK | 3 813 | 93 811 |
| USD | 466 037 | 583 182 |
| GBP | 53 185 | 5 284 |
| EUR | 182 | - |
| **Total** | **564 175** | **833 786** |

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. Fair value is not considered to diverge from booked amount.

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 2012 and 2011.

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.

# 18 Cash and cash equivalents

Specification of cash and cash equivalents

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Cash, bankinnskudd and cash equivalents | 583 985 | 671 314 |
| Restriced cash and bank deposits | 20 128 | 17 393 |
| **Cash and cash equivalents in balance sheet** | **604 113** | **688 708** |

**Restricted funds**
The restricted funds is related to means of withholding tax.

Cash held in different currency

| (NOK 1 000) | Amount in currency | 2012 | 2011 |
|---|---|---|---|
| NOK | 381 173 | 381 173 | 505 252 |
| DKK | 5 179 | 5 096 | 716 |
| USD | 33 725 | 187 725 | 121 192 |
| EUR | 259 | 1 900 | 4 304 |
| GBP | 3 137 | 28 219 | 57 243 |
| **Total** | | **604 113** | **688 708** |

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) | 572 694 | 572 694 | 572 694 | - |
| USD | 3 000 | 16 699 | 5 486 | 11 214 |
| USD (reserve based lending facilities, see note 24) | 108 300 | 602 841 | 551 074 | 51 768 |
| **Total** | | **1 192 235** | **1 129 253** | **62 981** |
| Unrestriced cash and cash equivalents | | | | 583 985 |
| Accessible liquidity | | | | 646 966 |

1) Concerns the parent company

The Company's exploration loan facility agreement expired 31.12.2012. A new exploration loan facility agre-ement of NOK 1 240 million was completed in March 2013 for the subsidiary Noreco Norway AS.





# 19 Derivative financial instruments

Financial derivatives entered into to hedge future cash flows:

**Commodity derivatives**
The group has a strategy to hedge some of the future oil sale against fluctuations in the sale price. 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. For accounting purposes these options are classified as derivatives held for trading, and are measured at fair value through profit or loss.

| As of 31.12.12 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 2013 | 2 975 | 270 | 1 503 |
| Options expiring in 2014 | 1 915 | 1 032 | 5 744 |
| **Total book value options contracts** | | | **7 247** |

| As of 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 book value options contracts** | | | **26 755** |

**Interest rate swap agreements - cash flow hedge**
The group has entered into interest rate swap agreements to secure a fixed interest for most of the group's loans with floating interest. The agreements match the critical terms of the loan agreements, as such hedge accounting is applied. The interest rate swap agreements are carried at fair value in the balance sheet, and the effective part of the change in fair value is recognised in the other comprehensive income. Ineffectiveness is recognised through ordinary profit or loss.

As of 31.12.12 the group holds the following interest rate swap agreements

| Hedged interest payments for: | Notional principal | Receive | Pay | Maturity | Fair value 31.12.2012 |
|---|---|---|---|---|---|
| NOR05 | 700 000 NOK | 3M NIBOR | 2.525 % | 06.12.13 | (4 623) |
| NOR07 | 325 000 NOK(1) | 3M NIBOR | 2.58 % | 27.04.16 | (4 894) |
| Reserve-based loan facility (RBL) | 170 000 USD(1) | 3M LIBOR | 1.82 % | 31.12.13 | (1 556) |
| **Total book value of interest rate swaps** | | | | | **(11 073)** |

(1)The notional amounts is agreed to be adjusted in line with the repayments scheduale of the hedge loan.

Change in fair value of the hedging instruments which is recognised through other comprehensive income during 2012 amounts to NOK 10.7 million.

# 20 Financial instruments

## 20.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

As of 31.12.2012

| (NOK 1 000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | | 7 247 | | 7 247 |
| - Underlift of oil | | 38 183 | | 38 183 |
| **Total assets** | **-** | **45 430** | **-** | **45 430** |
| | | | | |
| **Liabilities** | | | | |
| Derivatives used for hedging | | | | |
| - Interest rate swap agreements | | 11 073 | | 11 073 |
| Financial liabilities at fair value through profit or loss | | | | |
| -Overlift of oil | | 45 256 | | 45 256 |
| **Total liabilities** | **-** | **56 329** | **-** | **56 329** |

As of 31.12.2011

| (NOK 1 000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | 26 754 | | 26 754 |
| - Trading derivatives | | | | |
| **Total assets** | **-** | **26 754** | **-** | **26 754** |

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair value of the instruments in level 2 is collected from external finance institutions, or calculated based on the oil price in the spot market as of year-end.





## 20.2 Financial instruments by category

As of 31.12.2012

| (NOK 1 000) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | | 7 247 | 7 247 |
| Trade receivables and other current assets | 525 810 | 38 183 | 563 993 |
| Bank deposits, cash and cash equivalents | 604 113 | | 604 113 |
| **Total** | **1 129 923** | **45 430** | **1 175 353** |

| (NOK 1 000) | Derivatives used for hedging | Other financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Bonds | | 2 779 390 | | 2 779 390 |
| Other interest bearing debt | | 1 104 876 | | 1 104 876 |
| Derivatives | 11 073 | | | 11 073 |
| Trade payables and other current liabilities | | 330 878 | 45 256 | 376 134 |
| **Total** | **11 073** | **4 215 144** | **45 256** | **4 271 473** |

As of 31.12.2011

| (NOK 1 000) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | | 26 754 | 26 754 |
| Trade receivables and other current assets | 785 472 | 48 314 | 833 786 |
| Bank deposits, cash and cash equivalents | 688 708 | | 688 708 |
| **Total** | **1 474 180** | **75 068** | **1 549 248** |

| (NOK 1 000) | Derivatives used for hedging | Other financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Bond loan | | 2 961 169 | | 2 961 169 |
| Other interest bearing debt | | 713 784 | | 713 784 |
| Trade payables and other current liabilities | | 278 899 | 2 164 | 281 063 |
| **Total** | - | **3 953 852** | **2 164** | **3 956 016** |





# 21 Share capital and share premium reserve

| | 2012 | 2011 |
|---|---|---|
| Ordinary shares | 353 831 111 | 243 842 914 |
| **Total shares** | **353 831 111** | **243 842 914** |

The company's share capital is NOK 1096.9 million and consists of 353 831 111 shares with a par value of NOK 3.10. The company does not own any of its own shares.

All shares have equal rights.

Changes in paid in equity:

| | No. of shares | Share Capital | Share Premium Reserve |
|---|---|---|---|
| **Paid in equity at 1 January 2011** | **243 038 047** | **753 418** | **2 492 503** |
| Share issue January 2011 | 804 867 | 2 495 | 11 904 |
| **Paid in equity at 31 December 2011** | **243 842 914** | **755 913** | **2 504 407** |
| | | | |
| **Paid in equity at 1 January 2012** | **243 842 914** | **755 913** | **2 504 407** |
| Share issue November 2012 | 108 108 108 | 335 135 | 64 865 |
| Repair share issue November 2012 | 1 038 010 | 3 218 | 623 |
| Share issue employees | 842 079 | 2 610 | 438 |
| Share issue costs | - | - | (17 627) |
| **Paid in equity at 31 December 2012** | **353 831 111** | **1 096 876** | **2 552 706** |

**Changes in 2013**
8 January 2013 Noreco issues 1 814 206 employee incentive scheme shares.

12 March 2013 Noreco issued 448 778 new shares to its employees in connection with bonus reward for 2012. After these issues the new number of shares is 356 094 095.

**Existing mandates**
The Board of Directors was granted a mandate by the General Meeting to issue up to 16.5 million options in the years 2011, 2012 and 2013. 3 295 625 options were awarded in 2011, 4 279 384 options were awarded in 2012 and 8 297 299 were awarded in March 2013.

The Board of Directors was granted a mandate by the General Meeting to issue up to 7 million shares to the employees. The mandate expires 1 June 2013. The mandate has bneen utilized twice: 842 079 shares issued in November 2012 as part of incentive scheme (share price NOK 3.62) and 1 814 203 shares issued in January 2013 as part of 12G pension scheme and matching shares from previously issued bonus shares (share price NOK 3.82). The remainder of the mandate is 4 343 715 shares.

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

Overview of (20) major shareholders as of 13 March 2013:

| Name | Shareholding | Ownership share | Voting share |
|---|---|---|---|
| SABARO INVESTMENTS LTD | 39 667 228 | 11.15 % | 11.15 % |
| IKM INDUSTRI-INVEST AS | 38 051 233 | 10.70 % | 10.70 % |
| LYSE ENERGI AS | 27 701 514 | 7.79 % | 7.79 % |
| GOLDMAN SACHS INT. - EQUITY - | 13 972 236 | 3.93 % | 3.93 % |
| OM HOLDING AS | 12 685 484 | 3.57 % | 3.57 % |
| FONDSFINANS SPAR | 8 500 000 | 2.39 % | 2.39 % |
| ODIN OFFSHORE | 7 188 000 | 2.02 % | 2.02 % |
| KONTRARI AS | 7 000 000 | 1.97 % | 1.97 % |
| VARMA MUTUAL PENSION INSURANCE | 6 000 000 | 1.69 % | 1.69 % |
| AWILCO INVEST AS | 6 000 000 | 1.69 % | 1.69 % |
| VERDIPAPIRFONDET DNB SMB | 5 770 713 | 1.62 % | 1.62 % |
| SKAGEN VEKST | 5 127 513 | 1.44 % | 1.44 % |
| JPMORGAN CHASE BANK | 5 040 550 | 1.42 % | 1.42 % |
| STOREBRAND VEKST | 4 796 936 | 1.35 % | 1.35 % |
| HOLBERG NORGE | 3 700 000 | 1.04 % | 1.04 % |
| CREDIT SUISSE SECURITIES | 3 638 095 | 1.02 % | 1.02 % |
| BD TRADING AS | 3 318 873 | 0.93 % | 0.93 % |
| CITIBANK NA NEW YORK BRANCH | 2 976 783 | 0.84 % | 0.84 % |
| KLP AKSJE NORGE VPF | 2 556 003 | 0.72 % | 0.72 % |
| SKANDINAVISKA ENSKILDA BANKEN AB | 2 397 184 | 0.67 % | 0.67 % |
| **Total** | **206 088 345** | **57.9 %** | **57.9 %** |
| **Other owners (ownership <0.67 %)** | **149 556 972** | **42.1 %** | **42.1 %** |
| **Total number of shares as of 13 March 2013** | **355 645 317** | **100 %** | **100 %** |





# 22 Post-employment benefits

**Defined benefit plan**
Employees in the Parent Company have a defined benefit group plan in a life assurance company. The plan comprises 56 persons as of 31 December 2012 and 64 persons as of 31 December 2011. 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:

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Service cost | 12 511 | 13 357 |
| Interest cost | 1 502 | 1 440 |
| Expected return on plan assets | (1 395) | (1 333) |
| Administrational expenses | 302 | 223 |
| Amortisation of payroll tax | 1 822 | 1 930 |
| Amortisation of net actuarial losses (gains) | 84 | 482 |
| **Total pension cost** | **14 825** | **16 099** |

Movement in defined benefit obligation

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Defined benefit obligation 1.1 | 38 504 | 34 291 |
| Service cost | 12 511 | 13 357 |
| Interest | 1 502 | 1 440 |
| Actuarial gains/losses | (20 080) | (10 584) |
| Defined benefit obligation 31.12 | 32 436 | 38 504 |

Movement in fair value of plan assets

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets 1.1 | 24 785 | 19 855 |
| Expected return on plan assets | 1 395 | 1 333 |
| Actuarial gains/losses | (8 518) | (5 178) |
| Administration costs | (302) | (223) |
| Contributions paid into the plan | 8 863 | 8 998 |
| Fair value of plan assets 31.12 | 26 223 | 24 785 |

Movement in net BDO

| | 2012 | 2011 |
|---|---|---|
| DBO at end of year | 32 436 | 38 504 |
| Fair value of plan assets at end of year | (26 223) | (24 785) |
| Net pension liability 31.12 | 6 213 | 13 720 |
| Payroll tax of funded status | 876 | 1 934 |
| Unrecognised net actuarial loss (gain) | 7 915 | (5 304) |
| **Net pension liability as of 31.12** | **15 003** | **10 350** |

Plan assets comprise

| | 2012 | 2011 |
|---|---|---|
| Equity securities | 9.20 % | 9.20 % |
| Bonds | 15.60 % | 15.20 % |
| Moneymarket | 18.30 % | 22.30 % |
| Long term bonds | 36.80 % | 35.00 % |
| Property | 18.30 % | 17.80 % |
| Other | 1.90 % | 0.40 % |

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 3.80 % | 3.90 % |
| Expected return on assets | 4.00 % | 4.80 % |
| Rate of compensation increase | 3.50 % | 4.00 % |
| Increase of social security base amount (G) | 3.25 % | 3.75 % |
| Rate of pension increase | 0.20 % | 1.80 % |
| Payroll tax | 14.10 % | 14.10 % |

The company expects to pay NOK 7.5 million to the plan assets in 2013.

Pension costs related to the company's defined contribution plan amounts to NOK 1.1 million for 2012. For 2011 the corresponding costs were NOK 2.3 million.



Notes

# 23 Provisions

Specification of asset retirement obligations

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Balance as of 1.1. | 298 130 | 829 035 |
| Provisions made during the year | 16 804 | (14 139) |
| Time value/calculatory interest | 26 630 | 54 877 |
| Transferred from liabilities/debt held for sale | - | 3 927 |
| Reversed provision from disposal of licenses | - | (590 829) |
| Currency translation | (18 486) | 15 259 |
| **Provision made for asset retirement obligations at 31.12** | **323 078** | **298 130** |

Provisions made for asset retirement obligations includes the future expected costs for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a discount rate of 9 %, which represent the Group's average alternative borrowing interest, to calculate the net present value of the obligation. Inflation is assumed to be 2.0 %.

Expected maturity

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| 1-5 years | 12 270 | 12 231 |
| 6-10 years | 300 407 | 285 899 |
| over 10 years | 10 400 | - |
| **Provision made for asset retirement obligations at 31.12** | **323 078** | **298 130** |

Notes

# 24 Borrowings

Interest bearing debt maturing after 12 months from the balance sheet date (4)

| (NOK 1 000) | Currency | Nominal rate | Loan maturity | First due date, interest | 2012 Face value | 2012 Carrying amount | 2012 Market value (1) | 2011 Face value | 2011 Carrying amount | 2011 Market value (1) |
|---|---|---|---|---|---|---|---|---|---|---|
| Bond loan NOR04 [3] | NOK | 12.9 % | 21.11.14 | 21.02.13 | 1 250 000 | 1 221 745 | 1 262 500 | 1 179 000 | 1 166 081 | 1 096 470 |
| Bond loan NOR05 | NOK | Nibor 3 months + 8.0 % | 06.12.13 | 06.03.13 | Maturity earlier than 12 months | | | 571 000 | 563 218 | 502 480 |
| Bond loan NOR06 [3] | NOK | 10.25 % | 27.04.16 | 26.04.13 | 275 000 | 266 767 | 272 938 | 275 000 | 269 263 | 248 875 |
| Bond loan NOR07 [3] | NOK | Nibor 3 months + 6.0 % | 27.04.16 | 27.01.13 | 325 000 | 315 270 | 314 048 | 325 000 | 319 263 | 286 000 |
| Reserve-based loan | USD | Libor + margin (2) | 15.01.15 | 28.02.13 | 261 621 | 242 729 | 242 729 | 323 007 | 292 803 | 292 803 |
| **Total interest bearing debt maturing after 12 months** | | | | | **2 111 621** | **2 046 511** | **2 092 214** | **2 673 007** | **2 610 628** | **2 426 628** |

Interest bearing debt maturing before 12 months from the balance sheet date (4)

| (NOK 1 000) | Currency | Nominal rate | Loan maturity | First due date, interest | 2012 Face value | 2012 Carrying amount | 2012 Market value (1) | 2011 Face value | 2011 Carrying amount | 2011 Market value (1) |
|---|---|---|---|---|---|---|---|---|---|---|
| Convertible bond loan | NOK | 6.00 % | 11.05.12 | N/A | - | - | - | 173 000 | 170 516 | 173 000 |
| Bond loan NOR03 | NOK | Nibor 3 months + 7.9 % | 20.11.12 | N/A | - | - | - | 475 500 | 472 828 | 475 500 |
| Bond loan NOR05 | NOK | Nibor 3 months + 8.0 % | 06.12.13 | 06.03.13 | 700 000 | 682 480 | 700 350 | | | |
| Bond loan NOR08 | NOK | 12.90 % | 30.12.13 | 30.03.13 | 300 000 | 293 128 | 303 000 | Maturity later than 12 months | | |
| Exploration Loan | NOK | Nibor 3. mdr + 2.5 % | 30.12.13 | 02.04.13 | 572 694 | 572 694 | 567 271 | 429 666 | 420 981 | 420 981 |
| Reserve-based loan | USD | Libor + margin (2) | 15.10.13 | 28.02.13 | 289 453 | 289 453 | 289 453 | Full loan - Maturity later than 12 months | | |
| **Total interest bearing debt maturing sooner than 12 months** | | | | | **1 862 147** | **1 837 755** | **1 860 074** | **1 078 166** | **1 064 325** | **1 069 481** |
| **Total interest bearing liabilities** | | | | | **3 973 768** | **3 884 266** | **3 952 288** | **3 751 173** | **3 674 953** | **3 496 109** |
| Classified as non-current liabilities | | | | | 261 621 | 242 729 | 242 729 | 2 673 007 | 2 610 628 | 2 426 628 |
| Classified as current liabilities | | | | | 3 712 147 | 3 641 537 | 3 709 559 | 1 078 166 | 1 064 325 | 1 069 481 |

**(1)** Market value is equal to the rate the bond is priced in the market at year end.

**(2)** The interest rate margin will vary according to use of the loan facility. The interest rate margin will vary between 2.5 % and 3.5 %

**(3)** In the statement of financial positions the bond loans NOR04, NOR06 and NOR07 are classified as current even though the loans have an agreed maturity later than 12 months. IAS 1.75 demands such classification if a borrower is in breach with the loan agreement on the balance sheet date and has not prior to the balance sheet date obtained wiaver with 12 months duration from the balance sheet date. Noreco has obtained waiver for the period that the gearing ratio is expected to exceed the agreed threshold, but this period is not 12 months from 31.12.2012.

**(4)** Assessment on maturity before or after 12 months is based on repayment plan in existing loan agreements.

**Bond loans**

***NOR03 - Senior secured callable bond***
The bond loan was entered into in November 2009. The loan was due in November 2012, hence the loan is repaid and settled as of 31 December 2012.

***NOR04 - Senior secured callable bond***
The bond loan was entered into in November 2009 with a face value of NOK 1 250 million. During 2011 the company repurchased NOK 71 million of the bond. In 2012 these repurchased bonds have been resold. 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 % annually. Interest is paid in arrears quarterly. Remaining amortization at 31.12.12 is NOK 28.2 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR04. The loan is issued against pledged collateral, see note 27.

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

***NOR05 - Senior unsecured bond***

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. In 2012 these repurchased bonds were resold. 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 %. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.2012 is NOK 17.5 million. The loan is listed on Oslo Stock Exchange with the ticker NOR05.

***NOR06 - Senior secured callable bond***

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 % annually. Interest is paid in arrears quarterly. Remaining amortization at 31.12.2012 is NOK 8.2 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR06. The loan is issued against pledged collateral, see note 27.

***NOR07 - Senior secured callable bond***

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 %. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.2012 is NOK 9.7 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR07. The loan is issued against pledged collateral, see note 27.

***NOR08 - Senior unsecured bond***

The bond loan was entered into in October 2012 with a face value of NOK 300 million. The borrowing cost is capitalised initially and amortised over the term of the loan. The interest rate is a fixed coupon rate set at 12.9 %. Interest is paid in arrears quarterly. Remaining amortisation at 31.12.2012 is NOK 6.9 million. The loan is listed on the Oslo Stock Exchange with the ticker NOR08.

**Credit facilities**

***Reserve based loan facility***

The reserve-based loan is recognised at amortised cost. The banks have made a commitment to a maximum frame of USD 109 million (2011 140 million) and then a gradual reduction to USD 0 in January 2015 when the loan expires. Available loan facility as of 31.12.2012 is USD 109 million and the loan drawn up as of 31.12.2012 is USD 99,0 million. Available loan facility is regulated quarterly and is based upon expected reserve base, costs and oil price. The loan has a floating rate of LIBOR + a margin between 2.50 % p.a and 3.50 % p.a. The margin is dependent upon how much of the facility which is drawn up. The loan has financial covenants related to liquidity ratio and debt ratio and is secured with mortgage in shares in the Group as well as major assets. The loan terms also includes a requirement 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.

Estimated downpayment is as follows: 2013 - USD 52 million , 2014 - USD 38 million and 2015 USD 9 million. Remaining amortisation is USD 3 million.

***Exploration loan facility***

The exploration loan was entered into in February 2008, with a facility amount of NOK 1 550 million. The borrower is Norwegian Energy Company ASA, the facility could be utilised until 31 December 2012. The tax refund balance is pledged as security for the loan. The current balance is due in December 2013 after the tax refund is received. The loan carries a floating interest of NIBOR + a margin of 2.5 % p.a

A new exploration loan is entered into by Noreco Norway AS ref. note 18 and 33.

**Financial covenants**

The bond loans have the following two financial covenants: The group shall maintain an equity ratio of minimum 25 %. And the group shall maintain a gearing-ratio of less than 5.0.





Equity ratio is defined as the book equity of the group divided with total assets.

Gearing ratio is defined as the ratio of consolidated net interest bearing debt divided on adjusted EBITDA for the Group. Net interest bearing debt means the sum of all interest bearing debt of the Group on a consolidated basis, but except for exploration loans, less free cash and cash equivalents. Adjusted EBITDA means the Group's twelve months rolling earnings before exploration cost, financial items, taxes, depreciation, gain/loss from asset sales and write-downs. This is similar for all bonds except for NOR04, where the adjusted EBITDA not is adjusted for gain/loss on assets sales.

A default only exists if the Issuer is in breach with the one of the covenants on two consecutive quarter dates and further provided that the covenant breach is not remedied within 60 days following the second of such quarter dates.

During 2012 the gearing ratio has exceeded this threshold, but a waiver is agreed with the bondholders until the end of Q4 2012, as such the group is not in breach of the conditions of the loan agreement. The next time for testing of covenants is Q1 2013.

In addition it has been agreed that writedowns of goodwill and suspended wells prior to 31.12.2012 up to NOK 600 million after tax can be added back to both the group's equity and total assets when calculating equity ratio in accordance with the loan agreements. The agreement regarding adjustmens when calculating the equity ratio stands for all agreements until maturity.

**Convertible bond loan**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Book value as of 01.01 / initial recognition | 349 232 | 349 232 |
| Conversion previous years | (221 500) | (221 500) |
| Repurchase of bonds | (45 500) | (45 500) |
| Interest expense | 117 873 | 114 176 |
| Paid interest | (62 869) | (59 172) |
| Amortisation of establishment costs | 35 764 | 33 280 |
| Repayment at maturity | (173 000) | - |
| **Liability component 31.12** | **-** | **170 516** |

**Payment structure (NOK 1 000):**

| Year | 2012 | 2011 |
|---|---|---|
| 2012 | - | 1 078 166 |
| 2013 | 1 862 147 | 611 750 |
| 2014 | 1 641 523 | 1 451 069 |
| 2015 | 230 098 | 10 188 |
| 2016 | 240 000 | 600 000 |
| 2017 and onwards | - | - |
| **Total** | **3 973 768** | **3 751 173** |

**Interest payments (NOK 1 000):**

| Year | 2012 | 2011 |
|---|---|---|
| 2012 | - | 345 242 |
| 2013 | 364 319 | 274 197 |
| 2014 | 222 488 | 212 737 |
| 2015 | 57 748 | 56 936 |
| 2016 | 42 594 | 37 477 |
| 2017 and onwards | - | - |
| **Total** | **687 148** | **926 589** |

Assumptions: Libor 0.35 %, Nibor 6 months 4.75 %, Nibor 3 months 2.1 %, margin reserve-based loan 3 %
The interest amounts included interest for all debt as of 31 December 2012.

# 25 Trade payables and other payables

| (NOK 1 000) | 31.12.12 | 31.12.11 |
|---|---|---|
| Trade payable | 29 074 | 25 627 |
| Liabilities to operators relating to joint venture licenses | 185 802 | 123 078 |
| Overlift of oil 1) | 45 256 | 2 164 |
| Accrued interest | 52 053 | 53 989 |
| Employee bonus/salary accruals | 32 530 | - |
| Public duties payable | 7 786 | 8 934 |
| Other current liabilities | 23 633 | 67 271 |
| **Total trade payable and other payables** | **376 134** | **281 063** |

| (1) Specification of overlift oil | boe | USD/boe | Value (NOK 1 000) |
|---|---|---|---|
| Overlift oil | 73 921 | 109.98 | 45 256 |
| Overlift NGL | - | - | - |
| **Total** | **73 921** | **109.98** | **45 256** |

Overlift and underlift of oil and NGL is presented net. For details of underlift, see note 17 Receivables.

**Trade and other payables held in currency**

| (NOK 1 000) | 31.12.12 | 31.12.11 |
|---|---|---|
| NOK | 134 112 | 180 079 |
| DKK | 20 750 | 12 580 |
| USD | 101 919 | 19 378 |
| GBP | 119 076 | 69 013 |
| EUR | 276 | 12 |
| **Total** | 376 134 | 281 063 |



Notes

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 17 Trade Receivables and other current assets and note 18 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.

# 26 Share-based compensation

The Group has an option scheme 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% 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.

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.

There has been no income recognition from change in provision of employment tax in 2012 compared to a credit from change in provision of employment tax of NOK 2.7 million for 2011

**Outstanding share options and bonus shares**

| | |
|---|---|
| Total share options and bonus shares outstanding as at 01.01.2011 | 6 762 290 |
| Share options granted in 2011 | 3 295 625 |
| Bonus shares granted in 2011 | 248 282 |
| Share options forfeited in 2011 | (4 485 453) |
| Bonus shares forfeited in 2011 | (492 572) |
| **Outstanding at 31.12.2011** | **5 328 172** |
| Share options granted in 2012 | 4 279 387 |
| Bonus shares granted in 2012 | - |
| Share options forfeited in 2012 | (515 382) |
| Bonus shares forfeited in 2012 | (128 181) |
| **Outstanding at 31.12.2012** | **8 963 996** |

| (NOK 1 000) | Exercise price | Outstanding share options and bonus shares at 31.12.2012 | Average remaining Contractual term | Weighted average exercise price |
|---|---|---|---|---|
| **Grants** | | | | |
| Granted bonus shares in 2011 | 0.00 | 167 949 | 0.02 | 0.00 |
| Share options programme 2008 | 33.00 | 406 947 | 1.00 | 33.00 |
| Share options programme 2009 | 11.01 | 1 524 017 | 1.17 | 11.01 |
| Share options programme 2010 | 17.00 | 892 362 | 2.17 | 17.00 |
| Share options programme 2011 | 14.85 | 1 877 687 | 3.26 | 14.85 |
| Share options programme 2012 | 8.04 | 4 095 034 | 4.19 | 8.04 |
| **Total** | | **8 963 996** | **3.06** | **11.85** |

Effect of outstanding options in financial statements:

| (NOK 1 000) | 2012 | Weighted average exercise price |
|---|---|---|
| Effect of outstanding options in financial statements: | 13 624 | 11 325 |

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

| | 2012 | 2011 |
|---|---|---|
| Fair value at grant date (NOK) | 4.13 | 7.04 |
| Share price at grant date (NOK) | 8.04 | 14.80 |
| Release price (NOK) | 11.85 | 14.67 |
| Volatility | 64.2 % | 50.5 % |
| Expected life span options (year) | 4.00 | 4.00 |
| Risk free interest | 1.82 % | 3.2 % |





# 27 Guaranties and assets pledged as securities

Guaranties and assets pledged as securities:

| (NOK 1 000) | 31.12.12 | 31.12.11 |
|---|---|---|
| **Collateralised debt** | | |
| Bond loan | 1 803 782 | 1 754 607 |
| Reserve based loan | 532 182 | 292 803 |
| Exploration loan | 572 694 | 420 981 |
| **Total collateralised debt** | **2 908 659** | **2 468 391** |
| | | |
| **Capitalised value of assets pledged as securities** | | |
| Shares in subsidiaries | - | - |
| License and capitalised exploration expenses | 526 764 | 739 689 |
| Property, plant and equipment | 3 983 840 | 4 270 303 |
| Tax receivable | 617 918 | 506 056 |
| Cash at bank | 196 355 | 122 468 |
| **Total capitalised value** | **5 324 876** | **5 638 516** |

Debt is measured at book value

The parent company's investment in Altinex ASA and Noreco Petroleum (UK) ltd are pledged as security for the NOR04 bond. The shares have a book value of NOK 2.8 billion as of 31 December 2012, compared to NOK 3.6 billion as of 31 December 2011. The Danish holding company, Noreco Denmark A/S (prev. Geopard AS) have pledged the shares in Noreco Oil Denmark A/S, and its investments in Noreco Petroleum Denmark A/S and Noreco Oil UK Ltd. The investments in Noreco Oil Denmark A/S had a book value of NOK 1.1 billion as of 31 December 2012 compared with NOK 1.2 billion as of 31 December 2011.

# 28 Interest in jointly controlled assets

Interest in jointly controlled assets are included in the accounts by the gross method (partly consolidation), based on the ownershare.

The group holds the following licenseshares as of 31 December 2012:

| License | Country | Field | Owner's share |
|---|---|---|---|
| PL 006C | Norway | | 15.0 % |
| PL 018DS | Norway | | 13.4 % |
| PL 048C | Norway | | 21.8 % |
| PL 048D | Norway | Enoch | 21.8 % |
| PL 274 | Norway | Oselvar | 15.0 % |
| PL 274/CS | Norway | | 15.0 % |
| PL 360 | Norway | | 15.0 % |
| PL 360B | Norway | | 15.0 % |
| PL 385 | Norway | | 20.0 % |
| PL 414 | Norway | | 20.0 % |
| PL 414B | Norway | | 20.0 % |
| PL 440S | Norway | | 12.0 % |
| PL 453S | Norway | | 25.0 % |
| PL 471 | Norway | | 30.0 % |
| PL 484 (O) | Norway | | 40.0 % |
| PL 490 | Norway | | 20.0 % |
| PL 492 | Norway | | 20.0 % |
| PL 519 | Norway | | 20.0 % |
| PL 520 | Norway | | 50.0 % |
| PL 525 (O) | Norway | | 100.0 % |
| PL 563 | Norway | | 20.0 % |
| PL 591 | Norway | | 40.0 % |
| PL 599 | Norway | | 20.0 % |
| PL 606 | Norway | | 40.0 % |
| PL 616 | Norway | | 20.0 % |
| PL 620 | Norway | | 25.0 % |
| PL 621 | Norway | | 25.0 % |
| PL 624 | Norway | | 15.0 % |
| PL 634 | Norway | | 30.0 % |
| PL 639 | Norway | | 15.0 % |
| PL 646 | Norway | | 20.0 % |
| 1/11 (O) | Denmark | | 47.0 % |





| License | Country | Field | Owner's share |
|---|---|---|---|
| 7/86 | Danmark | | 29.9 % |
| 1/90 | Danmark | Lulita | 28.2 % |
| 4/95 | Danmark | Nini | 30.0 % |
| 9/95 | Danmark | | 12.0 % |
| 9/06 | Danmark | | 12.0 % |
| 16/98 | Danmark | Cecilie | 61.0 % |
| P 1114 | United Kingdom | Huntington | 20.0 % |
| P 1650 (O) | United Kingdom | | 78.0 % |
| P 1658 | United Kingdom | | 43.8 % |
| P 1666 | United Kingdom | | 10.0 % |
| P 1768 (O) | United Kingdom | | 54.0 % |
| P 1889 | United Kingdom | | 23.0 % |

(O) = A group company is the operator

In addition the company has been rewarded 8 new licenses in 2013, of which 2 are in Norway and 6 are in United Kingdom.

In connection with the granting of new licences for exploration and production of oil and gas or when a PDO 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.

# 29 Contingencies and commitments

**Contingent assests**
As part of the disposal of PL435 (the Zidane discovery) Noreco is entitled to a contingent payment when a PDO for the Zidane 2 discovey is approved by authorities. The payment will be linked to the volumes submitted in the PDO. The contingent asset is not recognised in the accounts as of 31 December 2012.

**Contingent liabilities**
The Group is not involved in claims from public authorities, legal claims or arbitrations that could have a significant impact on the Company's financial position or results.

**Commitmenents**

At year end, Noreco group had the following commitments in 2013 and 2014 before tax:

| (NOK million) | Number of wells | Amount |
|---|---|---|
| **Commitments exploration wells** | | |
| Commitments exploration wells, Norwegian Continental Shelf | 4 | 479 |
| Commitments exploration wells, UK Continental Shelf | 3 | 303 |
| Commitments exploration wells, Danish Continental Shelf | 1 | 93 |
| **Total commitments exploration wells** | **8** | **875** |
| | | |
| **Commitments production wells** | | |
| Commitments production wells, Danish Continental Shelf | 1 | 53 |
| **Total commitments production wells** | **1** | **53** |
| | | |
| **Total commitments** | **9** | **928** |

At year end Noreco did not have any commitments for 2015 and beyond.

When purchasing a license, there is often an agreement to carry costs ("Carry agreement"). Such an agreement obliges the purchaser to pay the seller's share of exploration and/or development costs, up to an agreed after-tax limit. Such agreements are an alternative to cash settlement. At year end 2012, the company had entered four such agreements.





# 30 Operating leases

**Operating leases:**

| Annual lease costs related to lease agreements accounted for as operating leases (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Office | 12 755 | 19 012 |
| Other | 9 158 | 14 092 |

| Future minimum lease payments under non-cancellable lease agreements (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| 2012 | - | 42 076 |
| 2013 | 93 810 | 97 728 |
| 2014 | 102 885 | 91 546 |
| 2015 | 88 152 | 89 129 |
| 2016 | 81 925 | 84 673 |
| >2016 | 158 856 | 87 575 |
| **Total** | **525 628** | **492 728** |

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. Parts of the office rent obligation will be recharged to sub lessee. The sublet will amount to approximately NOK 2 million for the years 2013 and 2014.

FPSO's (floating production unit) Voyager Spirit is contracted to the Huntington field in which Noreco has a share through their subsidiary Noreco Oil UK Ltd. The leasing contract is valid 5 years. Estimated start up is Q1 2013. The minimum lease payments are based on a full quarter.

# 31 Related party transactions

The Noreco group did not have any transactions with any related party during 2012.
Director's fee paid to shareholders, and remuneration of management is described in note 9.

# 32 Supplementary oil and gas information (unaudited)

The group has reported oil, gas and NGL reserves according to the guidelines given in the Stock Exchange circular no. 2/2009. The report is included as a separate section in the annual report, see the section on annual statement of reserves.

# 33 Subsequent events

At the date of the quarter end, 31 December 2012 there was on-going drilling and evaluation operations targeting the Romeo prospect in License 1666 in the UK part of the North Sea. The exploration well targeting the Romeo prospect encountered oil but in non-commercial recoverable quantities as pronounced on 9 January 2013. As such, the capitalised drilling expenses as of 31 December 2012 which amounted to NOK 27.9 million, has been expensed in the statement of comprehensive income impacting the fourth quarter results.

On 13 February 2013 Noreco contemplated issue of an unsecured bond of NOK 300 million. The bond's maturity date is February 2016 and carries an interest of 10.5 percent. The funds will be available from 1 April 2013

On 25 February 2013 Noreco received a request to arrange a extraordinary general meeting from shareholder Sabaro Investments Limited. It is requested that the following matters are addressed: (i) election of Chairman of the Board, and (ii) election of members of the Board. The general meeting will be arranged 22 March 2013.

On 28 February 2013 the drilling results from the exploration well targeting the Ogna prospect where announced. The drilling results showed that the well was dry. The entire drilling operations where performed in 2013, and the capitalised expenses related to this well was NOK 1 million after tax as of 31 December 2012.

On 19 March 2013 the subsidiary Noreco Norway AS entered into a new exploration loan facility. The facility amounts to NOK 1,240 million.

# 34 Changes of the financial statements subsequent to reporting of the preliminary fourth quarter results

Noreco's bond loans have been reclassified as current liabilities according to IFRS accounting standards. As previously announced, Noreco has entered into waiver agreements with its bond holders related to certain covenants in its bond loan agreements. Due to the fact that some of these waivers have a duration that is less than 12 months, IFRS requires the bonds to be classified as current liabilities, regardless of expectations to future debt servicing capacity. The reclassification does not reflect any change in the Board's view on the company's financial outlook.

# STATUTORY ACCOUNTS

## NORWEGIAN ENERGY COMPANY ASA
## (PARENT COMPANY)

# 2012



# CONTENT

STATUTORY ACCOUNTS FOR NORWEGIAN ENERGY COMPANY ASA

# INCOME STATEMENT

as of 31 December

| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| Revenue | | - | - |
| Other revenue | | - | 45 038 |
| **Total revenues** | | **-** | **45 038** |
| Exploration and evaluation expenses | 16 | (824 558) | (397 564) |
| Personell expenses | 4,13,14 | (100 057) | (100 880) |
| Depreciation | | - | (26) |
| Other operating expenses | 4,17 | (78 128) | (364 050) |
| **Total operating expenses** | | **(1 002 744)** | **(862 520)** |
| **Net operating result** | | **(1 002 744)** | **(817 482)** |
| Income from subsidiaries | 5 | 9 532 | - |
| Interest received from group companies | | 72 026 | 74 267 |
| Interest income | | 18 794 | 25 363 |
| Other financial income | | 26 875 | 33 075 |
| Write-down of financial assets | 5,8 | (858 601) | - |
| Interest expenses to group companies | | (47 339) | (10 868) |
| Interest expenses | | (407 820) | (441 681) |
| Other financial expense | | (46 362) | (37 165) |
| **Net financial items** | | **(1 232 896)** | **(357 010)** |
| **Result before tax** | | **(2 235 640)** | **(1 174 492)** |
| Income tax benefit | 15 | 871 476 | 911 451 |
| **Net profit or (loss) for the year** | | **(1 364 164)** | **(263 040)** |
| **Appropriation:** | | | |
| Allocated to other equity | 10 | 183 637 | (263 040) |
| Covered with other paid-in capital | 10 | (13 624) | |
| Covered by share premium fund | 10 | (1 534 177) | |
| **Total appropriation** | | **(1 364 164)** | **(263 040)** |

(1) See note 2 for description of corrections of figures for previous periods.



# BALANCE SHEET

as of 31 December

| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | | |
| License and capitalised exploration expenses | 3,4 | - | 185 044 |
| Deferred tax assets | 15 | - | 508 562 |
| **Total intangible non-current assets** | | **-** | **693 606** |
| *Financial non-current assets* | | | |
| Investments in subsidiaries | 4,5 | 3 035 655 | 4 409 574 |
| Loan to group companies | 8 | 972 216 | 877 234 |
| **Total financial non-current assets** | | **4 007 872** | **5 286 808** |
| **Total non-current assets** | | **4 007 872** | **5 980 414** |
| **Current assets** | | | |
| *Receivables* | | | |
| Accounts receivable | 6 | 9 775 | 83 774 |
| Tax refund | 15 | 1 339 030 | 506 056 |
| Receivables from group companies | 8 | 10 487 | 54 277 |
| Other current receivables | 6 | 638 | 53 377 |
| **Total receivables** | | **1 359 930** | **697 484** |
| *Financial current assets* | | | |
| Bank deposits, cash and cash equivalents | 9 | 373 580 | 491 904 |
| **Total financial current assets** | | **373 580** | **491 904** |
| **Total current assets** | | **1 733 510** | **1 189 388** |
| **Total assets** | | **5 741 382** | **7 169 802** |

(1) See note 2 for description of corrections of figures for previous periods.

# BALANCE SHEET

as of 31 December

| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| *Paid in equity* | | | |
| Share capital | 10,11 | 1 096 876 | 755 913 |
| Share premium fund | 10 | 1 018 528 | 2 504 407 |
| Other paid-in capital | 10,13 | | |
| **Total paid in equity** | | **2 115 405** | **3 260 320** |
| *Retained earnings* | | | |
| Other equity | 10 | 0 | (174 120) |
| **Total retained earnings** | | **0** | **(174 120)** |
| **Total equity** | | **2 115 405** | **3 086 200** |
| Liabilities | | | |
| *Provisions* | | | |
| Pension liabilities | 12 | 0 | 10 350 |
| Deferred tax | 15 | 0 | 30 663 |
| **Total provisions** | | **0** | **41 013** |

| (NOK 1 000) | NOTE | 2012 | 2011(1) |
|---|---|---|---|
| *Other non-current liabilities* | | | |
| Bond loan | 6,18 | 1 803 782 | 2 317 825 |
| Other interest bearing debt to group companies | 8 | 157 284 | 533 894 |
| **Total other non-current liabilities** | | **1 961 066** | **2 851 719** |
| **Current liabilities** | | | |
| Debt to financial institutions | 6 | 572 694 | 420 981 |
| Other interest bearing debt | 6 | 975 608 | 643 344 |
| Trade payables | 6 | 7 594 | 17 757 |
| Public duties payable | | 6 563 | 7 429 |
| Debt to group companies | 8 | 349 | 0 |
| Other current liabilities | 7 | 102 103 | 101 358 |
| **Total current liabilities** | | **1 664 911** | **1 190 870** |
| **Total liabilities** | | **3 625 977** | **4 083 602** |
| **Total equity and liabilities** | | **5 741 382** | **7 169 802** |

(1) See note 2 for description of corrections of figures for previous periods.

*Stavanger, 19 March 2013*

**Ståle Kyllingstad**
Chairman

**Ole Melberg**
Deputy chairman

**Eimund Nygaard**
Boardmember

**Shona Grant**
Boardmember

**Mona Iren Kolnes**
Boardmember

**Hilde Drønen**
Boardmember

**Arnstein Wigestrand**
Boardmember

**Hilde Alexandersen**
Employee elected board representative

**Bård Arve Lærum**
Employee elected board representative

**Einar Gjelsvik**
CEO

# CASH FLOW STATEMENT

as of 31 December

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Net result for the year | (1 364 164) | (263 040) |
| Tax expenses | (871 476) | (911 451) |
| *Adjustments to reconcile net income before tax to net cash flows provided by operating activities:* | | |
| (Tax paid) / Tax refunded | 515 585 | 722 075 |
| Depreciation and writedowns | 858 601 | 26 |
| Write-downs dry wells | 648 599 | 218 603 |
| (Gain) / Loss on sale of licences | - | 234 621 |
| Share-based payments | 9 789 | 8 168 |
| Amortisation of borrowing expenses | 33 604 | 38 966 |
| Net financial items (ex write down of shares) | 374 295 | 357 010 |
| Other items with no cash impact | - | 5 832 |
| **Change in working capital** | | |
| Changes in accounts receivable | 73 999 | (75 429) |
| Changes in trade payables | (10 164) | (53 508) |
| Changes in other current balance sheet items | 49 662 | 100 744 |
| **Net cash flow from operations** | **318 331** | **382 616** |
| **Cash flows from investment activities** | | |
| Proceeds from sale of intangible fixed assets | - | 458 |
| Proceeds from sale of fixed assets | - | 288 936 |
| Purchase of tangible assets | - | (72 378) |
| Purchase of intangible assets | (505 936) | (354 109) |
| Purchase of shares in subsidiaries | (93 146) | (54 956) |
| **Net cash flow from investing activities** | **(599 082)** | **(192 049)** |
| **Cash flows from financing activities** | | |
| Issue of share capital | 406 889 | 14 399 |
| Paid issue cost | (17 627) | |
| Proceeds from issue of long term debt | 200 000 | 593 154 |
| Repayment of long term debt | - | (270 000) |
| Proceeds from issue of short term debt | 897 181 | 429 666 |
| Repayment of short term debt | (1 102 653) | (923 279) |
| Change in borrowings from Group companies | 311 857 | 427 345 |
| Changes in loans to group companies | (94 982) | (319 979) |
| Interest paid | (380 039) | (382 390) |
| Paid borrowing cost | (58 197) | |
| **Net cash flow from (used in) financing activities** | **162 428** | **(431 084)** |
| **Net change in cash and cash equivalents** | **(118 323)** | **(240 516)** |
| Cash and cash equivalents at start of the year | 491 904 | 732 420 |
| **Cash and cash equivalents at end of the year** | **373 580** | **491 904** |





# 1 Accounting principles

The annual accounts for Norwegian Energy Company ASA have been prepared in compliance with the Norwegian Accounting Act and accounting principles generally accepted in Norway.

*Use of estimates*
The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a great extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

**Revenues**
Income from sale of services are recognised at fair value of the consideration, net after deduction of VAT. Services are recognised in proportion to the work performed.

**Classification of balance sheet items**
Assets intended for long term ownership or use have been classified as fixed assets. Receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long term receivables are classified as short term liabilities and current assets.

**Purchase costs**
The purchase cost of assets includes the cost price for the asset, adjusted for bonuses, discounts and other rebates received, and purchase costs (freight, customs fees, public fees which are non-refundable and any other direct purchase costs). Purchases in foreign currencies are reflected in the balance sheet at the exchange rate at the transaction date.

For fixed assets and intangible assets purchase cost also includes direct expenses to prepare the asset for use, such as expenses for testing of the asset.

Interest expense incurred in connection with the production of fixed assets is recognised in the balance sheet.

**Intangible assets**
Own Research and Development expenses are expensed as and when they incur.

Expenses for other intangible assets are reflected in the balance sheet providing a future financial benefit relating to the development of an identifiable intangible asset can be identified and the expenses can be reliably measured. Otherwise such expenses are expensed as and when incurred. R&D expenses in the balance sheet are depreciated on a straight-line basis over the asset's expected useful life.

**Licence and capitalised exploration expenses**
Exploration costs are accounted for in accordance with the successful effort method. This means that all exploration costs including pre-operating costs (seismic acquisitions, seismic studies, internal man hours, etc.) are expensed as incurred. Exceptions are costs related to acquisition of licenses and drilling of exploration wells.

Exploratory wells are accounted for as follows:

- Costs of exploratory wells which result in proven reserves remain capitalised, but reclassified to production facilities when the development plan is approved and initiated.
- Costs of dry exploration wells and wells where proven reserves were not found are expensed in the income statement when sufficient information to complete the assessment has been gathered.

- Cost of exploratory wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proved reserves are determined and any development begins, the following two conditions must be met:
  - The well has found a sufficient quantity of reserves to justify its completion as a producing well, if appropriate, assuming that the required capital expenditures are made;
  - The Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as:
    - whether additional exploratory works are under way or firmly planned, and/or there is nearby exploration activity which is expected to contribute to development of the Group's discoveries (wells, seismic or significant studies),
    - whether costs are being incurred for development studies,
    - whether the Group is waiting for governmental or other third-party authorization of a proposed project,
    - whether the Group is waiting for  availability of capacity on an existing transport or processing facility to be able to produce the existing discovery, and
    - Whether there is a common understanding among the partners to wait with further progress for a specific discovery until an on-going development project is on-stream.

Costs of exploratory wells not meeting these conditions are charged to expense, on the line item for exploration expenses.

**Farm-in, farm-out and unitisation**
When acquiring shares in exploration licences ("farm-in" agreements) where the agreement is to cover a share of the sellers ("farmor") cost, these expenses are charged in the same manner as own exploration expenses in the income statement.

For similar sales of assets in exploration licences (farm-out agreements), the Group will normally surrender parts of a licence given that the buyer ("farmee") carries some defined cost. The seller does not recognise any gain/loss but treats the cost as a cost reduction as cost occurs.

Unitisation that occurs when licences or parts of licences are merged normally does not require any accounting. If the new distribution of interest shares constitutes any cash payment, or the company receives cash, such compensation will be adjusted towards the recognised asset. If there is a subsequent redetermination, such event will normally not require and accounting, as long as cash settlement is not necessary to settle the new distribution.

If the field where unitisation or redetermination occurs is in the production phase, the accounts will be corrected for items in the income statement that are altered in connection with the determination of the new ownership structure.

**Sale of licenses, other assets and business sale to other group companies**
Transactions are carried out at fair value. Gain or loss for accounting purposes are not recognised in the income statement, but is incorporated as an adjustment of the investment in the subsidiaries in accordance with the predecessor values method.

**Investments in subsidiaries**
For investments in subsidiaries the cost method is applied. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken as income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in costprice. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount.





**Interests in exploration licenses/jointly controlled assets**
In 2011 and 2012 Noreco had ownership in licences that are not separate legal companies. All of these are related to licences on the Norwegian continental shelf. The company recognises investments in jointly controlled assets (oil – and gas licences) by applying the proportionate consolidation method by accounting its share in the assets income, cost, assets, debt and cash flow in the respective items in the company's financial statements.

**Asset impairments**
Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost to sell and the recoverable amount.

Previous impairment charges, except writedown of goodwill, are reversed in later periods if the conditions causing the write-down are no longer present.

**Debtors**
Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a writedown is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

**Foreign currencies**
Assets and liabilities in foreign currencies are valued at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognised as other financial income and other financial expenses.

**Derivatives for hedge of future interest payments**
Noreco has entered in to interest rate swap agreements to secure a fixed interest for most of the company's loans with floating interest. The accounting rules for cash flow hedging are applied for these instruments. The derivatives is carried at fair value at the time for first recognition, and recognised at fair value for the on each following reporting date. The change in fair value is recognised in the equity as long as the hedge is effective. Ineffectiveness is recognised as other financial items in the income statement.

Recognised urealised loss is classified as current liabilities, unrealised gain is classified as current receivables.

**Bonds and other debt to financial institutions**
Borrowings are recognised at fair value when the loan is granted, with deduction for transaction expenses. For the following periods the loans are carried at amortised cost by applying the effective interest method. The difference between received facility amount (less transaction expenses) and the final settlement amount is expenses in the income statement during the lifetime of the loan as part of the effective interest cost.

**Other liabilities**
Liabilities, with the exception of certain liability provisions, are recognised in the balance sheet at nominal amount.

**Leases**
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

**Pensions**
The company has both defined contribution plans and defined benefit plans. The pension schemes are financed through payments to insurance companies.

***Defined contribution plan***
With a defined contribution plan the company pays contributions to an insurance company. After the contribution has been made the company has no further commitment to pay. The contribution is recognised as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

***Defined benefit plan***
A defined benefit plan is a pension scheme which is not a defined contribution plan. A defined benefit plan is a pension scheme which defines a pension payment which an employee will receive at pension age. The pension payments are normally dependent on one or more factors such as age, number of years in the company, and salary. The commitment relating to the defined benefit plan on the balance sheet is the present value of the defined benefits at the balance sheet date less fair value of the pension funds (amount paid to an insurance company), adjusted for estimate differences and expenses relating to former period's pension earnings not recognised in the income statement. The pension commitments are calculated annually by an independent actuary on a straight-line earning profile basis.

Changes to the pension plan are expensed over the expected remaining earning period. The same applies to estimate differences due to new information or changes in the actuarial assumptions, if they exceed 10 % of the largest of the pension commitments and pension funds (corridor).

**Taxes**
The tax in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carryforward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Tax reduction on group contributions given and tax on group contribution received, booked as a reduction of cost price or taken directly to equity, are booked directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes).

Deferred tax is reflected at nominal value.

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. Losses carry forward are calculated with a fixed interest rate per year. For 2012, this interest rate is 1.5 percent. Financial items is considered as onshore expenses when a company do not have any offshore assets.





Net finance costs onshore can be transferred to the continental shelf (28 percent), ref. the Norwegian Petroleum Taxation Act §3d.

The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of losses that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses in group companies that undertake exploration activity on the Norwegian continental shelf, the company applies for a refund of the tax amount for such a loss. The receivable that then occurs is recognised as short term claim for the current assets, under the post "Tax refund". If a business liable for special tax is discontinued, and a loss has not been covered, the company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Axt §3c. The tax refund will be determined by the authorities, and made payable at the end of the year following the year of discontinuance of petroleum activity.

**Cash flow statement**
The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

# 2 Corrections of prior years accounts

**I. Correction of previous years accounting figures**
As described in a press release dated 25 January 2013, Noreco has during the second half of 2012 been in discussions with the Norwegian Financial Supervisory Authority regarding Noreco's financial statement for 2011. This has also previously been disclosed in press releases. It is the consolidated annual report that has been a subject to review. After a renewed evaluation, Noreco has decided to implement corrections to its previously reported accounting figures in the group annual accounts and some of these corrections also has an impact on the accounts for the parent company. After a renewed evaluation, Noreco has decided to make the following corrections to the parent company's annual accounts for 2011:

**I.I. Changed presentation of divested fields**
In preparing the financial statements for 2011 it was considered that a number of the divested assets should be treated as discontinued operations in accordance with NRS 12 for Divestment and Disposal. As such, operations related to these assets were presented as discontinued operations. After a new assessment it has been concluded that these assets did not qualify for such treatment. This issue does not impact the result or figures in the statement of financial positions, but only changes the presentation of the statement of comprehensive income and some key figures.

**I.II. Correction of timing of dry /non-commercial well expenses**
In accordance with Noreco's accounting principles capitalized drilling cost related to wells which are identified as non-commercial after the reporting period are expensed through the income statement. This was the case with Eik in the Q1 2012 report and similar with Albert in the Q3 report for 2012. In connection with the preparation of the financial statements for 2011 the capitalized drilling cost related to Kalvklumpen was not expensed, as the well was identified as dry after the release of the fourth quarter report but prior to approval of the 2011 annual report. Information regarding this well was instead stated in the notes to the annual accounts. As such the net result for 2011 was 1.7 million too high. The figures for 2011 are now adjusted for this effect.

**Other evaluations**

The consolidated annual accounts were also changed due to change of conditions when evaluating specific assets. This affects impairment test on investments in shares that Norwegian Energy Company ASA has in its subsidiaries. Renewed evaluation of such impairment test show that reduced recoverable amounts on Amalie and Flyndre Chalk do not result in a lower value of recoverable amounts for the relevant unit of evaluation, shares in Altinex ASA, compared to book value per 31.12.2011.





# Corrected income statement for 2011

| (NOK 1 000) | 2011 | Note | Corrections | Revised 2011 |
|---|---|---|---|---|
| Revenue | - | | - | - |
| Other revenue | 1 590 | II.) | 43 448 | 45 038 |
| **Total revenues** | **1 590** | | | **45 038** |
| | | | | |
| Exploration and evaluation expenses | (373 985) | I.),II.) | (23 579) | (397 564) |
| Personell expenses | (100 880) | | | (100 880) |
| Depreciation | (26) | | | (26) |
| Other operating expenses | (84 391) | II.) | (279 659) | (364 050) |
| **Total operating expenses** | **(559 282)** | | | **(862 520)** |
| | | | | |
| **Net operating result** | **(557 692)** | | | **(817 482)** |
| | | | | |
| Interest received from group companies | 74 267 | | | 74 267 |
| Interest income | 25 363 | | | 25 363 |
| Other financial income | 32 711 | II.) | 364 | 33 075 |
| Interest expenses to group companies | (10 868) | | | (10 868) |
| Interest expenses | (441 681) | | | (441 681) |
| Other financial expense | (37 165) | | | (37 165) |
| **Net financial items** | **(357 374)** | | | **(357 010)** |
| | | | | |
| **Result before tax** | **(915 066)** | | | **(1 174 492)** |
| | | | | |
| Income tax benefit | 525 859 | I.),II.) | 385 592 | 911 451 |
| | | | | |
| **Net profit or (loss) for the year** | **(389 207)** | | | **(263 040)** |
| | | | | |
| Discontinued operations | | | | |
| Profit (loss) from discontinued operation (net of income tax) | 127 903 | II.) | (127 903) | - |
| **Net result for the period** | **(261 304)** | | | **(263 040)** |

**I.)** Exploration and evaluation expenses has increased by NOK 8 million due to changed timing of expensing the dry well Kalvklumpen, ref. Description in note 2.I.II. Consequently the tax expense is reduced by NOK 6 million giving a net effect on result after tax and equity of NOK 2 million.

**II.)** Some line items are adjusted in connection to the correction of presentation of sold assets. The adjustment corresponds to the items shown in note 16 in the Annual Report 2011 and are allocated to the line item that the item initially related to. Result of discontinued operations is specified as follows:

| | |
|---|---|
| Gain on sale of assets - Other income | 43 448 |
| Exploration and evaluation expenses | (15 686) |
| Loss on sale of assets - other operating expenses | (279 659) |
| Other financial income | 364 |
| Tax expenses | 379 436 |
| **Total** | **127 903** |

# CORRECTED BALANCE SHEET as of 31.12.2011

| (NOK 1 000) | 2011 | Note | Corrections | Revised 2011 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| *Intangible assets* | | | | |
| License and capitalised exploration expenses | 192 937 | I.) | (7 893) | 185 044 |
| Deferred tax assets | 508 562 | | | 508 562 |
| **Total intangible non-current assets** | **701 499** | | | **693 606** |
| | | | | |
| *Financial non-current assets* | | | | |
| Investments in subsidiaries | 4 409 574 | | | 4 409 574 |
| Loan to group companies | 877 234 | | | 877 234 |
| **Total financial non-current assets** | **5 286 808** | | | **5 286 808** |
| | | | | |
| **Total non-current assets** | **5 988 307** | | | **5 980 414** |
| | | | | |
| **Current assets** | | | | |
| *Receivables* | | | | |
| Accounts receivable | 83 774 | | | 83 774 |
| Tax refund | 506 056 | | | 506 056 |
| Receivables from group companies | 54 277 | | | 54 277 |
| Other current receivables | 53 377 | | | 53 377 |
| **Total receivables** | **697 484** | | | **697 484** |
| | | | | |
| *Financial current assets* | | | | |
| Bank deposits, cash and cash equivalents | 491 904 | | | 491 904 |
| **Total financial current assets** | **491 904** | | | **491 904** |
| | | | | |
| Total current assets | 1 189 388 | | | 1 189 388 |
| | | | | |
| **Total assets** | **7 177 695** | | | **7 169 802** |

I.) Corrections relate to expensing of Kalvklumpen, ref. note 2.I.II.





# CORRECTED BALANCE SHEET as of 31.12.2011 (cont)

| (NOK 1 000) | 2011 | Note | Corrections | Revised 2011 |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| *Paid in equity* | | | | |
| Share capital | 755 913 | | | 755 913 |
| Share premium fund | 2 504 407 | | | 2 504 407 |
| **Total paid in equity** | **3 260 320** | | | **3 260 320** |
| | | | | |
| *Retained earnings* | | | | |
| Other equity | (172 384) | I.) | (1 736) | (174 120) |
| **Total retained earnings** | **(172 384)** | | | **(174 120)** |
| | | | | |
| **Total equity** | **3 087 936** | | | **3 086 200** |
| | | | | |
| **Liabilities** | | | | |
| *Provisions* | | | | |
| Pension liabilities | 10 350 | | | 10 350 |
| Deferred tax | 36 819 | I.) | (6 157) | 30 663 |
| **Total provisions** | **47 170** | | | **41 013** |
| | | | | |
| *Other non-current liabilities* | | | | |
| Bond loan | 2 317 825 | | | 2 317 825 |
| Other interest bearing debt to group companies | 533 894 | | | 533 894 |
| **Total other non-current liabilities** | **2 851 719** | | | **2 851 719** |
| | | | | |
| **Current liabilities** | | | | |
| Debt to financial institutions | 420 981 | | | 420 981 |
| Other interest bearing debt | 643 344 | | | 643 344 |
| Trade payables | 17 757 | | | 17 757 |
| Public duties payable | 7 429 | | | 7 429 |
| Debt to group companies | 0 | | | 0 |
| Other current liabilities | 101 358 | | | 101 358 |
| **Total current liabilities** | **1 190 870** | | | **1 190 870** |
| | | | | |
| **Total liabilities** | **4 089 759** | | | **4 083 602** |
| | | | | |
| **Total equity and liabilities** | **7 177 695** | | | **7 169 802** |

**I.)** Corrections relate to expensing of Kalvklumpen, with effect on deferred tax and equity, ref. note 2.I.II.

# 3 Intangible assets

| (NOK 1 000) | Capitalised exploration and evaluation expenses | Other patents and licenses | Total |
|---|---|---|---|
| Acquisition cost 31.12.2011 according to Annual Report 2011 | 149 169 | 43 766 | 192 935 |
| Correction of prior periods (1) | (7 893) | | (7 893) |
| **Acquisition cost 01.01.2012** | **141 276** | **43 766** | **185 042** |
| Additions | 499 459 | 6 477 | 505 936 |
| Dry wells | (644 574) | (4 025) | (648 599) |
| Disposals | 3 839 | (46 218) | (42 379) |
| **Acquisition cost 31.12.12** | **-** | **-** | **-** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.12 | | - | - |
| Depreciations | | - | - |
| Write-downs | | - | - |
| Accumulated depreciation and write-downs 31.12.12 | - | - | - |
| **Book value 31.12.12** | - | - | - |
| Estimated useful life | N/A | N/A | |
| Depreciation plan | N/A | N/A | |

All licenses have been sold to the subsidiary Noreco Norway AS effective from the end of the day 31.12.2012. For further information on the transaction see note 4.

# 4 Related-party transactions

Remuneration to executives is disclosed in note 14, and balance with group companies is disclosed in note 8.

**Transactions with group companies:**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| a) Sales of services | 34 075 | 53 266 |
| b) Purchases of services | 8 507 | 12 411 |
| c) Sale of assets | 614 165 | - |

Interest income and interest expenses to group companies are presented seperatly in the income statement.

Services are charged between group companies at an hourly rate which corresponds to similar rates between independent parties. The revenue is registered as a cost reduction since operationally it is considered cost sharing.

Sale of assets relates to sale of all licenses, personell and other activities to the subsidiary Noreco Norway AS effective from the end of the day 31.12.2012. The consideration is based on arms length principles. Statement in accordance with aksjeselskapslovens §§3-8 is prepared. Noreco Norway AS is a 100 % owned subsidiary of Altinex ASA which is a 100 % owned subsidiary of Norwegian Energy Company ASA.

In addition to rights, personell and other oil and gas activity the transactions included the following licenses.



Notes

| License share | Owner share | License | Owner |
|---|---|---|---|
| PL 006C | 15.0 % | PL 520 | 50.0 % |
| PL048C | 21.8 % | PL 525 | 100.0 % |
| PL 360 | 15.0 % | PL 563 | 20.0 % |
| PL 360B | 15.0 % | PL 591 | 40.0 % |
| PL 385 | 20.0 % | PL 599 | 20.0 % |
| PL 414 | 20.0 % | PL 606 | 40.0 % |
| PL 414B | 20.0 % | PL 616 | 20.0 % |
| PL 440S | 12.0 % | PL 620 | 25.0 % |
| PL 453S | 25.0 % | PL 621 | 25.0 % |
| PL 471 | 30.0 % | PL 624 | 15.0 % |
| PL 484 | 40.0 % | PL 634 | 30.0 % |
| PL 490 | 20.0 % | PL 639 | 15.0 % |
| PL 492 | 20.0 % | PL 646 | 20.0 % |
| PL 519 | 20.0 % | | |

The sale has been settled by establishment of an agreement of seller's credit.

For accounting purposes the transfer is not treated as a 'transaction' and consequently the difference between consideration and book value of net sold assets is not a realised gain. The difference (continuity difference) is treated as an adjustment of the book value of the shares investment in Altinex ASA. Choise of accounting method for the transfer is based on an assessment of sellers ownership of buyer, who is the actual decision maker and that the total assets sold are considered to be a business.

After sale of the business, Norwegian Energy Company ASA will be a pure holding company for Noreco Group. As a result it will mainly be financing and related costs, stock exchange expenses and transactions in connection to investments in subsidiaries that will be reflected in future annual accounts.

# 5 Investment in subsidiaries

Investments in subsidiaries are booked according to the cost method.

| (NOK 1 000) Subsidiaries | Location | Ownership/ voting right | Equity 31.12.2012 | Net income 2012 | Book value |
|---|---|---|---|---|---|
| Altinex ASA | Stavanger | 100 % | 1 560 453 | 24 109 | 2 840 514 |
| Norwegian Energy Company UK Ltd | United Kingdom | 100 % | 58 312 | (39 652) | 195 142 |
| Noreco Petroleum UK Ltd | United Kingdom | 100 % | (32 287) | (4 847) | - |
| **Book value 31.12.2012** | | | | | **3 035 655** |

The investment in Altinex ASA has been written down by NOK 854 million for 2012. The writedown relates to impairment of assets controlled by Altinex ASA. The impairment relates to reduced reserves for producing fields as a result of production in 2012 and revised estimates on future production, not satisfactory progress on previously capitalized discoveries, relinquished licenses and change in currency rates.

The writedowns can be fully or partly reversed should the recoverable amount of the business owned by Altinex ASA be strengthened.

Norwegian Energy Company ASA has received NOK 9 million as group contribution from Altinex ASA for the financial year 2012.

# 6 Receivables and liabilities

**Trade debtors**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Trade debtors at nominal value | 9 775 | 83 774 |
| Bad debts provision | - | - |
| **Trade debtors in the balance sheet** | **9 775** | **83 774** |

**Other current receivables**

| (NOK 1000) | 2012 | 2011 |
|---|---|---|
| Receivables from operators relating to joint venture licenses | - | 22 730 |
| Other receivables | 638 | 30 647 |
| **Total other current receivables** | 638 | 53 377 |

There is no receivables with agreed maturity after 31.12.2013

**Other current liabilities**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Liabilities to operators relating to joint venture licenses | 11 514 | 18 542 |
| Overlift oil | - | - |
| Accrued interest | 46 554 | 53 989 |
| Outstanding salaries/bonuses | 29 759 | - |
| Other current liabilities | 14 277 | 28 827 |
| **Total other current liabilities** | **102 103** | **101 358** |

*Interest bearning debt*

**Debt to financial institutions**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Exploration loan | 572 694 | 420 981 |
| **Total debt to financial institutions** | **572 694** | **420 981** |

**Other current interest bearing debt**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Bond loan NOR05 | 682 480 | - |
| Bond loan NOR08 | 293 128 | - |
| Convertible bond loan | - | 170 516 |
| Bond loan NOR03 | - | 472 828 |
| **Total current interest bearning debt** | **975 608** | **643 344** |

| Non-current bonds (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Bond loan NOR04 | 1 221 745 | 1 166 081 |
| Bond loan NOR05 | - | 563 218 |
| Bond loan NOR06 | 266 767 | 269 263 |
| Bond loan NOR07 | 315 270 | 319 263 |
| **Total non-current bonds** | **1 803 782** | **2 317 825** |

**Repayment schedule - all interest bearing debt as of 31 December 2012.**

| Year (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| 2012 | | 1 078 166 |
| 2013 | 1 572 694 | 1 750 000 |
| 2014 | 1 430 000 | 180 000 |
| 2015 | 180 000 | 180 000 |
| 2016 | 240 000 | 240 000 |
| 2017 and afterwards | - | - |
| **Total** | **3 422 694** | **3 428 166** |

Repayment amounts are stated at their principal amount

**Average interest - external finanancing**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Interest cost | (407 820) | (441 681) |
| Average interest bearing debt | 3 367 117 | 3 344 921 |
| **Average interest for all interest bearing debt** | **12.11 %** | **13.20 %** |

The interest cost includes all arrangement fees and other borrowing cost that are included in the calculation of the effective interest.

**Interest adjustment schedule for the company's bond loans at floating interest**

| | | | | |
|---|---|---|---|---|
| Bond NOR05 | 6 March | 6 June | 6 September | 6 December |
| Bond NOR07 | 27 January | 27 April | 27 July | 27 October |

**Covenants**

The bond loans have the following two financial covenants: The group shall maintain an equity ratio of minimum 25 %. And the group shall maintain a gearing-ratio of less than 5.0.

Equity ratio is defined as the book equity of the group divided with total assets.

Gearing ratio is defined as the ratio of consolidated net interest bearing debt divided on adjusted EBITDA for the Group. Net interest bearing debt means the sum of all interest bearing debt of the Group on a consolidated basis, but except for exploration loans, less free cash and cash equivalents. Adjusted EBITDA means the Group's twelve months rolling earnings before exploration cost, financial items, taxes, depreciation, gain/loss from asset sales and write-downs. This is similar for all bonds except for NOR04, where the adjusted EBITDA not is adjusted for gain/loss on assets sales.

A default only exists if the Issuer is in breach with the one of the covenants on two consecutive quarter dates and further provided that the covenant breach is not remedied within 60 days following the second of such quarter dates.

During 2012 the gearing ratio has exceeded this threshold, but a waiver is agreed with the bondholders until the end of Q4 2012, as such the group is not in breach of the conditions of the loan agreement. In addition a waiver agreement regarding the equity ratio is secured. Write-downs of goodwill and suspended wells up to NOK 600 million after tax that is charged to the profit or loss before 31 December 2012 can be added to both the book equity, and the total asset when calculating the equity ratio in accordance with the loan agreements. The waiver regarding the equity ratio is valid for all bond agreements until final maturity. N-GAAP does not contain the same rules which required the reclassification of NOR04 and NOR06/07 as short-term liabilites in the consolidated financial statements in accordance with IFRS.

**Liabilities secured by mortgage**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Exploration loan | 572 694 | 420 981 |
| Bond loan NOR04 | 1 221 745 | 1 166 081 |
| Bond loan NOR06 | 266 767 | 269 263 |
| Bond loan NOR07 | 315 270 | 319 263 |

**Balance sheet value of assets placed as security:**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| License and capitalised exploration expenses | 0 | 185 044 |
| Tax refund | 617 918 | 506 056 |
| Investments in subsidiaries - Altinex ASA | 2 840 514 | 3 647 579 |

The Oselvar field is pledged as security for the bond loans NOR06/07. Oselvar is owned by Noreco Norway AS which is 100 % controlled by Norwegian Energy Company ASA. The net book value of the field was NOK 625 million as of 31 December 2012 and NOK 570 million as of 31 December 2011.

# 7 Hedging

The Company has in 2012 entered into interest rate swap agreements to secure a fixed interest for most of the group's loans with floating interest. The agreements match the critical terms of the loan agreements, as such hedge accounting is applied. The interest rate swap agreements are carried at fair value in the balance sheet, and the effective part of the change in fair value is recognised towared equity. Ineffectiveness is recognised through ordinary profit or loss.

Pr. 31.12.12 the Company holds the following interest rate swap agreements

| (NOK 1 000) Hedged interest payments for: | Notional principal | Receive | Pay | Maturity | Fair value 31.12.2012 |
|---|---|---|---|---|---|
| NOR05 | NOK 700 000 | 3M NIBOR | 2.525 % | 06.12.13 | (4 623) |
| NOR07 | NOK 325 000 (1) | 3M NIBOR | 2.58 % | 27.04.16 | (4 894) |
| **Total book value of interest rate swaps** | | | | | **(9 517)** |

(1) The notional amounts is agreed to be adjusted in line with the repayments scheduale of the hedge loan.

Change in fair value of the hedging instruments not recognised through profit or loss amounts to a loss of NOK 9.5 million as of 31.12.2012. The fair value of the swap agreements are collected from the Company's bank, and is based on the present value of the future net settlements calculated with the market's expectation of development in the interest level.

# 8 Guarantees and balances with group companies etc.

Balances with group companies as stated on the face of the balance sheet are all related to 100 % controlled subsidiaries.

During 2012 intercompany receivables of NOK 4.6 million due from two French subsidiaries are written off due to termination of these entities.

Norwegian Energy Company ASA has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd to the UK Secretary of State under the terms of the License and the company does not repay those sums on first demand, Noreco shall pay to the UK Secretary of State on demand an amount equal to all such sums.

On 6 December 2007, Noreco issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Altinex Oil Denmark A/S (now Noreco Oil Denmark A/S). On 13 August 2010, Noreco extended this parent company guarantee to include Altinex Oil Denmark A/S' acquisition of 47 % of the license no. 2/05.

On 31 December 2012, Noreco has issued a parent company guarantee on behalf of its subsidiary Noreco Norway AS. Noreco guarantees that, if any sums become payable by Noreco Norway AS to the Norwegian Secretary of State under the terms of the Licenses and the company does not repay those sums on first demand, Noreco shall pay to the Norwegian Secretary of State on demand an amount equal to all such sums.



Notes

# 9 Restricted bank deposits

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Deposit office rental | 1 512 | 1 481 |
| Withheld employee taxes | 7 439 | 5 416 |
| **Total restricted bank deposits** | **8 951** | **6 897** |

# 10 Shareholders' equity

| (NOK 1 000) Equity changes in the year | Share capital | Share premium reserve | Othe paid-in equity | Other equity | Total |
|---|---|---|---|---|---|
| Equity 31.12.2011 in Annual report 2011 | 755 913 | 2 504 407 | - | (172 384) | 3 087 937 |
| Correction of prior period (1) | | - | | (1 737) | (1 737) |
| **Equity on 01.01.2012** | **755 913** | **2 504 407** | **-** | **(174 120)** | **3 086 200** |
| Share capital increase | 340 963 | 65 926 | - | - | 406 889 |
| Share issue cost | - | (17 627) | - | - | (17 627) |
| Options cost | - | - | 13 624 | - | 13 624 |
| Change in fair value of hedging instruments | - | - | - | (9 517) | (9 517) |
| Appropriation of loss for the year | - | (1 534 177) | (13 624) | 183 637 | (1 364 164) |
| **Equity 31.12.2012** | **1 096 876** | **1 018 529** | **-** | **-** | **2 115 405** |

See information regarding corrections of prior periods in note 2.

# 11 Share capital and shareholder information

The share capital of NOK 1 096.9 million consists of 353 831 111 shares with a par value of NOK 3.10. All shares have equal voting rights. As per 13.03.2013 two equity issues have been concluded in connection to issues to the employees. Number of shares after these equity issues are 355 645 317.

List of (20) major shareholders at 13.03.2013

| Name | Number of shares | Ownership |
|---|---|---|
| SABARO INVESTMENTS LTD | 39 667 228 | 11.15 % |
| IKM INDUSTRI-INVEST AS | 38 051 233 | 10.70 % |
| LYSE ENERGI AS | 27 701 514 | 7.79 % |
| GOLDMAN SACHS INT. - EQUITY - | 13 972 236 | 3.93 % |
| OM HOLDING AS | 12 685 484 | 3.57 % |
| FONDSFINANS SPAR | 8 500 000 | 2.39 % |
| ODIN OFFSHORE | 7 188 000 | 2.02 % |
| KONTRARI AS | 7 000 000 | 1.97 % |
| VARMA MUTUAL PENSION INSURANCE | 6 000 000 | 1.69 % |
| AWILCO INVEST AS | 6 000 000 | 1.69 % |
| VERDIPAPIRFONDET DNB SMB | 5 770 713 | 1.62 % |
| SKAGEN VEKST | 5 127 513 | 1.44 % |
| JPMORGAN CHASE BANK | 5 040 550 | 1.42 % |
| STOREBRAND VEKST | 4 796 936 | 1.35 % |
| HOLBERG NORGE | 3 700 000 | 1.04 % |
| CREDIT SUISSE SECURITIES | 3 638 095 | 1.02 % |
| BD TRADING AS | 3 318 873 | 0.93 % |
| CITIBANK NA NEW YORK BRANCH | 2 976 783 | 0.84 % |
| KLP AKSJE NORGE VPF | 2 556 003 | 0.72 % |
| SKANDINAVISKA ENSKILDA BANKEN AB | 2 397 184 | 0.67 % |
| Total | 206 088 345 | 58 % |
| Other owners (ownership <0,67 %) | 149 556 972 | 42.05 % |
| **Total number of shares** | **355 645 317** | **100 %** |

See note 13 for information regarding how many shares that can be issued in connection with the current options as of 31 December 2012





# 12 Post-employment benefits

**Defined benefit plan**

Employees in the Parent Company have a defined benefit group plan in a life assurance company. The plan comprises 56 persons as of 31 December 2012 and 64 persons as of 31 December 2012. 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:

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Service cost | 12 511 | 13 357 |
| Interest cost | 1 502 | 1 440 |
| Expected return on plan assets | (1 395) | (1 333) |
| Administrational expenses | 302 | 223 |
| Amortisation of payroll tax | 1 822 | 1 930 |
| Amortisation of net actuarial losses (gains) | 84 | 482 |
| **Total pension cost** | **14 825** | **16 099** |

**Movement in defined benefit obligation**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Defined benefit obligation 1.1 | 38 504 | 34 291 |
| Service cost | 12 511 | 13 357 |
| Interest | 1 502 | 1 440 |
| Actuarial gains/losses | (20 080) | (10 584) |
| **Defined benefit obligation 31.12** | **32 436** | **38 504** |
| Defined benefit obligation 31.12 sold to Noreco Norway AS | 32 436 | |
| **Gross defined pension obligation 31.12** | **-** | **38 504** |

**Movement in fair value of plan assets**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets 1.1 | 24 785 | 19 855 |
| Expected return on plan assets | 1 395 | 1 333 |
| Actuarial gains/losses | (8 518) | (5 178) |
| Administration costs | (302) | (223) |
| Contributions paid into the plan | 8 863 | 8 998 |
| **Fair value of plan assets 31.12** | **26 223** | **24 785** |
| Fair value of plan assets 31.12 sold to Noreco Norway AS | 26 223 | |
| **Gross fair value of plan assets 31.12** | **-** | **24 785** |

**Plan assets comprise**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| DBO at end of year | 32 436 | 38 504 |
| Fair value of plan assets at end of year | (26 223) | (24 785) |
| Net pension liability 31.12 | 6 213 | 13 720 |
| Payroll tax of funded status | 876 | 1 934 |
| Unrecognised net actuarial loss (gain) | 7 915 | (5 304) |
| **Net pension liability as of 31.12** | **15 003** | **10 350** |
| Net liability sold to Noreco Norway AS | (15 003) | |
| **Pension liability in the balance sheet** | **0** | **10 350** |

| Plan assets comprise | 2012 | 2011 |
|---|---|---|
| Equity securities | 9 % | 9 % |
| Bonds | 16 % | 15 % |
| Moneymarket | 18 % | 22 % |
| Long term bonds | 37 % | 35 % |
| Property | 18 % | 18 % |
| Other | 2 % | 0 % |

| The following assumptions have been used in the calculation of pension cost and defined benefit obligation | 2012 | 2011 |
|---|---|---|
| Discount rate | 3.80 % | 3.90 % |
| Expected return on assets | 4.00 % | 4.80 % |
| Rate of compensation increase | 3.50 % | 4.00 % |
| Increase of social security base amount (G) | 3.25 % | 3.75 % |
| Rate of pension increase | 0.20 % | 1.80 % |
| Payroll tax | 14.10 % | 14.10 % |

31.12.2012 the post employment benefits were transferred to the Company's subsidiary Noreco Norway AS.

Pension costs related to the company's defined contribution plan amounts to NOK 1.1 million for 2012. For 2011 the corresponding costs were NOK 2.3 million.

# 13 Share-based compensation

Noreco 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 % 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.

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 % of their bonus employees need to be employed and in a non resignation period.

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 has been no income recognition in 2012 compared to a credit of NOK 2.7 million for 2011.





| Outstanding share options and bonus shares | |
|---|---|
| Total share options and bonus shares outstanding as at 01.01.2011 | 6 762 290 |
| Share options granted in 2011 | 3 295 625 |
| Bonus shares granted in 2011 | 248 282 |
| Share options forfeited in 2011 | (4 485 453) |
| Bonus shares forfeited in 2011 | (492 572) |
| **Outstanding at 31.12.2011** | **5 328 172** |
| Share options granted in 2012 | 4 279 387 |
| Bonus shares granted in 2012 | - |
| Share options forfeited in 2012 | (515 382) |
| Bonus shares forfeited in 2012 | (128 181) |
| **Outstanding at 31.12.2012** | **8 963 996** |

By the end of 2012 no employees with share options were employed in Norwegian Energy Company ASA.

| Grants | Exercise price | Outstanding share options and bonus shares at 31.12.2012 | Average remaining Contractual term | Weighted average exercise price |
|---|---|---|---|---|
| Granted bonus shares in 2011 | 0.00 | 167 949 | 0.02 | 0.00 |
| Share options programme 2008 | 33.00 | 406 947 | 1.00 | 33.00 |
| Share options programme 2009 | 11.01 | 1 524 017 | 1.17 | 11.01 |
| Share options programme 2010 | 17.00 | 892 362 | 2.17 | 17.00 |
| Share options programme 2011 | 14.85 | 1 877 687 | 3.26 | 14.85 |
| Share options programme 2012 | 8.04 | 4 095 034 | 4.19 | 8.04 |
| **Total** | | **8 963 996** | **3.06** | **11.85** |

| Effect of outstanding options in financial statements: (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Personal expenses | 9 789 | 8 168 |

Options costs related to the employees in Noreco Oil Denmark A/S are allocated to thas company. In the annual report for Norwegian Energy Company ASA this cost is debited investments in shares and credited other paid-in equity. The total equity effect of the share options programme was NOK 13.3 million for 2012 against NOK 11.3 million in 2011.

| Summary of assumptions and indata for valuation of the options programme: | 2012 | 2011 |
|---|---|---|
| Fair value at grant date (NOK) | 4.13 | 7.04 |
| Share price at grant date (NOK) | 8.04 | 14.80 |
| Release price (NOK) | 11.85 | 14.67 |
| Volatility | 64.2 % | 50.5 % |
| Expected life span options (year) | 4.00 | 4.00 |
| Risk free interest | 1.82 % | 3.20 % |

# 14 Payroll expenses, number of employees, remunerations, etc

**Payroll expenses**

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Salaries | 107 054 | 119 772 |
| Social security tax | 16 364 | 18 284 |
| Pensions costs | 13 516 | 14 881 |
| Costs relating to share-based payments | 9 789 | 8 168 |
| Salaries from other group companies | (21 575) | (33 923) |
| Other personell expenses | 2 290 | 3 455 |
| Manhours sold to own operated licenses | (27 380) | (29 756) |
| **Total** | **100 057** | **100 880** |

| | | |
|---|---|---|
| **Average number of man-years** | **61** | **69** |

See note 9 in the Group Annual Report for 2012 for further information on compensation to key management and the board of directors etc.





# 15 Tax

**Tax Expense:**

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Tax refundable | (1 349 665) | (506 056) |
| Changes in deferred tax | (50 978) | (400 065) |
| Changes in deferred tax benefit | 525 396 | - |
| Changes regarding previuos years | 3 771 | (5 330) |
| **Tax Expense** | **(871 476)** | **(911 451)** |

**Basis for tax refund:**

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Income (loss) before tax | (2 235 640) | (1 174 492) |
| Financial items | 378 924 | 356 112 |
| Permanent differences | 849 736 | (237 746) |
| Changes in temporary differences (exclusing financial items) | 153 620 | 375 651 |
| Onshore expenses | 23 505 | 17 938 |
| Non exploration expenses - Offshore | 37 653 | 13 747 |
| Basis for refund - 78 % | (792 202) | (648 790) |
| **Tax refund** | **(617 918)** | **(506 056)** |

**Discontinuation of E&P activity:**

| **(NOK 1 000)** | **2012** | **2011** |
|---|---|---|
| Loss carry forward - 28 % offshore | (2 408 250) | - |
| Loss carry forward - 50 % offshore | (93 604) | - |
| **Refund related to discontinuing E&P activity** | **(721 112)** | **-** |

| | | |
|---|---|---|
| **Total tax refund** | **(1 339 030)** | **(506 056)** |

On 31 December 2012 Norwegian Energy Company ASA completed the planned and previous announced transfer of its petroleum activity to Noreco Norway AS, with the effect that from the expiry of the same date, all related assets, contracts and personnel have been transferred to this subsidiary. Noreco Norway AS has thereby become owner of all the group's licenses on the Norwegian continental shelf. The ultimate parent company Norwegian Energy Company ASA has thereby discontinued its direct petroleum activities, and as such will claim payment from the Norwegian government the tax value of its uncovered losses pursuant to Norwegian Petroleum Taxation Act section 3(c)(4). The right to such refund has been confirmed by an advance tax ruling from Norwegian Petroleum Taxation Board (Oljeskattenemda). Tax refund will be received by the end of December 2013.

**Reconsiliation of nominal to actual tax rate:**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Income (loss) before tax | (2 235 640) | (1 174 492) |
| | | - |
| Tax portion of income (loss) before tax - 28 % | (558 910) | (293 623) |
| Tax portion of income (loss) before tax - 50 % | (1 117 820) | (587 246) |
| Tax free portion from sale of non-current assets / transactions before tax | - | (108 469) |
| Effect of financial items | 197 200 | 188 954 |
| Permanent differences | 632 872 | (112 071) |
| Other items | (24 818) | 1 004 |
| **Tax expense** | **(871 476)** | **(911 451)** |

**Deferred tax and deferred tax assets:**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Net operating loss deductible | 90 599 | 1 930 484 |
| Fixed assets | - | (141 158) |
| Liabilities | (61 092) | 34 860 |
| Basis of deferred tax / deferred tax asset | 29 506 | 1 824 186 |
| | | |
| Net deferred tax / deferred tax asset | (8 262) | (505 873) |
| Unrecognised deferred tax asset | 8 262 | 27 975 |
| Deferrd tax / deferred tax asset recognised | - | (477 898) |
| | | |
| Recognised deferred tax asset | - | (508 562) |
| Recognised deferred tax asset | - | 30 663 |

# 16 Exploration expenses

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Acquisition of seismic data, analysis and general G&G costs | (101 562) | (106 605) |
| Exploration wells capitalised in previous years | (139 179) | (5 588) |
| Dry exploration wells this period | (509 420) | (213 015) |
| Other exploration and evaluation costs | (74 397) | (72 356) |
| **Total exploration and evaluation costs** | **(824 558)** | **(397 564)** |





# 17 Other operating expenses and audit fees

**Specification of other operating expenses**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Lease expenses | (11 857) | (14 454) |
| IT expenses | (22 389) | (28 073) |
| Travel expenses | (4 060) | (6 477) |
| General and administrative costs | (4 444) | (6 131) |
| Consultant fees | (43 983) | (39 209) |
| Other operating expenses | (3 281) | (3 995) |
| Other operating expenses charged to own operated licenses | 12 301 | 13 948 |
| Loss on sale of assets | (415) | (279 659) |
| **Total other operating expenses** | **(78 128)** | **(364 050)** |

**Expensed audit fee**

| (NOK 1 000) | 2012 | 2011 |
|---|---|---|
| Statutory audit (incl. technical assistance with financial statements) | 844 | 1194 |
| Other assurance services | 739 | 33 |
| Tax advisory fee (incl. technical assistance with tax return) | 0 | 0 |
| Other assistance | 1085 | 804 |
| **Total audit fees** | **2 668** | **2 031** |

VAT is not included in the audit fee.

# 18 Subsequent events

On 13 February 2013 Noreco contemplated issue of an unsecured bond of NOK 300 million. The bond's maturity date is February 2016 and carries an interest of 10.5 percent. The funds will be available from 1 April 2013.

On 25 February 2013 Noreco received a request to arrange a extraordinary general meeting from shareholder Sabaro Investments Limited. It is requested that the following matters are addressed: (i) election of Chairman of the Board, and (ii) election of members of the Board. The general meeting will be arranged 22 March 2013.

# AUDITOR'S REPORT

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To the Annual Shareholders' Meeting of Norwegian Energy Company ASA

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of Norwegian Energy Company ASA, which comprise the financial statements of the parent company Norwegian Energy Company ASA and the consolidated financial statements of Norwegian Energy Company ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2012, 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 consolidated statement of financial positions as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

*Auditor's Responsibility*

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

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

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

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Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in

Oslo, Alta, Arendal, Bergen, Bodø, Elverum, Finnsnes, Grimstad, Hamar, Haugesund, Knarvik, Kristiansand, Larvik, Mo i Rana, Molde, Narvik, Røros, Sandefjord, Sandnessjøen, Stavanger, Stord, Straume, Tromsø, Trondheim, Tønsberg, Ålesund





*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 2012, 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 2012, 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.

*Emphasis of Matter*

We draw attention to Note 5 to the consolidated financial statements and Note 2 to the separate financial statements which describe adjustments to the comparative figures for 2011. We also draw attention to the Report on corporate governance, which refer to these adjustments in section "Risk management and internal control". Our opinion on the consolidated financial statements and the separate financial statement is not qualified in respect of this matter.

**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 coverage of the loss 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, 19 March 2013
KPMG AS

Mona Irene Larsen
*State authorised public accountant*
[Translation has been made for information purposes only]

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# 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 2012.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2012 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.

*19 March 2013*

| | | | | |
|---|---|---|---|---|
| **Ståle Kyllingstad**<br>Chairman | **Ole Melberg**<br>Deputy chairman | **Eimund Nygaard**<br>Boardmember | **Shona Grant**<br>Boardmember | **Mona Iren Kolnes**<br>Boardmember |
| **Hilde Drønen**<br>Boardmember | **Arnstein Wigestrand**<br>Boardmember | **Hilde Alexandersen**<br>Employee elected board representative | **Bård Arve Lærum**<br>Employee elected board representative | **Einar Gjelsvik**<br>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 |